NEWFIELD EXPLORATION CO /DE/
Form 10-Q
July 22, 2011

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 June 30, 2011

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 July 20, 2011, there were 134,618,805 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)

	June 30, 2011	December 31, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	$ 74	$ 39
Accounts receivable	360	354
Inventories	106	79
Derivative assets	128	197
Other current assets	80	62
Total current assets	748	731
Property and equipment, at cost, based on the full cost method of accounting for oil and gas properties ($2,167 and $1,658 were excluded from amortization at June 30, 2011 and December 31, 2010, respectively)	13,730	12,399
Less accumulated depreciation, depletion and amortization	(6,166)	(5,791)
Total property and equipment, net	7,564	6,608
Derivative assets	35	39
Long-term investments	53	48
Deferred taxes	33	29
Other assets	48	39
Total assets	$ 8,481	$ 7,494
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 113	$ 92
Accrued liabilities	696	670
Advances from joint owners	55	51
Asset retirement obligation	10	11
Derivative liabilities	65	53
Deferred taxes	22	51
Total current liabilities	961	928
Other liabilities	55	56
Derivative liabilities	69	46
Long-term debt	2,889	2,304
Asset retirement obligation	108	97
Deferred taxes	837	720
Total long-term liabilities	3,958	3,223
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 June 30, 2011						
and December 31, 2010; 136,285,771 and 135,910,641 shares issued at						
June 30, 2011 and December 31, 2010, respectively)		1			1	
Additional paid-in capital		1,472			1,450	
Treasury stock (at cost, 1,682,122 and 1,664,538 shares at June 30, 2011 and						
December 31, 2010, respectively)		(50	)		(41	)
Accumulated other comprehensive loss		(8	)		(12	)
Retained earnings		2,147			1,945	
Total stockholders' equity		3,562			3,343	
Total liabilities and stockholders' equity	$	8,481		$	7,494	

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 June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Oil and gas revenues	$621	$448	$1,166	$906
Operating expenses:				
Lease operating	125	84	218	151
Production and other taxes	79	31	150	56
Depreciation, depletion and amortization	173	160	339	307
General and administrative	44	41	81	77
Other	—	2	—	10
Total operating expenses	421	318	788	601
Income from operations	200	130	378	305
Other income (expenses):				
Interest expense	(41)	(39)	(81)	(77)
Capitalized interest	19	16	37	28
Commodity derivative income (expense)	169	46	(13)	283
Other	—	(1)	(1)	1
Total other income (expenses)	147	22	(58)	235
Income before income taxes	347	152	320	540
Income tax provision:				
Current	7	14	30	27
Deferred	121	42	88	173
Total income tax provision	128	56	118	200
Net income	$219	$96	$202	$340
Earnings per share:				
Basic	$1.64	$0.73	$1.52	$2.59
Diluted	$1.62	$0.72	$1.50	$2.55
Weighted-average number of shares outstanding for basic earnings per share	134	132	133	131
Weighted-average number of shares outstanding for diluted earnings per share	135	134	135	133

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

Table of Contents

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

	Six Months Ended June 30, 2011	2010
Cash flows from operating activities:		
Net income	$ 202	$ 340
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion and amortization	339	307
Deferred tax provision	88	173
Stock-based compensation	14	12
Commodity derivative (income) expense	13	(283)
Cash receipts on derivative settlements, net	95	227
Other non-cash charges	3	—
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable	(6)	11
(Increase) decrease in inventories	(26)	6
(Increase) decrease in other current assets	(19)	29
(Increase) decrease in other assets	(4)	1
Increase in accounts payable and accrued liabilities	29	40
Increase in advances from joint owners	4	19
Increase (decrease) in other liabilities	(3)	6
Net cash provided by operating activities	729	888
Cash flows from investing activities:		
Additions to oil and gas properties	(1,077)	(767)
Acquisitions of oil and gas properties	(311)	(219)
Proceeds from sales of oil and gas properties	130	14
Additions to furniture, fixtures and equipment	(10)	(7)
Redemptions of investments	1	5
Net cash used in investing activities	(1,267)	(974)
Cash flows from financing activities:		
Proceeds from borrowings under credit arrangements	2,371	322
Repayments of borrowings under credit arrangements	(1,786)	(707)
Net proceeds from issuance of senior subordinated notes	—	694
Debt issue costs	(8)	(8)
Repayment of senior notes	—	(175)
Proceeds from issuances of common stock	11	17

Purchases of treasury stock, net		(15	)		(13	)
Net cash provided by financing activities		573			130	
Increase in cash and cash equivalents		35			44	
Cash and cash equivalents, beginning of period		39			78	
Cash and cash equivalents, end of period	$	74		$	122	

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

3

Table of Contents

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

	Common Stock		Treasury Stock					
	Shares	Amount	Shares	Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balance, December 31, 2010	135.9	$ 1	(1.7)	$ (41)	$ 1,450	$ 1,945	$ (12)	$ 3,343
Issuances of common stock	0.4	—			11			11
Stock-based compensation					17			17
Treasury stock, net			—	(9)	(6)			(15)
Comprehensive income:								
Net income						202		202
Unrealized gain on investments, net of tax of $(2)							4	4
Total comprehensive income								206
Balance, June 30, 2011	136.3	$ 1	(1.7)	$ (50)	$ 1,472	$ 2,147	$ (8)	$ 3,562

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, Appalachia 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, 2010.

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 the fair value of our derivative positions.

Investments

Investments consist primarily of debt and equity securities, as well as auction rate securities, a majority 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 net gains on our investment securities of approximately $0.2 million and $0.4 million for the three months ended June 30, 2011 and 2010, respectively, and $1 million for each of the six month periods ended June 30, 2011 and 2010.

Table of Contents

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. Substantially all of the crude oil from our operations offshore Malaysia and China is produced into FPSOs and sold periodically as barge quantities are accumulated. The product inventory consisted of approximately 298,000 barrels and 277,000 barrels of crude oil valued at cost of $24 million and $15 million at June 30, 2011 and December 31, 2010, respectively. Cost for purposes of the carrying value of oil inventory is the sum of production costs and depletion 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. We capitalized $27 million and $16 million of internal costs during the three months ended June 30, 2011 and 2010, respectively, and $51 million and $36 million during the six months ended June 30, 2011 and 2010, respectively. Interest expense related to unproved properties is also capitalized into oil and gas properties.

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. 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 oil and gas reserve estimation requirements, 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; plus
- the lower of cost or estimated fair value of properties not included in the costs being amortized, if any; less
- related income tax effects.

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

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

The risk that we will be required to writedown the carrying value of our oil and gas properties increases when oil and gas prices decrease significantly or if we have substantial downward revisions in our estimated proved reserves. At June 30, 2011, 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 $4.21 per MMBtu for natural gas and $90.02

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 June 30, 2011.

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.

Table of Contents

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

The change in our ARO for the six months ended June 30, 2011 is set forth below (in millions):

Balance as of January 1, 2011	$ 108
Accretion expense	5
Additions	8
Settlements	(3)
Balance at June 30, 2011	118
Less: Current portion of ARO at June 30, 2011	(10)
Total long-term ARO at June 30, 2011	$ 108

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.

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. We also have utilized derivatives to manage our exposure to variable interest rates.

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

New Accounting Requirements

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 was 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 ended March 31, 2010, except for the Level 3 reconciliation disclosures, which we adopted for the quarter ended March 31, 2011. Adopting the disclosure requirements did not have a material impact on our financial position or results of operations.

In May 2011, the FASB issued additional guidance regarding fair value measurement and disclosure requirements. The most significant change will require us, for Level 3 fair value measurements, to disclose quantitative information about unobservable inputs used, a description of the valuation processes used, and a qualitative discussion about the sensitivity of the measurements. The guidance is effective for interim and annual periods beginning on or after December 15, 2011. We do not expect adoption of the additional fair value measurement and disclosure requirements to have a material impact on our financial position or results of operations.

In June 2011, the FASB issued guidance impacting the presentation of comprehensive income. The guidance eliminates the current option to report components of other comprehensive income in the statement of changes in equity. The guidance is intended to provide a more consistent method of presenting non-owner transactions that affect an entity's equity. The guidance is effective for interim and annual periods beginning on or after December 15, 2011. We do not expect adoption of the comprehensive income presentation 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 incorporate 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.”

Table of Contents

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
	(In millions, except per share data)			
Income (numerator):				
Net income — basic and diluted	$ 219	$ 96	$ 202	$ 340
Weighted-average shares (denominator):				
Weighted-average shares — basic	134	132	133	131
Dilution effect of stock options and unvested restricted stock and restricted stock units outstanding at end of period (1)	1	2	2	2
Weighted-average shares — diluted	135	134	135	133
Earnings per share:				
Basic	$ 1.64	$ 0.73	$ 1.52	$ 2.59
Diluted	$ 1.62	$ 0.72	$	