NEWFIELD EXPLORATION CO /DE/
Form 10-Q
April 30, 2010

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 March 31, 2010

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 100
Houston, Texas 77060
(Address and Zip Code of principal executive offices)

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

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

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

(§232.405) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). 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 April 27, 2010, there were 133,399,285 shares of the registrant’s common stock, par value $0.01 per share, outstanding.

TABLE OF CONTENTS

Table of Contents

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

	March 31, 2010	December 31, 2009
ASSETS		
Current assets:		
Cash and cash equivalents	$112	$78
Accounts receivable	352	339
Inventories	83	84
Derivative assets	349	269
Other current assets	82	123
Total current assets	978	893
Property and equipment, at cost, based on the full cost method of accounting for oil and gas properties ($1,480 and $1,223 were excluded from amortization at March 31, 2010 and December 31, 2009, respectively)	10,977	10,406
Less—accumulated depreciation, depletion and amortization	(5,306)	(5,159)
Total property and equipment, net	5,671	5,247
Derivative assets	75	19
Long-term investments	54	55
Deferred taxes	26	26
Other assets	23	14
Total assets	$6,827	$6,254
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$65	$83
Current debt	32	—
Accrued liabilities	649	640
Advances from joint owners	49	51
Asset retirement obligation	10	10
Derivative liabilities	1	2
Deferred taxes	116	87
Total current liabilities	922	873
Other liabilities	60	55
Derivative liabilities	11	5
Long-term debt	2,189	2,037
Asset retirement obligation	88	82
Deferred taxes	537	434
Total long-term liabilities	2,885	2,613
Commitments and contingencies (Note 12)	—	—
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 March 31, 2010 and December 31, 2009; 135,001,290 and 134,493,670 shares issued at March 31, 2010 and December 31, 2009, respectively)	1	1
Additional paid-in capital	1,406	1,389
Treasury stock (at cost; 1,715,643 and 1,488,968 shares at March 31, 2010 and December 31, 2009, respectively)	(43)	(33)
Accumulated other comprehensive income (loss):		
Unrealized loss on investments	(10)	(11)
Retained earnings	1,666	1,422
Total stockholders' equity	3,020	2,768
Total liabilities and stockholders' equity	$6,827	$6,254

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

1

Table of Contents

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

	Three Months Ended March 31, 2010	Three Months Ended March 31, 2009
Oil and gas revenues	$458	$262
Operating expenses:		
Lease operating	67	71
Production and other taxes	25	9
Depreciation, depletion and amortization	147	159
General and administrative	36	32
Ceiling test writedown	—	1,344
Other	8	2
Total operating expenses	283	1,617
Income (loss) from operations	175	(1,355)
Other income (expenses):		
Interest expense	(38)	(32)
Capitalized interest	12	14
Commodity derivative income	237	278
Other	2	3
Total other income (expenses)	213	263
Income (loss) before income taxes	388	(1,092)
Income tax provision (benefit):		
Current	13	5
Deferred	131	(403)
Total income tax provision (benefit)	144	(398)
Net income (loss)	$244	$(694)
Income (loss) per share:		
Basic	$1.87	$(5.35)
Diluted	$1.84	$(5.35)
Weighted average number of shares outstanding for basic income (loss) per share	130	130
Weighted average number of shares outstanding for diluted income (loss) per share	133	130

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

2

Table of Contents

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

	Three Months Ended March 31, 2010	Three Months Ended March 31, 2009
Cash flows from operating activities:		
Net income (loss)	$244	$(694)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation, depletion and amortization	147	159
Deferred tax provision (benefit)	131	(403)
Stock-based compensation	6	8
Ceiling test writedown		1,344
Commodity derivative income	(237)	(278)
Cash receipts on derivative settlements	102	211
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable	(13)	73
(Increase) decrease in inventories	5	(17)
(Increase) decrease in other current assets	42	(46)
Decrease in other assets		7
Decrease in accounts payable and accrued liabilities	(16)	(54)
Increase (decrease) in advances from joint owners	(2)	22
Increase in other liabilities	5	17
Net cash provided by operating activities	414	349
Cash flows from investing activities:		
Additions to oil and gas properties	(340)	(403)
Acquisitions of oil and gas properties	(217)	(9)
Proceeds from sales of oil and gas properties	2	
Additions to furniture, fixtures and equipment	(2)	(2)
Redemptions of investments	1	7
Net cash used in investing activities	(556)	(407)
Cash flows from financing activities:		
Proceeds from borrowings under credit arrangements	198	455
Repayments of borrowings under credit arrangements	(562)	(382)
Net proceeds from issuance of senior subordinated notes	686	
Repayment of senior notes	(143)	
Proceeds from issuances of common stock	11	
Purchases of treasury stock, net	(14)	(1)
Net cash provided by financing activities	176	72
Increase in cash and cash equivalents	34	14
Cash and cash equivalents, beginning of period	78	24
Cash and cash equivalents, end of period	$112	$38

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

Table of Contents

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

	Common Stock		Treasury Stock		Additional Paid-in	Retained	Accumulated Other Comprehensive Income (Loss)	Total Stockholders'
	Shares	Amount	Shares	Amount	Capital	Earnings		Equity
Balance, December 31, 2009	134.5	$ 1	(1.5)	$ (33)	$ 1,389	$ 1,422	$ (11)	$ 2,768
Issuances of common and restricted stock	0.5				7			7
Treasury stock, at cost			(0.2)	(10)				(10)
Stock-based compensation					10			10
Comprehensive income:								
Net income						244		244
Unrealized gain on investments							1	1
Total comprehensive income								245
Balance, March 31, 2010	135.0	$ 1	(1.7)	$ (43)	$ 1,406	$ 1,666	$ (10)	$ 3,020

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

Table of Contents

NEWFIELD EXPLORATION COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Organization and Summary of Significant Accounting Policies:

Organization and Principles of Consolidation

We are an independent oil and gas company engaged in the exploration, development and acquisition of oil and gas 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, 2009.

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 oil and gas. 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 and fair value of our derivative positions.

Investments

Investments consist primarily of debt and equity securities as well as auction rate securities, substantially all of which are classified as “available-for-sale” and stated at fair value. Accordingly, unrealized gains and losses and the related deferred income tax effects are excluded from earnings and reported as a separate component of stockholders’ equity.

Realized gains or losses are computed based on specific identification of the securities sold. We regularly assess our investments for impairment and consider any impairment to be other than temporary if we intend to sell the security, it is more likely than not that we will be required to sell the security, or we do not expect to recover our cost of the security. We realized interest income and gains on our investment securities of $1 million for the three months ended March 31, 2010 and 2009.

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 FPSO's and sold periodically as barge quantities are accumulated. The product inventory consisted of approximately 494,000 barrels and 289,000 barrels of crude oil valued at cost of $21 million and $11 million at March 31, 2010 and December 31, 2009, respectively. Cost for purposes of the carrying value of oil inventory is the sum of production costs and depreciation, depletion and amortization expense.

Oil and Gas Properties

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

Capitalized costs and estimated future development 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. For the three months ended March 31, 2010, 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 the newly effective oil and gas reserve estimation requirements (See "New Accounting Requirements" in this Note) which require use of the unweighted average first-day-of-the-month commodity prices for the prior twelve months, adjusted for market differentials 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.

During the first quarter of 2009, the present value (10% per annum discount rate) of estimated future net revenues from proved reserves was calculated using the end of period quoted market prices for oil and gas.

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. At

March 31, 2010, the ceiling value of our reserves was calculated based upon the unweighted average first-day-of-the-month commodity prices for the prior twelve months of $3.98 per MMBtu for natural gas and $69.61 per barrel for oil, adjusted for market differentials. Using these prices, the cost center ceilings with respect to our properties in the U.S., Malaysia and China exceeded the net capitalized costs of the respective properties. As such, no ceiling test writedowns were required at March 31, 2010.

During the first quarter of 2009, natural gas prices decreased significantly as compared to prices in effect at December 31, 2008. At March 31, 2009, the ceiling value of our reserves was calculated based upon quoted period-end market prices of $3.63 per MMBtu for natural gas and $49.65 per barrel for oil, adjusted for market differentials. Using these prices, the unamortized net capitalized costs of our domestic oil and gas properties at March 31, 2009 exceeded the ceiling amount by approximately $1.3 billion ($854 million, after-tax).

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

Accounting for Asset Retirement Obligations

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

The change in our ARO for the three months ended March 31, 2010 is set forth below (in millions):

Balance as of January 1, 2010	$92
Accretion expense	1
Additions	5
Balance at March 31, 2010	$98
Less: Current portion of ARO at March 31, 2010	(10)
Total long-term ARO at March 31, 2010	$88

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 in 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.

During the first quarter of 2010, there was no change to our liability of $1 million for uncertain tax positions. As of March 31, 2010, we had not accrued interest or penalties related to uncertain tax positions. The tax years 2006-2009 remain open to examination for federal income tax purposes and by the other major taxing jurisdictions to which we are subject. During the fourth quarter of 2008, the Internal Revenue Service (IRS) commenced a limited scope audit of our U.S. income tax return for the 2005 tax year. The IRS issued a “No Change” letter for the 2005 tax year and closed the audit.

Derivative Financial Instruments

We account for our derivative activities by applying authoritative accounting and reporting guidance which requires that every derivative instrument be recorded on the balance sheet as either an asset or a liability measured at its fair value and that changes in the derivative’s fair value be recognized currently in earnings unless specific hedge accounting criteria are met. All of the derivative instruments that we utilize are to manage the price risk attributable to our expected oil and gas production. We have elected not to designate price risk management activities as accounting hedges under the accounting guidance, and, accordingly, account for them using the mark-to-market accounting method. Under this method, the changes in contract values are reported currently in earnings. Previously, we also utilized derivatives to manage our exposure to variable interest rates. See Note 5, “Derivative Financial Instruments—Interest Rate Swap.”

The related cash flow impact of our derivative activities are reflected as cash flows from operating activities. See Note 5, “Derivative Financial Instruments,” for a more detailed discussion of our derivative activities.

Table of Contents

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

New Accounting Requirements

In January 2010, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2010-03, Oil and Gas Reserve Estimation and Disclosures (ASU 2010-03), which aligns the FASB's oil and gas reserve estimation and disclosure requirements with the requirements in the Securities and Exchange Commission's final rule, Modernization of the Oil and Gas Reporting Requirements (Final Rule), which was issued on December 31, 2008 and became effective for the year ended December 31, 2009. We adopted the Final Rule and ASU 2010-03 effective December 31, 2009, as a change in accounting principle that is inseparable from a change in accounting estimate. Such a change is accounted for prospectively under the authoritative accounting guidance. Comparative disclosures applying the new rules for periods before the adoption of ASU 2010-03 and the Final Rule are not required.

In January 2010, the FASB issued additional disclosure requirements related to fair value measurements. The guidance requires disclosure of transfers of assets and liabilities between Level 1 and Level 2 in the fair value measurement hierarchy, including the reasons for the transfers and disclosure of major purchases, sales, issuances, and settlements on a gross basis in the reconciliation of the assets and liabilities measured under Level 3 of the fair value measurement hierarchy. The guidance is effective for interim and annual periods beginning after December 15, 2009, except for the Level 3 reconciliation disclosures which are effective for interim and annual periods beginning after December 15, 2010. We adopted the provisions for the quarter ending March 31, 2010, except for the Level 3 reconciliation disclosures, which we will adopt for the quarter ending March 31, 2011. Adopting the disclosure requirements for the quarter ending March 31, 2010 did not have an impact on our financial position or results of operations. We do not expect adoption of the Level 3 reconciliation disclosures in 2011 to have an impact on our financial position or results of operations.

2. Earnings Per Share:

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

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

	Three Months Ended March 31,	
	2010	2009
	(In millions, except per share data)	
Income (numerator):		

Net income (loss) – basic and diluted	$244	$(694)
Weighted average shares (denominator):		
Weighted average shares — basic	130	130
Dilution effect of stock options and unvested restricted stock and restricted stock units outstanding at end of period (1)	3	
Weighted average shares — diluted	133	130
Income (loss) per share:		
Basic	$1.87	$(5.35)
Diluted	$1.84	$(5.35)

(1) The effect of stock options and unvested restricted stock and restricted stock units outstanding has not been included in the calculation of shares outstanding for diluted EPS for the three months ended March 31, 2009 as their effect would have been anti-dilutive. Had we recognized net income for this period, incremental shares attributable to the assumed exercise of outstanding options and the assumed vesting of unvested restricted stock and restricted stock units would have increased diluted weighted average shares outstanding by 1 million shares.

Table of Contents

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

3. Comprehensive Income (Loss):

For the periods indicated, our comprehensive income (loss) consisted of the following:

	Three Months Ended March 31, 2010	Three Months Ended March 31, 2009
	(In millions)	
Net income (loss)	$ 244	$ (694)
Unrealized gain (loss) on investments, net of tax of $1	1	(2)
Total comprehensive income (loss)	$ 245	$ (696)

4. Oil and Gas Assets:

Property and Equipment

Property and equipment consisted of the following at:

	March 31, 2010	December 31, 2009
	(In millions)	
Oil and gas properties:		
Subject to amortization	$9,402	$9,090
Not subject to amortization	1,480	1,223
Gross oil and gas properties	10,882	10,313
Accumulated depreciation, depletion and amortization	(5,253)	(5,108)
Net oil and gas properties	5,629	5,205
Other property and equipment	95	93
Accumulated depreciation and amortization	(53)	(51)
Net other property and equipment	42	42
Total property and equipment, net	$5,671	$5,247

The following is a summary of Newfield's oil and gas properties not subject to amortization as of March 31, 2010. We believe that our evaluation activities related to substantially all of our properties not subject to amortization will be completed within four years except the Monument Butte field. Because of its size, evaluation of the field in its entirety will take significantly longer than four years.

	Costs Incurred In				
	2010	2009	2008	2007 and prior	Total
			(In millions)		

Acquisition costs	$ 169	$ 154	$ 176	$ 389	$ 888
Exploration costs	101	109	54	17	281
Development costs	47	40	34	27	148
Fee mineral interests	2			23	25
Capitalized interest	12	51	60	15	138
Total oil and gas properties not subject to amortization	$ 331	$ 354	$ 324	$ 471	$ 1,480

Maverick Basin Asset Acquisition

On February 11, 2010, we acquired certain of TXCO Resources Inc.'s assets in the Maverick Basin of southwest Texas for approximately $215 million. In the acquisition, Newfield obtained an interest in approximately 300,000 net acres, primarily in the Pearsall and Eagle Ford shale plays, as well as production of 1,500 barrels of oil equivalent per day. Our consolidated financial statements include the cash flows and results of operations for these assets subsequent to February 11, 2010.

5. Derivative Financial Instruments:

Commodity Derivative Instruments

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

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

All of our derivative contracts are carried at their fair value on our consolidated balance sheet under the captions "Derivative assets" and "Derivative liabilities." Substantially all of our oil and gas derivative contracts are settled based upon reported prices on the NYMEX. The estimated fair value of these contracts is based upon various factors, including closing exchange prices on the NYMEX, over-the-counter quotations, volatility and, in the case of collars and floors, the time value of options. The calculation of the fair value of collars and floors requires the use of an option-pricing model. Please see Note 8, "Fair Value Measurements." We recognize all unrealized and realized gains and losses related to these contracts on a mark-to-market basis in our consolidated statement of income under the caption “Commodity derivative income.” Settlements of derivative contracts are included in operating cash flows on our consolidated statement of cash flows.

Table of Contents

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

At March 31, 2010, we had outstanding contracts with respect to our future production that are not designated for hedge accounting as set forth in the tables below.

Natural Gas

		NYMEX Contract Price Per MMBtu							
					Collars				Estimated Fair Value Asset
		Swaps	Additional Put		Floors		Ceilings		
Period and Type of Contract	Volume in MMMBtus	(Weighted Average)	Range	Weighted Average	Range	Weighted Average	Range	Weighted Average	(Liability) (In millions)
April 2010 – June 2010									
Price swap contracts	34,850	$ 6.41	—	—	—	—	—	—	$ 87
July 2010 – September 2010									
Price swap contracts	35,200	6.41	—	—	—	—	—	—	79
October 2010 – December 2010									
Price swap contracts	28,320	6.49	—	—	—	—	—	—	50
January 2011 – December 2011									
Price swap contracts	63,840	6.55	—	—	—	—	—	—	81
3-Way collar contracts	42,590	—	$ 4.50	$ 4.50	$ 6.00	$ 6.00	$ 7.10 - $ 8.03	$ 7.84	27
January 2012 – December 2012									
3-Way collar contracts	25,620	—	4.50	4.50	5.75-6.00	5.85	6.20-7.55	6.87	—
January 2013 – October 2013									
	21,280	—	4.50	4.50	5.75-6.00	5.82		6.88	—

3-Way collar contracts							6.60-7.55		
									$ 324

Oil

Period and Type of Contract	Volume in MBbls	NYMEX Contract Price Per Bbl: Swaps (Weighted Average)	Additional Put: Range	Additional Put: Weighted Average	Collars: Floors: Range	Collars: Floors: Weighted Average	Collars: Ceilings: Range	Collars: Ceilings: Weighted Average	Estimated Fair Value Asset (Liability) (In millions)
April 2010 – June 2010									
Price swap contracts	272	$ 86.44	—	—	—	—	—	—	$ 1
Collar contracts	819	—	—	—	$125.50–$130.50	$ 127.97	$ 170.00	$ 170.00	36
3-Way collar contracts	364	—	$ 50.00-$60.00	$ 55.00	60.00-75.00	67.50	100.00-112.10	106.28	¾
July 2010 – September 2010									
Price swap contracts	274	86.42	—	—	—	—	—	—	¾
Collar contracts	828	—	—	—	125.50–130.50	127.97	170.00	170.00	36
3-Way collar contracts	368	—	50.00-60.00	55.00	60.00-75.00	67.50	100.00-112.10	106.28	¾
October 2010 – December 2010									
Price swap contracts	274	86.42	—	—	—	—	—	—	¾
Collar contracts	828	—	—	—	125.50–130.50	127.97	170.00	170.00	35
3-Way collar contracts	368	—	50.00-60.00	55.00	60.00-75.00	67.50	100.00-112.10	106.28	¾

January 2011 – December 2011									
3-Way collar contracts	4,564	—	60.00-65.00	60.80	75.00-80.00	75.80	102.25-121.50	108.30	1
January 2012 – December 2012									
3-Way collar contracts	3,294	—	60.00	60.00	75.00	75.00	111.00-111.50	111.31	(3)
									$106

11

Table of Contents

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

Basis Contracts

At March 31, 2010, we had natural gas basis contracts that are not designated for hedge accounting to lock in the differential between the NYMEX Henry Hub posted prices and those of our physical pricing points in the Rocky Mountains and Mid-Continent, as set forth in the table below.

	Rocky Mountains		Mid-Continent		Estimated
	Volume in MMMBtus	Weighted Average Differential	Volume in MMMBtus	Weighted Average Differential	Fair Value Asset (Liability) (In millions)
April 2010 – June 2010	1,380	$ (0.99)	1,820	$ (0.55)	$ (2)
July 2010 – September 2010	1,380	$ (0.99)	1,840	$ (0.55)	(2)
October 2010 – December 2010	1,380	$ (0.99)	1,840	$ (0.55)	(1)
January 2011 – December 2011	5,280	$ (0.95)	10,350	$ (0.55)	(5)
January 2012 – December 2012	4,920	$ (0.91)	18,300	$ (0.55)	(8)
					$ (18)

Interest Rate Swap

We previously entered into an interest rate swap agreement to take advantage of low interest rates and to obtain what we viewed as a more desirable proportion of variable and fixed rate debt. The agreement was designated as a fair value hedge of $50 million principal amount of our $175 million 7 % Senior Notes due 2011. The interest rate swap provided for us to pay variable and receive fixed interest payments. Changes in the fair value of derivatives designated as fair value hedges were recognized as offsets to the changes in the fair value of the exposure being hedged. As a result, at December 31, 2009, the fair value of our interest rate swap was reflected as a derivative asset on our consolidated balance sheet and changes in its fair value were recorded as an adjustment to the carrying value of the associated debt. Receipts and payments related to our interest rate swap were reflected in interest expense. The related cash flow impact was reflected as cash flows from operating activities in our consolidated statement of cash flows. During the first quarter of 2010, we terminated the swap and received approximately $2 million in settlement of the swap. The settlement of the swap is included under the caption “Operating expenses – Other” on our consolidated statement of income and partially offsets the early redemption premium paid for the tender of the associated 7 % Senior Notes due 2011. See Note 9, "Debt – Senior and Senior Subordinated Notes" for a detailed discussion of this transction.

Additional Disclosures about Derivative Instruments and Hedging Activities

At March 31, 2010, we had derivative financial instruments recorded in our balance sheet as set forth below.

Estimated

Type of Contract	Balance Sheet Location	Fair Value (In millions)
Derivatives not designated as hedging instruments:		
Natural gas contracts	Derivative assets – current	$ 245
Oil contracts	Derivative assets – current	110
Basis contracts	Derivative assets – current	(6)
Natural gas contracts	Derivative assets – noncurrent	79
Oil contracts	Derivative assets – noncurrent	3
Basis contracts	Derivative assets – noncurrent	(7)
Oil contracts	Derivative liabilities – current	(1)
Oil contracts	Derivative liabilities – noncurrent	(6)
Basis contracts	Derivative liabilities – noncurrent	(5)
Total derivatives not designated as hedging instruments		412
Net derivative assets		$ 412

Table of Contents

The amount of gain (loss) recognized in income related to our derivative financial instruments was as follows:

Type of Contract	Location of Gain/(Loss) Recognized in Income	Three Months Ended March 31, 2010	Three Months Ended March 31, 2009
		(In millions)	
Derivatives not designated as hedging instruments:			
Natural gas contracts	Commodity derivative income	$ 253	$ 274
Oil contracts	Commodity derivative income	(11)	17
Basis contracts	Commodity derivative income	(5)	(13)
Total		$ 237	$ 278

The use of derivative transactions involves the risk that the counterparties will be unable to meet the financial terms of such transactions. Our derivative contracts are with multiple counterparties to minimize our exposure to any individual counterparty and we have netting arrangements with all of our counterparties that provide for offsetting payables against receivables from separate derivative instruments with that counterparty. At March 31, 2010, Barclays Capital, JPMorgan Chase Bank, N.A., Credit Suisse Energy LLC, Credit Agricole Corporate & Investment Bank London Branch, J Aron & Company and Societe Generale were the counterparties with respect to 86% of our future hedged production, the largest of which was J Aron & Company and accounted for 28% of our future hedged production.

A significant number of the counterparties to our derivative instruments also are lenders under our credit facility. Our credit facility, senior subordinated notes and substantially all of our derivative instruments contain provisions that provide for cross defaults and acceleration of those debt and derivative instruments in certain situations.

6. Accounts Receivable:

As of the indicated dates, our accounts receivable consisted of the following:

	March 31, 2010	December 31, 2009
	(In millions)	
Revenue	$213	$214
Joint interest	121	114
Other	24	17
Reserve for doubtful accounts	(6)	(6)
Total accounts receivable	$352	$339

7. Accrued Liabilities:

As of the indicated dates, our accrued liabilities consisted of the following:

	March 31, 2010	December 31, 2009
	(In millions)	
Revenue payable	$68	$55
Accrued capital costs	295	289
Accrued lease operating expenses	44	47
Employee incentive expense	30	61
Accrued interest on debt	44	25
Taxes payable	114	101
Other	54	62
Total accrued liabilities	$649	$640

Table of Contents

8. Fair Value Measurements:

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). The authoritative guidance requires disclosure of the framework for measuring fair value and requires that fair value measurements be classified and disclosed in one of the following categories:

Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities. We consider active markets as those in which transactions for the assets or liabilities occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2: Quoted prices in markets that are not active, or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability. This category includes those derivative instruments that we value using observable market data. Substantially all of these inputs are observable in the marketplace throughout the full term of the derivative instrument, can be derived from observable data or supported by observable levels at which transactions are executed in the marketplace. Instruments in this category include non-exchange traded derivatives such as over-the-counter commodity price swaps, certain investments and interest rate swaps.

Level 3: Measured based on prices or valuation models that require inputs that are both significant to the fair value measurement and less observable from objective sources (i.e., supported by little or no market activity). Our valuation models for derivative contracts are primarily industry-standard models (i.e., Black-Scholes) that consider various inputs including: (a) quoted forward prices for commodities, (b) time value, (c) volatility factors, (d) counterparty credit risk and (e) current market and contractual prices for the underlying instruments, as well as other relevant economic measures. Our valuation methodology for investments is a discounted cash flow model that considers various inputs including: (a) the coupon rate specified under the debt instruments, (b) the current credit ratings of the underlying issuers, (c) collateral characteristics and (d) risk adjusted discount rates. Level 3 instruments primarily include derivative instruments, such as basis swaps, commodity price collars and floors and some financial investments. Although we utilize third party broker quotes to assess the reasonableness of our prices and valuation techniques, we do not have sufficient corroborating market evidence to support classifying these assets and liabilities as Level 2.

Financial assets and liabilities are classified based on the lowest level of input that is significant to the fair value measurement. Our assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect the valuation of the fair value of assets and liabilities and their placement within the fair value hierarchy levels.

Table of Contents

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

Fair Value of Investments and Derivative Instruments

The following tables summarize the valuation of our investments and financial instrument assets (liabilities) by pricing levels:

	Fair Value Measurement Classification			
	Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
	(In millions)			
As of December 31, 2009:				
Money market fund investments	$15	$—	$ —	$15
Investments available-for-sale:				
Equity securities	7	—	—	7
Auction rate securities	—	—	40	40
Oil and gas derivative swap contracts	—	119	(14)	105
Oil and gas derivative option contracts	—	—	173	173
Interest rate swap	—	3	—	3
Total	$22	$122	$ 199	$343
As of March 31, 2010:				
Money market fund investments	$67	$	$	$67
Investments available-for-sale:				
Equity securities	8			8