

NEWFIELD EXPLORATION CO /DE/  
Form 10-Q  
July 24, 2009

---

---

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-Q

(Mark One)

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE  
SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended June 30, 2009

OR

- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE  
SECURITIES EXCHANGE ACT OF 1934

For the Transition Period from \_\_\_\_\_ to \_\_\_\_\_ .

Commission File Number: 1-12534

NEWFIELD EXPLORATION COMPANY  
(Exact name of Registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

72-1133047  
(I.R.S. Employer  
Identification Number)

363 North Sam Houston Parkway East  
Suite 100  
Houston, Texas 77060  
(Address and Zip Code of principal executive offices)

(281) 847-6000  
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T

Edgar Filing: NEWFIELD EXPLORATION CO /DE/ - Form 10-Q

(§232.405) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer <input type="checkbox"/>	Accelerated filer <input type="checkbox"/>	Non-accelerated filer <input type="checkbox"/>	Smaller reporting company <input type="checkbox"/>
---	---	---	---

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes  No

As of July 23, 2009, there were 132,657,722 shares of the registrant’s common stock, par value \$0.01 per share, outstanding.

---

---

---

TABLE OF CONTENTS

	Page
<u>PART I</u>	
<u>Item 1.</u>	<u>Unaudited Financial Statements:</u>
	<u>Consolidated Balance Sheet as of June 30, 2009 and December 31, 2008</u>
	1
	<u>Consolidated Statement of Income for the three and six month periods ended June 30, 2009 and 2008</u>
	2
	<u>Consolidated Statement of Cash Flows for the six months ended June 30, 2009 and 2008</u>
	3
	<u>Consolidated Statement of Stockholders' Equity for the six months ended June 30, 2009</u>
	4
	<u>Notes to Consolidated Financial Statements</u>
	5
<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>
	25
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>
	38
<u>Item 4.</u>	<u>Controls and Procedures</u>
	39
<u>PART II</u>	
<u>Item 1.</u>	<u>Legal Proceedings</u>
	39
<u>Item 1A.</u>	<u>Risk Factors</u>
	39
<u>Item 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>
	39
<u>Item 4.</u>	<u>Submission of Matters to a Vote of Security Holders</u>
	40
<u>Item 6.</u>	<u>Exhibits</u>
	41

Table of Contents

NEWFIELD EXPLORATION COMPANY  
CONSOLIDATED BALANCE SHEET  
(In millions, except share data)  
(Unaudited)

	June 30, 2009	December 31, 2008
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$38	\$24
Accounts receivable	290	375
Inventories	128	96
Derivative assets	549	663
Other current assets	75	48
<b>Total current assets</b>	<b>1,080</b>	<b>1,206</b>
Property and equipment, at cost, based on the full cost method of accounting for oil and gas properties (\$1,218 at June 30, 2009 and \$1,303 at December 31, 2008 were excluded from amortization)	9,676	10,349
Less—accumulated depreciation, depletion and amortization	(4,887 )	(4,591 )
<b>Total property and equipment, net</b>	<b>4,789</b>	<b>5,758</b>
Derivative assets	101	247
Long-term investments	59	72
Deferred taxes	9	¾
Other assets	20	22
<b>Total assets</b>	<b>\$6,058</b>	<b>\$7,305</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Current liabilities:</b>		
Accounts payable	\$79	\$103
Accrued liabilities	495	672
Advances from joint owners	54	73
Asset retirement obligation	5	11
Deferred taxes	185	226
<b>Total current liabilities</b>	<b>818</b>	<b>1,085</b>
Other liabilities	39	22
Long-term debt	2,292	2,213
Asset retirement obligation	74	70
Deferred taxes	288	658
<b>Total long-term liabilities</b>	<b>2,693</b>	<b>2,963</b>
Commitments and contingencies (Note 5)	¾	¾
<b>Stockholders' equity:</b>		
Preferred stock (\$0.01 par value; 5,000,000 shares authorized; no shares issued)	¾	¾
Common stock (\$0.01 par value; 200,000,000 shares authorized at June 30, 2009 and December 31, 2008;	1	1

134,117,650 and 133,985,751 shares issued at June 30, 2009 and December 31, 2008, respectively)		
Additional paid-in capital	1,359	1,335
Treasury stock (at cost; 1,470,186 and 1,908,243 shares at June 30, 2009 and December 31, 2008, respectively)	(33 )	(32 )
Accumulated other comprehensive income (loss):		
Unrealized loss on investments	(13 )	(13 )
Unrealized gain on pension assets	2	2
Retained earnings	1,231	1,964
Total stockholders' equity	2,547	3,257
Total liabilities and stockholders' equity	\$6,058	\$7,305

The accompanying notes to consolidated financial statements are an integral part of this statement.

Table of Contents

NEWFIELD EXPLORATION COMPANY  
CONSOLIDATED STATEMENT OF INCOME  
(In millions, except per share data)  
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Oil and gas revenues	\$287	\$691	\$549	\$1,207
Operating expenses:				
Lease operating	57	58	128	117
Production and other taxes	15	52	24	103
Depreciation, depletion and amortization	137	166	296	323
General and administrative	34	37	66	69
Ceiling test writedown	¾	¾	1,344	¾
Other	5	¾	7	¾
Total operating expenses	248	313	1,865	612
Income (loss) from operations	39	378	(1,316 )	595
Other income (expenses):				
Interest expense	(32 )	(28 )	(64 )	(47 )
Capitalized interest	12	13	26	27
Commodity derivative income (expense)	(81 )	(652 )	197	(973 )
Other	2	¾	5	2
Total other income (expenses)	(99 )	(667 )	164	(991 )
Loss before income taxes	(60 )	(289 )	(1,152 )	(396 )
Income tax provision (benefit):				
Current	(4 )	5	1	25
Deferred	(17 )	(50 )	(420 )	(113 )
Total income tax benefit	(21 )	(45 )	(419 )	(88 )
Net loss	\$(39 )	\$(244 )	\$(733 )	\$(308 )
Loss per share:				
Basic	\$(0.30 )	\$(1.89 )	\$(5.66 )	\$(2.39 )
Diluted	\$(0.30 )	\$(1.89 )	\$(5.66 )	\$(2.39 )
Weighted average number of shares outstanding for basic loss per share				
	130	129	129	129
Weighted average number of shares outstanding for diluted loss per share				
	130	129	129	129

The accompanying notes to consolidated financial statements are an integral part of this statement.



Table of Contents

NEWFIELD EXPLORATION COMPANY  
CONSOLIDATED STATEMENT OF CASH FLOWS  
(In millions)  
(Unaudited)

	Six Months Ended June 30,	
	2009	2008
<b>Cash flows from operating activities:</b>		
Net loss	\$(733 )	\$(308 )
<b>Adjustments to reconcile net loss to net cash provided by operating activities:</b>		
Depreciation, depletion and amortization	296	323
Deferred tax benefit	(420 )	(113 )
Stock-based compensation	15	12
Ceiling test writedown	1,344	
Commodity derivative (income) expense	(197 )	973
Cash receipts (payments) on derivative settlements	459	(668 )
<b>Changes in operating assets and liabilities:</b>		
(Increase) decrease in accounts receivable	85	(85 )
(Increase) decrease in inventories	(30 )	4
Increase in commodity derivative assets		(63 )
Increase in other current assets	(41 )	(30 )
Decrease in other assets	14	1
Increase (decrease) in accounts payable and accrued liabilities	(78 )	97
Increase (decrease) in advances from joint owners	(19 )	14
Increase in other liabilities	17	15
Net cash provided by operating activities	712	172
<b>Cash flows from investing activities:</b>		
Additions to oil and gas properties	(778 )	(1,072 )
Acquisition of oil and gas properties	(9 )	(231 )
Purchase price adjustment related to sale of oil and gas properties		(10 )
Additions to furniture, fixtures and equipment	(3 )	(7 )
Purchases of investments		(22 )
Redemptions of investments	14	70
Net cash used in investing activities	(776 )	(1,272 )
<b>Cash flows from financing activities:</b>		
Proceeds from borrowings under credit arrangements	732	1,226
Repayments of borrowings under credit arrangements	(654 )	(958 )
Net proceeds from issuance of senior subordinated notes		592
Proceeds from issuances of common stock	1	18
Purchase of treasury stock, net	(1 )	
Net cash provided by financing activities	78	878
Increase (decrease) in cash and cash equivalents	14	(222 )
Cash and cash equivalents, beginning of period	24	250
Cash and cash equivalents, end of period	\$38	\$28



The accompanying notes to consolidated financial statements are an integral part of this statement.

Table of Contents

NEWFIELD EXPLORATION COMPANY  
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY  
(In millions)  
(Unaudited)

	Common Stock		Treasury Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
	Shares	Amount	Shares	Amount				
Balance, December 31, 2008	134.0	\$ 1	(1.9 )	\$ (32 )	\$ 1,335	\$ 1,964	\$ (11 )	\$ 3,257
Issuances of common and restricted stock	0.1				1			1
Treasury stock, at cost			0.4	(1 )				(1 )
Stock-based compensation					23			23
Comprehensive income (loss):								
Net loss						(733 )		(733 )
Total comprehensive loss								(733 )
Balance, June 30, 2009	134.1	\$ 1	(1.5 )	\$ (33 )	\$ 1,359	\$ 1,231	\$ (11 )	\$ 2,547

The accompanying notes to consolidated financial statements are an integral part of this statement.

Table of Contents

NEWFIELD EXPLORATION COMPANY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Organization and Summary of Significant Accounting Policies:

Organization and Principles of Consolidation

We are an independent oil and gas company engaged in the exploration, development and acquisition of natural gas and crude oil properties. Our domestic areas of operation include the Anadarko and Arkoma Basins of the Mid-Continent, the Rocky Mountains, onshore Texas and the Gulf of Mexico. Internationally, we are active in Malaysia and China.

Our financial statements include the accounts of Newfield Exploration Company, a Delaware corporation, and its subsidiaries. We proportionately consolidate our interests in oil and gas exploration and production ventures and partnerships in accordance with industry practice. All significant intercompany balances and transactions have been eliminated. Unless otherwise specified or the context otherwise requires, all references in these notes to “Newfield,” “we,” “us” or “our” are to Newfield Exploration Company and its subsidiaries.

These unaudited consolidated financial statements reflect, in the opinion of our management, all adjustments, consisting only of normal and recurring adjustments, necessary to state fairly our financial position as of, and results of operations for, the periods presented. These financial statements have been prepared in accordance with the instructions to Form 10-Q and, therefore, do not include all disclosures required for financial statements prepared in conformity with accounting principles generally accepted in the United States of America. Interim period results are not necessarily indicative of results of operations or cash flows for a full year.

These financial statements and notes should be read in conjunction with our audited consolidated financial statements and the notes thereto included in our annual report on Form 10-K for the year ended December 31, 2008.

Dependence on Oil and Natural Gas Prices

As an independent oil and gas producer, our revenue, profitability and future rate of growth are substantially dependent on prevailing prices for oil and natural gas. Historically, the energy markets have been very volatile, and there can be no assurance that oil and natural gas prices will not be subject to wide fluctuations in the future. An extended decline in oil or natural gas prices could have a material adverse effect on our financial position, results of operations, cash flows and access to capital and on the quantities of oil and natural gas reserves that we can economically produce.

Use of Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires our management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, the reported amounts of revenues and expenses during the reporting period and the reported amounts of proved oil and gas reserves. Actual results could differ from these estimates. Our most significant financial estimates are associated with our estimated proved oil and gas reserves.

Investments

Investments consist primarily of debt and equity securities as well as auction rate securities, substantially all of which are classified as “available-for-sale” and stated at fair value. Accordingly, unrealized gains and losses and the related deferred income tax effects are excluded from earnings and reported as a separate component of stockholders’ equity. Realized gains or losses are computed based on specific identification of the securities sold. We realized interest income and gains on our investments for the three months ended June 30, 2009 and 2008 of \$0.5 million and \$1 million, respectively, and for the six months ended June 30, 2009 and 2008 of \$2 million and \$3 million, respectively.

Table of Contents

NEWFIELD EXPLORATION COMPANY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Inventories

Inventories primarily consist of tubular goods and well equipment held for use in our oil and gas operations and oil produced in our operations offshore Malaysia and China but not sold. Inventories are carried at the lower of cost or market. Crude oil from our operations offshore Malaysia and China is produced into floating production, storage and off-loading vessels and sold periodically as barge quantities are accumulated. The product inventory consisted of approximately 660,000 barrels and 293,000 barrels of crude oil valued at cost of \$19 million and \$9 million at June 30, 2009 and December 31, 2008, respectively. Cost for purposes of the carrying value of oil inventory is the sum of production costs and depreciation, depletion and amortization expense.

Oil and Gas Properties

We use the full cost method of accounting for our oil and gas producing activities. Under this method, all costs incurred in the acquisition, exploration and development of oil and gas properties, including salaries, benefits and other internal costs directly attributable to these activities, are capitalized into cost centers that are established on a country-by-country basis.

Capitalized costs and estimated future development and abandonment costs are amortized on a unit-of-production method based on proved reserves associated with the applicable cost center. For each cost center, the net capitalized costs of oil and gas properties are limited to the lower of the unamortized cost or the cost center ceiling. A particular cost center ceiling is equal to the sum of:

- the present value (10% per annum discount rate) of estimated future net revenues from proved reserves using end of period oil and natural gas prices applicable to our reserves (including the effects of hedging contracts that are designated for hedge accounting, if any); plus
- the lower of cost or estimated fair value of properties not included in the costs being amortized, if any; less
- related income tax effects.

Proceeds from the sale of oil and gas properties are applied to reduce the costs in the applicable cost center unless the reduction would significantly alter the relationship between capitalized costs and proved reserves, in which case a gain or loss is recognized.

If net capitalized costs of oil and gas properties exceed the cost center ceiling, we are subject to a ceiling test writedown to the extent of such excess. If required, a ceiling test writedown reduces earnings and stockholders' equity in the period of occurrence and, holding other factors constant, results in lower depreciation, depletion and amortization expense in future periods.

The risk that we will be required to writedown the carrying value of our oil and gas properties increases when oil and natural gas prices decrease significantly or if we have substantial downward revisions in our estimated proved reserves. During the first quarter of 2009, natural gas prices decreased significantly as compared to prices in effect at December 31, 2008. At March 31, 2009, the ceiling value of our reserves was calculated based upon quoted market prices of \$3.63 per MMBtu for natural gas and \$49.65 per barrel for oil, adjusted for market differentials. Using these prices, the unamortized net capitalized costs of our domestic oil and gas properties at March 31, 2009 exceeded the ceiling amount by approximately \$1.3 billion (\$854 million, after-tax). At June 30, 2009, the cost center ceilings with

respect to our properties in the U.S., Malaysia and China exceeded the net capitalized costs of the respective properties. As such, no ceiling test writedowns were required.

A decline of oil and natural gas prices subsequent to June 30, 2009 could result in additional ceiling test writedowns in the third quarter of 2009 and possibly thereafter.

Table of Contents

NEWFIELD EXPLORATION COMPANY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

## Accounting for Asset Retirement Obligations

If a reasonable estimate of the fair value of an obligation to perform site reclamation, dismantle facilities or plug and abandon wells can be made, we record a liability (an asset retirement obligation or ARO) on our consolidated balance sheet and capitalize the present value of the asset retirement cost in oil and gas properties in the period in which the retirement obligation is incurred. In general, the amount of an ARO and the costs capitalized will be equal to the estimated future cost to satisfy the abandonment obligation assuming the normal operation of the asset, using current prices that are escalated by an assumed inflation factor up to the estimated settlement date, which is then discounted back to the date that the abandonment obligation was incurred using an assumed cost of funds for our company. After recording these amounts, the ARO is accreted to its future estimated value using the same assumed cost of funds and the additional capitalized costs are depreciated on a unit-of-production basis within the related full cost pool. Both the accretion and the depreciation are included as depreciation, depletion and amortization expense on our consolidated statement of income.

The changes to our ARO for the six months ended June 30, 2009 are set forth below (in millions):

Balance as of January 1, 2009	\$81
Accretion expense	3
Additions	4
Settlements	(9 )
Balance at June 30, 2009	\$79
Less: Current portion of ARO at June 30, 2009	(5 )
Total long-term ARO at June 30, 2009	\$74

## Income Taxes

We use the liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are determined by applying tax regulations existing at the end of a reporting period to the cumulative temporary differences between the tax bases of assets and liabilities and their reported amounts on our financial statements. A valuation allowance is established to reduce deferred tax assets if it is more likely than not that the related tax benefits will not be realized.

We apply the provisions of Financial Accounting Standards Board (FASB) Interpretation No. 48, "Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109," (FIN 48). During the second quarter of 2009, there was no change to our FIN 48 liability. As of June 30, 2009, we had not accrued interest or penalties related to uncertain tax positions. The tax years 2005-2008 remain open to examination for federal income tax purposes and by the other major taxing jurisdictions to which we are subject. During the fourth quarter of 2008, the Internal Revenue Service commenced a limited scope audit of our U.S. income tax return for the 2005 tax year.

## Derivative Financial Instruments

We account for our derivative activities under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended by SFAS Nos. 137, 138, 149 and 161 (SFAS No. 133). SFAS No. 133 establishes accounting and reporting standards requiring that every derivative instrument be recorded on the balance sheet at its fair value. The statement requires that changes in the derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met. Substantially all of the derivative instruments that we utilize are to manage the price

risk attributable to our expected oil and gas production. We have elected not to designate price risk management activities as accounting hedges under SFAS No. 133, and, accordingly, account for them using the mark-to-market accounting method. Under this method, the changes in contract values are reported currently in earnings. We also utilize derivatives to manage our exposure to variable interest rates.

Derivative assets and liabilities with the same counterparty and subject to contractual terms which provide for net settlement are reported on a net basis on our consolidated balance sheet. Please see Note 7, "Derivative Financial Instruments," for a more detailed discussion of our derivative activities.

#### Subsequent Events

As of July 24, 2009, which is the date these financial statements were issued, we completed our review and analysis of potential subsequent events and none were identified.



Table of Contents

NEWFIELD EXPLORATION COMPANY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

New Accounting Standards

In September 2006, the FASB issued SFAS No. 157, “Fair Value Measurements” (SFAS No. 157). SFAS No. 157 defines fair value, establishes criteria to be considered when measuring fair value and expands disclosures about fair value measurements. SFAS No. 157 is effective for all recurring measures of financial assets and financial liabilities (e.g. derivatives and investment securities) for fiscal years beginning after November 15, 2007. We adopted the provisions of SFAS No. 157 for all recurring measures of financial assets and liabilities on January 1, 2008. In February 2008, the FASB issued Staff Position No. 157-2, “Effective Date of FASB Statement No. 157” (FSP 157-2), which granted a one-year deferral of the effective date of SFAS No. 157 as it applies to non-financial assets and liabilities that are recognized or disclosed at fair value on a nonrecurring basis (e.g. those measured at fair value in a business combination and asset retirement obligations). Beginning January 1, 2009, we applied SFAS No. 157 to non-financial assets and liabilities. The adoption of SFAS No. 157 did not have a material impact on our financial position or results of operations.

In March 2008, the FASB issued SFAS No. 161, “Disclosures about Derivative Instruments and Hedging Activities – an amendment of FASB Statement No. 133” (SFAS No. 161). This statement requires enhanced disclosures about our derivative and hedging activities. This statement is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. We adopted the disclosure requirements of SFAS No. 161 beginning January 1, 2009. Please see Note 7, “Derivative Financial Instruments – Additional Disclosures about Derivative Instruments and Hedging Activities.” The adoption of this statement did not have an impact on our financial position or results of operations.

In April 2009, the FASB issued three FASB Staff Positions (FSPs) to provide additional application guidance and enhance disclosures regarding fair value measurements and impairments of securities. FSP FAS 157-4, “Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly,” provides guidelines for making fair value measurements more consistent with the principles presented in SFAS No. 157. FSP FAS 107-1 and APB 28-1, “Interim Disclosures about Fair Value of Financial Instruments,” enhances consistency in financial reporting by increasing the frequency of fair value disclosures. FSP FAS 115-2 and FAS 124-2, “Recognition and Presentation of Other-Than-Temporary Impairments,” provides additional guidance designed to create greater clarity and consistency in accounting for and presenting impairment losses on securities. These three FSPs are effective for interim and annual periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. We adopted the provisions of these FSPs for the period ending March 31, 2009. The adoption of these FSPs did not have a material impact on our financial position or results of operations.

In May 2009, the FASB issued SFAS No. 165, “Subsequent Events” (SFAS No. 165). SFAS No. 165 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. Although there is new terminology, the standard is based on the same principles as those that currently exist. This statement, which includes a new required disclosure of the date through which an entity has evaluated subsequent events, is effective for interim or annual periods ending after June 15, 2009. We adopted the statement for the period ending June 30, 2009. The adoption of this statement did not have an impact on our financial position or results of operations.

2. Earnings Per Share:

Basic earnings per share (EPS) is calculated by dividing net income (the numerator) by the weighted average number of shares of common stock (other than unvested restricted stock and restricted stock units) outstanding during the period (the denominator). Diluted earnings per share incorporates the dilutive impact of outstanding stock options and unvested restricted shares and restricted stock units (using the treasury stock method). Under the treasury stock method, the amount the employee must pay for exercising stock options, the amount of unrecognized compensation expense related to unvested stock-based compensation grants and the amount of excess tax benefits that would be recorded when the award becomes deductible are assumed to be used to repurchase shares. Please see Note 11, "Stock-Based Compensation."

Table of Contents

NEWFIELD EXPLORATION COMPANY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The following is the calculation of basic and diluted weighted average shares outstanding and EPS for the indicated periods:

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2009	2008	2009	2008
(In millions, except per share data)				
<b>Income (numerator):</b>				
Net loss – basic and diluted	\$ (39 )	\$ (244 )	\$ (733 )	\$ (308 )
<b>Weighted average shares (denominator):</b>				
Weighted average shares — basic	130	129	129	129
Dilution effect of stock options and unvested restricted stock and restricted stock units outstanding at end of period (1)				
Weighted average shares — diluted	130	129	129	129
<b>Loss per share:</b>				
Basic	\$ (0.30 )	\$ (1.89 )	\$ (5.66 )	\$ (2.39 )
Diluted	\$ (0.30 )	\$ (1.89 )	\$ (5.66 )	\$ (2.39 )

- (1) The effect of stock options and unvested restricted stock and restricted stock units outstanding has not been included in the calculation of shares outstanding for diluted EPS for the three and six months ended June 30, 2009 and 2008 as their effect would have been anti-dilutive. Had we recognized net income for these periods, incremental shares attributable to the assumed exercise of outstanding options and the assumed vesting of unvested restricted stock and restricted stock units would have increased diluted weighted average shares outstanding by 2 million shares for both the three and six months ended June 30, 2009 and 3 million shares for both the three and six months ended June 30, 2008.

### 3. Oil and Gas Assets:

#### Property and Equipment

Property and equipment consisted of the following at:

	June 30,	December
	2009	31,
	2008	
(In millions)		
<b>Oil and Gas Properties:</b>		
Subject to amortization	\$8,371	\$8,961
<b>Not subject to amortization:</b>		
Exploration in progress	238	207
Development in progress	60	71

Edgar Filing: NEWFIELD EXPLORATION CO /DE/ - Form 10-Q

Capitalized interest	131	129
Fee mineral interests	23	23
Other capital costs:		
Incurred in 2009	31	
Incurred in 2008	234	328
Incurred in 2007	214	242
Incurred in 2006 and prior	287	303
Total not subject to amortization	1,218	1,303
Gross oil and gas properties	9,589	10,264
Accumulated depreciation, depletion and amortization	(4,841 )	(4,550 )
Net oil and gas properties	4,748	5,714
Other property and equipment	87	85
Accumulated depreciation and amortization	(46 )	(41 )
Net other property and equipment	41	44
Property and equipment, net	\$4,789	\$5,758

Table of Contents

NEWFIELD EXPLORATION COMPANY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

## 4. Debt:

As of the indicated dates, our debt consisted of the following:

	June 30, 2009	December 31, 2008
	(In millions)	
Senior unsecured debt:		
Revolving credit facility:		
Prime rate based loans	\$	\$
LIBOR based loans	594	514
Total revolving credit facility	594	514
Money market lines of credit (1)	45	47
Total credit arrangements	639	561
7 5/8% Senior Notes due 2011	175	175
Fair value of interest rate swap (2)	3	2
Total senior unsecured notes	178	177
Total senior unsecured debt	817	738
6 5/8% Senior Subordinated Notes due 2014	325	325
6 5/8% Senior Subordinated Notes due 2016	550	550
7 1/8% Senior Subordinated Notes due 2018	600	600
Total debt	\$2,292	\$2,213

- (1) Because capacity under our credit facility was available to repay borrowings under our money market lines of credit as of the indicated dates, amounts outstanding under these obligations, if any, are classified as long-term.
- (2) We have hedged \$50 million principal amount of our \$175 million 7 5/8% Senior Notes due 2011. The hedge provides for us to pay variable and receive fixed interest payments. Please see Note 7, "Derivative Financial Instruments – Interest Rate Swap."

## Credit Arrangements

We have a revolving credit facility that matures in June 2012 and provides for loan commitments of \$1.25 billion from a syndicate of more than 15 financial institutions, led by JPMorgan Chase Bank, as agent. As of June 30, 2009, the largest commitment was 16% of total commitments. However, the amount that we can borrow under the facility could be limited by changing expectations of future oil and natural gas prices because the amount that we can borrow under the facility is determined by our lenders annually each May (and may be redetermined at the option of our lenders in the case of certain acquisitions or divestitures) using a process that takes into account the value of our estimated reserves and hedge position and the lenders' commodity price assumptions. In the future, total loan commitments under the facility could be increased to a maximum of \$1.65 billion if the existing lenders increase their

individual loan commitments or new financial institutions are added to the facility.

Loans under the credit facility bear interest, at our option, equal to (a) a rate per annum equal to the higher of the prime rate announced from time to time by JPMorgan Chase Bank or the weighted average of the rates on overnight federal funds transactions with members of the Federal Reserve System during the last preceding business day plus 50 basis points or (b) a base Eurodollar rate substantially equal to the London Interbank Offered Rate, plus a margin that is based on a grid of our debt rating (87.5 basis points per annum at June 30, 2009).

We pay commitment fees on available but undrawn amounts based on a grid of our debt rating (0.175% per annum at June 30, 2009). We incurred fees under this arrangement of approximately \$0.3 million and \$0.7 million for the three and six months ended June 30, 2009, respectively, which are recorded in interest expense on our consolidated statement of income. For the three and six months ended June 30, 2008, we incurred commitment fees of approximately \$0.5 million and \$1 million, respectively.

Table of Contents

NEWFIELD EXPLORATION COMPANY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Our credit facility has restrictive covenants that include the maintenance of a ratio of total debt to book capitalization not to exceed 0.6 to 1.0; maintenance of a ratio of total debt to earnings before gain or loss on the disposition of assets, interest expense, income taxes and noncash items (such as depreciation, depletion and amortization expense, unrealized gains and losses on commodity derivatives, ceiling test writedowns, and goodwill impairments) of at least 3.5 to 1.0. In addition, for as long as our debt rating is below investment grade, we must maintain a ratio of the calculated net present value of our oil and gas properties to total debt of at least 1.75 to 1.00. For purposes of this ratio, total debt includes only 50% of the principal amount of our senior subordinated notes. At June 30, 2009 we were in compliance with all of our debt covenants.

As of June 30, 2009, we had \$22 million of undrawn letters of credit outstanding under our credit facility. Letters of credit are subject to an issuance fee of 12.5 basis points and annual fees based on a grid of our debt rating (87.5 basis points at June 30, 2009).

Subject to compliance with the restrictive covenants in our credit facility, we also have a total of \$120 million of borrowing capacity under money market lines of credit with various institutions, the availability of which is at the discretion of the financial institutions.

Our credit facility and senior and senior subordinated notes contain standard events of default and, if any such events of default were to occur, our lenders could terminate future lending commitments under the credit facility and our lenders could declare the outstanding borrowings due and payable. In addition, our credit facility, senior subordinated notes and substantially all of our hedging arrangements contain provisions that provide for cross defaults and acceleration of those debt and hedging instruments in certain situations.

5. Commitments and Contingencies:

We have been named as a defendant in a number of lawsuits and are involved in various other disputes, all arising in the ordinary course of our business, such as (1) claims from royalty owners for disputed royalty payments, (2) commercial disputes, (3) personal injury claims and (4) property damage claims. Although the outcome of these lawsuits and disputes cannot be predicted with certainty, we do not expect these matters to have a material adverse effect on our financial position, cash flows or results of operations.

6. Segment Information:

While we only have operations in the oil and gas exploration and production industry, we are organizationally structured along geographic operating segments. Our current operating segments are the United States, Malaysia, China and Other International. The accounting policies of each of our operating segments are the same as those described in Note 1, "Organization and Summary of Significant Accounting Policies."

The following tables provide the geographic operating segment information required by SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information," as of and for the three and six months ended June 30, 2009 and 2008. Income tax allocations have been determined based on statutory rates in the applicable geographic segment.





Table of Contents

NEWFIELD EXPLORATION COMPANY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

	United States	Malaysia	China (In millions)	Other International	Total
<b>Three Months Ended June 30, 2009:</b>					
Oil and gas revenues	\$222	\$51	\$14	\$ 3/4	\$287
<b>Operating expenses:</b>					
Lease operating	45	11	1	3/4	57
Production and other taxes	12	2	1	3/4	15
Depreciation, depletion and amortization	110	23	4	3/4	137
General and administrative	32	2	3/4	3/4	34
Other	5	3/4	3/4	3/4	5
Allocated income taxes	7	5	2	3/4	
Net income from oil and gas properties	\$11	\$8	\$6	\$ 3/4	
Total operating expenses					248
Income from operations					39
Interest expense, net of interest income, capitalized interest and other					(18 )
Commodity derivative expense					(81 )
Loss before income taxes					\$(60 )
Total long-lived assets	\$4,250	\$366	\$129	\$ 3	\$4,748
Additions to long-lived assets	\$276	\$4	\$20	\$ 3/4	\$300
	United States	Malaysia	China (In millions)	Other International	Total
<b>Three Months Ended June 30, 2008:</b>					
Oil and gas revenues	\$602	\$68	\$21	\$ 3/4	\$691
<b>Operating expenses:</b>					
Lease operating	46	11	1	3/4	58
Production and other taxes	22	25	5	3/4	52
Depreciation, depletion and amortization	148	14	4	3/4	166
General and administrative	36	1	3/4	3/4	37
Allocated income taxes	133	7	3	3/4	
Net income from oil and gas properties	\$217	\$10	\$8	\$ 3/4	
Total operating expenses					313
Income from operations					378
Interest expense, net of interest income,					(15 )

capitalized interest and other					
Commodity derivative expense					(652 )
Loss before income taxes					\$(289 )
Total long-lived assets	\$6,330	\$421	\$103	\$ 2	\$6,856
Additions to long-lived assets	\$686	\$40	\$4	\$ ¾	\$730

Table of Contents

NEWFIELD EXPLORATION COMPANY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

	United States	Malaysia	China (In millions)	Other International	Total
<b>Six Months Ended June 30, 2009:</b>					
Oil and gas revenues	\$436	\$94	\$19	\$ 3/4	\$549
<b>Operating expenses:</b>					
Lease operating	104	21	3	3/4	128
Production and other taxes	19	4	1	3/4	24
Depreciation, depletion and amortization	244	46	6	3/4	296
General and administrative	64	1	1	3/4	66
Ceiling test writedown	1,344	3/4	3/4	3/4	1,344
Other	7	3/4	3/4	3/4	7
Allocated income taxes	(484 )	8	2	3/4	
Net income (loss) from oil and gas properties	\$(862 )	\$14	\$6	\$ 3/4	
Total operating expenses					1,865
Loss from operations					(1,316 )
Interest expense, net of interest income, capitalized interest and other					(33 )
Commodity derivative income					197
Loss before income taxes					\$(1,152 )
Total long-lived assets	\$4,250	\$366	\$129	\$ 3	\$4,748
Additions to long-lived assets	\$615	\$28	\$26	\$ 3/4	\$669
	United States	Malaysia	China (In millions)	Other International	Total
<b>Six Months Ended June 30, 2008:</b>					
Oil and gas revenues	\$ 1,028	\$ 143	\$ 36	\$ 3/4	\$ 1,207
<b>Operating expenses:</b>					
Lease operating	93	22	2	3/4	117
Production and other taxes	44	52	7	3/4	103
Depreciation, depletion and amortization	284	33	6	3/4	323
General and administrative	67	1	1	3/4	69
Allocated income taxes	206	13	6	3/4	
Net income from oil and gas properties	\$ 334	\$ 22	\$ 14	\$ 3/4	
Total operating expenses					612

Income from operations					595
Interest expense, net of interest income, capitalized interest and other				(18	)
Commodity derivative expense				(973	)
Loss before income taxes				\$	(396 )

Total long-lived assets	\$	6,330	\$	421	\$	103	\$	2	\$	6,856
-------------------------	----	-------	----	-----	----	-----	----	---	----	-------

Additions to long-lived assets	\$	1,126	\$	87	\$	31	\$	¾	\$	1,244
--------------------------------	----	-------	----	----	----	----	----	---	----	-------

Table of Contents

NEWFIELD EXPLORATION COMPANY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

7. Derivative Financial Instruments:

Commodity Derivative Instruments

We utilize swap, floor, collar and three-way collar derivative contracts to hedge against the variability in cash flows associated with the forecasted sale of our future oil and gas production. While the use of these derivative instruments limits the downside risk of adverse price movements, their use also may limit future revenues from favorable price movements.

With respect to a swap contract, the counterparty is required to make a payment to us if the settlement price for any settlement period is less than the swap price, and we are required to make a payment to the counterparty if the settlement price for any settlement period is greater than the swap price. For a floor contract, the counterparty is required to make a payment to us if the settlement price for any settlement period is below the floor price. We are not required to make any payment in connection with the settlement of a floor contract. For a collar contract, the counterparty is required to make a payment to us if the settlement price for any settlement period is below the floor price, we are required to make payment to the counterparty if the settlement price for any settlement period is above the ceiling price and neither party is required to make a payment to the other party if the settlement price for any settlement period is equal to or greater than the floor price and equal to or less than the ceiling price. A three-way collar contract consists of a standard collar contract plus a put sold by us with a price below the floor price of the collar. This additional put requires us to make a payment to the counterparty if the settlement price for any settlement period is below the put price. Combining the collar contract with the additional put results in us being entitled to a net payment equal to the difference between the floor price of the standard collar and the additional put price if the settlement price is equal to or less than the additional put price. If the settlement price is greater than the additional put price, the result is the same as it would have been with a standard collar contract only. This strategy enables us to increase the floor and the ceiling price of the collar beyond the range of a traditional no cost collar while defraying the associated cost with the sale of the additional put. None of our derivative contracts contain collateral posting requirements; however, one of our derivative contracts contains a provision that would permit the counterparty, in certain circumstances, to request adequate assurance of our performance under the contract.

All of our derivative contracts are carried at their fair value on our consolidated balance sheet. Substantially all of our oil and gas derivative contracts are settled based upon reported prices on the NYMEX. The estimated fair value of these contracts is based upon various factors, including closing exchange prices on the NYMEX, over-the-counter quotations, volatility and, in the case of collars and floors, the time value of options. The calculation of the fair value of collars and floors requires the use of an option-pricing model. Please see Note 13, "Fair Value Measurements." We recognize all unrealized and realized gains and losses related to these contracts on a mark-to-market basis in our consolidated statement of income under the caption "Commodity derivative income (expense)." Settlements of derivative contracts are included in operating cash flows on our consolidated statement of cash flows.

During the first six months of 2008, we entered into a series of transactions that had the effect of resetting all of our then outstanding crude oil hedges for 2009 and 2010. At the time of the reset, the mark-to-market value of these hedge contracts was a liability of \$502 million and we paid an additional \$56 million to purchase option contracts.



Table of Contents

NEWFIELD EXPLORATION COMPANY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

At June 30, 2009, we had outstanding contracts with respect to our future production that are not designated for hedge accounting as set forth in the tables below.

## Natural Gas

Period and Type of Contract	Volume in MMBtus	NYMEX Contract Price Per MMBtu Collars					Estimated Fair Value Asset (Liability) (In millions)
		Swaps (Weighted Average)	Floors (Weighted Range)	Floors (Weighted Average)	Ceilings (Weighted Range)	Ceilings (Weighted Average)	
July 2009 – September 2009							
Price swap contracts	22,150	\$ 7.81	$\frac{3}{4}$	$\frac{3}{4}$	$\frac{3}{4}$	$\frac{3}{4}$	\$ 86
Collar contracts	13,620	—	\$ 8.00	\$ 8.00	\$ 8.97 – \$ 14.37	\$ 11.83	56
October 2009–December 2009							
Price swap contracts	26,120	7.34	$\frac{3}{4}$	$\frac{3}{4}$	$\frac{3}{4}$	$\frac{3}{4}$	63
Collar contracts	8,435	—	8.00 – 8.50	8.23	8.97 – 14.37	11.20	30
January 2010 – March 2010							
Price swap contracts	31,800	6.79	$\frac{3}{4}$	$\frac{3}{4}$	$\frac{3}{4}$	$\frac{3}{4}$	30
Collar contracts	5,700	—	8.50	8.50	10.00 – 11.00	10.44	15
April 2010 – June 2010							
Price swap contracts	34,850	6.41	$\frac{3}{4}$	$\frac{3}{4}$	$\frac{3}{4}$	$\frac{3}{4}$	22
July 2010 – September 2010							
Price swap contracts	35,200	6.41	$\frac{3}{4}$	$\frac{3}{4}$	$\frac{3}{4}$	$\frac{3}{4}$	13
October 2010 – December 2010							
Price swap contracts	25,270	6.47	$\frac{3}{4}$	$\frac{3}{4}$	$\frac{3}{4}$	$\frac{3}{4}$	(1 )
							\$ 314

## Oil

NYMEX Contract Price Per Bbl  
Collars

Period and Type of Contract	Volume in MBbls	Swaps		Additional Put		Floors		Ceilings		Floors	
		(Weighted Average)	Range	Weighted Average	Range	Weighted Average	Range	Weighted Average	Range	Weighted Average	Range
July 2009 - September 2009											
Price swap contracts	828	\$128.93	¾	¾	¾	¾	¾	¾	¾	¾	¾
Floor contracts	828	—	—	—	—	—	—	—	—	\$104.50-\$109.75	\$104.50-\$109.75
October 2009–December 2009											
Price swap contracts	828	128.93	¾	¾	¾	¾	¾	¾	¾	¾	¾
Floor contracts	828	—	—	—	—	—	—	—	—	104.50-109.75	104.50-109.75
January 2010 – March 2010											
Price swap contracts	90	93.40	¾	¾	¾	¾	¾	¾	¾	¾	¾
Collar contracts	810	—	¾	¾	\$125.50–\$130.50	\$127.97	\$170.00	\$170.00	¾	¾	¾
3-Way collar contracts	180	—	\$50.00	\$50.00	60.00	60.00	112.00-112.10	112.05	¾	¾	¾
April 2010 – June 2010											
Price swap contracts	90	93.40	¾	¾	¾	¾	¾	¾	¾	¾	¾
Collar contracts											