NEWFIELD EXPLORATION CO /DE/
Form 10-Q
April 26, 2012

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, 2012

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	72-1133047
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

4 Waterway Square Place
Suite 100
The Woodlands, Texas 77380
(Address and Zip Code of principal executive offices)

(281) 210-5100
(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 23, 2012, there were 134,808,094 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)

	March 31, 2012	December 31, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	$27	$76
Accounts receivable	481	407
Inventories	110	90
Derivative assets	148	129
Other current assets	68	73
Total current assets	834	775
Property and equipment, at cost, based on the full cost method of accounting for oil and gas properties ($1,835 and $1,965 were excluded from amortization at March 31, 2012 and December 31, 2011, respectively)	14,736	14,526
Less accumulated depreciation, depletion and amortization	(6,737)	(6,506)
Total property and equipment, net	7,999	8,020
Derivative assets	60	61
Long-term investments	55	52
Deferred taxes	35	28
Other assets	54	55
Total assets	$9,037	$8,991
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$70	$112
Accrued liabilities	706	687
Advances from joint owners	20	45
Asset retirement obligations	10	10
Derivative liabilities	60	50
Deferred taxes	31	28
Total current liabilities	897	932
Other liabilities	44	44
Derivative liabilities	22	3
Long-term debt	2,920	3,006
Asset retirement obligations	134	135
Deferred taxes	978	951
Total long-term liabilities	4,098	4,139
Commitments and contingencies (Note 11)	—	—
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, 2012 and December 31, 2011; 136,396,431 and 136,379,381 shares issued at March 31, 2012 and December 31, 2011, respectively)	1	1
Additional paid-in capital	1,497	1,495
Treasury stock (at cost, 1,585,053 and 1,694,623 shares at March 31, 2012 and December 31, 2011, respectively)	(48)	(50)
Accumulated other comprehensive loss	(8)	(10)
Retained earnings	2,600	2,484
Total stockholders' equity	4,042	3,920
Total liabilities and stockholders' equity	$9,037	$8,991

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

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NEWFIELD EXPLORATION COMPANY

CONSOLIDATED STATEMENT OF NET INCOME
(In millions, except per share data)
(Unaudited)

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011
Oil and gas revenues	$678	$545
Operating expenses:		
Lease operating	127	93
Production and other taxes	83	71
Depreciation, depletion and amortization	226	166
General and administrative	45	37
Total operating expenses	481	367
Income from operations	197	178
Other income (expenses):		
Interest expense	(51)	(40)
Capitalized interest	18	18
Commodity derivative income (expense)	24	(182)
Other	(1)	(1)
Total other income (expenses)	(10)	(205)
Income (loss) before income taxes	187	(27)
Income tax provision (benefit):		
Current	48	23
Deferred	23	(33)
Total income tax provision (benefit)	71	(10)
Net income (loss)	$116	$(17)
Earnings (loss) per share:		
Basic	$0.86	$(0.13)
Diluted	$0.86	$(0.13)
Weighted-average number of shares outstanding for basic earnings (loss) per share	134	133
Weighted-average number of shares outstanding for diluted earnings (loss) per share	135	133

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

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NEWFIELD EXPLORATION COMPANY

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
(In millions)
(Unaudited)

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011
Net income (loss)	$116	$(17)
Other comprehensive income:		
Unrealized gain on investments, net of tax	2	3
Other comprehensive income, net of tax	2	3
Comprehensive income (loss)	$118	$(14)

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)

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011
Cash flows from operating activities:		
Net income (loss)	$116	$(17)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation, depletion and amortization	226	166
Deferred tax provision (benefit)	23	(33)
Stock-based compensation	8	6
Commodity derivative (income) expense	(24)	182
Cash receipts on derivative settlements, net	34	55
Other non-cash charges	4	2
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable	(74)	21
Increase in inventories	(12)	(12)
(Increase) decrease in other current assets	5	(10)
Increase in other assets	(1)	(3)
Decrease in accounts payable and accrued liabilities	(67)	(37)
Decrease in advances from joint owners	(25)	(10)
Decrease in other liabilities	(1)	(1)
Net cash provided by operating activities	212	309
Cash flows from investing activities:		
Additions to oil and gas properties	(468)	(466)
Acquisitions of oil and gas properties	(9)	—
Proceeds from sales of oil and gas properties	312	62
Additions to furniture, fixtures and equipment	(3)	(3)
Net cash used in investing activities	(168)	(407)
Cash flows from financing activities:		
Proceeds from borrowings under credit arrangements	594	670
Repayments of borrowings under credit arrangements	(680)	(546)
Proceeds from issuances of common stock	—	7
Purchases of treasury stock, net	(7)	(16)
Net cash provided by (used in) financing activities	(93)	115
Increase (decrease) in cash and cash equivalents	(49)	17
Cash and cash equivalents, beginning of period	76	39
Cash and cash equivalents, end of period	$27	$56

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

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NEWFIELD EXPLORATION COMPANY

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
(In millions)
(Unaudited)

	Common Stock		Treasury Stock		Additional Paid-in	Retained	Accumulated Other Comprehensive Income	Total Stockholders'
	Shares	Amount	Shares	Amount	Capital	Earnings	(Loss)	Equity
Balance, December 31, 2011	136.4	$ 1	(1.7)	$ (50)	$ 1,495	$ 2,484	$ (10)	$ 3,920
Stock-based compensation					11			11
Treasury stock, net			0.1	2	(9)			(7)
Net income						116		116
Other comprehensive income, net of tax							2	2
Balance, March 31, 2012	136.4	$ 1	(1.6)	$ (48)	$ 1,497	$ 2,600	$ (8)	$ 4,042

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 energy company engaged in the exploration, development and production of crude oil, natural gas and natural gas liquids. Our principal domestic areas of operation include the Mid-Continent, the Rocky Mountains and onshore Texas. Internationally, we focus on offshore oil developments 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 natural 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 fairly state 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, 2011.

Dependence on Oil and Natural Gas Prices

As an independent oil and natural gas producer, our revenue, profitability and future rate of growth are substantially dependent on prevailing prices for oil and natural gas. Historically, the energy markets have been very volatile, and there can be no assurance that oil and natural gas prices will not be subject to wide fluctuations in the future. A substantial or extended decline in oil or natural 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 natural 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 significantly from these estimates. Our most significant financial estimates are associated with our estimated proved oil and natural 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 within the consolidated statement of comprehensive income. 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 $1 million for each of the three-month periods ended March 31, 2012 and 2011.

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 578,000 barrels and 239,000 barrels of crude oil valued at cost of $38 million and $19 million at March 31, 2012 and December 31, 2011, 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 $31 million and $24 million of internal costs during the three months ended March 31, 2012 and 2011, respectively. Interest expense related to unproved properties is also capitalized into oil and gas properties.

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.

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 natural 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 (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.

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 properties increases when oil and natural gas prices decrease significantly for a prolonged period of time or if we have substantial downward revisions in our estimated proved reserves. At March 31, 2012, 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 $3.73 per MMBtu for natural gas and $98.25 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, 2012.

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 ARO is incurred. Settlements include payments made to satisfy the AROs, as well as the transfer of the ARO to purchasers of our divested properties.

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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 net income.

The change in our ARO for the three months ended March 31, 2012 is set forth below (in millions):

Balance as of January 1, 2012	$	145
Accretion expense		3
Additions		3
Settlements		(7)
Balance at March 31, 2012		144
Less: Current portion of ARO at March 31, 2012		(10)
Total long-term ARO at March 31, 2012	$	134

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 4, "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 May 2011, the FASB issued additional guidance regarding fair value measurement and disclosure requirements. The most significant change requires 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. Adopting the additional fair value measurement and disclosure requirements did not have a material impact on our financial position or results of operations.

In December 2011, the FASB issued guidance regarding the disclosure of offsetting assets and liabilities. The guidance will require disclosure of gross information and net information about instruments and transactions eligible for offset arrangement. The guidance is effective for interim and annual periods beginning on or after January 1, 2013. We do not expect adoption of the additional disclosures regarding offsetting assets and liabilities 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 (loss) (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 10, "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,	
	2012	2011
	(In millions, except per share data)	
Income (numerator):		
Net income (loss) — basic and diluted	$ 116	$ (17)
Weighted-average shares (denominator):		
Weighted-average shares — basic	134	133
Dilution effect of stock options and unvested restricted stock and restricted stock units outstanding at end of period (1)(2)	1	—
Weighted-average shares — diluted	135	133
Earnings (loss) per share:		

Basic earnings (loss) per share	$	0.86	$	(0.13)
Diluted earnings (loss) per share	$	0.86	$	(0.13)

(1) The calculation of shares outstanding for diluted EPS for the three months ended March 31, 2012 does not include the effect of three million unvested restricted stock or restricted stock units and stock options because to do so would be anti-dilutive.

(2) 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, 2011 as their effect would have been anti-dilutive. Had we recognized net income for that 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 two million shares.

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3. Oil and Gas Assets:

Property and Equipment

Property and equipment consisted of the following at:

	March 31, 2012	December 31, 2011
	(In millions)	
Oil and gas properties:		
Subject to amortization	$ 12,760	$ 12,423
Not subject to amortization	1,835	1,965
Gross oil and gas properties	14,595	14,388
Accumulated depreciation, depletion and amortization	(6,664)	(6,436)
Net oil and gas properties	7,931	7,952
Other property and equipment	141	138
Accumulated depreciation and amortization	(73)	(70)
Net other property and equipment	68	68
Total property and equipment, net	$ 7,999	$ 8,020

The following is a summary of our oil and gas properties not subject to amortization as of March 31, 2012. We believe that our evaluation activities related to substantially all of our conventional properties not subject to amortization will be completed within four years. Because of the size of our unconventional resource plays, their entire evaluation will take significantly longer than four years. At March 31, 2012, approximately 75% of oil and gas properties not subject to amortization were associated with our unconventional resource plays.

	Costs Incurred In				
	2012	2011	2010	2009 and prior	Total
			(In millions)		
Acquisition costs	$42	$314	$312	$431	$1,099
Exploration costs	175	138	24	35	372
Development costs	14	70	25	37	146
Fee mineral interests	—	—	—	23	23
Capitalized interest	18	78	55	44	195
Total oil and gas properties not subject to amortization	$249	$600	$416	$570	$1,835

Non-Strategic Asset Sales

During the three months ended March 31, 2012 and the year ended December 31, 2011, we sold certain non-strategic assets for approximately $312 million and $434 million, respectively. The cash flows and results of operations for the assets included in a sale are included in our consolidated financial statements up to the date of sale. All of the proceeds associated with our asset sales were recorded as adjustments to our domestic full cost pool.