NEWFIELD EXPLORATION CO /DE/
Form 10-Q
October 24, 2008

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

(Mark One)

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

For the Quarterly Period Ended September 30, 2008

OR

o 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 2020
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 þ No o

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 þ	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

Yes o No þ

As of October 21, 2008, there were 132,245,108 shares of the registrant's common stock, par value $0.01 per share, outstanding.

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

	September 30, 2008	December 31, 2007
ASSETS		
Current assets:		
Cash and cash equivalents	$ 35	$ 250
Short-term investments	—	120
Accounts receivable	401	332
Inventories	87	82
Derivative assets	213	72
Deferred taxes	—	35
Other current assets	64	36
Total current assets	800	927
Oil and gas properties (full cost method, of which $1,640 at September 30, 2008 and $1,189 at December 31, 2007 were excluded from amortization)	11,540	9,791
Less—accumulated depreciation, depletion and amortization	(4,360)	(3,868)
	7,180	5,923
Furniture, fixtures and equipment, net	41	35
Derivative assets	252	17
Long-term investments	78	10
Other assets	19	12
Goodwill	62	62
Total assets	$ 8,432	$ 6,986
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 74	$ 52
Accrued liabilities	764	671
Advances from joint owners	46	44
Asset retirement obligation	7	6
Deferred taxes	45	—
Derivative liabilities	67	156
Total current liabilities	1,003	929
Other liabilities	34	18
Derivative liabilities	111	248
Long-term debt	1,936	1,050
Asset retirement obligation	61	56
Deferred taxes	1,253	1,104
Total long-term liabilities	3,395	2,476

Commitments and contingencies (Note 5)		—		—
Stockholders' equity:				
Preferred stock ($0.01 par value; 5,000,000 shares authorized; no shares issued)		—		—
Common stock ($0.01 par value; 200,000,000 shares authorized at September 30, 2008 and December 31, 2007; 134,124,338 and 133,232,197 shares issued at September 30, 2008 and December 31, 2007, respectively)		1		1
Additional paid-in capital		1,322		1,278
Treasury stock (at cost; 1,901,413 and 1,896,286 shares at September 30, 2008 and December 31, 2007, respectively)		(32)		(32)
Accumulated other comprehensive income (loss):				
Minimum pension liability		(3)		(3)
Unrealized loss on investments		(7)		—
Retained earnings		2,753		2,337
Total stockholders' equity		4,034		3,581
Total liabilities and stockholders' equity	$	8,432	$	6,986

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Oil and gas revenues	$ 680	$ 419	$ 1,887	$ 1,384
Operating expenses:				
Lease operating	67	64	184	268
Production and other taxes	51	25	154	63
Depreciation, depletion and amortization	181	162	504	539
General and administrative	36	37	105	107
Total operating expenses	335	288	947	977
Income from operations	345	131	940	407
Other income (expenses):				
Interest expense	(36)	(29)	(83)	(80)
Capitalized interest	16	13	43	35
Commodity derivative income (expense)	726	38	(247)	(43)
Other	8	1	10	3
	714	23	(277)	(85)
Income from continuing operations before income taxes	1,059	154	663	322
Income tax provision:				
Current	9	57	34	78
Deferred	326	5	213	47
	335	62	247	125
Income from continuing operations	724	92	416	197
Loss from discontinued operations, net of tax	—	(9)	—	(60)
Net income	$ 724	$ 83	$ 416	$ 137
Earnings (loss) per share:				
Basic —				
Income from continuing operations	$ 5.59	$ 0.72	$ 3.22	$ 1.54
Loss from discontinued operations	—	(0.07)	—	(0.47)
Net income	$ 5.59	$ 0.65	$ 3.22	$ 1.07
Diluted —				
Income from continuing operations	$ 5.48	$ 0.70	$ 3.15	$ 1.51
Loss from discontinued operations	—	(0.06)	—	(0.46)

Net income	$ 5.48	$ 0.64	$ 3.15	$ 1.05
Weighted average number of shares outstanding for basic earnings (loss) per share	129	128	129	127
Weighted average number of shares outstanding for diluted earnings (loss) per share	132	131	132	130

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

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

	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007
Cash flows from operating activities:		
Net income	$ 416	$ 137
Adjustments to reconcile net income to net cash provided by operating activities:		
Loss from discontinued operations, net of tax	—	60
Depreciation, depletion and amortization	504	539
Stock-based compensation	17	18
Commodity derivative expense	247	43
Cash (payments) receipts on derivative settlements	(783)	174
Deferred taxes	213	47
Changes in operating assets and liabilities:		
Increase in accounts receivable	(63)	(12)
Increase in inventories	(5)	(29)
Decrease (increase) in other current assets	(10)	18
Decrease in other assets	—	7
Increase in commodity derivative assets	(65)	(2)
Increase (decrease) in accounts payable and accrued liabilities	135	(8)
Increase (decrease) in advances from joint owners	2	(53)
Increase in other liabilities	14	4
Net cash provided by continuing activities	622	943
Net cash used in discontinued activities	—	(12)
Net cash provided by operating activities	622	931
Cash flows from investing activities:		
Acquisition of oil and gas properties	(231)	(578)
Additions to oil and gas properties	(1,537)	(1,532)
Proceeds from sale of oil and gas properties	2	1,281
Additions to furniture, fixtures and equipment	(14)	(7)
Purchases of short-term investments	(22)	(43)
Redemption of short-term investments	70	24
Net cash used in continuing activities	(1,732)	(855)
Net cash used in discontinued activities	—	(41)
Net cash used in investing activities	(1,732)	(896)
Cash flows from financing activities:		
Proceeds from borrowings under credit arrangements	1,826	2,909
Repayments of borrowings under credit arrangements	(1,541)	(2,909)
Net proceeds from issuance of senior subordinated notes	592	—
Payments to discontinued operations	—	(38)
Proceeds from issuances of common stock	18	18
Stock-based compensation excess tax benefit	—	8

Purchases of treasury stock		—		(1)
Net cash provided by (used in) continuing activities		895		(13)
Net cash provided by discontinued activities		—		38
Net cash provided by financing activities		895		25
Effect of exchange rate changes on cash and cash equivalents		—		1
Increase (decrease) in cash and cash equivalents		(215)		61
Cash and cash equivalents, beginning of period		250		52
Cash and cash equivalents from discontinued operations, beginning of period		—		28
Cash and cash equivalents, end of period	$	35	$	141

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

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

	Common Stock		Treasury Stock		Additional Paid-in	Retained	Accumulated Other Comprehensive Income (Loss)	Total Stockholders'
	Shares	Amount	Shares	Amount	Capital	Earnings		Equity
Balance, December 31, 2007	133.2	$ 1	(1.9)	$ (32)	$ 1,278	$ 2,337	$ (3)	$ 3,581
Issuance of common and restricted stock	0.8				18			18
Stock-based compensation	0.1				26			26
Comprehensive income (loss):								
Net income						416		416
Unrealized loss on investments, net of tax of $3							(7)	(7)
Total comprehensive income								409
Balance, September 30, 2008	134.1	$ 1	(1.9)	$ (32)	$ 1,322	$ 2,753	$ (10)	$ 4,034

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

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, 2007.

In October 2007, we sold all of our interests in the U.K. North Sea for $511 million in cash and recorded a gain of $341 million. As a result, the historical results of operations and financial position of our U.K. North Sea operations are reflected in our financial statements as “discontinued operations.” This reclassification affects the presentation of our prior period financial statements. See Note 13, “Discontinued Operations.” Except where noted, discussions in these notes relate to our continuing operations only.

Dependence on Oil and Gas Prices

As an independent oil and gas producer, our revenue, profitability and future rate of growth are substantially dependent on prevailing prices for natural gas and oil. Historically, the energy markets have been very volatile, and there can be no assurance that oil and gas prices will not be subject to wide fluctuations in the future. A substantial or extended decline in oil or 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 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. Our long-term investments at September 30, 2008 included $68 million of auction rate securities. This amount reflects a decrease in the fair value of these investments of $7 million recorded under “Accumulated other comprehensive income (loss)” on our consolidated balance sheet. We realized interest income on our investments of $1 million and $3 million, respectively, for the three and nine months ended September 30, 2008.

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

Foreign Currency

The functional currency for all of our foreign operations is the U.S. dollar. Gains and losses incurred on currency transactions in other than a country's functional currency are recorded under the caption "Other income (expense) — Other" on our consolidated statement of income.

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 337,000 barrels and 480,000 barrels of crude oil valued at cost of $14 million and $17 million at September 30, 2008 and December 31, 2007, respectively. Cost for purposes of the carrying value of oil inventory is the sum of production costs and depreciation, depletion and amortization expense.

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 nine months ended September 30, 2008 are set forth below (in millions):

Balance as of January 1, 2008	$ 62
Accretion expense	3
Additions	4
Settlements	(1)
Balance at September 30, 2008	68
Current portion of ARO	(7)
Total long-term ARO at September 30, 2008	$ 61

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

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 adopted 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) on January 1, 2007. The adoption did not result in a material adjustment to our tax liability for unrecognized income tax benefits. If applicable, we would recognize interest and penalties related to uncertain tax positions in interest expense. As of September 30, 2008, 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.

New Accounting Standards

In March 2008, the FASB issued FASB Statement (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 will adopt SFAS No. 161 beginning January 1, 2009. We are currently evaluating the impact, if any, the statement will have on our consolidated financial statements.

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. See Note 11, "Stock-Based Compensation."

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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 September 30, 2008	Three Months Ended September 30, 2007	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007
	(In millions, except per share data)			
Income (numerator):				
Income from continuing operations	$ 724	$ 92	$ 416	$ 197
Loss from discontinued operations, net of tax	—	(9)	—	(60)
Net income – basic and diluted	$ 724	$ 83	$ 416	$ 137
Weighted average shares (denominator):				
Weighted average shares – basic	129	128	129	127
Dilution effect of stock options and unvested restricted stock outstanding at end of period (1)	3	3	3	3
Weighted average shares – diluted	132	131	132	130
Earnings per share:				
Basic –				
Income from continuing operations	$ 5.59	$ 0.72	$ 3.22	$ 1.54
Loss from discontinued operations	—	(0.07)	—	(0.47)
Basic earnings per share	$ 5.59	$ 0.65	$ 3.22	$ 1.07
Diluted –				
Income from continuing operations	$ 5.48	$ 0.70	$ 3.15	$ 1.51
Loss from discontinued operations	—	(0.06)	—	(0.46)
Diluted earnings per share	$ 5.48	$ 0.64	$ 3.15	$ 1.05

(1) The calculation of shares outstanding for diluted EPS for the three month periods ended September 30, 2008 and 2007 does not include the effect of 0.8 million and 0.2 million, respectively, of outstanding stock options and unvested restricted shares or restricted share units because to do so would be antidilutive. The calculation of shares outstanding for diluted EPS for the nine month periods ended September 30, 2008 and 2007 does not include the effect of 0.3 million and 0.6 million, respectively, of outstanding stock options and unvested restricted shares or restricted share units because to do so would be antidilutive.

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

3. Oil and Gas Assets:

Oil and Gas Properties

Oil and gas properties consisted of the following at:

	September 30, 2008	December 31, 2007
	(In millions)	
Subject to amortization	$ 9,900	$ 8,602
Not subject to amortization:		
Exploration in progress	434	250
Development in progress	79	30
Capitalized interest	128	103
Fee mineral interests	23	23
Other capital costs:		
Incurred in 2008	265	—
Incurred in 2007	337	342
Incurred in 2006	67	77
Incurred in 2005 and prior	307	364
Total not subject to amortization	1,640	1,189
Gross oil and gas properties	11,540	9,791
Accumulated depreciation, depletion and amortization	(4,360)	(3,868)
Net oil and gas properties	$ 7,180	$ 5,923

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 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 gas prices decrease significantly or if we have substantial downward revisions in our estimated proved reserves. We did not have a ceiling test writedown at September 30, 2008.

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

Pro Forma Results – Rocky Mountain Asset Acquisition

In June 2007, we acquired Stone Energy Corporation's Rocky Mountain assets for $578 million in cash. The unaudited pro forma results presented below for the nine month period ended September 30, 2007 have been prepared to give effect to the acquisition on our results of operations as if it had been consummated at the beginning of the period. The unaudited pro forma results do not purport to represent what our actual results of operations would have been if this acquisition had been completed on such date or to project our results of operations for any future date or period.

	Nine Months Ended September 30, 2007 (Unaudited) (In millions, except per share data)	
Pro forma:		
Revenue	$	1,432
Income from operations		468
Net income		198
Basic earnings per share	$	1.55
Diluted earnings per share	$	1.52

4. Debt:

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

	September 30, 2008		December 31, 2007	
	(In millions)			
Senior unsecured debt:				
Revolving credit facility:				
Prime rate based loans	$	—	$	—
LIBOR based loans		285		—
Total revolving credit facility		285		—
Money market line of credit (1)		—		—
Total credit arrangements		285		—
7 5/8% Senior Notes due 2011		175		175
Fair value of interest rate swaps (2)		1		—
Total senior unsecured notes		176		175
Total senior unsecured debt		461		175
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		—
Total debt	$	1,936	$	1,050

(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.

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

Senior Subordinated Notes

On May 5, 2008, we sold $600 million principal amount of our 7 1/8% Senior Subordinated Notes due 2018. We received net proceeds from the offering of approximately $592 million. The notes are unsecured senior subordinated obligations that rank junior in right of payment to all of our present and future senior indebtedness, equally in right of payment to our outstanding 6 5/8% Senior Subordinated Notes due 2014 and our 6 5/8% Senior Subordinated Notes due 2016, and senior to all of our future indebtedness that is expressly subordinated to the notes. We may redeem some or all of the notes at any time on or after May 15, 2013 at a redemption price stated in the indenture governing the notes. Prior to May 15, 2013, we may redeem all, but not part, of the notes at a redemption price based on a make-whole amount plus accrued and unpaid interest to the date of redemption. In addition, before May 15, 2011, we may redeem up to 35% of the original principal amount of the notes with the net cash proceeds of certain sales of our common stock at 107.125% of the principal amount, plus accrued and unpaid interest to the date of redemption. Like our other senior subordinated notes, these notes may limit our ability under certain circumstances to incur additional debt, make restricted payments, pay dividends on or redeem our capital stock, make certain investments, create liens, engage in transactions with affiliates and engage in mergers, consolidations and sales and other dispositions of assets.

Credit Arrangements

In June 2007, we entered into a new revolving credit facility to replace our previous facility. The credit facility matures in June 2012 and provides for initial loan commitments of $1.25 billion from a syndicate of more than 15 financial institutions, led by JPMorgan Chase Bank, as agent. As of September 30, 2008, the largest commitment by a single member of the syndicate was 8% of total commitments. Total loan commitments may 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 September 30, 2008).

Under our current credit facility and our previous credit facilities, we pay or paid commitment fees on available but undrawn amounts based on a grid of our debt rating (0.175% per annum at September 30, 2008). We incurred fees under these arrangements of approximately $0.4 million and $1 million for the three and nine months ended September 30, 2008, respectively, which are recorded in interest expense on our consolidated statement of income.

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 and unrealized gains and losses on commodity derivatives) 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.

As of September 30, 2008, we had $26 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 September 30, 2008).

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

5. Commitments and Contingencies:

We have been named as a defendant in a number of lawsuits arising in the ordinary course of our business. While the outcome of these lawsuits 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 well as results of operations of oil and gas producing activities required by SFAS No. 69, “Disclosures about Oil and Gas Producing Activities,” as of and for the three and nine months ended September 30, 2008 and 2007 for our continuing operations. Income tax allocations have been determined based on statutory rates in the applicable geographic segment.

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

	United States	Malaysia	China (In millions)	Other International	Total
Three Months Ended September 30, 2008:					
Oil and gas revenues	$ 560	$ 103	$ 17	$ —	$ 680
Operating expenses:					
Lease operating	54	13	—	—	67
Production and other taxes	21	27	3	—	51
Depreciation, depletion and amortization	154	24	3	—	181
General and administrative	35	1	—	—	36
Allocated income taxes	113	15	2	—	
Net income from oil and gas properties	$ 183	$ 23	$ 9	$ —	
Total operating expenses					335
Income from operations					345
Interest expense, net of interest income, capitalized interest and other					(12)
Commodity derivative income					726
Income before income taxes					$ 1,059
Total long-lived assets	$ 6,629	$ 442	$ 107	$ 2	$ 7,180
Additions to long-lived assets	$ 462	$ 45	$ 7	$ —	$ 514

	United States	Malaysia	China (In millions)	Other International	Total
Three Months Ended September 30, 2007:					
Oil and gas revenues	$ 384	$ 31	$ 4	$ —	$ 419
Operating expenses:					
Lease operating	54	9	1	—	64
Production and other taxes	20	5	—	—	25
Depreciation, depletion and amortization	153	8	1	—	162
General and administrative	35	1	1	—	37
Allocated income taxes	44	3	—	—	
Net income from oil and gas properties	$ 78	$ 5	$ 1	$ —	
Total operating expenses					288
Income from operations					131

Interest expense, net of interest income, capitalized interest and other										(15)
Commodity derivative income										38
Income from continuing operations before income taxes									$	154
Total long-lived assets	$	5,159	$	313	$	74	$	1	$	5,547
Additions to long-lived assets	$	398	$	74	$	5	$	—	$	477

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

	United States	Malaysia	China	Other International	Total
			(In millions)		
Nine Months Ended September 30, 2008:					
Oil and gas revenues	$ 1,589	$ 246	$ 52	$ —	$ 1,887
Operating expenses:					
Lease operating	147	35	2	—	184
Production and other taxes	64	79	11	—	154
Depreciation, depletion and amortization	438	57	9	—	504
General and administrative	101	2	2	—	105
Allocated income taxes	319	28	7	—	
Net income from oil and gas properties	$ 520	$ 45	$ 21	$ —	
Total operating expenses					947
Income from operations					940
Interest expense, net of interest income, capitalized interest and other					(30)
Commodity derivative expense					(247)
Income before income taxes					$ 663
Total long-lived assets	$ 6,629	$ 442	$ 107	$ 2	$ 7,180
Additions to long-lived assets	$ 1,587	$ 132	$ 38	$ 1	$ 1,758

	United States	Malaysia	China	Other International	Total
			(In millions)		
Nine Months Ended September 30, 2007:					
Oil and gas revenues	$ 1,296	$ 60	$ 28	$ —	$ 1,384