

VOIP INC
Form PRE 14A
July 03, 2007
SCHEDULE 14A

(RULE 14a-101)

INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION

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

Filed by the Registrant x

Filed by a party other than the Registrant o

Check the appropriate box:

- x Preliminary Proxy Statement
- o Confidential, for use of the Commission only (as permitted by Rule 14a-6(e)(2))
- o Definitive Proxy Statement
- o Definitive Additional Materials
- o Soliciting Material pursuant to § 240.14a-12

VoIP, INC.

(Name of Registrant as Specified In Its Charter)

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

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

(2) Aggregate number of securities to which transaction applies:

(3)

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

- (4) Proposed maximum aggregate value of transaction:

- (5) Total fee paid:
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(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

2

VoIP, Inc.
151 So. Wymore Rd., Suite 3000
Altamonte Springs, Florida 32714

Notice of a Special Meeting of Shareholders
to be held on August 13, 2007

NOTICE IS HEREBY GIVEN that a Special Meeting of Shareholders of VoIP, Inc., a Texas corporation (the "Company"), will be held on August 13, 2007, at 10:00 a.m., Eastern Daylight Time, at the Holiday Inn, 230 W. State Road 436, Altamonte Springs, Florida 32714 for the purpose of considering and voting upon the following matter:

1. To consider and act upon a proposal to approve an amendment to the Amended and Restated Articles of Incorporation of VoIP, Inc. to give effect to a one-for-twenty reverse split of the common stock of the Company.
2. To transact such other business as may properly come before the meeting or any adjournment or adjournments thereof.

Our board of directors has fixed the close of business on July 20, 2007 as the record date for the determination of shareholders entitled to notice of and to vote at the annual meeting and at any adjournment or adjournments of the meeting.

By Order of the Board of Directors

Robert V. Staats,
Secretary

Altamonte Springs, Florida
July 24, 2007

Your vote is very important. Whether or not you plan to attend the special meeting, in order to ensure representation of your shares, please promptly complete, date and sign the enclosed proxy card and return it in the accompanying envelope or follow the instructions provided for voting by phone or via the Internet, if applicable. No postage need be affixed if the proxy card is mailed in the United States.

VoIP, INC.
151 So. Wymore Rd., Suite 3000
Altamonte Springs, Florida 32714

PROXY STATEMENT
FOR THE SPECIAL MEETING OF SHAREHOLDERS TO BE HELD ON AUGUST 13, 2007

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THE COMPANY

VoIP, Inc.

151 So. Wymore Rd., Suite 3000
Altamonte Springs, FL 32714
(407) 389-3232

We are an emerging global provider of advanced communications services utilizing Voice over Internet Protocol (“VoIP”) technology. VoIP telephony is the real time transmission of voice communications in the form of digitized “packets” of information over the Internet or a private network, similar to the way in which e-mail and other data is transmitted. VoIP services allow consumers and businesses to communicate at reduced costs compared to legacy telephony networks. For more information on the Company, see our 2006 Annual Report on Form 10-K which accompanies this Proxy Statement.

INFORMATION ABOUT SOLICITATION AND VOTING

Solicitation

This Proxy Statement is furnished in connection with the solicitation of proxies by the board of directors of VoIP, Inc. (the “Company”) for use at the Special Meeting of Shareholders to be held on August 13, 2007 at 10:00 a.m., Eastern Daylight Time, at the Holiday Inn, 230 W. State Road 436, Altamonte Springs, Florida 32714, and at any adjournment or adjournments of the special meeting.

The notice of meeting, this Proxy Statement, the enclosed proxy card, our Form 10-Q for the quarter ended March 31, 2007, and our annual report to shareholders for the year ended December 31, 2006 which includes a copy of our Annual Report on Form 10-K for the same fiscal year as filed with the Securities and Exchange Commission (the “SEC”), including financial statements and schedules, but excluding exhibits, are first being sent or given to shareholders on or about July 24, 2007. **We will, upon written request of any shareholder who has not otherwise received a copy of our annual report on Form 10-K for the fiscal year ended December 31, 2006, furnish without charge a copy of that annual report on Form 10-K, including financial statements and financial statement schedules, but excluding exhibits, as filed with the SEC. Please address your request to VoIP, Inc., 151 So. Wymore Rd., Suite 3000, Altamonte Springs, FL 32714, Attention: Robert Staats, Chief Accounting Officer. Exhibits will be provided upon written request and payment of an appropriate processing fee.**

INFORMATION ABOUT THE SPECIAL MEETING

WHEN IS THE SPECIAL MEETING?

August 13, 2007, 10:00 a.m. Eastern Daylight Time

WHERE WILL THE SPECIAL MEETING BE HELD?

The meeting will be held at the Holiday Inn, 230 W. State Road 436, Altamonte Springs, Florida 32714.

WHAT ITEMS WILL BE VOTED UPON AT THE SPECIAL MEETING?

At the special meeting and any adjournment or adjournments of the special meeting, our shareholders will be asked to consider and vote upon the following matters:

1. To consider and act upon a proposal to approve an amendment to the Amended and Restated Articles of Incorporation of VoIP, Inc. to give effect to a one-for-twenty reverse split of the common stock of the Company; and
2. To transact such other business as may properly come before the meeting or any adjournment or adjournments thereof.

WHO CAN VOTE?

Only holders of record of our common stock at the close of business on July 20, 2007 will be entitled to notice of and to vote at the special meeting and any adjournments of the special meeting. You are entitled to one vote for each share of common stock held on that date. On July 20, 2007, there were shares of our common stock outstanding and entitled to vote.

YOUR BOARD OF DIRECTORS HAS APPROVED THE PROPOSAL SET FORTH HEREIN.

HOW DO I VOTE?

You can vote either by attending the meeting and voting at the meeting or by completing, signing and returning the enclosed proxy card as promptly as possible in the enclosed postage-paid envelope. Proxies should not be sent by the stockholder to the Company, but to American Stock Transfer & Trust Company, 6201 - 15th Avenue, Brooklyn, New York 11219. A pre-addressed, postage-paid envelope is provided for this purpose.

HOW DO I CHANGE OR REVOKE MY PROXY?

You can change or revoke your proxy at any time before it is voted at the special meeting by:

1. Submitting another proxy by mail with a more recent date than that of the proxy first given;
2. Sending written notice of revocation to VoIP, Inc. 151 So. Wymore Road, Suite 3000, Altamonte Springs, Florida, 32714, Attention: Robert Staats; or
3. Attending the special meeting and voting in person. If your shares are held in the name of a bank, broker or other holder of record, you must obtain a proxy, executed in your favor, from the holder of record to be able to vote at the meeting.

WHAT IF I SIGN AND RETURN MY PROXY CARD BUT I DO NOT INCLUDE VOTING INSTRUCTIONS?

If you sign your proxy card and return it to us but you do not include voting instructions as to any proposal, your proxy will be voted FOR the amendment to the Amended and Restated Articles of Incorporation of the Company.

WHAT CONSTITUTES A "QUORUM" FOR THE SPECIAL MEETING?

The holders of a majority of the issued and outstanding shares of the Company's common stock entitled to vote at the special meeting present or represented by proxy constitutes a quorum. A quorum is necessary to conduct business at the special meeting. You will be considered part of the quorum if you have voted by proxy. Abstentions, broker non-votes and votes withheld from director nominees count as "shares present" at the special meeting for purposes of determining a quorum. However, abstentions, withholding of a vote and broker non-votes do not count in the voting results. A broker non-vote occurs when a broker or other nominee (which has voted on one or more matters at the meeting) who holds shares for another does not vote on a particular item because the broker or nominee does not have discretionary authority for that item and has not received instructions from the owner of the shares.

HOW MANY VOTES ARE REQUIRED?

On July 20, 2007, the record date for determination of shareholders entitled to vote at the special meeting, there were outstanding and entitled to vote shares of our common stock. The holders of a majority of our common stock issued and outstanding and entitled to vote at the special meeting will constitute a quorum for the transaction of business at the special meeting. Common stock represented in person or by proxy, including abstentions and broker non-votes with respect to one or more of the matters presented for shareholder approval, will be counted for purposes of determining whether a quorum exists at the special meeting. Broker non-votes with respect to a particular matter will not be counted as votes in favor of that matter and will not be counted as votes cast on that matter. Accordingly, broker non-votes will have no effect on the matters specified in the notice of meeting.

- o The proposal to approve the amendment to the Amended and Restated Articles of Incorporation of the Company to give effect to a one-for-twenty reverse stock split requires the affirmative vote of at

least a majority of the Company's outstanding shares of Common Stock. Therefore, an abstention or withholding of a vote will not be counted for the purpose of determining whether the requisite vote has been obtained and will have no effect on the outcome of the vote.

DISSENTER'S RIGHT OF APPRAISAL.

No action will be taken in connection with the proposal described in this Proxy Statement for which Texas law, our Articles of Incorporation or Bylaws provide a right of a shareholder to dissent and obtain appraisal of or payment for such shareholder's shares.

HOUSEHOLDING OF PROXY MATERIALS.

Some banks, brokers and other nominee record holders may be participating in the practice of "householding" Proxy Statements and annual reports. This means that only one copy of this Proxy Statement or our annual report may have been sent to multiple shareholders in your household. We will promptly deliver a separate copy of either document to you if you call or write us at the following address or phone number: VoIP, Inc., 151 So. Wymore Rd., Suite 3000, Altamonte Springs, FL 32714, phone: (407) 389-3232, Attention: Robert Staats. If you want to receive separate copies of our annual report and Proxy Statement in the future, or if you are receiving multiple copies and would like to receive only one copy for your household, you should contact your bank, broker or other nominee record holder, or you may contact us at the above address and phone number.

SHAREHOLDER PROPOSALS FOR THE ANNUAL MEETING IN 2008.

Written notice of proposals of shareholders submitted outside the processes of Rule 14a-8 under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), for consideration at our annual meeting of shareholders in 2008 must be received by us within a reasonable time before the Company begins to print and mail the Proxy Statement in order to be considered timely for purposes of Rule 14a-8 under the Exchange Act. The persons designated in our proxy card will be granted discretionary authority with respect to any shareholder proposal with respect to which we do not receive timely notice. Shareholder proposals submitted pursuant to Rule 14a-8 under the Exchange Act for inclusion in our proxy materials for our annual meeting of shareholders in 2008 must be received by our corporate secretary at our principal offices by December 31, 2007.

OTHER MATTERS.

Our board of directors knows of no other business which will be presented for consideration at the special meeting other than those matters described above. However, if any other business should come before the special meeting, it is the intention of the person named in the enclosed proxy card to vote, or otherwise act, in accordance with his best judgment on such matters.

WHO PAYS FOR THE SOLICITATION OF PROXIES?

We will bear the costs of soliciting proxies. In addition to solicitations by mail, our directors, officers and employees may, without additional remuneration, solicit proxies by telephone, facsimile and personal interviews. We will reimburse these persons for their reasonable expenses in connection with any of these solicitations. In addition, we will request brokerage houses, custodians, nominees and fiduciaries to forward copies of the proxy materials to those persons for whom they hold shares and request instructions for voting the proxies, and we will reimburse brokerage houses and other persons for their reasonable expenses in connection with this distribution.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Beneficial Ownership

The following table sets forth information as of June 29, 2007, except as otherwise noted, with respect to the beneficial ownership of our common stock and is based on 196,708,939 shares of common stock issued and outstanding as of June 29, 2007:

- o Each person known by the Company to own beneficially more than five percent of our outstanding common stock;
- o Each director and prospective director of the Company;
- o The Company's Chief Executive Officer and each person who serves as an executive officer of the Company; and
- o All executive officers and directors of the Company as a group.

The number of shares beneficially owned by each shareholder is determined under rules promulgated by the SEC. The information is not necessarily indicative of beneficial ownership for any other purpose. Under these rules, beneficial ownership includes any shares as to which the individual has sole or shared voting power or investment power and any shares as to which the individual has the right to acquire beneficial ownership within 60 days, except as otherwise noted, through the exercise or conversion of any stock option, warrant, preferred stock or other right. The inclusion in the following table of those shares, however, does not constitute an admission that the named shareholder is a direct or

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indirect beneficial owner of those shares. Unless otherwise indicated, to our knowledge based upon information produced by the persons and entities named in the table, each person or entity named in the table has sole voting power and investment power, or shares voting and/or investment power with his or her spouse, with respect to all shares of capital stock listed as owned by that person or entity.

The address for each of our officers and directors is c/o VoIP, Inc., 151 South Wymore Road, Suite 3000, Altamonte Springs, Florida 32714.

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Name of Beneficial Owner	Shares of Common Stock Beneficially Owned (1)	Ownership of Common Stock (1,2)
WQN, Inc. (3) 14911 Quorum Drive, Suite 140 Dallas, Texas 75254	21,413,002	10.9%
Stuart Kosh (4)	2,821,167	1.4%
Shawn Lewis (5,6)	16,350,948	8.3%
Sade Panahi	0	*
Gary Post (7)	4,150,000	2.1%
Robert Staats (8)	2,278,125	1.2%
Anthony Cataldo (5,9)	10,000,000	5.1%
All directors and executive officers as a group (6 persons) (10)	35,600,240	17.7%

* Less than one percent.

- (1) The Company has issued 196,708,939 shares of common stock; and a total of 400,000,000 shares are authorized. Additional assumed issuances of common stock resulting from the exercise of options and/or warrants and/or the conversion of debt are subject to the authorized limit.
- (2) Based upon 196,708,939 shares of common stock issued and outstanding as of June 29, 2007.
- (3) Consists of 21,413,002 shares of common stock.
- (4) Consists of (a) 1,971,167 shares of common stock and warrants to purchase 850,000 shares of common stock.
- (5) As previously disclosed, on September 14, 2006, VoIP, Inc. ("the Company") entered into employment agreements with Anthony J. Cataldo, the Company's Chairman and Chief Executive Officer, and Shawn Lewis, the Company's Chief Operating and Technology Officer. These agreements provided for, among other things, the award of 10,000,000 stock options each to Messrs. Cataldo and Lewis upon sufficient underlying shares of common stock being authorized and available. The options were to be exercisable to purchase 10,000,000 shares of the Company's common stock each for Messrs. Cataldo and Lewis at an exercise price of \$0.01 per share for a period of five (5) years. The options were to contain a cashless exercise provision and cost-free piggyback registration rights with respect to the common stock underlying the options. Messrs. Cataldo and Lewis were also to receive sufficient additional options under the same terms to assure that they have the right to exercise options to maintain a minimum of 5% and 8% beneficial ownership, respectively, of the Company's issued and outstanding common stock.

A number of the Company's current financing agreements contain "favored nations" provisions that require convertible debt conversion prices and stock warrant exercise prices to be repriced (reduced) in the event that, among other things, options are granted at exercise prices less than the Company's quoted common stock market price at grant date. However, these favored nations repricing provisions are not triggered upon issuing employee stock grants. Accordingly, in lieu of the 10,000,000 stock options to be granted to each of Messrs. Cataldo and Lewis, the

Board of Directors on January 24, 2007 resolved to issue stock grants for 10,000,000 common shares each, and on June 8, 2007 and June 29, 2007, respectively, the Company issued 10,000,000 shares each to Mr. Lewis and Mr. Cataldo. Also in lieu of previously granted stock options, on May 4, 2007, the Company and Messrs. Cataldo and Lewis each executed amendments to their employment agreements that entitle them to receive additional common stock grants to assure that they have the right to maintain beneficial ownership of the Company's common stock in the equivalent of a minimum of 5% and 8%, respectively, of the fully diluted (issued, options, warrants, and all preferred conversions) shares of the Company's common stock. The May 4, 2007 amendments are subject to Board approval; accordingly, shares related to the "fully diluted" anti-dilution provision of the May 4, 2007 amendments are not included with the shares reported as beneficially owned herein.

- (6) Consists of 16,350,948 shares of common stock currently owned. This amount excludes 26,103,885 shares under Mr. Lewis's "fully diluted" 8% beneficial ownership anti-dilution provision discussed in note (5) above, pending Board approval.
- (7) Consists of 1,150,000 shares of common stock and warrants to purchase 3,000,000 shares of common stock.
- (8) Consists of (a) 2,000,000 shares of common stock; (b) currently exercisable options to purchase 128,125 shares of common stock; and (c) warrants to purchase 150,000 shares of common stock.
- (9) Consists of 10,000,000 shares of common stock currently owned. This amount excludes 18,018,509 shares under Mr. Cataldo's "fully diluted" 5% beneficial ownership anti-dilution provision discussed in note (5) above, pending Board approval.
- (10) Represents the combined beneficial ownership as of June 29, 2007, of the executive officers and the Company's four directors (a total of six persons).

PROPOSAL NO. ONE: TO AMEND THE AMENDED AND RESTATED ARTICLES OF INCORPORATION OF THE COMPANY TO GIVE EFFECT TO A ONE-FOR-TWENTY REVERSE SPLIT OF THE COMMON STOCK OF THE COMPANY.

The board of directors is recommending that the shareholders approve an amendment to the Company's Amended and Restated Articles of Incorporation to give effect to a one-for-twenty reverse split of the common stock of the Company. Our authorized shares of stock consist of 400,000,000 shares of common stock. As of June 29, 2007, 196,708,939 common shares were issued and outstanding, and approximately 292 million additional shares are currently issuable upon the conversion of all convertible debt, and the exercise of all options and warrants. We are also obligated to issue approximately 116 million shares under various agreements, including penalty shares for nonregistration of securities. We are also required to reserve an additional 186 million common shares under our various financing agreements and stock option plans. The board of directors believes that it is in the best interest of the Company's shareholders to meet these obligations by giving effect to a one-for-twenty reverse split of the Company's common stock rather than increasing the amount of common stock that the Company is authorized to issue. The following table specifies as of June 29, 2007, for each listed obligation, the common shares issuable upon the conversion of all convertible debt and the exercise of all options and warrants, additional reservation requirements, and planned common share issuances upon approval of our proposed increase in our authorized common shares.

	Additional Common Stock Outstanding Upon Conversion/Exercise ¹				Reservation Requirements ²			C Ob T S
	Convertible Notes	Warrants	Options	Subtotal	Convertible Notes	Options	Subtotal	
May 2005 private placement	-	2,571,970	-	2,571,970	-	-	-	
July and October 2005 convertible notes and warrants	6,106,793	3,713,542	-	9,820,335	34,227,367	-	34,227,367	28
January and February 2006 convertible notes and warrants	93,929,052	9,074,104	-	103,003,156	26,192,911	-	26,192,911	37
November 2005 financing agreement	-	2,225,000	-	2,225,000	-	-	-	
October 06 convertible notes and warrants	36,323,438	10,378,125	-	46,701,563	36,323,438	-	36,323,438	
	12,444,129	-	-	12,444,129	19,030,253	-	19,030,253	5

Feb 07 Cedar convertible notes								
Feb/Apr/June 07 convertible notes	61,831,133	29,445,657	-	91,276,790	55,893,633		55,893,633	
Nov/Dec 06 & Jan 07 bridge notes	-	2,421,894	-	2,421,894	-	-	-	-
2004 Stock Option Plan	-	-	-	-	-	4,000,000	4,000,000	
2006 Stock Option Plan	-	-	-	-	-	10,000,000	10,000,000	
Securities owned by consulting and other professional firms	-	4,849,327	3,750,000	8,599,327	-	-	-	-
Current and former officer and employee securities ⁴	-	6,800,000	2,206,850					

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. See Note 14, 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 June 30, 2008, we had outstanding contracts with respect to our future production as set forth in the tables below.

Natural Gas

Period and Type of Contract	NYMEX Contract Price Per MMBtu							Estimated Fair Value of Assets			
	Volume in MMBtus	Swaps (Weighted Average)	Additional Put Range	Collars		Floors	Floors				
				Floors	Ceilings						
		Weighted Average	Weighted Average Range	Weighted Average Range	Weighted Average	Weighted Average Range	Weighted Average	(In millions)			
July 2008 - September 2008 Price swap contracts	26,220	\$ 7.97			\$7.00		\$9.00		\$ (13)		
Collar contracts	5,760				\$8.00	\$ 7.64	\$9.70	\$ 9.34	(2)		
Floor Contracts	5,520							\$8.58 - \$8.70	\$ 8.64	1	
October 2008 - December 2008 Price swap contracts	9,445	8.04							(5)		
Collar contracts	15,965				7.00		9.00		(6)		
Floor Contracts	1,860				9.00	8.03	17.60	10.70	8.58 - 8.70	8.64	1
Way collar contracts	6,100		\$ 7.00 - \$7.50	\$ 7.20	8.00		11.72			(1)	
January 2009 - March 2009 Price swap contracts	900	9.00			9.00	8.70	20.10	13.92		(1)	
Collar contracts	21,150				8.00		9.67			(8)	
Way collar contracts	9,000		7.00 - 7.50	7.20	9.00	8.70	20.10	13.92		(2)	
April 2009 - June 2009 Price swap contracts	3,185	8.40			8.00		8.97			(1)	
Collar contracts	4,095				8.00	8.00	13.00	10.50		(1)	
July 2009 - September 2009 Price swap contracts	3,220	8.40								(1)	
Collar contracts	4,140				8.00	8.00	13.00	10.50		(1)	
October 2009 Price swap contracts	1,085	8.40								(1)	
Collar contracts	1,395				8.00	8.00	13.00	10.50		(1)	

\$ (44)

Oil

NYMEX Contract Price Per Bbl

Contract Type of Contract	Volume in MBbls	Swaps		Additional Put		Collars		Ceilings		Floors	
		(Weighted Average)	Range	Weighted Average	Range	Weighted Average	Range	Weighted Average	Range	Weighted Average	
September 2008											
Oil contracts	828		\$25.00	\$26.56	\$29.00	\$32.00	\$33.00	\$49.50	\$52.90		
December 2008											
Oil contracts	828		25.00	26.56	29.00	32.00	33.00	49.50	52.90		
December 2009											
Oil contracts	3,285	\$ 128.93									
Oil contracts	3,285									\$104.50-\$109.75	\$ 107.1
December 2010											
Oil contracts	360	\$ 93.40									
Oil contracts	3,285				125.50-130.50	127.97		170.00	170.00		

In the second quarter of 2008, we entered into a series of transactions that had the effect of resetting all of our then outstanding crude oil hedges for 2009 and 2010. At the time of the reset, the mark-to-market value of these hedge contracts was a liability of \$502 million and we paid an additional \$56 million to purchase option contracts.

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NEWFIELD EXPLORATION COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Basis Contracts

At June 30, 2008, we had natural gas basis hedges as set forth in the table below.

		Onshore Gulf Coast		Rocky Mountains		Estimated Fair Value Asset (Liability) (In millions)
		Volume in	Weighted Average	Volume in	Weighted Average	
		MMBtus	Differential	MMBtus	Differential	
July 2008	September 2008	4,880	\$(0.28)	1,200	\$(1.62)	\$10
October 2008	December 2008	7,360	\$(0.28)	1,200	\$(1.62)	15
January 2009	December 2009			5,520	\$(1.05)	14
January 2010	December 2010			5,520	\$(0.99)	11
January 2011	December 2011			5,280	\$(0.95)	6
January 2012	December 2012			4,920	\$(0.91)	2
						\$58

8. Accounts Receivable:

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

	June 30, 2008	December 31, 2007
	(In millions)	
Revenue	\$ 266	\$ 142
Joint interest	130	175
Other	17	15
Total accounts receivable	\$ 413	\$ 332

9. Accrued Liabilities:

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

	June 30, 2008	December 31, 2007
	(In millions)	
Revenue payable	\$ 153	\$ 95
Accrued capital costs	293	361
Accrued lease operating expenses	37	38
Employee incentive expense	62	80
Accrued interest on notes	26	19
Taxes payable	68	31
Other	45	47

Total accrued liabilities	\$ 684	\$ 671
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NEWFIELD EXPLORATION COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

10. Comprehensive Income:

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

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2008	2007	2008	2007
	(In millions)			
Net income (loss)	\$ (244)	\$ 150	\$ (308)	\$ 54
Unrealized loss on investments, net of tax of \$2	(4)		(4)	
Foreign currency translation adjustment, net of tax of (\$1) for the second quarter of 2007 and (\$2) for the six months ended June 30, 2007		2		3
Reclassification adjustments for settled hedging positions, net of tax of \$1 for the second quarter of 2007 and \$2 for the six months ended June 30, 2007		(2)		(3)
Changes in fair value of outstanding hedging positions, net of tax of (\$2) for the second quarter of 2007 and (\$4) for the six months ended June 30, 2007		5		7
Total comprehensive income (loss)	\$ (248)	\$ 155	\$ (312)	\$ 61

11. Stock-Based Compensation:

Effective January 1, 2006, we adopted SFAS No. 123(R), Share-Based Payment, to account for stock-based compensation. We utilize the Black-Scholes option pricing model to measure the fair value of stock options and a lattice-based model for our performance and market-based restricted shares and restricted share units.

Historically, we have used, and we anticipate continuing to use, unissued shares of stock when stock options are exercised. At June 30, 2008, we had approximately 1.7 million additional shares available for issuance pursuant to our existing employee and director plans. Of these shares, 1.2 million could be granted as restricted shares or restricted share units. Grants of restricted shares and restricted share units under our 2004 Omnibus Stock Plan reduce the total number of shares available under that plan by two times the number of restricted shares or restricted share units issued. Of the 1.2 million shares that can be granted as restricted shares or restricted share units, 0.4 million of such shares or units can be issued under our 2004 Omnibus Stock Plan.

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NEWFIELD EXPLORATION COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the three months ended June 30, 2008, we recorded stock-based compensation expense of \$10 million (pre-tax) for all plans. Of that amount, \$3 million was capitalized in oil and gas properties. For the three months ended June 30, 2007, we recorded stock-based compensation expense of \$8 million (pre-tax) for all plans. Of that amount, \$2 million was capitalized in oil and gas properties.

For the six months ended June 30, 2008, we recorded stock-based compensation of \$17 million (pre-tax) for all plans. Of that amount, \$5 million was capitalized in oil and gas properties. For the six months ended June 30, 2007, we recorded stock-based compensation of \$15 million (pre-tax) for all plans. Of that amount, \$5 million was capitalized in oil and gas properties. For the same period, we reported \$4 million of excess tax benefits from stock-based compensation as cash provided by financing activities on our statement of cash flows.

As of June 30, 2008, we had approximately \$82 million of total unrecognized 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.

Stock Options. We have granted stock options under several plans. The exercise price of options cannot be less than the fair market value per share of our common stock on the date of grant.

The following table provides information about stock option activity for the six months ended June 30, 2008:

	Number of Shares Underlying Options (In millions)	Weighted Average Exercise Price per Share	Weighted Average Grant Date Fair Value per Share ⁽¹⁾	Weighted Average Remaining Contractual Life (In years)	Aggregate Intrinsic Value ⁽²⁾ (In millions)
Outstanding at December 31, 2007	3.8	\$24.21		5.6	\$ 108
Granted	0.7	48.45	\$ 16.30		
Exercised	(0.8)	22.40			28
Forfeited	(0.1)	34.43			
Outstanding at June 30, 2008	3.6	\$28.72		5.9	\$ 131
Exercisable at June 30, 2008	2.1	\$22.13		4.7	\$ 90

(1) The fair value of each stock option is estimated as of the date of grant using the Black-Scholes option valuation method, assuming

no dividends, a risk-free weighted-average interest rate of 2.83%, an expected life of 5.2 years and weighted-average volatility of 31.7%.

- (2) 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 June 30, 2008, the last reported sales price of our common stock on the New York Stock Exchange was \$65.25 per share.

The following table summarizes information about stock options outstanding and exercisable at June 30, 2008:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number of Shares	Weighted Average	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
	Underlying Options (In millions)	Remaining Contractual Life (In years)	per Share	Underlying Options (In millions)	per Share
\$ 12.51 to \$15.00	0.2	1.6	\$ 14.79	0.2	\$ 14.79
15.01 to 17.50	0.6	4.1	16.63	0.6	16.63
17.51 to 22.50	0.5	3.8	18.99	0.4	18.92
22.51 to 27.50	0.5	5.7	24.77	0.4	24.75
27.51 to 35.00	1.0	6.5	31.14	0.4	31.35
35.01 to 41.72	0.2	6.9	38.08	0.1	37.87
41.73 to 48.45	0.6	9.6	48.45		³ / ₄

3.6

5.9

\$ 28.72

2.1

\$ 22.13

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NEWFIELD EXPLORATION COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Restricted Shares. At June 30, 2008, our employees held 1.5 million restricted shares or restricted share units that primarily vest over the service period of four to five years. The vesting of these shares and units is dependant upon the employee's continued service with our company.

In addition, at June 30, 2008, our employees held 1.6 million restricted shares subject to performance-based vesting criteria (substantially all of which are considered market-based restricted shares under SFAS No. 123(R)).

The following table provides information about restricted share and restricted share unit activity for the six months ended June 30, 2008:

	Service-Based	Performance/ Market-Based	Total Shares	Weighted Average Grant Date Fair Value Per Share
	Shares	Shares	Shares	
	(In thousands, except per share data)			
Non-vested shares outstanding at December 31, 2007	1,161	1,614	2,775	\$29.77
Granted	487		487	50.26
Forfeited	(64)	(53)	(117)	39.65
Vested	(36)	(1)	(37)	36.02
Non-vested shares outstanding at June 30, 2008	1,548	1,560	3,108	\$32.63

The total fair value of restricted shares that vested during the six months ended June 30, 2008 was \$1.4 million.

Employee Stock Purchase Plan. Pursuant to our employee stock purchase plan, for each six month period beginning on January 1 or July 1 during the term of the plan, each eligible employee has the opportunity to purchase our common stock for a purchase price equal to 85% of the lesser of the fair market value of our common stock on the first day of the period or the last day of the period. No employee may purchase common stock under the plan valued at more than \$25,000 in any calendar year. Employees of our foreign subsidiaries are not eligible to participate in the plan.

During the second quarter of 2008, we sold 26,514 shares of our common stock under the plan. The weighted average fair value of the option to purchase stock under the plan during the first half of 2008 was \$12.93 per share. The fair value of each option granted is estimated as of the grant date using the Black-Scholes option valuation method assuming no dividends, a risk-free weighted-average interest rate of 3.49%, an expected life of six months and weighted-average volatility of 31.9%. At June 30, 2008, 575,671 shares of our common stock remained available for issuance under the plan.

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NEWFIELD EXPLORATION COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

12. Income Taxes:

The Company's interim period tax provision has been calculated based on statutory tax rates applied to pre-tax earnings as adjusted for permanent differences. An annualized projected effective tax rate has not been applied because of our inability to develop a reliable estimate of our pre-tax income, which is subject to significant variability due to changes in the fair value of our open commodity derivative instruments. This could result in significant variations in the reported tax provision in the interim periods. The effective tax rates for the second quarter of 2008 and 2007 were 15.6% and 37.6%, respectively. The effective tax rates for the first six months of 2008 and 2007 were 22.3% and 37.5%, respectively. Our effective tax rates were different than our federal statutory tax rate due to foreign and state income taxes associated with income from various locations in which we have operations. Certain states require separate tax accounting which disallows some losses that are deductible on a consolidated/unitary method. Estimates of future taxable income can be significantly affected by changes in oil and natural gas prices, the timing and amount of future production and future operating expenses and capital costs.

13. Discontinued Operations:

In October 2007, we sold all of our interests in the U.K. North Sea for \$511 million in cash and recorded a gain of \$341 million. As a result, the historical results of operations and financial position of our U.K. North Sea operations are reflected in our financial statements as discontinued operations.

The summarized financial results of the discontinued operations are as follows:

	Three Months Ended June 30, 2007	Six Months Ended June 30, 2007
	(In millions)	
Revenues	\$ 3	\$ 3
Operating expenses ⁽¹⁾	(5)	(54)
Loss from discontinued operations, net of tax	\$ (2)	\$ (51)

(1) Operating expenses includes a ceiling test writedown of \$47 million recorded in the first quarter of 2007.

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NEWFIELD EXPLORATION COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

14. Fair Value Measurements:

We adopted SFAS No. 157, Fair Value Measurements, effective January 1, 2008 for financial assets and liabilities measured on a recurring basis. SFAS No. 157 applies to all financial assets and financial liabilities that are being measured and reported on a fair value basis. In February 2008, the FASB issued FSP No.157-2, which delayed the effective date of SFAS No.157 by one year for non-financial assets and liabilities. As defined in SFAS No.157, 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). SFAS No. 157 requires disclosure that establishes a framework for measuring fair value and expands disclosure about fair value measurements. The statement 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 in 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, 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 that consider various inputs including: (a) quoted forward prices for commodities, (b) time value, (c) volatility factors and (d) 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.

As required by SFAS No. 157, 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. The following table summarizes the valuation of our investments and financial instruments by SFAS No. 157 pricing levels as of June 30, 2008:

Fair Value Measurement Classification
Quoted
Prices
in
Active Significant

	Markets for Identical Assets or Liabilities (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
	(In millions)			
Assets (Liabilities):				
Investments	\$ 5	\$ 5	\$ 69	\$ 79
Oil and gas derivative swap contracts		(273)	58	(215)
Oil and gas derivative option contracts			(341)	(341)
Interest rate swaps		1		1
Total	\$ 5	\$ (267)	\$ (214)	\$ (476)

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NEWFIELD EXPLORATION COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The determination of the fair values above incorporates various factors required under SFAS No. 157. These factors include not only the impact of our nonperformance 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).

As of June 30, 2008, we continued to hold \$69 million of auction rate securities that are classified as a Level 3 fair value measurement. This amount reflects a decrease in the fair value of these investments of \$6 million, recorded under Accumulated other comprehensive income (loss) on our consolidated balance sheet. Since there has been no effective mechanism for selling these securities, we reclassified them from short-term investments to long-term investments during the second quarter of 2008. The debt instruments underlying these investments are investment grade (rated A 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 have the ability and intent 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.

The following table sets forth a reconciliation of changes in the fair value of financial assets and liabilities classified as Level 3 in the fair value hierarchy (in millions):

	Investments	Derivatives	Total
Balance at January 1, 2008	\$ 120	\$ (341)	\$ (221)
Total gains or losses (realized or unrealized):			
Included in earnings		(608)	(608)
Included in other comprehensive income	(6)		(6)
Purchases, issuances and settlements ⁽¹⁾	(45)	666	621
Transfers in and out of Level 3			
Balance at June 30, 2008	\$ 69	\$ (283)	\$ (214)
Change in unrealized gains (losses) relating to investments and derivatives still held at June 30, 2008	\$ (6)	\$ (290)	\$ (296)

(1) Derivative settlements include \$502 million we paid to reset a portion of our oil hedging contracts for 2009 and 2010.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

We are an independent oil and gas company engaged in the exploration, development and acquisition of natural gas and crude oil 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 revenues, profitability and future growth depend substantially on prevailing prices for oil and gas and on our ability to find, develop and acquire oil and gas reserves that are economically recoverable. The preparation of our financial statements in conformity with generally accepted accounting principles requires us to make estimates and assumptions that affect our reported results of operations and the amount of our reported assets, liabilities and proved oil and gas reserves. We use the full cost method of accounting for our oil and gas activities.

Oil and Gas Prices. Prices for oil and gas fluctuate widely. Oil and gas prices affect:

the amount of cash flow available for capital expenditures;

our ability to borrow and raise additional capital;

the quantity of oil and gas that we can economically produce; and

the accounting for our oil and gas activities.

As part of our risk management program, we generally hedge a substantial, but varying, portion of our anticipated future oil and gas production. Reducing our exposure to price volatility helps ensure that we have adequate funds available for our capital programs and helps us manage returns on some of our acquisitions and more price sensitive drilling programs.

Reserve Replacement. To maintain and grow our production and cash flow, we must continue to develop existing reserves and locate or acquire new oil and gas reserves to replace those being depleted by production. Substantial capital expenditures are required to find, develop and acquire oil and gas reserves.

Significant Estimates. We believe the most difficult, subjective or complex judgments and estimates we must make in connection with the preparation of our financial statements are:

the quantity of our proved oil and gas reserves;

the timing of future drilling, development and abandonment activities;

the cost of these activities in the future;

the fair value of the assets and liabilities of acquired companies;

the value of our derivative positions; and

the fair value of stock-based compensation.

Accounting for Hedging Activities. Beginning October 1, 2005, we elected not to designate any future price risk management activities as accounting hedges. Because hedges not designated for hedge accounting are accounted for on a mark-to-market basis, we are likely to experience significant non-cash volatility in our reported earnings during periods of commodity price volatility. As of June 30, 2008, we had a net derivative liability of \$556 million of which 51% was measured based upon our valuation model and, as such, is classified as a Level 3 fair value measurement.

We value these contracts using a model that considers various inputs including (a) quoted forward prices for commodities, (b) time value, (c) volatility factors and (d) current market and contractual prices for the underlying instruments. Please see Note 7, *Commodity Derivative Instruments*, and Note 14, *Fair Value Measurements*, to our consolidated financial statements appearing earlier in this report for a discussion of the accounting applicable to our oil and gas derivative contracts.

Other factors. Please see *Risk Factors* in Item 1A of our annual report on Form 10-K for the year ended December 31, 2007 for a discussion of a number of other factors that affect our business, financial condition and results of operations. This report should be read together with those discussions.

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Results of Operations

Significant Transactions. We completed several significant transactions during 2008 and 2007 that affect the comparability of our results of operations and cash flows from period to period.

During the first six months of 2008, we entered into a series of transactions that had the effect of resetting all of our then outstanding crude oil hedges for 2009-10 for \$557 million.

In June 2007, we acquired Stone Energy Corporation's Rocky Mountain assets for \$578 million in cash. Initially, we financed this acquisition through borrowings under our revolving credit agreement.

In August 2007, we sold our shallow water Gulf of Mexico assets for \$1.1 billion in cash and the purchaser's assumption of liabilities associated with future abandonment of wells and platforms.

In October 2007, we sold all of our interests in the U.K. North Sea for \$511 million in cash. The historical results of operations of our U.K. North Sea operations are reflected in our financial statements as discontinued operations. Except where noted, discussions in this report relate to continuing operations only.

Revenues. All of our revenues are derived from the sale of our oil and gas production. The effects of the settlement of hedges designated for hedge accounting are included in revenues, but those not so designated have no effect on our reported revenues. None of our outstanding hedges are designated for hedge accounting. Please see Note 7,

Commodity Derivative Instruments, to our consolidated financial statements appearing earlier in this report for a discussion of the accounting applicable to our oil and gas derivative contracts.

Our revenues may vary significantly from period to period as a result of changes in commodity prices or volumes of production sold. In addition, crude oil from our operations offshore Malaysia and China is produced into FPSOs and lifted and sold periodically as barge quantities are accumulated. Revenues are recorded when oil is lifted and sold, not when it is produced into the FPSO. As a result, the timing of liftings may impact period to period results.

Revenues of \$0.7 billion for the second quarter of 2008 were 31% higher than the comparable period of 2007 due to significantly higher average realized oil and gas prices partially offset by lower oil and gas production. Revenues for the first six months of 2008 were 25% higher than the same period of the prior year due to significantly higher average realized oil and gas prices and higher oil production, which was slightly offset by lower gas production.

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	Three Months Ended June 30,		Percentage Increase (Decrease)	Six Months Ended June 30,		Percentage Increase (Decrease)
	2008	2007		2008	2007	
Production ⁽¹⁾:						
United States:						
Natural gas (Bcf)	43.7	56.2	(22)%	84.1	108.0	(22)%
Oil and condensate (MBbls)	1,528	1,876	(19)%	2,950	3,616	(18)%
Total (Bcfe)	52.9	67.4	(22)%	101.8	129.7	(22)%
International:						
Natural gas (Bcf)						
Oil and condensate (MBbls)	793	509	56%	1,830	913	100%
Total (Bcfe)	4.7	3.1	56%	11.0	5.5	100%
Total:						
Natural gas (Bcf)	43.7	56.2	(22)%	84.1	108.0	(22)%
Oil and condensate (MBbls)	2,321	2,385	(3)%	4,780	4,529	6%
Total (Bcfe)	57.6	70.5	(18)%	112.8	135.2	(17)%
Average Realized Prices ⁽²⁾:						
United States:						
Natural gas (per Mcf)	\$ 9.86	\$ 6.87	44%	\$ 8.75	\$ 6.63	32%
Oil and condensate (per Bbl)	110.87	56.17	97%	98.41	53.02	86%
Natural gas equivalent (per Mcfe)	11.35	7.28	56%	10.08	7.00	44%
International:						
Natural gas (per Mcf)	\$	\$		\$	\$	
Oil and condensate (per Bbl)	112.85	63.00	79%	97.29	58.08	68%
Natural gas equivalent (per Mcfe)	18.81	10.50	79%	16.22	9.68	68%
Total:						
Natural gas (per Mcf)	\$ 9.86	\$ 6.87	44%	\$ 8.75	\$ 6.63	32%
Oil and condensate (per Bbl)	111.55	57.63	94%	97.98	54.04	81%
Natural gas equivalent (per Mcfe)	11.97	7.42	61%	10.67	7.11	50%

(1) Represents volumes lifted and sold regardless of when produced.

(2)

Average realized prices only include the effects of hedging contracts that are designated for hedge accounting. Had we included the effects of contracts not so designated, our average realized price for total gas would have been \$7.95 and \$7.46 per Mcf for the second quarter of 2008 and 2007, respectively, and \$7.92 and \$7.81 per Mcf for the six months ended June 30, 2008 and 2007, respectively. Our total oil and condensate average realized price would have been \$85.42 and \$53.05 per Bbl for the second quarter of 2008 and 2007, respectively, and \$77.08 and \$50.42 per Bbl for the six months ended June 30, 2008 and 2007, respectively. Without the effects of any hedging contracts, our

average realized prices for the second quarter of 2008 and 2007 would have been \$9.86 and \$6.87 per Mcf, respectively, for gas and \$111.55 and \$59.27 per Bbl, respectively, for oil. Our average realized prices, without the effects of hedging, for the six months ended June 30, 2008 and 2007, would have been \$8.75 and \$6.63 per Mcf, respectively, for gas and \$97.98 and \$55.44 per Bbl, respectively, for oil. All amounts for the second quarter and six months ended June 30, 2008 exclude the cash payments to reset our 2009 and 2010 crude oil hedges of \$488 million and \$502 million, respectively.

Domestic Production. Our second quarter of 2008 domestic gas and oil production (stated on a natural gas equivalent basis) decreased 22% as compared to the comparable period of 2007 as a result of the sale of our shallow water Gulf of Mexico assets in August 2007. This decrease was partially offset by an increase in 2008 production in the Mid-Continent as a result of continued successful drilling efforts and production from our acquisition in the Rocky Mountains that closed at the end of the second quarter of 2007.

International Production. Our second quarter of 2008 international production increased 56% over the comparable period of 2007 primarily due to increased production and the timing of liftings in Malaysia.

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Operating Expenses. We believe the most informative way to analyze changes in our operating expenses from period to period is on a unit-of-production, or per Mcfe, basis. However, because of the several significant transactions we completed in 2007 (see above), period to period comparisons are difficult. For example, offshore Gulf of Mexico properties typically have significantly higher lease operating costs relative to onshore properties and offshore production is not subject to production taxes but onshore production is subject to these taxes.

The following table presents information about our operating expenses for the second quarter of 2008 and 2007.

	Unit-of-Production			Total Amount		
	Three Months Ended June 30, 2008 (Per Mcfe)		Percentage Increase (Decrease)	Three Months Ended June 30, 2008 (In millions)		Percentage Increase (Decrease)
United States:						
Lease operating	\$ 0.87	\$ 1.26	(31)%	\$ 46	\$ 85	(46)%
Production and other taxes	0.42	0.25	68%	22	17	29%
Depreciation, depletion and amortization	2.79	2.81	(1)%	148	189	(22)%
General and administrative	0.69	0.47	47%	36	32	14%
Total operating expenses	\$ 4.77	\$ 4.79		\$ 252	\$ 323	(22)%
International:						
Lease operating	\$ 2.44	\$ 2.67	(9)%	\$ 12	\$ 8	43%
Production and other taxes	6.33	1.18	436%	30	4	733%
Depreciation, depletion and amortization	3.78	2.50	51%	18	8	135%
General and administrative	0.28	0.02	1300%	1		
Total operating expenses	\$ 12.83	\$ 6.37	101%	\$ 61	\$ 20	213%
Total:						
Lease operating	\$ 1.00	\$ 1.32	(24)%	\$ 58	\$ 93	(38)%
Production and other taxes	0.91	0.29	214%	52	21	152%
Depreciation, depletion and amortization	2.87	2.79	3%	166	197	(16)%
General and administrative	0.65	0.45	44%	37	32	17%
Total operating expenses	\$ 5.43	\$ 4.85	12%	\$ 313	\$ 343	(9)%

Domestic Operations. Our domestic total operating expenses for the second quarter of 2008, stated on an Mcfe basis, remained flat period over period even though the various components of our operating expenses, stated on an Mcfe basis, changed. The period to period change was primarily due to the following:

Lease operating expense (LOE) decreased due to the sale of all of our producing properties in the shallow water Gulf of Mexico in August 2007, which properties have relatively high LOE per Mcfe. In addition, our second quarter of 2007 LOE was adversely impacted by repair expenditures of \$16 million (\$0.23 per Mcfe) related to Hurricanes Katrina and Rita in 2005. Without the impact of the repair expenditures related to these storms, our second quarter of 2007 LOE would have been \$1.03 per Mcfe.

Production and other taxes increased \$0.17 per Mcfe because of increased production from our Mid-Continent and Rocky Mountain operations, which are subject to production taxes, the sale of our Gulf of Mexico properties, which are not subject to production taxes, and increased commodity prices.

Our depreciation, depletion and amortization (DD&A) rate per Mcfe remained relatively flat period over period. Total DD&A expense decreased 22% period over period primarily due to the sale of our Gulf of Mexico properties in August 2007. In addition, accretion expense decreased period over period due to the significant reduction in our asset retirement obligation resulting from the sale of our Gulf of Mexico properties. The decrease in total DD&A expense was partially offset by higher DD&A expense associated with the increased production from our Mid-Continent and Rocky Mountain divisions.

General and administrative (G&A) expense increased 47% per Mcfe primarily due to continued growth in our workforce. G&A expense includes incentive compensation expense, which is calculated based on adjusted net income (as defined in our incentive compensation plan). Adjusted net income for purposes of our incentive compensation plan excludes unrealized gains and losses on commodity derivatives. For purposes of the incentive compensation plan, in the second quarter of 2008 we deferred the effect of resetting our 2009 and 2010 crude oil hedging positions and will match those hedge results with production in the respective period. During the second quarter of 2008, we capitalized \$13 million of direct internal costs as compared to \$11 million in 2007.

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International Operations. Our international operating expenses for the second quarter of 2008, stated on an Mcfe basis, increased 101% over the same period of 2007. The period to period change was primarily related to the following items:

LOE decreased 9% per Mcfe while total LOE increased 43% over the comparable period of 2007. The increase in total LOE expense was primarily due to increased liftings and higher operating costs in Malaysia.

Production and other taxes increased significantly on an Mcfe basis due to an increase in the tax on our oil lifted and sold in Malaysia as a result of substantially higher oil prices.

The DD&A rate on an Mcfe basis increased 51% over the comparable period of 2007 as a result of higher cost reserve additions in Malaysia.

The following table presents information about our operating expenses for the first six months of 2008 and 2007.

	Unit-of-Production			Total Amount		
	Six Months Ended June 30, 2008 (Per Mcfe)	2007	Percentage Increase (Decrease)	Six Months Ended June 30, 2008 (In millions)	2007	Percentage Increase (Decrease)
United States:						
Lease operating	\$ 0.91	\$ 1.47	(38)%	\$ 93	\$ 191	(52)%
Production and other taxes	0.43	0.24	79%	44	32	39%
Depreciation, depletion and amortization	2.79	2.80		284	363	(22)%
General and administrative	0.66	0.54	22%	67	70	(4)%
Total operating expenses	\$ 4.79	\$ 5.05	(5)%	\$ 488	\$ 656	(26)%
International:						
Lease operating	\$ 2.20	\$ 2.36	(7)%	\$ 24	\$ 13	86%
Production and other taxes	5.41	1.22	343%	59	6	792%
Depreciation, depletion and amortization	3.58	2.47	45%	39	14	191%
General and administrative	0.19	0.16	19%	2	1	145%
Total operating expenses	\$ 11.38	\$ 6.21	83%	\$ 124	\$ 34	268%
Total:						
Lease operating	\$ 1.03	\$ 1.51	(32)%	\$ 117	\$ 204	(43)%
Production and other taxes	0.92	0.28	229%	103	38	171%
Depreciation, depletion and amortization	2.86	2.79	3%	323	377	(14)%
General and administrative	0.61	0.52	17%	69	71	(3)%
Total operating expenses	\$ 5.42	\$ 5.10	6%	\$ 612	\$ 690	(11)%

Domestic Operations. Our domestic operating expenses for the first six months of 2008, stated on an Mcfe basis, decreased 5% over the same period of 2007. The period to period change was primarily related to the following items:

LOE decreased due to the sale of our shallow water Gulf of Mexico properties in August 2007, which properties have relatively high LOE per Mcfe. In addition, our 2007 LOE was adversely impacted by repair expenditures of \$52 million (\$0.40 per Mcfe) related to Hurricanes Katrina and Rita in 2005. Without the impact of the repair expenditures related to these storms, our 2007 LOE would have been \$1.07 per Mcfe.

Production and other taxes increased \$0.19 per Mcfe because of increased production from our Mid-Continent and Rocky Mountain operations, which are subject to production taxes, the sale of our Gulf of Mexico properties, which are not subject to production taxes, and increased commodity prices.

Our DD&A rate per Mcfe remained relatively flat period over period. Total DD&A expense decreased 22% period over period primarily due to the sale of our Gulf of Mexico properties in August 2007. In addition, accretion expense decreased period over period due to the significant reduction in our asset retirement obligation resulting from the sale of our Gulf of Mexico properties. The decrease in total DD&A expense was partially offset by higher DD&A expense associated with the increased production from our Mid-Continent and Rocky Mountain divisions.

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General and administrative (G&A) expense increased 22% per Mcfe while total G&A expense decreased 4% over the comparable period of 2007. The decrease in total G&A expense was primarily due to recording a litigation settlement reserve associated with a statewide royalty owner class action lawsuit in Oklahoma in the first quarter of 2007 partially offset by increased employee related expenses in 2008 due to our increased domestic workforce and increased incentive compensation expense. Incentive compensation expense increased as a result of higher adjusted net income (as defined in our incentive compensation plan) for the first six months of 2008 as compared to the same period of the prior year. Adjusted net income for purposes of our incentive compensation plan excludes unrealized gains and losses on commodity derivatives. During the first six months of 2008, we capitalized \$24 million of direct internal costs as compared to \$20 million for the same period in 2007.

International Operations. Our international operating expenses for the first six months of 2008, stated on an Mcfe basis, increased 83% over the same period of 2007. The period to period change was primarily related to the following items:

LOE decreased 7% per Mcfe while total LOE increased 86% over the comparable period of 2007. The decrease on a per unit basis resulted from increased liftings in Malaysia. The increase in total LOE was primarily due to increased liftings and higher operating costs in Malaysia.

Production and other taxes increased significantly on an Mcfe basis due to an increase in the tax on our oil lifted and sold in Malaysia as a result of substantially higher oil prices.

The DD&A rate increased as a result of higher cost reserve additions in Malaysia.

G&A expense increased \$0.03 per Mcfe primarily due to growth in our international workforce and increased incentive compensation expense.

Commodity Derivative Income (Expense)

During the second quarter and first six months of 2008, commodity derivative expense increased \$730 million and \$892 million, respectively, over the same periods of 2007, as a result of rising commodity prices.

Interest Expense

The following table presents information about interest expense for the indicated periods.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
	(In millions)			
Gross interest expense:				
Credit arrangements	\$ 2	\$ 6	\$ 3	\$ 7
Senior notes	3	6	7	12
Senior subordinated notes	21	15	35	29
Other	2	1	2	3
Total gross interest expense	28	28	47	51
Capitalized interest	(13)	(11)	(27)	(22)
Net interest expense	\$ 15	\$ 17	\$ 20	\$ 29

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Gross interest expense remained unchanged for the second quarter of 2008 when compared to the same period of 2007, but decreased slightly during the first six months of 2008 when compared to the same period in 2007. Interest expense for the second quarter and first six months of 2008 included interest on our \$600 million 7 1/8% Senior Subordinated Notes issued on May 5, 2008. The second quarter and first six months of 2007 included interest expense for the \$125 million 7.45% Senior Subordinated Notes that matured in October 2007. We also incurred higher interest expense during the first half of 2007 due to higher average debt levels outstanding under our credit arrangements.

We capitalize interest with respect to our unproved properties. Interest capitalized during the second quarter and first six months of 2008 increased over the same periods in 2007 due to an increase in our unproved property base primarily as a result of the Rocky Mountain asset acquisition in June 2007.

Taxes. The effective tax rates for the second quarter of 2008 and 2007 were 15.6% and 37.6%, respectively. The effective tax rates for the first six months of 2008 and 2007 were 22.3% and 37.5%, respectively. Our effective tax rates are different than our federal statutory tax rate primarily due to foreign and state income taxes associated with income from various locations in which we have operations. Certain states require separate tax accounting that disallows some losses that are deductible in the determination of consolidated federal income tax expense. Estimates of future taxable income can be significantly affected by changes in oil and natural gas prices, the timing and amount of future production and future operating expenses and capital costs.

Liquidity and Capital Resources

We must find new and develop existing reserves to maintain and grow production and cash flow. We accomplish this through successful drilling programs and the acquisition of properties. These activities require substantial capital expenditures. Our revised 2008 capital budget exceeds expected full year cash flow from operations and cash on hand by approximately \$500 million. We have adequate capacity under our credit arrangements to fund the shortfall. In the past, we often have increased our capital budget during the year as a result of acquisitions or successful drilling. To the extent that we increase our capital budget during the remainder of 2008, we anticipate funding these amounts with borrowings under our credit arrangements.

As of June 30, 2008 we continued to hold \$69 million of auction rate securities, net of a decrease in the fair value of \$6 million. Since there has been no effective mechanism for selling these securities, we reclassified these securities from short-term investments to long-term investments in the second quarter of 2008. We will continue to attempt to sell these securities every 7-28 days until the auction succeeds, the issuer calls the securities or the securities mature. We currently do not believe that the decrease in the fair value of these investments is permanent or that the failure of the auction mechanism will have a material impact on our liquidity given the amount of our available borrowing capacity under our credit arrangements.

Credit Arrangements. In June 2007, we entered into a new revolving credit facility that matures in June 2012 and provides for initial loan commitments of \$1.25 billion from a syndicate of financial institutions, led by JPMorgan Chase Bank, as agent. The loan commitments may be increased to a maximum of \$1.65 billion if the existing lenders increase their loan commitments or new financial institutions are added to the facility. Subject to compliance with covenants in our credit facility that restrict our ability to incur additional debt, we also have a total of \$135 million of borrowing capacity under money market lines of credit with various financial institutions. For a more detailed description of the terms of our credit arrangements, please see Note 4, Debt, to our consolidated financial statements appearing earlier in this report.

At July 24, 2008, we had outstanding borrowings of \$442 million under our credit arrangements and we had approximately \$900 million of available borrowing capacity.

Working Capital. Our working capital balance fluctuates as a result of the timing and amount of borrowings or repayments under our credit arrangements and changes in the fair value of our outstanding commodity derivative instruments. Without the effects of commodity derivative instruments, we typically have a working capital deficit or a relatively small amount of positive working capital because our capital spending generally has exceeded our cash flows from operations and we generally use excess cash to pay down borrowings outstanding under our credit arrangements.

At June 30, 2008, we had a working capital deficit of \$577 million compared to a deficit of \$2 million at December 31, 2007. The deficit at June 30, 2008 is primarily due to a \$463 million increase in our net short-term

derivative liability since December 31, 2007 as a result of higher oil and gas prices. In addition, we utilized \$267 million of our cash and short-term investments on hand at the beginning of 2008 to fund a portion of our capital program for the first half of 2008 and reclassified \$75 million of our auction rate securities from short-term to long-term investments in the second quarter of 2008. The working capital deficit at June 30, 2008 was offset by an increase in our deferred tax assets of \$163 million resulting from an increase in our current derivative liability balance and an increase in our accounts receivable balance of \$81 million primarily resulting from higher oil and gas prices and increased production.

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Cash Flows from Operations. Cash flows from operations (both continuing and discontinued) are primarily affected by production and commodity prices, net of the effects of settlements of our derivative contracts and changes in working capital.

We also have experienced fluctuations in operating cash flows as a result of volatile oil and natural gas commodity markets and higher operating costs for all of our operations. We sell substantially all of our natural gas and oil production under floating market contracts. However, we generally hedge a substantial, but varying, portion of our anticipated future oil and natural gas production for the next 12-24 months. See **Oil and Gas Hedging** below. We typically receive the cash associated with accrued oil and gas sales within 45-60 days of production. As a result, cash flows from operations and income from operations generally correlate, but cash flows from operations is impacted by changes in working capital and is not affected by DD&A, writedowns or other non-cash charges or credits.

Our net cash flow from operations was \$172 million for the six months ended June 30, 2008, a decrease of 73% compared to net cash flow from operations of \$635 million for the same period in 2007. This decrease is primarily due to the payment of \$557 million to reset our 2009 and 2010 crude oil hedging contracts. In addition, even though our six months ended June 30, 2008 production volumes were impacted by our 2007 property sales, this impact was somewhat offset by higher commodity prices, increased production from our Mid-Continent and Rocky Mountain divisions, increased liftings in Malaysia and lower lease operating expense. In addition, our working capital requirements during the six months ended June 30, 2008 decreased compared to the same period in 2007 as a result of the timing of receivable collections from purchasers, the timing of payments made by us to vendors and other operators and the timing and amount of advances received from our joint operators.

Cash Flows from Investing Activities. Net cash used in investing activities (both continuing and discontinued) for the six months ended June 30, 2008 was \$1.3 billion compared to \$1.6 billion for the same period in 2007.

During the six months ended June 30, 2008, we:

spent \$1.3 billion primarily on capital expenditures (including \$231 million for acquisitions of oil and gas properties); and

purchased investments of \$22 million and redeemed investments of \$70 million.

During the six months ended June 30, 2007, we:

spent \$1.6 billion primarily on capital expenditures (including \$578 million for the Rocky Mountain asset acquisition);

redeemed investments of \$24 million; and

received proceeds of \$23 million from the sale of oil and gas properties.

Capital Expenditures. Our capital spending for the first six months of 2008 was \$1.2 billion, a 21% decrease from our \$1.6 billion in capital spending during the same period of 2007. These amounts exclude recorded asset retirement costs of \$2 million in 2008 and \$16 million in 2007. Of the \$1.2 billion spent in 2008, we invested \$623 million in domestic exploitation and development, \$188 million in domestic exploration (exclusive of exploitation and leasehold activity), \$312 million in domestic leasehold activity (includes the acquisition of properties in South Texas) and \$119 million internationally. Of the \$1.6 billion spent in the first six months of 2007, we invested \$750 million in domestic exploitation and development, \$113 million in domestic exploration (exclusive of exploitation and leasehold activity), \$629 million in domestic leasehold activity and \$86 million internationally.

Our 2008 capital budget is \$2.2 billion, which is up from our initial 2008 budget of \$1.6 billion. The budget excludes \$115 million of capitalized interest and overhead. The increase included \$226 million for the acquisition of properties in South Texas and subsequent development drilling activities, bidding success at the most recent Gulf of Mexico lease sale, development capital for our recent Anduin and Gladden deepwater Gulf of Mexico discoveries, an additional drilling rig in the Woodford Shale play and an additional rig in the Monument Butte field.

Approximately 35% of the \$2.2 billion is allocated to the Mid-Continent, 15% to the Rocky Mountains, 40% to onshore Texas and the Gulf of Mexico and 10% to international projects. Since our 2008 capital budget currently exceeds forecasted net cash flow from operations, we plan to make up the shortfall with cash on hand and borrowings

under our credit arrangements. Actual levels of capital expenditures may vary significantly due to many factors, including the extent to which properties are acquired, drilling results, oil and gas prices, industry conditions and the prices and availability of goods and services. We continue to pursue attractive acquisition opportunities; however, the timing and size of acquisitions are unpredictable. Depending on the timing of an acquisition, we may spend additional capital during the year of the acquisition for drilling and development activities on the acquired properties.

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Cash Flows from Financing Activities. Net cash flow provided by financing activities (both continuing and discontinued) for the first six months of 2008 was \$878 million compared to \$949 million of net cash flow provided by financing activities for the same period in 2007.

During the first six months of 2008, we:

borrowed \$1.2 billion and repaid \$1.0 billion under our credit arrangements;

issued \$600 million aggregate principal amount of our 7 1/8% Senior Subordinated Notes due 2018 and paid \$8 million in associated debt issue costs; and

received proceeds of \$18 million from the issuance of shares of our common stock upon the exercise of stock options.

During the first six months of 2007, we:

borrowed \$2.2 billion and repaid \$1.3 billion under our credit arrangements;

received proceeds of \$13 million from the issuance of shares of our common stock upon the exercise of stock options; and

received a \$4 million tax benefit from the exercise of stock options.

Contractual Obligations

The table below summarizes our significant contractual obligations by maturity as of June 30, 2008.

	Total	Less than 1 Year	1-3 Years (In millions)	4-5 Years	More than 5 Years
Debt:					
Bank revolving credit facility	\$ 240	\$	\$	\$ 240	\$
Money market lines of credit	28			28	
7 5/8% Senior Notes due 2011	175		175		
6 5/8% Senior Subordinated Notes due 2014	325				325
6 5/8% Senior Subordinated Notes due 2016	550				550
7 1/8% Senior Subordinated Notes due 2018	600				600
Total debt	1,918		175	268	1,475
Other obligations:					
Interest payments ⁽¹⁾	937	124	247	211	355
Net derivative liabilities (assets)	556	547	14	(5)	
Asset retirement obligations	65	6	5	7	47
Operating leases	205	112	50	15	28
Deferred acquisition payments	2	2			
Oil and gas activities ⁽²⁾	304				

Total other obligations	2,069	791	316	228	430
Total contractual obligations	\$ 3,987	\$ 791	\$ 491	\$ 496	\$ 1,905

(1) Interest associated with the bank revolving credit facility and money market lines of credit was calculated using the interest rate for LIBOR based loans of 3.5625% and money market loans of 3.17% at June 30, 2008 and is included through the maturity of the credit facility.

(2) As is common in the oil and gas industry, we have various contractual commitments pertaining to exploration, development and production activities. We have work related commitments for, among other things, drilling wells, obtaining and processing seismic data, natural gas transportation and fulfilling other cash commitments. At June 30,

2008, these work related commitments totaled \$304 million and were comprised of \$285 million in the United States and \$19 million internationally. A significant portion of the United States amount is related to a 9 year firm transportation agreement for our Mid-Continent production. This obligation is subject to the completion of construction and required regulatory approval of the proposed pipeline. Annual amounts are not included because their timing cannot be accurately predicted.

Table of Contents**Oil and Gas Hedging**

As part of our risk management program, we generally hedge a substantial, but varying, portion of our anticipated future oil and natural gas production for the next 12-24 months to reduce our exposure to fluctuations in natural gas and oil prices. In the case of acquisitions, we may hedge acquired production for a longer period. In addition, we may utilize basis contracts to hedge the differential between the NYMEX Henry Hub posted prices and those of our physical pricing points. Reducing our exposure to price volatility helps ensure that we have adequate funds available for our capital programs and helps us manage returns on some of our acquisitions and more price sensitive drilling programs. Our decision on the quantity and price at which we choose to hedge our future production is based in part on our view of current future market conditions.

While the use of these hedging arrangements limits the downside risk of adverse price movements, their use also may limit future revenues from favorable price movements. In addition, the use of hedging transactions may involve basis risk. Substantially all of our hedging transactions are settled based upon reported settlement prices on the NYMEX. Historically, a majority of our hedged natural gas and crude oil production has been sold at market prices that have had a high positive correlation to the settlement price for such hedges. With the sale of the Gulf of Mexico shelf production and the corresponding shift in the geographic distribution of our natural gas production, we have begun to utilize basis hedges to a greater extent.

The price that we receive for natural gas production from the Gulf of Mexico and onshore Gulf Coast, after basis differentials, transportation and handling charges, typically averages \$0.40-\$0.60 per MMBtu less than the Henry Hub Index. Realized gas prices for our Mid-Continent properties, after basis differentials, transportation and handling charges, typically average 75-85% of the Henry Hub Index. In light of potential basis risk with respect to our newly acquired Rocky Mountain assets, we have hedged the basis differential for about 50% of our estimated production from proved producing fields acquired from Stone Energy through 2012 to lock in the differential at a weighted average of \$1.18 per MMBtu less than the Henry Hub Index. The price we receive for our Gulf Coast oil production typically equals the NYMEX West Texas Intermediate (WTI) price. The price we receive for our oil production in the Rocky Mountains is currently averaging about \$15 per barrel below the WTI price. Oil production from the Mid-Continent typically averages 96-98% of the WTI price. Oil sales from our operations in Malaysia typically sell at Tapis, or about 90% of WTI. Oil sales from our operations in China typically sell at \$10-\$15 per barrel less than WTI.

Between June 30, 2008 and July 23, 2008, we entered into additional natural gas price derivative contracts set forth in the table below.

Period and Type of Contract	NYMEX Contract Price Per MMBtu Collars						
	Volume in MMMBtus	Additional Put		Floors		Ceilings	
		Range	Weighted Average	Range	Weighted Average	Range	Weighted Average
April 2009 - June 2009 Collar contracts	4,550	¾	¾	\$8.00	\$8.00	\$ 14.00-\$14.37	\$ 14.21
July 2009 - September 2009 Collar contracts	4,600	¾	¾	8.00	8.00	14.00 - 14.37	14.21
October 2009 Collar contracts	1,550	¾	¾	8.00	8.00	14.00 - 14.37	14.21

New Accounting Standards

In March 2008, the Financial Accounting Standards Board issued FASB Statement No. 161, Disclosures about Derivative Instruments and Hedging Activities-an amendment of FASB Statement No. 133 (SFAS No. 161). This statement requires enhanced disclosures about our derivative and hedging activities. This statement is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. We will adopt SFAS No. 161 beginning January 1, 2009. We are currently evaluating the impact, if any, the standard will have on

our consolidated financial statements.

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General Information

General information about us can be found at www.newfield.com. In conjunction with our web page, we also maintain an electronic publication entitled @NFX. @NFX is periodically published to provide updates on our operating activities and our latest publicly announced estimates of expected production volumes, costs and expenses for the then current quarter. Recent editions of @NFX are available on our web page. To receive @NFX directly by email, please forward your email address to info@newfield.com or visit our web page and sign up. Unless specifically incorporated, the information about us at www.newfield.com or in any edition of @NFX is not part of this report.

Our annual report on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K, as well as any amendments and exhibits to those reports, are available free of charge through our website as soon as reasonably practicable after we file or furnish them to the Securities and Exchange Commission.

Forward-Looking Information

This report contains information that is forward-looking or relates to anticipated future events or results such as planned capital expenditures, the availability and source of capital resources to fund capital expenditures and other plans and objectives for future operations. Although we believe that these expectations are reasonable, this information is based upon assumptions and anticipated results that are subject to numerous uncertainties and risks. Actual results may vary significantly from those anticipated due to many factors, including:

drilling results;

oil and gas prices;

industry conditions;

the prices of goods and services;

the availability of drilling rigs and other support services;

availability of refining capacity for crude oil we produce from our Monument Butte field;

the availability of capital resources;

labor conditions;

severe weather conditions (such as hurricanes); and

the other factors affecting our business described under the caption **Risk Factors** in Item 1A of our annual report on Form 10-K for the year ended December 31, 2007.

All written and oral forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by such factors.

Commonly Used Oil and Gas Terms

Below are explanations of some commonly used terms in the oil and gas business.

Basis risk. The risk associated with the sales point price for oil or gas production varying from the reference (or settlement) price for a particular hedging transaction.

Barrel or Bbl. One stock tank barrel, or 42 U.S. gallons liquid volume.

Bcf. Billion cubic feet.

Bcfe. Billion cubic feet equivalent, determined using the ratio of six Mcf of natural gas to one barrel of crude oil or condensate.

Btu. British thermal unit, which is the heat required to raise the temperature of a one-pound mass of water from 58.5 to 59.5 degrees Fahrenheit.

Development well. A well drilled within the proved area of an oil or natural gas field to the depth of a stratigraphic horizon known to be productive.

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Exploitation well. An exploration well drilled to find and produce probable reserves. Most of the exploitation wells we drill are located in the Mid-Continent or the Monument Butte Field. Exploitation wells in those areas have less risk and less reserve potential and typically may be drilled at a lower cost than other exploration wells. For internal reporting and budgeting purposes, we combine exploitation and development activities.

Exploration well. A well drilled to find and produce oil or natural gas reserves that is not a development well. For internal reporting and budgeting purposes, we exclude exploitation activities from exploration activities.

Field. An area consisting of a single reservoir or multiple reservoirs all grouped on or related to the same individual geological structural feature or stratigraphic condition.

MBbls. One thousand barrels of crude oil or other liquid hydrocarbons.

Mcf. One thousand cubic feet.

Mcfe. One thousand cubic feet equivalent, determined using the ratio of six Mcf of natural gas to one barrel of crude oil or condensate.

MMBbls. One million barrels of crude oil or other liquid hydrocarbons.

MMBtu. One million Btus.

MMMBtu. One billion Btus.

MMcf. One million cubic feet.

MMcfe. One million cubic feet equivalent, determined using the ratio of six Mcf of natural gas to one barrel of crude oil or condensate.

NYMEX. The New York Mercantile Exchange.

Probable reserves. Reserves which analysis of drilling, geological, geophysical and engineering data does not demonstrate to be proved under current technology and existing economic conditions, but where such analysis suggests the likelihood of their existence and future recovery.

Proved reserves. In general, the estimated quantities of crude oil, natural gas and natural gas liquids that geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions. The SEC provides a complete definition of proved reserves in Rule 4-10(a)(2) of Regulation S-X.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to market risk from changes in oil and gas prices, interest rates and foreign currency exchange rates as discussed below.

Oil and Gas Prices

We generally hedge a substantial, but varying, portion of our anticipated oil and gas production for the next 12-24 months as part of our risk management program. In the case of acquisitions, we may hedge acquired production for a longer period. In addition, we may utilize basis contracts to hedge the differential between NYMEX Henry Hub posted prices and those of our physical pricing points. We use hedging to reduce our exposure to fluctuations in natural gas and oil prices. Reducing our exposure to price volatility helps ensure that we have adequate funds available for our capital programs and helps us manage return on some of our acquisitions and more price sensitive drilling programs. Our decision on the quantity and price at which we choose to hedge our production is based in part on our view of current and future market conditions. While hedging limits the downside risk of adverse price movements, it also may limit future revenues from favorable price movements. The use of hedging transactions also involves the risk that the counterparties will be unable to meet the financial terms of such transactions. For a further discussion of our hedging activities, see the information under the caption **Oil and Gas Hedging** in Item 2 of this report and the discussion and tables in Note 7, **Commodity Derivative Instruments**, to our financial statements appearing earlier in this report.

Table of Contents**Interest Rates**

At June 30, 2008, our debt was comprised of:

	Fixed Rate Debt	Variable Rate Debt
	(In millions)	
Bank revolving credit facility	\$	\$ 240
Money market lines of credit		28
7 5/8% Senior Notes due 2011 ⁽¹⁾	125	50
6 5/8% Senior Subordinated Notes due 2014	325	
6 5/8% Senior Subordinated Notes due 2016	550	
7 1/8% Senior Subordinated Notes due 2018	600	
 Total long-term debt	 \$ 1,600	 \$ 318

(1) \$50 million principal amount of our 7 5/8% Senior Notes due 2011 are subject to interest rate swaps. These swaps provide for us to pay variable and receive fixed interest payments, and are designated as fair value hedges of a portion of our outstanding senior notes.

We consider our interest rate exposure to be minimal because about 83% of our long-term debt, after taking into account our interest rate swap agreement, is at fixed rates.

Foreign Currency Exchange Rates

The functional currency for all of our foreign operations is the U.S. dollar. To the extent that business transactions in these countries are not denominated in the respective country's functional currency, we are exposed to foreign currency exchange risk. We consider our current risk exposure to exchange rate movements, based on net cash flow, to be immaterial. We did not have any open derivative contracts relating to foreign currencies at June 30, 2008.

Item 4. Controls and Procedures**Disclosure Controls and Procedures**

As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) of the Securities Exchange Act of

1934). Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of June 30, 2008 in ensuring that material information was accumulated and communicated to management, and made known to our Chief Executive Officer and Chief Financial Officer, on a timely basis to allow disclosure as required in this report.

Changes in Internal Control Over Financial Reporting

As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, of our internal control over financial reporting to determine whether any changes occurred during the second quarter of 2008 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. Based on that evaluation, there were no changes in our internal control over financial reporting or in other factors that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

Table of Contents**PART II****Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

The following table sets forth certain information with respect to repurchases of our common stock during the three months ended June 30, 2008.

Period	Total Number of Shares Purchased⁽¹⁾	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs
April 1 - April 30, 2008	177	\$ 57.34		
May 1 - May 31, 2008				
June 1 - June 30, 2008	216	\$ 65.26		

(1) All of the shares repurchased were surrendered by employees to pay tax withholding upon the vesting of restricted stock awards. These repurchases were not part of a publicly announced program to repurchase shares of our common stock.

Item 4. Submission of Matters to a Vote of Security Holders

At our May 1, 2008 annual meeting of stockholders, our stockholders elected all of our 12 nominees for director and ratified the appointment of PricewaterhouseCoopers LLP as our independent accountants for the year ending December 31, 2008 by the following votes:

1. Election of Directors:

Nominee Elected	For	Withheld
David A. Trice	112,982,587	9,911,451
Howard H. Newman	119,364,785	3,529,253
Thomas G. Ricks	119,385,593	3,508,106
C. E. Shultz	116,550,456	6,343,582
Dennis R. Hendrix	116,959,251	5,934,787
Philip J. Burguieres	119,684,167	3,209,871
John Randolph Kemp III	119,709,871	3,184,167
J. Michael Lacey	119,710,615	3,183,423
Joseph H. Netherland	119,525,705	3,368,333
J. Terry Strange	122,504,812	389,227
Pamela J. Gardner	122,504,726	389,493
Juanita F. Romans	121,485,801	1,408,237

2. Ratification of Appointment of Independent Accountants:

For:	119,782,033
Against:	3,016,054
Abstentions:	95,952
Broker Non-Votes:	0

Table of Contents**Item 6. Exhibits**

Exhibit Number	Description
3.1	Bylaws of Newfield (as amended and restated effective as of May 2, 2008) (incorporated herein by reference to Exhibit 3.2 to Newfield's Registration Statement on Form S-3 (File No. 333-150622))
4.1	Form of Fourth Supplemental Indenture, to be dated as of May 8, 2008, to Subordinated Indenture dated as of December 10, 2001 between Newfield and U.S. Bank National Association (as successor trustee to Wachovia Bank, National Association, as Trustee (formerly known as First Union National Bank)) (incorporated herein by reference to Exhibit 4.1 to Newfield's Current Report on Form 8-K filed with the SEC on May 7, 2008 (File No. 1-12534))
4.2	Form of 7 1/8% Senior Subordinated Note due 2018 (included in Exhibit 4.1, which is incorporated herein by reference to Exhibit 4.1 to Newfield's Current Report on Form 8-K filed with the SEC on May 7, 2008 (File No. 1-12534))
31.1*	Certification of Chief Executive Officer of Newfield pursuant to 15 U.S.C. Section 7241, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2*	Certification of Chief Financial Officer of Newfield pursuant to 15 U.S.C. Section 7241, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1*	Certification of Chief Executive Officer of Newfield pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2*	Certification of Chief Financial Officer of Newfield pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

* Filed or
furnished
herewith.

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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

NEWFIELD EXPLORATION COMPANY

Date: July 25, 2008

By: /s/ TERRY W. RATHERT

Terry W. Rathert
Senior Vice President and Chief Financial Officer
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Table of Contents**EXHIBIT INDEX**

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32.1*	Certification of Chief Executive Officer of Newfield pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2*	Certification of Chief Financial Officer of Newfield pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

* Filed or
furnished
herewith.