NEWFIELD EXPLORATION CO /DE/
Form 10-Q
October 22, 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 September 30, 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 October 20, 2010, there were 133,876,360 shares of the registrant’s common stock, par value $0.01 per share, outstanding.

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

	September 30, 2010	December 31, 2009
ASSETS		
Current assets:		
Cash and cash equivalents	$ 128	$ 78
Accounts receivable	276	339
Inventories	86	84
Derivative assets	296	269
Other current assets	74	123
Total current assets	860	893
Property and equipment, at cost, based on the full cost method of accounting for oil and gas properties ($1,664 and $1,223 were excluded from amortization at September 30, 2010 and December 31, 2009, respectively)	11,803	10,406
Less accumulated depreciation, depletion and amortization	(5,619)	(5,159)
Total property and equipment, net	6,184	5,247
Derivative assets	73	19
Long-term investments	46	55
Deferred taxes	29	26
Other assets	34	14
Total assets	$ 7,226	$ 6,254
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 81	$ 83
Accrued liabilities	625	640
Advances from joint owners	50	51
Asset retirement obligation	14	10
Derivative liabilities	3	2
Deferred taxes	103	87
Total current liabilities	876	873
Other liabilities	96	55
Derivative liabilities	20	5
Long-term debt	2,169	2,037
Asset retirement obligation	85	82
Deferred taxes	680	434
Total long-term liabilities	3,050	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 September 30, 2010 and December 31, 2009;				
135,482,920 and 134,493,670 shares issued at September 30, 2010 and December 31, 2010, respectively)		1		1
Additional paid-in capital		1,430		1,389
Treasury stock (at cost; 1,676,719 and 1,488,968 shares at September 30, 2010 and December 31, 2009, respectively)		(41)		(33)
Accumulated other comprehensive income (loss):				
Unrealized loss on investments		(13)		(11)
Retained earnings		1,923		1,422
Total stockholders' equity		3,300		2,768
Total liabilities and stockholders' equity	$	7,226	$	6,254

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

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

	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
Oil and gas revenues	$ 449	$ 375	$ 1,355	$ 924
Operating expenses:				
Lease operating	86	64	237	192
Production and other taxes	21	14	77	38
Depreciation, depletion and amortization	156	144	463	440
General and administrative	40	40	117	106
Ceiling test writedown	—	—	—	1,344
Other	—	1	10	8
Total operating expenses	303	263	904	2,128
Income (loss) from operations	146	112	451	(1,204)
Other income (expenses):				
Interest expense	(39)	(31)	(116)	(95)
Capitalized interest	15	13	43	39
Commodity derivative income (expense)	131	(8)	414	189
Other	1	(1)	2	4
Total other income (expense)	108	(27)	343	137
Income (loss) before income taxes	254	85	794	(1,067)
Income tax provision (benefit):				
Current	7	35	34	36
Deferred	86	(28)	259	(448)
Total income tax provision (benefit)	93	7	293	(412)
Net income (loss)	$ 161	$ 78	$ 501	$ (655)
Income (loss) per share:				
Basic	$ 1.22	$ 0.59	$ 3.80	$ (5.06)
Diluted	$ 1.20	$ 0.58	$ 3.75	$ (5.06)
Weighted-average number of shares outstanding for basic income (loss) per share	132	130	132	129
Weighted-average number of shares outstanding for diluted income (loss) per	134	132	134	129

share

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

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

	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
Cash flows from operating activities:		
Net income (loss)	$ 501	$ (655)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation, depletion and amortization	463	440
Deferred tax provision (benefit)	259	(448)
Stock-based compensation	16	22
Ceiling test writedown	—	1,344
Commodity derivative income	(414)	(189)
Cash receipts on derivative settlements	345	701
Changes in operating assets and liabilities:		
Decrease in accounts receivable	63	81
(Increase) decrease in inventories	3	(22)
(Increase) decrease in other current assets	49	(18)
Increase in other assets	(11)	—
Increase (decrease) in accounts payable and accrued liabilities	26	(59)
Increase (decrease) in advances from joint owners	(1)	1
Increase in other liabilities	8	19
Net cash provided by operating activities	1,307	1,217
Cash flows from investing activities:		
Additions to oil and gas properties	(1,191)	(1,045)
Acquisitions of oil and gas properties	(209)	(9)
Proceeds from sales of oil and gas properties	14	—
Additions to furniture, fixtures and equipment	(11)	(7)
Redemptions of investments	5	18
Net cash used in investing activities	(1,392)	(1,043)
Cash flows from financing activities:		
Proceeds from borrowings under credit arrangements	558	813
Repayments of borrowings under credit arrangements	(942)	(920)
Net proceeds from issuance of senior subordinated notes	694	—
Debt issue costs	(8)	—
Repayment of senior notes	(175)	—

Proceeds from issuances of common stock		22		6
Purchases of treasury stock, net		(14)		(1)
Net cash provided by (used in) financing activities		135		(102)
Increase in cash and cash equivalents		50		72
Cash and cash equivalents, beginning of period		78		24
Cash and cash equivalents, end of period	$	128	$	96

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

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

	Common Stock		Treasury Stock				Accumulated Other	
	Shares	Amount	Shares	Amount	Additional Paid-in Capital	Retained Earnings	Comprehensive Income (Loss)	Total Stockholders' Equity
Balance, December 31, 2009	134.5	$ 1	(1.5)	$ (33)	$ 1,389	$ 1,422	$ (11)	$ 2,768
Issuances of common and restricted stock	1.0	—			17			17
Treasury stock, at cost			(0.2)	(8)				(8)
Stock-based compensation					24			24
Comprehensive income (loss):								
Net income						501		501
Unrealized loss on investments							(2)	(2)
Total comprehensive income								499
Balance, September 30, 2010	135.5	$ 1	(1.7)	$ (41)	$ 1,430	$ 1,923	$ (13)	$ 3,300

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

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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 the 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 for the three months ended September 30, 2010 and 2009 of $0.4 million and $0.5 million, respectively, and for the nine months ended September 30, 2010 and 2009 of $1 million and $2 million, respectively.

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

Inventories

Inventories primarily consist of tubular goods and well equipment held for use in our oil and gas operations and oil produced in our operations offshore Malaysia and China but not sold. Inventories are carried at the lower of cost or market. Crude oil from our operations offshore Malaysia and China is produced into FPSO's and sold periodically as barge quantities are accumulated. The product inventory consisted of approximately 511,000 barrels and 289,000 barrels of crude oil valued at cost of $21 million and $11 million at September 30, 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. Beginning January 1, 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, second and third quarters 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 September 30, 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 $4.41 per MMBtu for natural gas and $77.33 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 September 30, 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 and, as a result, we recorded a charge of $1.3 billion ($854 million, after-tax) during the first quarter of 2009.

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 nine months ended September 30, 2010 is set forth below (in millions):

Balance as of January 1, 2010	$	92
Accretion expense		6
Additions		6
Settlements		(5)
Balance at September 30, 2010	$	99
Less: Current portion of ARO at September 30, 2010		(14)
Total long-term ARO at September 30, 2010	$	85

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.

As of September 30, 2010, we did not have any liability for uncertain tax positions. The tax years 2007-2009 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. In 2010, 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.

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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 ended 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 did not have a material impact on our financial position or results of operations. We do not expect adoption of the Level 3 reconciliation disclosures in 2011 to have a material 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 September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
	(In millions, except per share data)			
Income (numerator):				
Net income (loss) — basic and diluted	$ 161	$ 78	$ 501	$ (655)

Weighted-average shares (denominator):				
Weighted-average shares — basic	132	130	132	129
Dilution effect of stock options and unvested restricted stock and restricted stock units outstanding at end of period (1)	2	2	2	—
Weighted-average shares — diluted	134	132	134	129
Income (loss) per share:				
Basic	$ 1.22	$ 0.59	$ 3.80	$ (5.06)
Diluted	$ 1.20	$ 0.58	$ 3.75	$ (5.06)

(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 nine months ended September 30, 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 2 million shares for the nine months ended September 30, 2009.

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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 September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
	(In millions)			
Net income (loss)	$ 161	$ 78	$ 501	$ (655)
Unrealized loss on investments, net of tax of $1	—	—	(2)	—
Realized loss on post retirement benefits, net of tax of $2	—	(3)	—	(3)
Total comprehensive income (loss)	$ 161	$ 75	$ 499	$ (658)

4. Oil and Gas Assets:

Property and Equipment

Property and equipment consisted of the following at:

	September 30, 2010	December 31, 2009
	(In millions)	
Oil and gas properties:		
Subject to amortization	$10,035	$9,090
Not subject to amortization	1,664	1,223
Gross oil and gas properties	11,699	10,313
Accumulated depreciation, depletion and amortization	(5,560)	(5,108)
Net oil and gas properties	6,139	5,205
Other property and equipment	104	93
Accumulated depreciation and amortization	(59)	(51)
Net other property and equipment	45	42
Total property and equipment, net	$6,184	$5,247

The following is a summary of our oil and gas properties not subject to amortization as of September 30, 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	$ 224	$ 149	$ 168	$ 363	$ 904
Exploration costs	281	73	58	22	434
Development costs	69	22	30	26	147
Fee mineral interests	3	—	—	23	26
Capitalized interest	43	51	59	—	153
Total oil and gas properties not subject to amortization	$ 620	$ 295	$ 315	$ 434	$ 1,664

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

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 $209 million. In the acquisition, we 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.

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 (expense)." Settlements of derivative contracts are included in operating cash flows on our consolidated statement of cash flows.

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

At September 30, 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

Period and Type of Contract	Volume in MMMBtus	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)
		NYMEX Contract Price Per MMBtu							
October 2010 – December 2010									
Price swap contracts	28,320	$6.49	—	—	—	—	—	—	$ 72
January 2011 – December 2011									
Price swap contracts	85,740	6.26	—	—	—	—	—	—	160
3-Way collar contracts	47,470	—	$4.50	$4.50	$5.50 - $6.00	$5.95	$6.60 - $8.03	$7.71	48
January 2012 – December 2012									
Price swap contracts	18,300	5.42	—	—	—	—	—	—	8
3-Way collar contracts	65,270	—	4.50	4.50	5.25 - 6.00	5.63	6.20 - 7.55	6.68	27
January 2013 – October 2013									
3-Way collar contracts	21,280	—	4.50	4.50	5.75 - 6.00	5.82	6.60 - 7.55	6.88	9
									$ 324

Oil

	NYMEX Contract Price Per Bbl	Collars	Estimated

Period and Type of Contract	Volume in MBbls	Swaps (Weighted-Average)	Additional Put Range	Additional Put Weighted-Average	Floors Range	Floors Weighted-Average	Ceilings Range	Ceilings Weighted-Average	Fair Value Asset (Liability) (In millions)
October 2010 – December 2010									
Price swap contracts	550	$87.74	—	—	—	—	—	—	$ 3
Collar contracts	828	—	—	—	$125.50–$130.50	$127.97	$170.00	$170.00	39
3-Way collar contracts	368	—	$50.00-$60.00	$55.00	60.00-75.00	67.50	100.00-112.[illegible]	106.28	—
January 2011 – December 2011									
Price swap contracts	3,650	81.51	—	—	—	—	—	—	(12)
3-Way collar contracts	5,659	—	60.00-65.00	61.61	75.00-85.00	77.58	102.25-121.50	107.76	12
January 2012 – December 2012									
Price swap contracts	2,196	82.27	—	—	—	—	—	—	(10)
3-Way collar contracts	5,856	—	60.00-65.00	62.19	75.00-85.00	78.13	107.75-115.00	111.18	2
									$ 34

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

Basis Contracts

At September 30, 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		
	Volume in MMMBtus	Weighted-Average Differential	Volume in MMMBtus	Weighted-Average Differential	Estimated Fair Value Asset (Liability) (In millions)
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)	(6)
					$ (12)

Interest Rate Swap

We previously hedged $50 million principal amount of our $175 million 7 % Senior Notes due 2011 through an interest rate swap. The swap provided for us to pay variable and receive fixed payments. During the first half of 2010, we repurchased all of the outstanding 7 % Senior Notes due 2011. Thus during the first quarter of 2010, we terminated the swap and received approximately $2 million in settlement of the swap.

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

Additional Disclosures about Derivative Instruments and Hedging Activities

At September 30, 2010, we had derivative financial instruments recorded in our balance sheet as set forth below.

Type of Contract	Balance Sheet Location	Estimated Fair Value (In millions)
Derivatives not designated as hedging instruments:		
Natural gas contracts	Derivative assets – current	$ 251
Oil contracts	Derivative assets – current	49
Basis contracts	Derivative assets – current	(4)
Natural gas contracts	Derivative assets – noncurrent	73
Oil contracts	Derivative assets – noncurrent	4
Basis contracts	Derivative assets – noncurrent	(4)
Oil contracts	Derivative liabilities – current	(3)
Oil contracts	Derivative liabilities – noncurrent	(16)
Basis contracts	Derivative liabilities – noncurrent	(4)
Total derivatives not designated as hedging instruments, net		$ 346

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 September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
		(In millions)			
Derivatives not designated as hedging instruments:					
Realized gain on natural gas contracts	Commodity derivative income (expense)	$ 70	$ 159	$ 214	$ 399
Realized gain on oil contracts	Commodity derivative income (expense)	41	76	112	281
Realized loss on basis contracts	Commodity derivative income (expense)	—	—	(3)	—
Total realized gain		111	235	323	680
Unrealized gain (loss) on natural gas contracts	Commodity derivative income (expense)	111	(175)	191	(121)
Unrealized loss on oil contracts	Commodity derivative income (expense)	(90)	(61)	(102)	(345)
Unrealized gain (loss) on basis contracts	Commodity derivative income (expense)	(1)	(7)	2	(25)
Total unrealized gain (loss)		20	(243)	91	(491)
Total gain (loss) on derivatives not designated as hedging instruments		131	(8)	414	189

Derivative designated as a fair value hedge:					
Interest rate swap	Interest expense	—	—	—	1
Total		$ 131	$ (8)	$ 414	$ 190

The total realized gain on commodity derivatives differs from the cash receipts on derivative settlements due to the recognition of option premiums associated with derivatives settled during the period.

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 September 30, 2010, Barclays Capital, JPMorgan Chase Bank, N.A., Bank of Montreal, J Aron & Company and Societe Generale were the counterparties with respect to 81% of our future hedged production, the largest of which was J Aron & Company and accounted for 25% of our future hedged production.

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

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:

	September 30, 2010	December 31, 2009
	(In millions)	
Revenue	$ 137	$ 214
Joint interest	109	114
Other	31	17
Reserve for doubtful accounts	(1)	(6)
Total accounts receivable	$ 276	$ 339

During the third quarter of 2010, an oil export pipeline from our East Belumut platform was damaged by the activities of another company's marine vessel unrelated to our operations in Malaysia. All expenses associated with the repair and clean up operations are covered by insurance. During the third quarter of 2010, we recorded a receivable of $9 million related to our insurance coverage for these costs, which is included in Accounts Receivable Other.

7. Accrued Liabilities:

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

	September 30, 2010	December 31, 2009
	(In millions)	
Revenue payable	$ 76	$ 55
Accrued capital costs	273	289
Accrued lease operating expenses	52	47
Employee incentive expense	52	61
Accrued interest on debt	43	25
Taxes payable	72	101
Other	57	62
Total accrued liabilities	$ 625	$ 640

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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.

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 September 30, 2010:				
Money market fund investments	$ 23	$ —	$ —	$ 23
Investments available-for-sale:				
Equity securities	8	—	—	8
Auction rate securities	—	—	32	32
Oil and gas derivative swap contracts	—	221	(12)	209
Oil and gas derivative option contracts	—	—	137	137
Total	$ 31	$ 221	$ 157	$ 409

The determination of the fair values above incorporates various factors which include not only the impact of our non-performance risk on our liabilities but also the credit standing of the counterparties involved and the impact of credit enhancements (such as cash deposits, letters of credit and priority interests). We utilize credit default swap values to assess the impact of non-performance risk when evaluating both our liabilities to and receivables from counterparties.

As of September 30, 2010, we continued to hold $32 million of auction rate securities maturing beginning in 2033 that are classified as a Level 3 fair value measurement. This amount reflects a decrease in the fair value of these investments of $18 million ($11 million net of tax), recorded under the caption “Accumulated other comprehensive income (loss)” on our consolidated balance sheet. The debt instruments underlying these investments are mostly investment grade (rated BBB+ or better) and are guaranteed by the United States government or backed by private loan collateral. We do not believe the decrease in the fair value of these securities is permanent because we currently intend to hold these investments until the auction succeeds, the issuer calls the securities or the securities mature. Our current available borrowing capacity under our credit arrangements provides us the liquidity to continue to hold these securities.

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

The following tables set forth a reconciliation of changes in the fair value of financial assets and liabilities classified as Level 3 in the fair value hierarchy for the indicated periods:

	Investments	Derivatives	Total
		(In millions)	
Balance at January 1, 2009	$ 59	$ 542	$ 601
Total realized or unrealized gains (losses):			
Included in earnings	—	(23)	(23)
Purchases, issuances and settlements	(18)	(270)	(288)
Transfers in and out of Level 3	—	—	—
Balance at September 30, 2009	$ 41	$ 249	$ 290
Change in unrealized gains (losses) relating to investments and derivatives still held at September 30, 2009	$ —	$ (70)	$ (70)
Balance at January 1, 2010	$ 40	$ 159	$ 199
Total realized or unrealized gains (losses):			
Included in earnings	—	74	74
Included in other comprehensive income (loss)	(3)	—	(3)
Purchases, issuances and settlements	(5)	(108)	(113)
Transfers in and out of Level 3	—	—	—
Balance at September 30, 2010	$ 32	$ 125	$ 157
Change in unrealized gains (losses) relating to investments and derivatives still held at September 30, 2010	$ (2)	$ 87	$ 85

Fair Value of Debt

The estimated fair value of our notes, based on quoted market prices on September 30, 2010, was as follows (in millions):

6 % Senior Subordinated Notes due 2014	$ 333
6 % Senior Subordinated Notes due 2016	570
7 % Senior Subordinated Notes due 2018	642
6 % Senior Subordinated Notes due 2020	746

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

9. Debt:

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

		September 30, 2010	December 31, 2009
		(In millions)	
Senior unsecured debt:			
	Revolving credit facility:		
	LIBOR based loans	$ —	$ 384
	7 % Senior Notes due 2011	—	175
	Fair value of interest rate swaps (1)	—	3
	Total senior unsecured notes	—	178
	Total senior unsecured debt	—	562
6 % Senior Subordinated Notes due 2014		325	325
6 % Senior Subordinated Notes due 2016		550	550
7 % Senior Subordinated Notes due 2018		600	600
6 % Senior Subordinated Notes due 2020		694	—
	Total long-term debt	$ 2,169	$ 2,037

(1) We previously hedged $50 million principal amount of our $175 million 7 % Senior Notes due 2011 through an interest rate swap. The swap provided for us to pay variable and receive fixed payments. During the first half of 2010, we repurchased all of the outstanding 7 % Senior Notes due 2011. Thus during the first quarter of 2010, we terminated the swap and received approximately $2 million in settlement of the swap.

Credit Arrangements

We have a revolving credit facility which provides for loan commitments of $1.25 billion from a syndicate of more than 15 financial institutions, led by JPMorgan Chase Bank, as agent, and matures June 2012. However, the amount that we can borrow under the facility could be limited by changing expectations of future oil and gas prices because the maximum amount that we can borrow under the facility is determined by our lenders annually each May (and may be adjusted at the option of our lenders in the case of certain acquisitions or divestitures) using a process that takes into account the value of our estimated reserves and hedge position and the lenders' commodity price assumptions. In the future, total loan commitments under the facility could be increased to a maximum of $1.65 billion if the existing lenders increase their individual loan commitments or new financial institutions are added to the facility. As of September 30, 2010, the largest individual loan commitment by any lender was 16% of total commitments.

Loans under the credit facility bear interest, at our option, equal to (a) a rate per annum equal to the higher of the prime rate announced from time to time by JPMorgan Chase Bank or the weighted-average of the rates on overnight federal funds transactions with members of the Federal Reserve System during the last preceding business day plus 50 basis points or (b) a base Eurodollar rate substantially equal to the London Interbank Offered Rate, plus a margin that is based on a grid of our debt rating (87.5 basis points per annum at September 30, 2010).

We pay commitment fees on available but undrawn amounts based on a grid of our debt rating (0.175% per annum at September 30, 2010). We incurred fees under this arrangement of approximately $0.6 million and $2 million for the three and nine months ended September 30, 2010, respectively, which are recorded in interest expense on our consolidated statement of income. For the three and nine months ended September 30, 2009, we incurred commitment fees of approximately $0.3 million and $1 million, respectively.

Our credit facility has restrictive covenants that include the maintenance of a ratio of total debt to book capitalization not to exceed 0.6 to 1.0; maintenance of a ratio of total debt to earnings before gain or loss on the disposition of assets, interest expense, income taxes and noncash items (such as depreciation, depletion and amortization expense, unrealized gains and losses on commodity derivatives, ceiling test writedowns, and goodwill impairments) of at least 3.5 to 1.0. In addition, if our debt rating is below investment grade, we must maintain a ratio of the calculated net present value of our oil and gas reserves to total debt of at least 1.75 to 1.00. For purposes of this ratio, total debt includes only 50% of the principal amount of our senior subordinated notes. At September 30, 2010, we were in compliance with all of our debt covenants.

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

As of September 30, 2010, we had no letters of credit outstanding under our credit facility. Letters of credit are subject to an issuance fee of 12.5 basis points and annual fees based on a grid of our debt rating (87.5 basis points at September 30, 2010).

Subject to compliance with the restrictive covenants in our credit facility, we also have a total of $105 million of borrowing capacity under money market lines of credit with various financial institutions, the availability of which is at the discretion of the financial institutions.

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

Senior and Senior Subordinated Notes

On January 25, 2010, we sold $700 million of 6 % Senior Subordinated Notes due 2020 and received net proceeds of $686 million (net of discount and offering costs). These notes were issued at 99.109% of par to yield 7%. We used $294 million of the net proceeds to repay all of our then outstanding borrowings under our credit facility and $209 million to fund the acquisition of assets from TXCO Resources Inc.

On February 19, 2010, we accepted for purchase and payment approximately $143 million of our $175 million aggregate principal amount of 7 % Senior Notes due 2011, representing approximately 82% of the outstanding principal. The tender included the payment of an early redemption premium of $10 million. This premium was recorded under the caption “Operating expenses – Other” on our consolidated statement of income.

On May 24, 2010, we accepted for purchase and payment the remaining $32 million of our $175 million aggregate principal amount of 7 % Senior Notes due 2011. The tender included the payment of an early redemption premium of $2 million. This premium was recorded under the caption “Operating expenses – Other” on our consolidated statement of income.

We primarily funded the tender offer and repurchase of our $175 million aggregate principal amount of 7 % Senior Notes due 2011 with a portion of the proceeds from our January 25, 2010 Senior Subordinated Notes issuance.

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

10. Income Taxes:

The provision (benefit) for income taxes for the indicated periods was different than the amount computed using the federal statutory rate (35%) for the following reasons:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
	(In millions)			
Amount computed using the statutory rate	$ 89	$ 30	$ 278	$ (374)
Increase (decrease) in taxes resulting from:				
State and local income taxes, net of federal effect	3	—	10	(17)
Net effect of different tax rates in non-U.S. jurisdictions	1	1	4	2
Valuation allowance	—	(24)	—	(24)
Other	—	—	1	1
Total income tax provision (benefit)	$ 93	$ 7	$ 293	$ (412)

In the third quarter of 2009, we reversed the valuation allowance related to the deferred tax asset associated with our fourth quarter 2008 ceiling test writedown in Malaysia. The valuation allowance was reversed as a result of a substantial increase in our estimate of future taxable income in Malaysia due to increases in current and future anticipated crude oil prices.

As of September 30, 2010, we had net operating loss (NOL) carryforwards for international income tax purposes of approximately $17 million. We currently estimate that we will not be able to utilize our international NOLs because we do not have sufficient estimated future taxable income in the appropriate jurisdictions. Therefore, valuation allowances were established for these items in 2005 and 2006. Estimates of future taxable income can be significantly affected by changes in oil and gas prices, estimates of the timing and amount of future production and estimates of future operating and capital costs.

11. Stock-Based Compensation:

We make stock-based compensation awards to employees through the Newfield Exploration Company 2009 Omnibus Stock Plan (the 2009 Omnibus Stock Plan) and to non-employee directors through the Newfield Exploration Company 2009 Non-Employee Director Restricted Stock Plan. The fair value of grants under these plans are determined utilizing the Black-Scholes option pricing model for stock options and a lattice-based model for our performance and market-based restricted stock and restricted stock units.

As of the indicated dates, our stock-based compensation consisted of the following:

Three Months Ended September 30,		Nine Months Ended September 30,	
2010	2009	2010	2009
(In millions)			

Total stock-based compensation	$ 6	$ 11	$ 24	$ 34
Capitalized in oil and gas properties	(2)	(4)	(8)	(12)
Net stock-based compensation expense	$ 4	$ 7	$ 16	$ 22

As of September 30, 2010, we had approximately $59 million of total unrecognized stock-based compensation expense related to unvested stock-based compensation awards. This compensation expense is expected to be recognized on a straight-line basis over the applicable remaining vesting period. The full amount is expected to be recognized within approximately five years.

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

Stock Options. The following table provides information about stock option activity for the nine months ended September 30, 2010:

	Number of Shares Underlying Options	Weighted-Average Exercise Price per Share	Weighted-Average Grant Date Fair Value per Share	Weighted-Average Remaining Contractual Life	Aggregate Intrinsic Value(1)
	(In millions)			(In years)	(In millions)
Outstanding at December 31, 2009	2.9	$ 29.82		4.7	$ 56
Granted	—	—	$ —		
Exercised	(0.9)	23.52			29
Forfeited	—	—			
Outstanding at September 30, 2010	2.0	$ 32.76		4.6	$ 49
Exercisable at September 30, 2010	1.7	$ 30.23		4.1	$ 46

(1) The intrinsic value of a stock option is the amount by which the market value of our common stock at the indicated date, or at the time of exercise, exceeds the exercise price of the option.

On September 30, 2010, the last reported sales price of our common stock on the New York Stock Exchange was $57.44 per share.

Restricted Stock. The following table provides information about restricted stock and restricted stock unit activity for the nine months ended September 30, 2010:

	Service-Based Shares	Performance/ Market-Based Shares	Total Shares	Weighted-Average Grant Date Fair Value per Share
	(In thousands, except per share data)			
Non-vested shares outstanding at December 31, 2009	2,424	782	3,206	$ 31.60
Granted	505	140	645	50.67
Forfeited	(146)	(85)	(231)	31.81
Vested	(580)	(521)	(1,101)	31.96
Non-vested shares outstanding at September 30, 2010	2,203	316	2,519	$ 36.29

Employee Stock Purchase Plan. During the first six months of 2010, options to purchase 37,746 shares of our common stock were issued under our 2001 employee stock purchase plan. The weighted-average fair value of each option was $13.08 per share. The fair value of the options granted was determined using the Black-Scholes option valuation method assuming no dividends, a risk-free weighted-average interest rate of 0.20%, an expected life of six months and weighted-average volatility of 43%. At June 30, 2010, this plan was terminated.

At our May 7, 2010 annual meeting, our stockholders approved the Newfield Exploration Company 2010 Employee Stock Purchase Plan (2010 Plan). The 2010 Plan was effective July 1, 2010 and has 1,000,000 shares of our common stock available for issuance. Based on the assumptions utilized during the third quarter of 2010, options to purchase 40,304 shares of our common stock were issued under the 2010 Plan. The weighted-average fair value of each option was $13.36 per share. The fair value of the options granted was determined using the Black-Scholes option valuation method assuming no dividends, a risk-free weighted-average interest rate of 0.22%, an expected life of six months and weighted-average volatility of 46%.

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

12. Commitments and Contingencies:

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

13. Segment Information:

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

The following tables provide the geographic operating segment information as of and for the three and nine months ended September 30, 2010 and 2009. Income tax allocations have been determined based on statutory rates in the applicable geographic segment.

Three Months Ended September 30, 2010:

	Domestic	Malaysia	China	Other International	Total
		(In millions)			
Oil and gas revenues	$ 357	$ 80	$ 12	$ —	$ 449
Operating expenses:					
Lease operating	68	17	1	—	86
Production and other taxes	2	17	2	—	21
Depreciation, depletion and amortization	128	24	4	—	156
General and administrative	39	1	—	—	40
Allocated income taxes	44	8	2	—	
Net income from oil and gas properties	$ 76	$ 13	$ 3	$ —	
Total operating expenses					303
Income from operations					146
Interest expense, net of interest income, capitalized interest and other					(23)
Commodity derivative income					131
Income before income taxes					$ 254
Total long-lived assets	$ 5,567	$ 398	$ 174	$ —	$ 6,139

Additions to long-lived assets	$	361	$	18	$	7	$	—	$	386

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

Three Months Ended September 30, 2009:

	Domestic	Malaysia	China	Other International	Total
		(In millions)			
Oil and gas revenues	$ 231	$ 132	$ 12	$ —	$ 375
Operating expenses:					
Lease operating	48	15	1	—	64
Production and other taxes	5	8	1	—	14
Depreciation, depletion and amortization	100	41	3	—	144
General and administrative	39	1	—	—	40
Other	1	—	—	—	1
Allocated income taxes	14	26	2	—	
Net income from oil and gas properties	$ 24	$ 41	$ 5	$ —	
Total operating expenses					263
Income from operations					112
Interest expense, net of interest income, capitalized interest and other					(19)
Commodity derivative expense					(8)
Income before income taxes					$ 85
Total long-lived assets	$ 4,393	$ 353	$ 149	$ 3	$ 4,898
Additions to long-lived assets	$ 245	$ 16	$ 24	$ —	$ 285

Nine Months Ended September 30, 2010:

	Domestic	Malaysia	China	Other International	Total
		(In millions)			
Oil and gas revenues	$ 1,055	$ 259	$ 41	$ —	$ 1,355
Operating expenses:					
Lease operating	195	39	3	—	237
Production and other taxes	33	38	6	—	77
Depreciation, depletion and amortization	371	78	11	3	463
General and administrative	113	3	1	—	117
Other	10	—	—	—	10
Allocated income taxes	124	39	6	(1)	
	$ 209	$ 62	$ 14	$ (2)	

Net income (loss) from oil and gas properties										
Total operating expenses										904
Income from operations										451
Interest expense, net of interest income, capitalized interest and other										(71)
Commodity derivative income										414
Income before income taxes									$	794
Total long-lived assets	$	5,567	$	398	$	174	$	—	$	6,139
Additions to long-lived assets	$	1,272	$	98	$	31	$	—	$	1,401

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

Nine Months Ended September 30, 2009:

	Domestic	Malaysia	China	Other International	Total
		(In millions)			
Oil and gas revenues	$ 667	$ 226	$ 31	$ —	$ 924
Operating expenses:					
Lease operating	152	36	4	—	192
Production and other taxes	23	13	2	—	38
Depreciation, depletion and amortization	344	86	10	—	440
General and administrative	103	2	1	—	106 &