NEWFIELD EXPLORATION CO /DE/
Form DEF 14A
March 16, 2007

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934

Filed by the Registrant þ
Filed by a Party other than the Registrant o

Check the appropriate box:

o Preliminary Proxy Statement
o **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
þ Definitive Proxy Statement
o Definitive Additional Materials
o Soliciting Material Pursuant to §240.14a-12

Newfield Exploration Company

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

þ No fee required.
o Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

1) Title of each class of securities to which transaction applies:

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3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

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1) Amount Previously Paid:

2) Form, Schedule or Registration Statement No.:

3) Filing Party:

4) Date Filed:

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NEWFIELD EXPLORATION COMPANY
Houston, Texas
NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
May 3, 2007

To the stockholders of Newfield Exploration Company:

Our 2007 annual meeting of stockholders will be held at 11:00 a.m., Central Daylight Time, on Thursday, May 3, 2007, in the Joe B. Foster Employee Communications Room, fourth floor, 363 N. Sam Houston Parkway E., Houston, Texas, for the following purposes:

(1) to elect thirteen directors to serve until our 2008 annual meeting of stockholders;

(2) to approve the Newfield Exploration Company 2007 Omnibus Stock Plan;

(3) to approve the Second Amendment to Newfield Exploration Company 2000 Non-Employee Director Restricted Stock Plan;

(4) to ratify the appointment of PricewaterhouseCoopers LLP as our independent accountants for the year ending December 31, 2007; and

(5) to transact such other business as may properly come before such meeting or any adjournment thereof.

The close of business on March 5, 2007, has been fixed as the record date for the determination of stockholders entitled to receive notice of and to vote at the meeting or any adjournment thereof.

You are cordially invited to attend the meeting.

By order of the Board of Directors,
Terry W. Rathert
Secretary
March 16, 2007

YOUR VOTE IS IMPORTANT

You are urged to vote your shares via the Internet, our toll-free telephone number or by signing, dating and promptly returning your proxy card in the enclosed envelope.

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NEWFIELD EXPLORATION COMPANY
363 N. Sam Houston Parkway E.
Suite 2020
Houston, Texas 77060
(281) 847-6000
www.newfield.com

PROXY STATEMENT
For the 2007 Annual Meeting of Stockholders

This proxy statement is furnished in connection with the solicitation of proxies by and on behalf of the Board of Directors of Newfield Exploration Company to be voted at Newfield s 2007 annual meeting of stockholders to be held at 11:00 a.m., Central Daylight Time, on May 3, 2007, in the Joe B. Foster Employee Communications Room, fourth floor, 363 N. Sam Houston Parkway E., Houston, Texas or at any adjournment thereof. This proxy statement and the form of proxy/voting instruction card will be first mailed, given or otherwise made available to stockholders on or about March 21, 2007.

ABOUT THE MEETING

What is the purpose of the meeting?

The purpose of the meeting is to:

- elect thirteen directors;
- approve the Newfield Exploration Company 2007 Omnibus Stock Plan;
- approve the Second Amendment to Newfield Exploration Company 2000 Non-Employee Director Restricted Stock Plan;
- ratify the selection of PricewaterhouseCoopers LLP as our independent accountants for the year ending December 31, 2007; and
- transact such other business as may properly come before the meeting or any adjournment thereof.

Am I entitled to vote at the meeting?

Only stockholders of record on March 5, 2007, the record date for the meeting, are entitled to receive notice of and to vote at the meeting.

What are my voting rights as a stockholder?

Stockholders are entitled to one vote for each share of our common stock that they owned as of the record date. Stockholders may not cumulate their votes in the election of directors.

How do I vote?

Stockholders may vote at the meeting in person or by proxy. Proxies validly delivered by stockholders (by Internet, telephone or mail as described below) and timely received by us will be voted in accordance with the instructions contained therein. If a stockholder provides a proxy but gives no instructions, such stockholder s shares will be voted in accordance with the recommendation of our Board.

You may vote by proxy three ways:

By Internet: Visit the website *http://www.voteproxy.com* and follow the on-screen instructions. To vote your shares, you must use the control number printed on your proxy/voting instruction card. Website voting is available 24 hours a day, seven days a week, and will be accessible **until** 11:59 p.m., Eastern Daylight Time, on May 2, 2007.

By Telephone: Call toll-free 1-800-PROXIES (1-800-776-9437). To vote your shares, you must use the control number printed on your proxy/voting instruction card. Telephone voting is accessible 24 hours a day, seven days a week, **until** 11:59 p.m., Eastern Daylight Time, on May 2, 2007.

By Mail: Mark your proxy/voting instruction card, date and sign it and return it in the postage-paid envelope provided. If the envelope is missing, please address your completed proxy/voting instruction card to Newfield Exploration Company, c/o American Stock Transfer & Trust Company, 59 Maiden Lane, New York, New York 10273-0923.

IF YOU VOTE BY INTERNET OR TELEPHONE, PLEASE DO NOT RETURN YOUR PROXY/VOTING INSTRUCTION CARD.

Can I change my vote?

Yes. A stockholder may revoke or change a proxy before the proxy is exercised by filing with our Secretary a notice of revocation, delivering to us a new proxy or by attending the meeting and voting in person. Stockholders who vote by telephone or the Internet may change their votes by re-voting by telephone or the Internet within the time periods listed above. A stockholder s last timely vote, including via the Internet or telephone, is the one that will be counted.

What constitutes a quorum?

Stockholders entitled to cast at least a majority of the votes that all stockholders are entitled to cast must be present at the meeting in person or by proxy to constitute a quorum for the transaction of business. At the close of business on March 5, 2007, the record date for the meeting, there were 129,999,947 shares of our common stock outstanding.

What are your Board s recommendations?

Our Board recommends a vote:

For each of the thirteen nominees proposed for election as directors;

For approval of the Newfield Exploration Company 2007 Omnibus Stock Plan;

For approval of the Second Amendment to Newfield Exploration Company 2000 Non-Employee Director Restricted Stock Plan; and

For ratification of the selection of PricewaterhouseCoopers LLP as our independent accountants for the year ending December 31, 2007.

If any other matters are brought before the meeting, the proxy holders will vote as recommended by our Board. If no recommendation is given, the proxy holders will vote in their discretion.

What vote is required to approve each proposal?

The thirteen nominees for election as directors who receive the greatest number of votes will be elected directors. Withheld votes and abstentions will have no effect on the outcome of the election.

Approval of the Newfield Exploration Company 2007 Omnibus Stock Plan and the Second Amendment to Newfield Exploration Company 2000 Non-Employee Director Restricted Stock Plan require the affirmative vote of

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the holders of a majority of the shares present in person or represented by proxy at the meeting and entitled to vote on the proposals. Abstentions will have the same effect as a vote against approval. Under NYSE rules, the total votes cast on the proposals to approve the Newfield Exploration Company 2007 Omnibus Stock Plan and the Second Amendment to Newfield Exploration Company 2000 Non-Employee Director Restricted Stock Plan must represent a majority of all of the issued and outstanding shares of our common stock entitled to vote on the proposals. Brokers that do not receive instructions from their customers cannot vote on any of these proposals.

Approval of the ratification of the selection of PricewaterhouseCoopers LLP as our independent accountants for 2007 requires the affirmative vote of the holders of a majority of the shares present in person or represented by proxy at the meeting and entitled to vote on the proposal. Abstentions will have the same effect as a vote against ratification.

Other Information

A copy of our annual report for the year ended December 31, 2006 accompanies this proxy statement. None of the information contained in our annual report is proxy solicitation material.

We will reimburse brokers, custodians, nominees and fiduciaries for reasonable expenses incurred by them in forwarding proxy material to beneficial owners of our common stock. The costs of the solicitation will be borne by us.

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ITEM 1.
ELECTION OF DIRECTORS

Nominees for Directors

The Nominating & Corporate Governance Committee of our Board has nominated the thirteen persons named below for election as directors at our 2007 annual meeting of stockholders. If elected, each director will serve until our 2008 annual meeting of stockholders and thereafter until his or her successor has been elected and qualified. Unless instructions to the contrary are given, all properly executed and delivered proxies will be voted for the election of these thirteen nominees as directors. If any nominee is unable to serve, the proxy holders will vote for such other person as may be nominated by the Nominating & Corporate Governance Committee.

Nominees	Principal Occupation and Directorships	Director Since	Age(1)
David A. Trice	Chairman, President and Chief Executive Officer of Newfield; Director, Hornbeck Offshore Services, Inc., Grant Prideco Inc. and New Jersey Resources Corporation	2000	58
David F. Schaible	Executive Vice President Operations and Acquisitions of Newfield	2002	46
Howard H. Newman	President and Chief Executive Officer of Pine Brook Road Partners, LLC	1990	59
Thomas G. Ricks	Chief Investment Officer of H&S Ventures L.L.C.	1992	53
C. E. (Chuck) Shultz	Chairman and Chief Executive Officer of Dauntless Energy Inc.; Chairman of Canadian Oil Sands Ltd.; Director, Enbridge Inc.	1994	67
Dennis R. Hendrix	Retired Chairman of PanEnergy Corp; Director, Allied Waste Industries, Inc., Grant Prideco Inc. and Spectra Energy Corp.	1997	67
Philip J. Burguieres	Chairman and Chief Executive Officer of EMC Holdings, LLC; Vice Chairman of Houston Texans; Chairman Emeritus, Weatherford International, Inc.; Director, FMC Technologies, Inc.	1998	63
John Randolph Kemp III	Retired President, Exploration Production, Americas of Conoco Inc.	2003	62
J. Michael Lacey	Retired Senior Vice President Exploration and Production of Devon Energy Corporation	2004	61
Joseph H. Netherland	Chairman, President and Chief Executive Officer of FMC Technologies, Inc.	2004	60
J. Terry Strange	Retired Vice Chairman of KPMG, LLP; Director, BearingPoint, Inc., Compass Bancshares, Inc.,	2004	63

	Group 1 Automotive, Inc. and New Jersey Resources Corporation		
Pamela J. Gardner	President, Business Operations of Houston McLane Company d/b/a Houston Astros Baseball Club	2005	50
Juanita F. Romans	Chief Executive Officer of Memorial Hermann Texas Medical Center Operations	2005	56

(1) As of February 28, 2007.

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Each of the director nominees has been engaged in the principal occupation set forth opposite his or her name for the past five years except as follows:

Mr. Trice was named Chairman of the Board of our company in September 2004.

Mr. Schaible was promoted from Vice President to Executive Vice President of our company in November 2004.

Mr. Newman has served as the President and Chief Executive Officer of Pine Brook Road Partners, LLC and its predecessor since April 2006. Mr. Newman was a general partner of Warburg, Pincus & Co. from January 1987 to April 2005 and was Vice Chairman and Senior Advisor of Warburg Pincus LLC from January 2001 to April 2006.

Mr. Lacey retired from Devon Energy Corporation in February 2004. Throughout his 15 years with Devon, Mr. Lacey directed Devon s worldwide exploration and production effort.

Mr. Strange retired from KPMG, LLP in 2002 after a 34-year career with the accounting firm.

Ms. Romans was Senior Vice President of Memorial Hermann Healthcare System and Chief Executive Officer of Memorial Hermann Hospital from January 2003 to June 2006. Ms. Romans was Vice President and Chief Operating Officer of Memorial Hermann Hospital from May 2001 to January 2003.

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Security Ownership of Certain Beneficial Owners and Management

The following table sets forth beneficial ownership information, unless otherwise indicated, as of February 28, 2007 with respect to (i) each person known by us to own beneficially 5% or more of our outstanding common stock, (ii) each of the named executive officers (see Executive Compensation), (iii) each of our directors and (iv) all of our executive officers and directors as a group.

	Beneficial Ownership(1)	
Name of Beneficial Owner	**Shares**	**Percent**
Capital Research and Management Company(2)	13,977,000	10.8%
David A. Trice	688,685	*
Terry W. Rathert	317,617	*
David F. Schaible	359,841	*
Elliott Pew	76,522	*
Lee K. Boothby	110,731	*
Philip J. Burguieres	16,955	*
Dennis R. Hendrix	27,493	*
John Randolph Kemp III	6,945	*
J. Michael Lacey	3,433	*
Joseph H. Netherland	3,433	*
Howard H. Newman	174,171	*
Thomas G. Ricks	8,661	*
C. E. Shultz	18,071	*
J. Terry Strange	3,433	*
Pamela J. Gardner	2,437	*
Juanita F. Romans	2,437	*
Executive officers and directors as a group (consisting of 29 persons)(3)	3,102,854	2.4%

* Less than 1%

(1) Shares are deemed to be beneficially owned by a person if such person directly or indirectly has or shares the power to vote or dispose of the shares, whether or not such person has any pecuniary interest in the shares, or if such person has the right to acquire the power to vote or dispose of the shares within 60 days, including any right to acquire such power through the exercise of any option, warrant or right. The shares beneficially owned by Messrs. Trice, Rathert, Schaible and Boothby include 192,000, 116,000, 136,000 and 12,000 shares, respectively, that may be acquired by such persons within 60 days through the exercise of stock options. The shares owned by our executive officers and directors as a group include 830,400 shares that may be acquired by such persons within 60 days through the exercise of stock options.

(2) All information in the table and in this note with respect to Capital Research and Management Company (CRM) is based solely on the Schedule 13G/A filed by CRM with the SEC on February 12, 2007. CRM, an investment adviser registered under Section 203 of the Investment Advisers Act of 1940, is deemed to be the beneficial owner of all of the indicated shares as a result of acting as investment adviser to various investment companies registered under Section 8 of the Investment Company Act of 1940. CRM has sole dispositive power with respect to all of the indicated shares and voting power with respect to 5,712,200 of the indicated shares. CRM s address is 333 South Hope Street, Los Angeles, CA 90071.

(3) None of the shares beneficially owned by our executive officers and directors has been pledged as security for an obligation.

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CORPORATE GOVERNANCE

Set forth below in question and answer format is a discussion about our corporate governance policies and practices, some of which have been modified since last year s annual meeting, and other matters relating to our Board and its committees.

General

Have you adopted corporate governance guidelines?

Yes, our Board has formally adopted corporate governance guidelines that address such matters as director qualification standards, director responsibilities, board committees, director access to management and independent advisors, director compensation, director orientation and continuing education, evaluation of our chief executive officer, management succession and performance evaluations of our Board.

Have you adopted a code of ethics and conduct?

Yes, our Board has formally adopted a corporate code of business conduct and ethics applicable to our directors, officers and employees. Our corporate code includes a financial code of ethics applicable to our chief executive officer, chief financial officer and controller or chief accounting officer.

How can I view or obtain copies of your corporate governance materials?

The guidelines and codes mentioned above as well as the charters for each significant standing committee of our Board are available on our website for viewing and printing. Go to *http://www.newfield.com* and then to the Corporate Governance Overview tab. We also will provide stockholders with a free copy of these materials upon request. Requests may be made by mail, telephone or the Internet as follows:

Newfield Exploration Company
Attention: Investor Relations
363 N. Sam Houston Parkway E., Suite 2020
Houston, Texas 77060
(281) 405-4284
http://www.newfield.com

Board of Directors

How many independent directors do you have? How do you determine whether a director is independent?

Our Board has affirmatively determined that eleven of the thirteen nominees for director are independent as that term is defined by NYSE rules. In making this determination, our Board considered transactions and relationships between each director nominee or his or her immediate family and our company and its subsidiaries, including those reported below under Compensation Committee Interlocks and Insider Participation and Interests of Management and Others in Certain Transactions. The purpose of this review was to determine whether any such relationships or transactions were material and, therefore, inconsistent with a determination that the director is independent. As a result of this review, our Board affirmatively determined, based on its understanding of such transactions and relationships, that all of the directors nominated for election at the annual meeting are independent of our company under the standards set forth by the NYSE, with the exception of David A. Trice and David F. Schaible, who are management employees of our company. There is no family relationship between any of the nominees for director or between any nominee and any executive officer of our company.

How many times did your Board meet last year?

Our Board met in person or by conference telephone six times during 2006.

Did any of your directors attend fewer than 75% of the meetings of your Board and his or her assigned committees during 2006?

Yes. Juanita F. Romans attended 71% of the meetings of our Board and her assigned committees during 2006. All other directors attended at least 75% of the meetings of our Board and his or her assigned committees during 2006.

How many of your directors attended the 2006 annual meeting of stockholders?

All of our directors attended and were introduced during our 2006 annual meeting of stockholders. We strongly encourage our directors to attend annual meetings, but we do not have a formal policy regarding attendance.

Do your non-management directors and independent directors meet in executive session?

Yes, our non-management directors and independent directors meet separately on a regular basis usually at each regularly scheduled meeting of our Board. We have no non-management directors who are not independent. Our corporate governance guidelines provide that our independent directors will meet in executive session at least annually and more frequently as needed at the call of one or more of our independent directors. Our corporate governance guidelines also provide that executive sessions will be presided over by our Lead Director. C. E. (Chuck) Shultz has served as our Lead Director since July 2005.

How can interested parties communicate directly with your non-management directors?

We have established a toll-free Ethics Line so that investors, employees and other interested parties can anonymously report through a third party any practices thought to be in violation of our corporate governance policies. The Ethics Line also can be used to make concerns known to our non-management directors on a direct and confidential basis. The telephone number for the Ethics Line is 1-866-843-8694. Additional information is available on our website at *http://www.newfield.com* under the tab Corporate Governance Overview.

How are your directors compensated?

See Executive Compensation 2006 Non-Employee Director Compensation for information about our director compensation.

Committees

Does your Board have any standing committees?

Yes, our Board presently has the following significant standing committees:

- Audit Committee;
- Compensation & Management Development Committee; and
- Nominating & Corporate Governance Committee.

Each of these committees is composed entirely of independent directors.

Has your Board adopted charters for each of these committees? If so, how can I view or obtain copies of them?

Yes, our Board has adopted a charter for each of these committees. The charters are available on our website for viewing and printing. Go to *http://www.newfield.com* and then to the Corporate Governance Overview tab. We also will provide stockholders with a free copy of the charters upon request. See General *How can I view or obtain copies of your corporate governance materials?* for information about requesting copies from us.

Audit Committee

What does the Audit Committee do?

The primary purposes of the committee are:

- appointing, retaining and terminating our independent accountants;
- monitoring the integrity of our financial statements and reporting processes and systems of internal control;
- evaluating the qualifications and independence of our independent accountants;
- evaluating the performance of our internal audit function and independent accountants; and
- monitoring our compliance with legal and regulatory requirements.

The Audit Committee also prepares a report each year in conformity with the rules of the SEC for inclusion in our annual proxy statement.

Who are the members of the committee?

The committee currently consists of Pamela J. Gardner, John Randolph Kemp III, Thomas G. Ricks, Juanita F. Romans and J. Terry Strange, with Mr. Ricks serving as chairman. We do not anticipate any significant change in the composition of the committee prior to our 2008 annual meeting of stockholders. Mr. Strange also serves on the audit committees of BearingPoint, Inc., Compass Bancshares, Inc., Group 1 Automotive, Inc. and New Jersey Resources Corporation. Our Board has determined that such simultaneous service on these other audit committees and on our Audit Committee will not impair the ability of Mr. Strange to serve effectively on our Audit Committee.

Does the committee have an audit committee financial expert?

Yes, our Board has determined that each of Messrs. Ricks and Strange meets the qualifications of an audit committee financial expert as defined by the rules promulgated by the SEC. Our Board has determined that each of Messrs. Ricks and Strange are independent of our company under the standards set forth by the NYSE.

How many times did the committee meet last year?

The committee held six meetings in person or by conference telephone during 2006.

Compensation & Management Development Committee

What does the Compensation & Management Development Committee do?

The primary purposes of the committee are:

- reviewing, evaluating and approving the compensation of our executive officers and other key employees;
- producing a report on executive compensation each year for inclusion in our annual proxy statement;
- overseeing the evaluation and development of the management of our company; and
- overseeing succession planning for our chief executive and other senior executive officers.

The committee has the sole authority to oversee the administration of compensation programs applicable to all of our employees, including executive officers. The committee may delegate some or all of its authority to subcommittees when it deems appropriate.

Who are the members of the committee?

The committee currently consists of Dennis R. Hendrix, John Randolph Kemp III, J. Michael Lacey, Joseph H. Netherland and C. E. (Chuck) Shultz, with Mr. Shultz serving as chairman. We anticipate that Philip J. Burguieres will be appointed to the committee after our 2007 meeting of stockholders. Otherwise, we do not anticipate any significant change in the composition of the committee prior to our 2008 annual meeting of stockholders.

How many times did the committee meet last year?

The committee held two meetings in person or by conference telephone during 2006.

What are the committee s processes and procedures for consideration and determination of executive compensation?

Executive compensation is reviewed at least annually by the committee. With limited exceptions, the committee makes all decisions regarding the compensation of our executive officers in February of each year. These decisions include adjustments to base salary, grants of current and deferred awards under our incentive compensation plan and grants of long-term equity awards. The committee may delegate some or all of its authority to subcommittees when it deems appropriate. See Executive Compensation Compensation Discussion and Analysis Compensation Process for more information regarding the committee s processes and procedures for consideration and determination of executive compensation.

Nominating & Corporate Governance Committee

What does the Nominating & Corporate Governance Committee do?

The primary purposes of the committee are:

- advising our Board about the appropriate composition of the Board and its committees;
- evaluating potential or suggested director nominees and identifying individuals qualified to be directors;
- nominating directors for election at our annual meetings of stockholders or for appointment to fill vacancies;
- recommending to our Board the directors to serve as members of each committee of our Board;
- recommending to committees the individual members to serve as chairpersons of the committees;
- approving the compensation structure for all non-employee directors;
- advising our Board about corporate governance practices, developing and recommending appropriate corporate governance practices and policies and assisting in implementing those practices and policies;
- overseeing the evaluation of our Board and its committees through an annual performance review; and
- overseeing the new director orientation program and the continuing education program for all directors.

Who are the members of the committee?

The committee currently consists of Philip J. Burguieres, Pamela J. Gardner, Juanita F. Romans, Dennis R. Hendrix, Joseph H. Netherland, Howard H. Newman, Thomas G. Ricks and J. Terry Strange, with Mr. Hendrix serving as chairman. We do not anticipate any significant change in the composition of the committee prior to our 2008 annual meeting of stockholders.

How many times did the committee meet last year?

The committee held two meetings in person or by conference telephone during 2006.

What guidelines does the committee follow when considering a director nominee for a position on your Board?

The committee is responsible for identifying individuals qualified to become directors and for evaluating potential or suggested director nominees. Although the committee has not established written criteria or a set of specific minimum qualifications, our corporate governance guidelines provide that any assessment of a potential director nominee will include the individual s qualification as independent, as well as consideration of his or her background, ability, judgment, skills and experience in the context of the needs of our Board. The committee is likely to consider whether a prospective nominee has relevant business or financial experience or a specialized expertise.

Does the committee consider candidates for your Board submitted by stockholders and, if so, what are the procedures for submitting such recommendations?

Yes, the committee considers suggestions from many sources, including stockholders, regarding possible candidates for director. Any such suggestions, together with appropriate biographical information, should be submitted to the Chairman of the Nominating & Corporate Governance Committee, c/o Terry W. Rathert, Secretary, Newfield Exploration Company, 363 N. Sam Houston Pkwy. E., Suite 2020, Houston, Texas 77060.

What are the committee s processes and procedures for consideration and determination of director compensation?

The committee has the sole authority to approve the compensation structure for all of our non-employee directors. The committee may delegate some or all of its authority to subcommittees when it deems appropriate.

Director compensation is reviewed at least annually by the committee. The committee seeks to set director compensation at an adequate level to compensate directors for their time and effort expended in satisfying their obligations to us without jeopardizing their independence.

The increase in director compensation following our 2006 annual meeting of stockholders and the increase in director compensation to take effect following our 2007 annual meeting of stockholders are a result of the committee s efforts to set director compensation at a level that is commensurate with peer companies in our industry. To assist it in its evaluation, the committee obtained industry data from Hewitt Associates LLC, a consulting firm. The increase to take effect following our 2007 annual meeting of stockholders is intended to place our director compensation at or near the 50^{th} percentile of a selected group of peer companies. The selected group includes Apache Corporation, Cabot Oil & Gas Corporation, Forest Oil Corporation, Murphy Oil Corporation, Nexen Inc., Noble Energy, Inc., Pioneer Natural Resources Company and Pogo Producing Company.

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EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

Our Compensation & Management Development Committee oversees the administration of compensation programs applicable to all of our employees, including our executive officers. With limited exceptions, the committee makes all decisions regarding the compensation of our executive officers in February of each year. These decisions include adjustments to base salary, grants of current and deferred awards under our incentive compensation plan and grants of long-term equity awards. Exceptions include promotions and compensation adjustments made for competitive purposes. Because this analysis addresses 2006 compensation, it discusses some of the compensation determinations made in February 2006 (increases in base salary and grants of restricted shares) and some of the determinations made in February 2007 (grants of awards under our incentive compensation plan relating to 2006).

Compensation Objectives. Our compensation program is designed to attract and retain key employees and encourage growth in long-term stockholder value. The oil and gas industry has experienced robust conditions for the last four to five years after years of low commodity prices. The period of low prices resulted in significant attrition within the industry workforce. More recently, competition for talented geoscientists and petroleum engineers has become more acute. We believe that it is imperative that we maintain highly competitive compensation programs to attract and retain quality personnel.

The cornerstone of our compensation program at all levels is pay for performance. We measure performance at individual and corporate levels. To achieve our objectives, we have structured our compensation program for executive officers to include a base salary, current and deferred awards under our performance-based incentive compensation plan and grants of long-term equity awards with performance-based vesting.

Historically, we have set base salaries for our executive officers below the median for comparable positions at a selected group of peer companies in our industry. This places a large percentage of our executive officers compensation at risk under our performance-based incentive compensation plan and long-term equity awards with performance-based vesting, which is consistent with our pay for performance philosophy.

Our incentive compensation plan (discussed below) is designed to reward profitability. We do not grant significant awards under our incentive compensation plan to our executive officers during years of lower profitability. Our incentive compensation plan is also designed to reward individual performance. Individual awards are granted based upon an executive s impact during the year and his or her overall value to our company. In determining overall value, we take into account long-term performance, leadership, mentoring skills and other intangible qualities that contribute to corporate and individual success.

Awards under our incentive compensation plan generally exceed industry average bonuses. We use current awards under our incentive compensation plan to keep our current cash compensation for our executive officers competitive with our industry peers and to balance the total cash portion of our compensation package when justified by performance. We use deferred awards under our incentive compensation plan and grants of long-term equity awards as retention incentives for employees and as an attempt to remain competitive with awards granted to comparable positions for comparable performance in our industry. Usually, a significant portion of the awards granted to our executive officers under our incentive compensation plan are deferred and paid out in four equal annual installments. With a few exceptions, executives are entitled to deferred awards only if they remain employed by us through the date of payment of the awards. We use these deferred awards along with grants of long-term equity awards as incentives to retain our executives and to align their interests with the interests of our stockholders.

We take into account the following items of corporate performance in making compensation decisions for our executive officers:

- our financial and operational performance for the year measured against our budget, after taking into account industry conditions, and against our peers;
- total return to our stockholders as compared to our peers;

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capital efficient growth of oil and natural gas reserves and production as measured against annual goals and objectives;

projected future growth through the development of existing projects, the creation and capture of new play concepts and the potential for new transactions;

leadership and representation of our company; and

contribution to the overall success of our company.

Compensation Process. The committee has the sole authority to oversee the administration of compensation programs applicable to all of our employees, including executive officers. The managers of our operating and service units (most of whom are executive officers) are primarily responsible for evaluating and making recommendations regarding annual incentive compensation and equity awards with respect to those employees assigned to his or her unit. These recommendations are reviewed by an executive team consisting of our chief executive officer and our executive and senior vice presidents. After preparing his own evaluation of each unit manager and the other executive officers, our chief executive officer makes recommendations to the committee. Beginning with the 2005 award year, the committee retained Hewitt Associates LLC, a consulting firm, to assist it in compensation matters. The committee considers the information and recommendations provided by our chief executive officer and Hewitt in making compensation determinations.

Chief Executive Officer. Our chief executive officer provides the committee with an evaluation of his performance that is based, in large part, upon the items listed above. The committee evaluates our chief executive officer on these and other criteria. The total compensation package for our chief executive officer is determined based on this evaluation and input from Hewitt. This package reflects his performance, the performance of our company and competitive industry practices.

Other Executive Officers. Our chief executive officer makes recommendations to the committee on all compensation actions (other than his own compensation) affecting our executive officers. In developing his recommendation for an executive officer, our chief executive officer considers the self-evaluation prepared by the executive officer, the recommendations of our executive team to the extent applicable, input from Hewitt and his own evaluation. Our chief executive officer s evaluation includes an assessment of the impact that the executive officer has had on our company during the award year and the executive officer s overall value to the company as a senior leader. The assessment covers leadership and management capability, potential for future advancement and contributions to the long-term success of our company.

The committee is provided with a summary of the self-evaluations of the executive officers and a summary of our chief executive officer s evaluation along with the summaries for the past two or three years, which are used to assess long-term performance. Hewitt reviews and provides comments to the committee on our chief executive officer s recommendations. The committee considers the information and recommendations provided by our chief executive officer and Hewitt when it establishes current and deferred awards under our incentive compensation plan and grants of long-term equity awards.

Role of Consultant. Hewitt assists the committee and our chief executive officer in developing a competitive total compensation program that is consistent with our philosophy of pay for performance and to maintain a competitive total compensation package that will allow us to attract and retain top executives. Hewitt s services include providing an annual comprehensive evaluation of the compensation of our top executive officers and their counterparts at a group of peer companies. The evaluation consists of a comparison of each element of compensation and a comparison of total compensation. For purposes of the 2006 compensation review process, the peer companies included in the evaluation were Apache Corporation, Cabot Oil & Gas Corporation, Chesapeake Energy Corporation, EOG Resources, Inc., Forest Oil Corporation, Kerr-McGee Corporation, Murphy Oil Corporation, Nexen Inc., Noble Energy, Inc., Pioneer Natural Resources Company, Plains Exploration & Production Company, Pogo Producing Company and Western Gas Resources, Inc.

Elements of Compensation. Our compensation program for executive officers includes a base salary, current and deferred awards under our incentive compensation plan and grants of long-term equity awards. We also encourage our executive officers to save for retirement by matching (subject to the limits described below) each executive s contribution to our 401(k) plan and deferred compensation plan for highly compensated employees. We do not, however, offer defined pension benefits or significant perquisites to our executive officers.

Base Salary. Base salaries for executive officers are generally set below the median for comparable positions within our industry. As a result, a large portion of each executive officer s compensation is dependent upon corporate and individual performance.

Current and Deferred Awards Under Our Incentive Compensation Plan. We grant awards under our incentive compensation plan to reward our profitability. Our incentive compensation plan provides for the creation each calendar year of an award pool that is generally equal to 5% of our adjusted net income (as defined in the plan) plus the revenues attributable to designated overriding royalty or similar interests bearing on the interests of certain third party participants. At least 85% of the annual award pool must be paid out each year and up to 15% may be carried forward to the next year. All awards are paid in cash. Historically, the vast majority of awards have consisted of both a current and a deferred amount. Deferred awards are paid in four annual installments, each installment consisting of 25% of the deferred award, plus interest. Usually, a significant portion of the grants under the plan are in the form of deferred awards (38.1% in the aggregate and 47.6% for executive officers for the 2006 plan year and 33% in the aggregate and 47% for executive officers for the 2005 plan year). Employees are generally entitled to a deferred award only if they remain employed by us through the date of payment of the award. If an employee is terminated by us without cause (as defined in the plan), however, such employee will be entitled to receive regular installments of any outstanding deferred awards. Employees that have been continuously employed by us since December 31, 1992 are entitled to regular installments of their deferred awards regardless of their employment status with us unless they are terminated for cause (as defined in the plan).

In addition to rewarding our executive officers for our profitability, we grant awards under our incentive compensation plan to reward individual performance that contributed to the performance of our company. Annual current awards are set to bring total cash compensation to a competitive level for comparable positions within our industry if justified by performance. Deferred awards are long-term incentives designed to smooth out compensation in high and low net income years and as a retention incentive.

Long-Term Equity Awards Under Our Omnibus Stock Plans. We provide equity-based compensation and incentives to our executive officers through the award of restricted shares with performance-based vesting. We also may provide equity-based compensation and incentives to our executive officers through the award of time vested restricted shares or share units. Long-term equity awards are granted to executive officers as a reward for performance and to align their interests with the long-term growth and profitability of our company. The amount of each award is based upon individual performance and industry trends. Amounts realizable from prior equity-based awards also are considered in setting the amount of each award. Prior to 2003, long-term equity awards consisted of a combination of stock options and restricted shares.

Savings/Deferred Compensation Plans. Our 401(k) plan and deferred compensation plan for highly compensated employees allow an eligible executive to defer up to 90% of his or her salary and all of his or her bonus on an annual basis. We make a matching contribution for up to 8% of the executive s base salary.

Perquisites. We do not provide any significant perquisites to our executive officers.

Stock Ownership. We do not have stock ownership requirements or guidelines for our executive officers. However, all of our executive officers receive a significant amount of their total compensation in the form of grants of long-term equity awards. Our employees and directors generally are prohibited from trading in any derivatives related to our stock. Our executive officers and directors, however, may enter into long-term hedging transactions involving our stock if they receive approval from our Board.

Financial Restatements. Our Board has not adopted a formal policy regarding the effects of a financial restatement on prior awards. Our incentive compensation plan, however, provides for adjustments to future award pools for financial restatements.

Tax Deductibility Considerations. Section 162(m) of the Internal Revenue Code generally disallows a tax deduction to a public company for compensation paid to its chief executive officer or any of its four other most highly compensated executive officers to the extent that the compensation of any of these officers exceeds $1 million in any calendar year. Qualifying performance-based compensation is not subject to the deduction limit.

The committee s primary goal is to design compensation strategies that further our best interests and the best interests of our stockholders. To the extent not inconsistent with that goal, we attempt where practical to use compensation policies and programs that preserve the deductibility of compensation expense. The restricted stock awards granted in 2005 and 2006 under our stock plans are designed to qualify as performance-based compensation. However, the restricted stock granted in 2003 and all of the awards under our incentive compensation plan do not qualify as performance-based compensation for purposes of Section 162(m).

2006 Executive Compensation. The 2006 Hewitt report was an important factor in the committee s determination of the level of total compensation for our executive officers and for allocations between current and deferred awards under our incentive compensation plan. The report was used to set total cash compensation for our executive officers at the appropriate level based upon performance. The remainder of the awards were deferred. Specific actions taken by the committee regarding 2006 compensation for our chief executive officer, our chief financial officer and each of our three other most highly compensated executive officers (these five executive officers are referred to as the named executive officers) are summarized below.

Mr. Pew, one of our named executive officers, retired from our company effective immediately after the end of 2006. The committee did not grant Mr. Pew a deferred award under our incentive compensation plan because it would have been immediately forfeited as result of his prior retirement.

Base Salary. Annual base salaries for our named executive officers increased between 12% and 37% in 2006 compared to 2005 (37% for Mr. Trice, 16% for Mr. Rathert, 17% for Mr. Schaible, 19% for Mr. Pew and 12% for Mr. Boothby). The relatively large increase in Mr. Trice s base salary was primarily attributable to the committee s efforts to keep his salary within a reasonable range of the base salaries paid to chief executive officers of peer companies in our industry. Base salary adjustments in 2006 for the other named executive officers were based on peer group information, general levels of market salary increases, cost of living adjustments, individual performance and our overall financial and operating results, without any specific relative weight assigned to any of these factors.

Base salaries for our named executive officers represented between 10% and 20% of their total compensation for 2006 (10% for Mr. Trice, 11% for Mr. Rathert, 12% for Mr. Schaible, 20% for Mr. Pew and 11% for Mr. Boothby). With the exception of Mr. Pew, these percentages are consistent with our pay for performance philosophy. Mr. Pew s base salary as a percentage of total compensation is relatively high because he did not receive a deferred award under our incentive compensation plan because of his retirement.

Incentive Compensation Awards. Awards granted under our incentive compensation plan to the named executive officers in February 2007 for the 2006 performance period are presented under Bonus in the 2006 Summary Compensation Table set forth below. After taking into account carryovers, the available award pool for our incentive compensation plan in 2006 was comparable to the 2005 award pool.

The changes in incentive compensation awards granted to our named executive officers in 2006 from the awards granted in 2005 ranged between a 50% decrease and a 72% increase (an 8% decrease for Mr. Trice, a 9% increase for Mr. Rathert, a 7% decrease for Mr. Schaible, a 50% decrease for Mr. Pew and a 72% increase for Mr. Boothby). Awards for Messrs. Trice, Schaible and Pew were negatively impacted by our corporate performance during 2006. Mr. Pew s award also decreased because he did not receive a deferred award as a result of his retirement. Mr. Rathert s award increased as a result of his efforts in reaching an agreement with our insurance underwriters to settle all claims related to Hurricanes Katrina and Rita, in obtaining insurance for the 2006 hurricane season and in connection with the April 2006 issuance of $550 million principal amount of our 6 % Senior Subordinated Notes due 2016 and the redemption of $250 million principal amount of our 8 % Senior Subordinated Notes due 2012. Mr. Boothby s award was increased to recognize the exceptional performance of our Mid-Continent division and the impact the resource plays in the Mid-Continent have had on our results.

Incentive compensation awards for our named executive officers represented between 43% and 65% of their total compensation for 2006 (50% for Mr. Trice, 50% for Mr. Rathert, 51% for Mr. Schaible, 43% for Mr. Pew and 65% for Mr. Boothby). With the exception of Mr. Pew, these percentages are consistent with our pay for

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performance philosophy. Mr. Pew s incentive compensation award as a percentage of total compensation is relatively low because he did not receive a deferred award as a result of his retirement.

The allocation of the available pool among employees was based upon an employee s impact on our 2006 results (weighted approximately 50%) and overall value to our company (including some consideration of future expectations) (weighted approximately 50%). The committee established awards for each of our named executive officers (other than our chief executive officer) after considering the recommendations of our chief executive officer and Hewitt. Based on these recommendations, with the exception of Mr. Pew, about 50% of the grants to these executive officers were in the form of deferred awards. The committee established the award for our chief executive officer after reviewing his self-evaluation and after considering Hewitt s recommendations. For 2006, 50% of our chief executive officer s award was deferred.

Stock Plans. In February 2006, Mr. Trice was awarded 60,000 restricted shares, each of Messrs. Rathert, Schaible and Pew were awarded 34,000 restricted shares and Mr. Boothby was awarded 20,000 restricted shares pursuant to our 2004 omnibus stock plan. The fair value of these shares on the date of their award is reflected in our Grants of Plan-Based Restricted Stock Awards in 2006 table below. These actions were taken to provide our named executive officers with further incentive with respect to our future performance, to further align their interests with those of our stockholders and to reward them for their contribution to our performance in 2005.

2006 Summary Compensation Table

The following table sets forth certain information with respect to the compensation of our named executive officers for the year ended December 31, 2006.

Name and Principal Position	Year	Salary	Bonus Current(1)	Bonus Deferred(2)	Stock Awards(3)	Nonqualified Deferred Compensation Earnings(4)	All Other Compensation(5)	Total
David A. Trice President, Chief Executive Officer and Chairman of the Board	2006	$475,000	$1,150,000	$1,150,000	$1,718,193	$46,331	$46,296	$4,585,820
Terry W. Rathert Senior Vice President, Chief Financial Officer and Secretary	2006	272,833	600,000	600,000	856,374	20,550	30,205	2,379,962
David F. Schaible Executive Vice President Operations and Acquisitions	2006	291,667	625,000	625,000	859,819	8,541	30,206	2,440,233
Elliott Pew Executive Vice President Exploration	2006	276,667	600,000		497,295	6,415	30,580	1,410,957
Lee K. Boothby Vice President Mid-Continent	2006	210,833	625,000	625,000	431,700	5,124	18,372	1,916,029

(1) Reflects cash incentive compensation awards paid in February 2007, based upon performance in 2006, pursuant to our incentive

compensation plan. See Compensation Discussion and Analysis.

(2) Reflects deferred incentive compensation awards granted in February 2007, based upon performance in 2006, pursuant to our incentive compensation plan. See Compensation Discussion and Analysis. Deferred awards are paid in four annual installments, each installment consisting of 25% of the deferred award, plus interest.

(3) Reflects compensation expense recognized for financial statement reporting purposes for 2006 computed in accordance with Statement of Financial Accounting Standards No. 123 (revised 2004), Share-Based Payment, (SFAS

No. 123(R)), disregarding the estimate of forfeitures related to service-based vesting conditions, with respect to awards granted in 2006 and in prior years. Certain of these awards were granted pursuant to our 2004 omnibus stock plan and vest only if certain performance criteria are met. See Grants of Plan-Based Restricted Stock Awards in 2006. For the assumptions used in the valuation of restricted stock awards, see Note 11, Stock-Based Compensation, to the audited financial statements included in our annual report on Form 10-K for the year ended December 31, 2006 filed with the SEC.

(4) Reflects above-market interest (as defined in SEC rules) earned on deferred awards

granted under our incentive compensation plan and on compensation deferred pursuant to our deferred compensation plan for highly compensated employees.

(5) Reflects (a) the amount we credited under our deferred compensation plan for highly compensated employees or contributed to our 401(k) plan for the benefit of the named executive officer ($38,000 for Mr. Trice, $21,827 for Mr. Rathert, $23,333 for Mr. Schaible, $22,133 for Mr. Pew and $15,000 for Mr. Boothby), (b) the compensation cost computed in accordance with SFAS No. 123(R) attributable to each named executive officer s participation in our employee stock purchase plan ($8,140 for Mr. Trice,

$8,223 for
Mr. Rathert,
$6,716 for
Mr. Schaible,
$8,291 for
Mr. Pew and
$3,216 for
Mr. Boothby)
and
(c) premiums
we paid of $156
with respect to
term life
insurance for
the benefit of
each named
executive
officer.

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Grants of Plan-Based Restricted Stock Awards in 2006

The following table contains information with respect to the named executive officers concerning grants of plan-based restricted stock awards during 2006. No stock options were granted to the named executive officers in 2006.

Name	Grant Date	Estimated Future Payouts Under Equity Incentive Plan Awards(1) Threshold Shares	Target Shares	Maximum Shares	Grant Date Fair Value of Stock Awards(2)
David A. Trice	2/14/06		30,000	60,000	$ 1,392,046
Terry W. Rathert	2/14/06		17,000	34,000	788,826
David F. Schaible	2/14/06		17,000	34,000	788,826
Elliott Pew	2/14/06		17,000	34,000	788,826
Lee K. Boothby	2/14/06		10,000	20,000	464,015

(1) Reflects shares of restricted stock awarded in February 2006 under our 2004 omnibus stock plan.

(2) Reflects the grant date fair value of each equity award computed in accordance with SFAS No. 123(R).

The restricted shares awarded to our named executive officers were divided equally between Base Restricted Shares and Bonus Restricted Shares. To the extent declared and paid, dividends will be paid on restricted shares.

Generally, the restricted shares will be forfeited if an executive officer does not remain continuously employed through March 1, 2009. The restricted shares will not be forfeited if, on or after March 1, 2008, the executive s employment with us is terminated by reason of a qualified retirement (as defined in the award document). In addition, the Base Restricted Shares will vest and become nonforfeitable upon a change of control (as defined in our 2004 omnibus stock plan). The Bonus Restricted Shares will be forfeited upon a change of control occurring prior to March 1, 2008. If a change of control occurs on or after March 1, 2008, forfeiture restrictions with respect to the Bonus Restricted Shares will lapse in accordance with the schedule set forth below assuming the Measurement Period had ended on the day immediately prior to the day on which the change of control occurs. If not previously forfeited, the forfeiture restrictions will lapse on March 1, 2009, in accordance with the schedule set forth below. All shares subject to forfeiture restrictions immediately following that date will be forfeited.

TSR Rank	Percentage of Base Restricted Shares as to Which Forfeiture Restrictions Lapse	Percentage of Bonus Restricted Shares as to Which Forfeiture Restrictions Lapse

Top 6	100%	100%
Top 7	100%	87.5%
Top 8	100%	75%
Top 9	100%	62.5%
Top 10	100%	50%
Top 11	100%	40%
Top 12	100%	30%
Top 13	100%	20%
Top 14	100%	10%
Top 15	100%	0%
Top 16	90%	0%
Top 17	80%	0%
Top 18	70%	0%
Top 19	60%	0%
Top 20	50%	0%
Below 20	0%	0%

TSR Rank means our rank from one to one plus the total number of companies and indices comprising the Qualified Peer Group, with us, each such other company and each such index together ranked from best to worst based on our, each such other company s and each such index s Total Stockholder Return.

Total Stockholder Return means the rate of return (expressed as a percentage) achieved with respect to our common stock, the primary common equity security of each company in the Qualified Peer Group and each index included in the Qualified Peer Group if (i) $100 was invested in each such security or index on the first day of the Measurement Period based on the average closing price of each such security or index for the 20 trading days immediately preceding such day, (ii) if the record date for any dividend to be paid with respect to a particular security occurs during the Measurement Period, such dividend was reinvested in such security as of the record date for such dividend (using the closing price of such security on such record date) and (iii) the valuation of such security or index at the end of the Measurement Period is based on the average closing price of each such security or index for the 20 trading days immediately preceding March 1, 2009.

Qualified Peer Group means (i) the Dow Jones Industrial Average Index, (ii) the S&P 500 Index and (iii) each company included in the Initial Peer Group that has had its primary common equity security listed or traded on a national securities exchange or the Nasdaq National Market (or any successor thereto) throughout the Measurement Period. The following companies included in the Initial Peer Group no longer qualify for the Qualified Peer Group : Kerr-McGee Corporation and Western Gas Resources, Inc.

Initial Peer Group means the following companies: Apache Corporation, Anadarko Petroleum Corporation, Cabot Oil & Gas Corporation, Chesapeake Energy Corporation, Cimarex Energy Co., Denbury Resources Inc., Devon Energy Corporation, Encana Corporation, EOG Resources, Inc., Forest Oil Corporation, Kerr-McGee Corporation, Murphy Oil Corporation, Nexen Inc., Noble Energy, Inc., Pioneer Natural Resources, Pogo Producing Company, Questar Corporation, Range Resources Corporation, Southwestern Energy Company, St. Mary Land & Exploration Company, Stone Energy Corporation, Swift Energy Company, The Houston Exploration Company, Talisman Energy Inc., Ultra Petroleum Corp., Inc., Western Gas Resources, Inc. and XTO Energy Inc.

Measurement Period means the period beginning on March 1, 2006 and ending on February 28, 2009.

Outstanding Equity Awards at December 31, 2006

The following table contains information with respect to the named executive officers concerning outstanding equity awards at December 31, 2006.

	Option Awards				Stock Awards			
	Number of Securities Underlying Unexercised Options							
Name	Exercisable	Unexercisable	Option Exercise Price	Option Expiration Date	Number of Shares of Stock That Have Not Vested	Market Value of Shares of Stock That Have Not Vested(1)	Equity Incentive Plan Awards: Number of Unearned Shares That Have Not Vested(2)	Equity Incentive Plan Awards: Market Value of Unearned Shares That Have Not Vested(1)
David A. Trice	20,000		$12.69	05/16/09	3,000[3]	$ 137,850	60,000[4]	$2,757,000
	60,000		14.91	02/10/10	66,667[5]	3,063,349	80,000[6]	3,676,000
	40,000		19.02	02/09/11				
	32,000	8,000[7]	16.87	02/07/12				
	32,000	8,000[8]	17.84	11/26/12				
Terry W. Rathert	10,000		7.97	09/01/08	4,000[3]	183,800	34,000[4]	1,562,300
	40,000		14.91	02/10/10	40,000[5]	1,838,000	35,000[6]	1,608,250
	20,000		19.02	02/09/11				
	24,000	6,000[7]	16.87	02/07/12				
	16,000	4,000[8]	17.84	11/26/12				
David F. Schaible	30,000		7.97	09/01/08	4,000[3]	183,800	34,000[4]	1,562,300
	40,000		14.91	02/10/10	40,000[5]	1,838,000	35,000[6]	1,608,250
	20,000		19.02	02/09/11				
	24,000	6,000[7]	16.87	02/07/12				
	16,000	4,000[8]	17.84	11/26/12				
Elliott Pew[9]		4,000[7]	16.87	02/07/12	40,000[5]	1,838,000	34,000[4]	1,562,300
		4,000[8]	17.84	11/26/12			35,000[6]	1,608,250
Lee K. Boothby	8,400		19.02	02/09/11	1,200[3]	55,140	20,000[4]	919,000
		3,600[7]	16.87	02/07/12	16,000[5]	735,200	20,000[6]	919,000
		3,000[10]	16.25	08/14/12				

(1) Calculated by multiplying the number of shares of restricted stock that have not vested by the

closing price of our common stock on the NYSE on December 29, 2006 of $45.95.

(2) Reflects the maximum number of restricted shares covered by each grant.

(3) Restricted shares were granted on February 7, 2002 pursuant to our 2000 omnibus stock plan. The shares vest on the ninth anniversary of the date of grant but will vest earlier at a rate of 20% per year if one of several annual performance targets (beginning with the year of grant) is achieved. One or more performance targets have been met each year.

(4) Restricted shares were granted on February 14, 2006 pursuant to our 2004 omnibus stock plan. See Grants of Plan-Based Restricted Stock Awards in 2006

for the vesting schedule applicable to these awards.

(5) Restricted shares were granted on February 12, 2003 pursuant to our 2000 omnibus stock plan. Mr. Trice was awarded 100,000 restricted shares, Messrs. Rathert, Schaible and Pew were each awarded 60,000 restricted shares and Mr. Boothby was awarded 24,000 restricted shares. The restricted shares vest on the ninth anniversary of the date of grant. However, the restricted shares may vest earlier, in accordance with the schedule listed below. On February 1, 2006, 33 % of the restricted shares granted in 2003 vested.

Measurement period	TSR Rank	Percentage of Restricted Shares Remaining unvested that vest
36 Months Ending January 31, 2006	Top 25%	100%
	Top 33 %	50%
	Top 50%	33 %
	50% or Below	0%
48 Months Ending January 31, 2007	Top 25%	100%

	Top 33 %	80%
	Top 50%	50%
	50% or Below	0%
60 Months Ending January 31, 2008	Top 25%	100%
72 Months Ending January 31, 2009	Top 33 %	100%
90 Months Ending January 31, 2010	Top 50%	50%
102 Months Ending January 31, 2011	50% or Below	0%

TSR Rank means the result (expressed as a percentage) obtained by dividing (a) our rank from one to one plus the number of companies comprising the Qualified Peer Group for the relevant Measurement Period set forth in the schedule above with us and each such other company ranked from best to worst based on each such company s Total Stockholder Return for such Measurement Period by (b) one greater than the number of companies comprising the Qualified Peer Group for such Measurement Period.

Total Stockholder

Return for a particular Measurement Period means the rate of return (expressed as a percentage) achieved with respect to our common stock and the common stock of each company in the Qualified Peer Group for such Measurement Period if (a) $100 were invested in the common stock of each such company at the beginning of such Measurement Period based on the closing price of the applicable common stock on January 31, 2003, (b) all dividends declared with respect to a particular common stock during such Measurement Period were reinvested in such common stock as of the payment date using the closing price on such date and (c) the per share valuation of such common stock at the end of such Measurement Period equaled the closing price on the last trading day occurring on or before the last January 31 of such Measurement Period.

Qualified Peer Group means each Qualified Peer Company;

provided that, if there are more than 15 Qualified Peer Companies at the end of the relevant Measurement Period, then only the first 15 Qualified Peer Companies (taken in order from the list of companies in the definition of Initial Peer Group) will comprise the Qualified Peer Group for such Measurement Period.

Qualified Peer Company means each company included in the Initial Peer Group that (a) has been listed or traded on a national securities exchange or the Nasdaq National Market (or any successor thereto) throughout the relevant Measurement Period and (b) has not at any time during the relevant Measurement Period had a significant change in its capital structure or ownership as a result of a merger, consolidation, recapitalization, reorganization or similar transaction such that, in the discretion of the Compensation & Management Development Committee of our Board, such company should no longer be considered as one of our peers. The following companies no longer meet the definition of a Qualified Peer Company : Westport Resources Corporation, Tom Brown Inc., Kerr-McGee Corporation and Burlington Resources Inc.

Initial Peer Group means the following companies and their successors: Pogo Producing Company, Noble Energy, Inc., The Houston Exploration Company, Stone Energy Corporation, XTO Energy Inc., Westport

Resources Corporation, Cabot Oil & Gas Corporation, EOG Resources, Inc., Forest Oil Corporation, Chesapeake Energy Corporation, Swift Energy Company, St. Mary Land & Exploration Company, Pioneer Natural Resources Company, Tom Brown Inc., Kerr-McGee Corporation, Apache Corporation, Burlington Resources Inc., Anadarko Petroleum Corporation, Devon Energy Corporation and Murphy Oil Corporation and any other companies designated by the Compensation & Management Development Committee from time to time.

(6) Restricted shares were granted on February 8, 2005 pursuant to our 2004 omnibus stock plan and vest in accordance with

the following schedule:

Measurement period	TSR Rank	Percentage of Restricted Shares Remaining unvested that vest
36 Months Ending January 31, 2008	Top 7	100%
	Top 10	50%
	Top 15	33 %
	Below 15	0%
48 Months Ending January 31, 2009	Top 7	100%
	Top 10	80%
	Top 15	50%
	Below 15	0%
60 Months Ending January 31, 2010	Top 7	100%
	Top 10	100%
	Top 15	100%
	Below 15	0%

TSR Rank means our rank from one to one plus the number of companies and indices comprising the Qualified Peer Group for the relevant Measurement Period set forth in the schedule above with us, each such other company and each such index together ranked from best to worst based on our, each such other company s and each such index s Total Stockholder Return for such Measurement Period.

Total Stockholder Return for a particular Measurement Period means the rate of return (expressed as a percentage) achieved with respect to our common stock, the common stock of each company in the Qualified Peer Group and each index in the Qualified Peer Group for such Measurement Period if (a) $100 were invested in our common stock, the common stock of each such company and each such index at the beginning of such Measurement Period based on the closing price of the applicable common stock or index on January 31, 2005, (b) all dividends declared with respect to a particular common stock during such Measurement Period were reinvested in such common stock as of the payment date using the closing price on such date and (c) the per share valuation of such common stock or such index at the end of such Measurement Period equaled the average closing price for the last ten trading days occurring on or before the last January 31 of such Measurement Period.

Qualified Peer Group means the Dow Jones Industrial Average Index, the S&P 500 Index and each company included in the Initial Peer Group that has had its primary common equity security listed or traded on a national securities exchange or the Nasdaq National Market (or any successor thereto) throughout the relevant Measurement Period. The following Companies included in the Initial Peer Group no longer qualify for the Qualified Peer Group : Burlington Resources Inc., Kerr-McGee Corporation, Spinnaker Exploration Company, Vintage Petroleum, Inc. and Western Gas Resources, Inc. As a result, 22 companies and two indexes remain in the Qualified Peer Group.

Initial Peer Group means the following 27 companies: Apache Corporation, Anadarko Petroleum Corporation, Burlington Resources Inc., Chesapeake Energy Corporation, Cabot Oil & Gas Corporation, Denbury Resources Inc., Devon Energy Corporation, Encana Corporation, EOG Resources, Inc., Forest Oil Corporation, Kerr-McGee

Corporation, Murphy Oil Corporation, Nexen Inc., Noble Energy, Inc., Pioneer Natural Resources, Pogo Producing Company, Southwestern Energy Company, Spinnaker Exploration Company, St. Mary Land & Exploration Company, Stone Energy Corporation, Swift Energy Company, The Houston Exploration Company, Talisman Energy Inc., Ultra Petroleum Corp., Vintage Petroleum, Inc., Western Gas Resources, Inc. and XTO Energy Inc.

(7) Vest at a rate of 20% per year with vesting dates of February 7, 2003, 2004, 2005, 2006 and 2007.

(8) Vest at a rate of 20% per year with vesting dates of November 26, 2003, 2004,

2005, 2006 and 2007.

(9) Mr. Pew s unvested awards were forfeited upon his retirement immediately following the end of 2006.

(10) Vest at a rate of 20% per year with vesting dates of August 14, 2003, 2004, 2005, 2006 and 2007.

Option Exercises and Stock Vested in 2006

The following table contains information with respect to the named executive officers concerning option exercises and vesting of restricted stock during 2006.

	Option Awards		Stock Awards	
Name	Number of Shares Acquired on Exercise	Value Realized on Exercise	Number of Shares Acquired on Vesting	Value Realized on Vesting
David A. Trice	10,000	$237,000	39,333	$2,029,129
Terry W. Rathert			26,000	1,333,780
David F. Schaible			27,000	1,379,210
Elliott Pew	16,000	480,760	23,000	1,184,290
Lee K. Boothby	20,000	501,749	9,200	477,676

2006 Nonqualified Deferred Compensation

The following table contains information with respect to the named executive officers concerning nonqualified deferred compensation at December 31, 2006.

Name		Executive Contributions in 2006(1)	Registrant Contributions in 2006(1)	Aggregate Earnings in 2006(2)	Aggregate Withdrawals/ Distributions	Aggregate Balance at December 31, 2006
David A. Trice	(3)	$1,150,000(4)	$	$144,955	$935,397	$3,161,711(5)
	(6)	705,500	23,000	113,915		1,717,453(7)
Terry W. Rathert	(3)	600,000(4)		60,062	417,512	1,384,201(5)
	(6)	136,827	6,827	47,832		660,877(7)
David F. Schaible	(3)	625,000(4)		76,914	519,527	1,646,224(5)
	(6)	8,333	8,333	10,079		143,417(7)
Elliott Pew	(3)			63,090	435,587	830,895(5)(8)
	(6)	7,133	7,133	6,635		96,377(7)
Lee K. Boothby	(3)	625,000(4)		36,799	244,983	1,123,063(5)
	(6)	59,875		8,301		136,425(7)

(1) All amounts were included as compensation in the 2006 Summary Compensation Table.

(2) Only above-market interest (as defined in SEC rules) was included as compensation in

the 2006 Summary Compensation Table ($46,331 for Mr. Trice, $20,550 for Mr. Rathert, $8,541 for Mr. Schaible, $6,415 for Mr. Pew and $5,124 for Mr. Boothby).

(3) Row reflects amounts relating to deferred bonuses awarded under our incentive compensation plan.

(4) Reflects deferred incentive compensation awards granted in February 2007 based upon performance in 2006. These awards are included in the Aggregate Balance at December 31, 2006 column.

(5) Only a portion of the December 31, 2006 balance was included as compensation in the Summary Compensation Table for 2006 and prior years ($3,023,561 for

Mr. Trice, $1,323,433 for Mr. Rathert, $1,568,715 for Mr. Schaible, $767,337 for Mr. Pew and $1,087,008 for Mr. Boothby).

(6) Row reflects amounts relating to our deferred compensation plan for highly compensated employees.

(7) Only a portion of the December 31, 2006 balance was included in the Summary Compensation Table for 2006 and prior years (approximately $1,464,462 for Mr. Trice, $544,300 for Mr. Rathert, $113,885 for Mr. Schaible, $78,635 for Mr. Pew and $109,278 for Mr. Boothby).

(8) Mr. Pew s deferred bonuses under our incentive compensation plan were forfeited upon his retirement immediately following the end of 2006.

Incentive Compensation Plan. Our incentive compensation plan provides for the creation each calendar year of an award pool that generally is equal to 5% of our adjusted net income (as defined in the plan) plus the revenues attributable to designated overriding royalty or similar interest bearing on the interest of certain third party participants. All awards are paid in cash. Awards may consist of both a current and a deferred amount. Deferred awards are paid in four annual installments, each installment consisting of 25% of the deferred award, plus interest. Deferred awards granted before the 2003 plan year accrue interest at prime rate. Subsequent deferred awards accrue interest at a rate of 6% per year, which may be adjusted by our Board from time to time. For 2006, the weighted average interest rate for deferred awards for the named executive officers was approximately 6%. Employees are generally entitled to a deferred award only if they remain employed by us through the date of payment of the award. If an employee is terminated by us without cause (as defined in the plan), however, such employee will be entitled to receive regular installments of their outstanding deferred awards. Messrs. Rathert and Schaible are entitled to regular installments of their deferred awards regardless of their employment status with us unless they are terminated for cause (as defined in the plan).

Deferred Compensation Plan For Highly Compensated Employees. Our deferred compensation plan for highly compensated employees allows an eligible employee to defer up to 90% of his or her salary and all of his or her bonus on an annual basis. We make a matching contribution for up to 8% of the employee s salary. Our contribution with respect to any particular employee under the deferred compensation plan for highly compensated employees is reduced to the extent that we make contributions to our 401(k) plan on behalf of that employee. Employee account balances accrue interest at a rate equal to the highest coupon rate paid on our public debt. For 2006, this rate equaled 8.375%. Benefit payments under our deferred compensation plan for highly compensated employees do not begin until the employee terminates employment with us.

Effective January 1, 2007, we established an irrevocable rabbi trust to hold employee account balances under our deferred compensation plan for highly compensated employees. Employee account balances are now invested, at the direction of each employee, in substantially the same investment alternatives as are available under our 401(k) plan.

Potential Payments Upon Termination or Change of Control

Change of Control Severance Agreements. In February 2005, we entered into change of control severance agreements with our named executive officers. The agreements have an initial term of either two or three years, with automatic daily extensions unless our Board takes action to cease the automatic extensions.

The agreements, as amended, generally provide for a severance protection period that begins on the date of a change of control of our company and ends on either the second or the third anniversary of that date (certain circumstances may cause an extension of the period). During the protected period, if the executive s employment is terminated by us without cause or by the executive for good reason, the agreement provides for the following severance benefits: (1) a lump sum cash payment equal to either two or three times the sum of (a) the greater of the executive s base salary prior to the change of control or at any time thereafter and (b) one-half of the greater of the executive s bonus compensation for the two years ending prior to the change of control or for the two years ending prior to the executive s termination of employment, (2) full vesting of restricted stock awards (other than the Bonus Restricted Shares granted in February 2006) and stock options (vesting of restricted stock awards and stock options is also covered under our omnibus stock plans), (3) health coverage at active executive rates for either two or three years (health benefits are to be offset by any health benefits the executive receives from subsequent employment and a cash payment may be made by us in lieu of providing coverage if the executive is not eligible for the coverage or if the health benefits provided would be taxable to the executive) and (4) outplacement services. If the executive is terminated by us for failure to perform the executive s duties for at least 180 days due to physical or mental illness, such severance benefits do not apply.

A change of control is defined as follows: (1) we are not the survivor in any merger, consolidation or other reorganization (or survive only as a subsidiary); (2) the consummation of a merger or consolidation with another entity pursuant to which less than 50% of the outstanding voting securities of the survivor will be issued in respect of our capital stock; (3) we sell, lease or exchange all or substantially all of our assets; (4) we are to be dissolved and liquidated; (5) any person acquires ownership or control (including the power to vote) of more than 50% of the shares of our voting stock (based upon voting power); or (6) as a result of or in connection with a contested election of directors, the persons who were our directors before the election cease to constitute a majority of our Board.

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However, a change of control does not include any merger, consolidation, reorganization, sale, lease, exchange, or similar transaction solely between us and one or more entities that were wholly owned by us immediately prior to the event.

Good reason is defined as follows: (1) a material reduction in the executive s authority, duties, titles, status or responsibilities or the assignment to the executive of duties or responsibilities inconsistent in any material respect from those previously in effect; (2) any reduction in the executive s base salary; (3) any failure to provide the executive with a combined total of base salary and bonus compensation at a level at least equal to the combined total of (a) the executive s base salary immediately prior to the change of control and (b) one-half of the total of all cash bonuses (whether paid or deferred) awarded to the executive for the two most recent years ending prior to the change of control; (4) we fail to obtain a written agreement from any successor to assume and perform the agreements; or (5) relocation of our principal executive offices by more than 50 miles or the executive is based at any office other than our principal executive offices.

Cause is defined as follows: (1) w