NEWFIELD EXPLORATION CO /DE/
Form DEF 14A
March 16, 2007

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A

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

Filed by the Registrant þ
Filed by a Party other than the Registrant o

Check the appropriate box:

o Preliminary Proxy Statement
o **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
þ Definitive Proxy Statement
o Definitive Additional Materials
o Soliciting Material Pursuant to §240.14a-12

Newfield Exploration Company

(Name of Registrant as Specified In Its Charter)

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

Payment of Filing Fee (Check the appropriate box):

þ No fee required.
o Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

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

2) Aggregate number of securities to which transaction applies:

3) 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):

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o Fee paid previously with preliminary materials.

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1) Amount Previously Paid:

2) Form, Schedule or Registration Statement No.:

3) Filing Party:

4) Date Filed:

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NEWFIELD EXPLORATION COMPANY
Houston, Texas
NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
May 3, 2007

To the stockholders of Newfield Exploration Company:

Our 2007 annual meeting of stockholders will be held at 11:00 a.m., Central Daylight Time, on Thursday, May 3, 2007, in the Joe B. Foster Employee Communications Room, fourth floor, 363 N. Sam Houston Parkway E., Houston, Texas, for the following purposes:

(1) to elect thirteen directors to serve until our 2008 annual meeting of stockholders;

(2) to approve the Newfield Exploration Company 2007 Omnibus Stock Plan;

(3) to approve the Second Amendment to Newfield Exploration Company 2000 Non-Employee Director Restricted Stock Plan;

(4) to ratify the appointment of PricewaterhouseCoopers LLP as our independent accountants for the year ending December 31, 2007; and

(5) to transact such other business as may properly come before such meeting or any adjournment thereof.

The close of business on March 5, 2007, has been fixed as the record date for the determination of stockholders entitled to receive notice of and to vote at the meeting or any adjournment thereof.

You are cordially invited to attend the meeting.

By order of the Board of Directors,
Terry W. Rathert
Secretary
March 16, 2007

YOUR VOTE IS IMPORTANT

You are urged to vote your shares via the Internet, our toll-free telephone number or by signing, dating and promptly returning your proxy card in the enclosed envelope.

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NEWFIELD EXPLORATION COMPANY
363 N. Sam Houston Parkway E.
Suite 2020
Houston, Texas 77060
(281) 847-6000
www.newfield.com

PROXY STATEMENT
For the 2007 Annual Meeting of Stockholders

This proxy statement is furnished in connection with the solicitation of proxies by and on behalf of the Board of Directors of Newfield Exploration Company to be voted at Newfield s 2007 annual meeting of stockholders to be held at 11:00 a.m., Central Daylight Time, on May 3, 2007, in the Joe B. Foster Employee Communications Room, fourth floor, 363 N. Sam Houston Parkway E., Houston, Texas or at any adjournment thereof. This proxy statement and the form of proxy/voting instruction card will be first mailed, given or otherwise made available to stockholders on or about March 21, 2007.

ABOUT THE MEETING

What is the purpose of the meeting?

The purpose of the meeting is to:

- elect thirteen directors;
- approve the Newfield Exploration Company 2007 Omnibus Stock Plan;
- approve the Second Amendment to Newfield Exploration Company 2000 Non-Employee Director Restricted Stock Plan;
- ratify the selection of PricewaterhouseCoopers LLP as our independent accountants for the year ending December 31, 2007; and
- transact such other business as may properly come before the meeting or any adjournment thereof.

Am I entitled to vote at the meeting?

Only stockholders of record on March 5, 2007, the record date for the meeting, are entitled to receive notice of and to vote at the meeting.

What are my voting rights as a stockholder?

Stockholders are entitled to one vote for each share of our common stock that they owned as of the record date. Stockholders may not cumulate their votes in the election of directors.

How do I vote?

Stockholders may vote at the meeting in person or by proxy. Proxies validly delivered by stockholders (by Internet, telephone or mail as described below) and timely received by us will be voted in accordance with the instructions contained therein. If a stockholder provides a proxy but gives no instructions, such stockholder s shares will be voted in accordance with the recommendation of our Board.

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You may vote by proxy three ways:

By Internet: Visit the website *http://www.voteproxy.com* and follow the on-screen instructions. To vote your shares, you must use the control number printed on your proxy/voting instruction card. Website voting is available 24 hours a day, seven days a week, and will be accessible **until** 11:59 p.m., Eastern Daylight Time, on May 2, 2007.

By Telephone: Call toll-free 1-800-PROXIES (1-800-776-9437). To vote your shares, you must use the control number printed on your proxy/voting instruction card. Telephone voting is accessible 24 hours a day, seven days a week, **until** 11:59 p.m., Eastern Daylight Time, on May 2, 2007.

By Mail: Mark your proxy/voting instruction card, date and sign it and return it in the postage-paid envelope provided. If the envelope is missing, please address your completed proxy/voting instruction card to Newfield Exploration Company, c/o American Stock Transfer & Trust Company, 59 Maiden Lane, New York, New York 10273-0923.

IF YOU VOTE BY INTERNET OR TELEPHONE, PLEASE DO NOT RETURN YOUR PROXY/VOTING INSTRUCTION CARD.

Can I change my vote?

Yes. A stockholder may revoke or change a proxy before the proxy is exercised by filing with our Secretary a notice of revocation, delivering to us a new proxy or by attending the meeting and voting in person. Stockholders who vote by telephone or the Internet may change their votes by re-voting by telephone or the Internet within the time periods listed above. A stockholder s last timely vote, including via the Internet or telephone, is the one that will be counted.

What constitutes a quorum?

Stockholders entitled to cast at least a majority of the votes that all stockholders are entitled to cast must be present at the meeting in person or by proxy to constitute a quorum for the transaction of business. At the close of business on March 5, 2007, the record date for the meeting, there were 129,999,947 shares of our common stock outstanding.

What are your Board s recommendations?

Our Board recommends a vote:

For each of the thirteen nominees proposed for election as directors;

For approval of the Newfield Exploration Company 2007 Omnibus Stock Plan;

For approval of the Second Amendment to Newfield Exploration Company 2000 Non-Employee Director Restricted Stock Plan; and

For ratification of the selection of PricewaterhouseCoopers LLP as our independent accountants for the year ending December 31, 2007.

If any other matters are brought before the meeting, the proxy holders will vote as recommended by our Board. If no recommendation is given, the proxy holders will vote in their discretion.

What vote is required to approve each proposal?

The thirteen nominees for election as directors who receive the greatest number of votes will be elected directors. Withheld votes and abstentions will have no effect on the outcome of the election.

Approval of the Newfield Exploration Company 2007 Omnibus Stock Plan and the Second Amendment to Newfield Exploration Company 2000 Non-Employee Director Restricted Stock Plan require the affirmative vote of the holders of a majority of the shares present in person or represented by proxy at the meeting and entitled to vote on the proposals. Abstentions will have the same effect as a vote against approval. Under NYSE rules, the total votes cast on the proposals to approve the Newfield Exploration Company 2007 Omnibus Stock Plan and the Second Amendment to Newfield Exploration Company 2000 Non-Employee Director Restricted Stock Plan must represent a majority of all of the issued and outstanding shares of our common stock entitled to vote on the proposals. Brokers that do not receive instructions from their customers cannot vote on any of these proposals.

Approval of the ratification of the selection of PricewaterhouseCoopers LLP as our independent accountants for 2007 requires the affirmative vote of the holders of a majority of the shares present in person or represented by proxy at the meeting and entitled to vote on the proposal. Abstentions will have the same effect as a vote against ratification.

Other Information

A copy of our annual report for the year ended December 31, 2006 accompanies this proxy statement. None of the information contained in our annual report is proxy solicitation material.

We will reimburse brokers, custodians, nominees and fiduciaries for reasonable expenses incurred by them in forwarding proxy material to beneficial owners of our common stock. The costs of the solicitation will be borne by us.

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ITEM 1.
ELECTION OF DIRECTORS

Nominees for Directors

The Nominating & Corporate Governance Committee of our Board has nominated the thirteen persons named below for election as directors at our 2007 annual meeting of stockholders. If elected, each director will serve until our 2008 annual meeting of stockholders and thereafter until his or her successor has been elected and qualified. Unless instructions to the contrary are given, all properly executed and delivered proxies will be voted for the election of these thirteen nominees as directors. If any nominee is unable to serve, the proxy holders will vote for such other person as may be nominated by the Nominating & Corporate Governance Committee.

Nominees	Principal Occupation and Directorships	Director Since	Age(1)
David A. Trice	Chairman, President and Chief Executive Officer of Newfield; Director, Hornbeck Offshore Services, Inc., Grant Prideco Inc. and New Jersey Resources Corporation	2000	58
David F. Schaible	Executive Vice President Operations and Acquisitions of Newfield	2002	46
Howard H. Newman	President and Chief Executive Officer of Pine Brook Road Partners, LLC	1990	59
Thomas G. Ricks	Chief Investment Officer of H&S Ventures L.L.C.	1992	53
C. E. (Chuck) Shultz	Chairman and Chief Executive Officer of Dauntless Energy Inc.; Chairman of Canadian Oil Sands Ltd.; Director, Enbridge Inc.	1994	67
Dennis R. Hendrix	Retired Chairman of PanEnergy Corp; Director, Allied Waste Industries, Inc., Grant Prideco Inc. and Spectra Energy Corp.	1997	67
Philip J. Burguieres	Chairman and Chief Executive Officer of EMC Holdings, LLC; Vice Chairman of Houston Texans; Chairman Emeritus, Weatherford International, Inc.; Director, FMC Technologies, Inc.	1998	63
John Randolph Kemp III	Retired President, Exploration Production, Americas of Conoco Inc.	2003	62
J. Michael Lacey	Retired Senior Vice President Exploration and Production of Devon Energy Corporation	2004	61
Joseph H. Netherland	Chairman, President and Chief Executive Officer of FMC Technologies, Inc.	2004	60
J. Terry Strange	Retired Vice Chairman of KPMG, LLP; Director, BearingPoint, Inc., Compass Bancshares, Inc.,	2004	63

	Group 1 Automotive, Inc. and New Jersey Resources Corporation		
Pamela J. Gardner	President, Business Operations of Houston McLane Company d/b/a Houston Astros Baseball Club	2005	50
Juanita F. Romans	Chief Executive Officer of Memorial Hermann Texas Medical Center Operations	2005	56

(1) As of February 28, 2007.

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Each of the director nominees has been engaged in the principal occupation set forth opposite his or her name for the past five years except as follows:

Mr. Trice was named Chairman of the Board of our company in September 2004.

Mr. Schaible was promoted from Vice President to Executive Vice President of our company in November 2004.

Mr. Newman has served as the President and Chief Executive Officer of Pine Brook Road Partners, LLC and its predecessor since April 2006. Mr. Newman was a general partner of Warburg, Pincus & Co. from January 1987 to April 2005 and was Vice Chairman and Senior Advisor of Warburg Pincus LLC from January 2001 to April 2006.

Mr. Lacey retired from Devon Energy Corporation in February 2004. Throughout his 15 years with Devon, Mr. Lacey directed Devon s worldwide exploration and production effort.

Mr. Strange retired from KPMG, LLP in 2002 after a 34-year career with the accounting firm.

Ms. Romans was Senior Vice President of Memorial Hermann Healthcare System and Chief Executive Officer of Memorial Hermann Hospital from January 2003 to June 2006. Ms. Romans was Vice President and Chief Operating Officer of Memorial Hermann Hospital from May 2001 to January 2003.

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Security Ownership of Certain Beneficial Owners and Management

The following table sets forth beneficial ownership information, unless otherwise indicated, as of February 28, 2007 with respect to (i) each person known by us to own beneficially 5% or more of our outstanding common stock, (ii) each of the named executive officers (see Executive Compensation), (iii) each of our directors and (iv) all of our executive officers and directors as a group.

	Beneficial Ownership(1)	
Name of Beneficial Owner	**Shares**	**Percent**
Capital Research and Management Company(2)	13,977,000	10.8%
David A. Trice	688,685	*
Terry W. Rathert	317,617	*
David F. Schaible	359,841	*
Elliott Pew	76,522	*
Lee K. Boothby	110,731	*
Philip J. Burguieres	16,955	*
Dennis R. Hendrix	27,493	*
John Randolph Kemp III	6,945	*
J. Michael Lacey	3,433	*
Joseph H. Netherland	3,433	*
Howard H. Newman	174,171	*
Thomas G. Ricks	8,661	*
C. E. Shultz	18,071	*
J. Terry Strange	3,433	*
Pamela J. Gardner	2,437	*
Juanita F. Romans	2,437	*
Executive officers and directors as a group (consisting of 29 persons)(3)	3,102,854	2.4%

* Less than 1%

(1) Shares are deemed to be beneficially owned by a person if such person directly or indirectly has or shares the power to vote or dispose of the shares, whether or not such person has any pecuniary interest in the shares, or if such person has the right to acquire the power to vote or dispose of the shares within 60 days, including any right to acquire such power through the exercise of any option, warrant or right. The shares beneficially owned by Messrs. Trice, Rathert, Schaible and Boothby include 192,000, 116,000, 136,000 and 12,000 shares, respectively, that may be acquired by such persons within 60 days through the exercise of stock options. The shares owned by our executive officers and directors as a group include 830,400 shares that may be acquired by such persons within 60 days through the exercise of stock options.

(2) All information in the table and in this note with respect to Capital Research and Management Company (CRM) is based solely on the Schedule 13G/A filed by CRM with the SEC on February 12, 2007. CRM, an investment adviser registered under Section 203 of the Investment Advisers Act of 1940, is deemed to be the beneficial owner of all of the indicated shares as a result of acting as investment adviser to various investment companies registered under Section 8 of the Investment Company Act of 1940. CRM has sole dispositive power with respect to all of the indicated shares and voting power with respect to 5,712,200 of the indicated shares. CRM s address is 333 South Hope Street, Los Angeles, CA 90071.

(3) None of the shares beneficially owned by our executive officers and directors has been pledged as security for an obligation.

CORPORATE GOVERNANCE

Set forth below in question and answer format is a discussion about our corporate governance policies and practices, some of which have been modified since last year s annual meeting, and other matters relating to our Board and its committees.

General

Have you adopted corporate governance guidelines?

Yes, our Board has formally adopted corporate governance guidelines that address such matters as director qualification standards, director responsibilities, board committees, director access to management and independent advisors, director compensation, director orientation and continuing education, evaluation of our chief executive officer, management succession and performance evaluations of our Board.

Have you adopted a code of ethics and conduct?

Yes, our Board has formally adopted a corporate code of business conduct and ethics applicable to our directors, officers and employees. Our corporate code includes a financial code of ethics applicable to our chief executive officer, chief financial officer and controller or chief accounting officer.

How can I view or obtain copies of your corporate governance materials?

The guidelines and codes mentioned above as well as the charters for each significant standing committee of our Board are available on our website for viewing and printing. Go to *http://www.newfield.com* and then to the Corporate Governance Overview tab. We also will provide stockholders with a free copy of these materials upon request. Requests may be made by mail, telephone or the Internet as follows:

Newfield Exploration Company
Attention: Investor Relations
363 N. Sam Houston Parkway E., Suite 2020
Houston, Texas 77060
(281) 405-4284
http://www.newfield.com

Board of Directors

How many independent directors do you have? How do you determine whether a director is independent?

Our Board has affirmatively determined that eleven of the thirteen nominees for director are independent as that term is defined by NYSE rules. In making this determination, our Board considered transactions and relationships between each director nominee or his or her immediate family and our company and its subsidiaries, including those reported below under Compensation Committee Interlocks and Insider Participation and Interests of Management and Others in Certain Transactions. The purpose of this review was to determine whether any such relationships or transactions were material and, therefore, inconsistent with a determination that the director is independent. As a result of this review, our Board affirmatively determined, based on its understanding of such transactions and relationships, that all of the directors nominated for election at the annual meeting are independent of our company under the standards set forth by the NYSE, with the exception of David A. Trice and David F. Schaible, who are management employees of our company. There is no family relationship between any of the nominees for director or between any nominee and any executive officer of our company.

How many times did your Board meet last year?

Our Board met in person or by conference telephone six times during 2006.

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Did any of your directors attend fewer than 75% of the meetings of your Board and his or her assigned committees during 2006?

Yes. Juanita F. Romans attended 71% of the meetings of our Board and her assigned committees during 2006. All other directors attended at least 75% of the meetings of our Board and his or her assigned committees during 2006.

How many of your directors attended the 2006 annual meeting of stockholders?

All of our directors attended and were introduced during our 2006 annual meeting of stockholders. We strongly encourage our directors to attend annual meetings, but we do not have a formal policy regarding attendance.

Do your non-management directors and independent directors meet in executive session?

Yes, our non-management directors and independent directors meet separately on a regular basis usually at each regularly scheduled meeting of our Board. We have no non-management directors who are not independent. Our corporate governance guidelines provide that our independent directors will meet in executive session at least annually and more frequently as needed at the call of one or more of our independent directors. Our corporate governance guidelines also provide that executive sessions will be presided over by our Lead Director. C. E. (Chuck) Shultz has served as our Lead Director since July 2005.

How can interested parties communicate directly with your non-management directors?

We have established a toll-free Ethics Line so that investors, employees and other interested parties can anonymously report through a third party any practices thought to be in violation of our corporate governance policies. The Ethics Line also can be used to make concerns known to our non-management directors on a direct and confidential basis. The telephone number for the Ethics Line is 1-866-843-8694. Additional information is available on our website at *http://www.newfield.com* under the tab Corporate Governance Overview.

How are your directors compensated?

See Executive Compensation 2006 Non-Employee Director Compensation for information about our director compensation.

Committees

Does your Board have any standing committees?

Yes, our Board presently has the following significant standing committees:

- Audit Committee;
- Compensation & Management Development Committee; and
- Nominating & Corporate Governance Committee.

Each of these committees is composed entirely of independent directors.

Has your Board adopted charters for each of these committees? If so, how can I view or obtain copies of them?

Yes, our Board has adopted a charter for each of these committees. The charters are available on our website for viewing and printing. Go to *http://www.newfield.com* and then to the Corporate Governance Overview tab. We also will provide stockholders with a free copy of the charters upon request. See General *How can I view or obtain copies of your corporate governance materials?* for information about requesting copies from us.

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Audit Committee

What does the Audit Committee do?

The primary purposes of the committee are:

- appointing, retaining and terminating our independent accountants;
- monitoring the integrity of our financial statements and reporting processes and systems of internal control;
- evaluating the qualifications and independence of our independent accountants;
- evaluating the performance of our internal audit function and independent accountants; and
- monitoring our compliance with legal and regulatory requirements.

The Audit Committee also prepares a report each year in conformity with the rules of the SEC for inclusion in our annual proxy statement.

Who are the members of the committee?

The committee currently consists of Pamela J. Gardner, John Randolph Kemp III, Thomas G. Ricks, Juanita F. Romans and J. Terry Strange, with Mr. Ricks serving as chairman. We do not anticipate any significant change in the composition of the committee prior to our 2008 annual meeting of stockholders. Mr. Strange also serves on the audit committees of BearingPoint, Inc., Compass Bancshares, Inc., Group 1 Automotive, Inc. and New Jersey Resources Corporation. Our Board has determined that such simultaneous service on these other audit committees and on our Audit Committee will not impair the ability of Mr. Strange to serve effectively on our Audit Committee.

Does the committee have an audit committee financial expert?

Yes, our Board has determined that each of Messrs. Ricks and Strange meets the qualifications of an audit committee financial expert as defined by the rules promulgated by the SEC. Our Board has determined that each of Messrs. Ricks and Strange are independent of our company under the standards set forth by the NYSE.

How many times did the committee meet last year?

The committee held six meetings in person or by conference telephone during 2006.

Compensation & Management Development Committee

What does the Compensation & Management Development Committee do?

The primary purposes of the committee are:

- reviewing, evaluating and approving the compensation of our executive officers and other key employees;
- producing a report on executive compensation each year for inclusion in our annual proxy statement;
- overseeing the evaluation and development of the management of our company; and
- overseeing succession planning for our chief executive and other senior executive officers.

The committee has the sole authority to oversee the administration of compensation programs applicable to all of our employees, including executive officers. The committee may delegate some or all of its authority to subcommittees when it deems appropriate.

Who are the members of the committee?

The committee currently consists of Dennis R. Hendrix, John Randolph Kemp III, J. Michael Lacey, Joseph H. Netherland and C. E. (Chuck) Shultz, with Mr. Shultz serving as chairman. We anticipate that Philip J. Burguieres will be appointed to the committee after our 2007 meeting of stockholders. Otherwise, we do not anticipate any significant change in the composition of the committee prior to our 2008 annual meeting of stockholders.

How many times did the committee meet last year?

The committee held two meetings in person or by conference telephone during 2006.

What are the committee s processes and procedures for consideration and determination of executive compensation?

Executive compensation is reviewed at least annually by the committee. With limited exceptions, the committee makes all decisions regarding the compensation of our executive officers in February of each year. These decisions include adjustments to base salary, grants of current and deferred awards under our incentive compensation plan and grants of long-term equity awards. The committee may delegate some or all of its authority to subcommittees when it deems appropriate. See Executive Compensation Compensation Discussion and Analysis Compensation Process for more information regarding the committee s processes and procedures for consideration and determination of executive compensation.

Nominating & Corporate Governance Committee

What does the Nominating & Corporate Governance Committee do?

The primary purposes of the committee are:

- advising our Board about the appropriate composition of the Board and its committees;
- evaluating potential or suggested director nominees and identifying individuals qualified to be directors;
- nominating directors for election at our annual meetings of stockholders or for appointment to fill vacancies;
- recommending to our Board the directors to serve as members of each committee of our Board;
- recommending to committees the individual members to serve as chairpersons of the committees;
- approving the compensation structure for all non-employee directors;
- advising our Board about corporate governance practices, developing and recommending appropriate corporate governance practices and policies and assisting in implementing those practices and policies;
- overseeing the evaluation of our Board and its committees through an annual performance review; and
- overseeing the new director orientation program and the continuing education program for all directors.

Who are the members of the committee?

The committee currently consists of Philip J. Burguieres, Pamela J. Gardner, Juanita F. Romans, Dennis R. Hendrix, Joseph H. Netherland, Howard H. Newman, Thomas G. Ricks and J. Terry Strange, with Mr. Hendrix serving as chairman. We do not anticipate any significant change in the composition of the committee prior to our 2008 annual meeting of stockholders.

How many times did the committee meet last year?

The committee held two meetings in person or by conference telephone during 2006.

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What guidelines does the committee follow when considering a director nominee for a position on your Board?

The committee is responsible for identifying individuals qualified to become directors and for evaluating potential or suggested director nominees. Although the committee has not established written criteria or a set of specific minimum qualifications, our corporate governance guidelines provide that any assessment of a potential director nominee will include the individual s qualification as independent, as well as consideration of his or her background, ability, judgment, skills and experience in the context of the needs of our Board. The committee is likely to consider whether a prospective nominee has relevant business or financial experience or a specialized expertise.

Does the committee consider candidates for your Board submitted by stockholders and, if so, what are the procedures for submitting such recommendations?

Yes, the committee considers suggestions from many sources, including stockholders, regarding possible candidates for director. Any such suggestions, together with appropriate biographical information, should be submitted to the Chairman of the Nominating & Corporate Governance Committee, c/o Terry W. Rathert, Secretary, Newfield Exploration Company, 363 N. Sam Houston Pkwy. E., Suite 2020, Houston, Texas 77060.

What are the committee s processes and procedures for consideration and determination of director compensation?

The committee has the sole authority to approve the compensation structure for all of our non-employee directors. The committee may delegate some or all of its authority to subcommittees when it deems appropriate.

Director compensation is reviewed at least annually by the committee. The committee seeks to set director compensation at an adequate level to compensate directors for their time and effort expended in satisfying their obligations to us without jeopardizing their independence.

The increase in director compensation following our 2006 annual meeting of stockholders and the increase in director compensation to take effect following our 2007 annual meeting of stockholders are a result of the committee s efforts to set director compensation at a level that is commensurate with peer companies in our industry. To assist it in its evaluation, the committee obtained industry data from Hewitt Associates LLC, a consulting firm. The increase to take effect following our 2007 annual meeting of stockholders is intended to place our director compensation at or near the 50^{th} percentile of a selected group of peer companies. The selected group includes Apache Corporation, Cabot Oil & Gas Corporation, Forest Oil Corporation, Murphy Oil Corporation, Nexen Inc., Noble Energy, Inc., Pioneer Natural Resources Company and Pogo Producing Company.

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EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

Our Compensation & Management Development Committee oversees the administration of compensation programs applicable to all of our employees, including our executive officers. With limited exceptions, the committee makes all decisions regarding the compensation of our executive officers in February of each year. These decisions include adjustments to base salary, grants of current and deferred awards under our incentive compensation plan and grants of long-term equity awards. Exceptions include promotions and compensation adjustments made for competitive purposes. Because this analysis addresses 2006 compensation, it discusses some of the compensation determinations made in February 2006 (increases in base salary and grants of restricted shares) and some of the determinations made in February 2007 (grants of awards under our incentive compensation plan relating to 2006).

Compensation Objectives. Our compensation program is designed to attract and retain key employees and encourage growth in long-term stockholder value. The oil and gas industry has experienced robust conditions for the last four to five years after years of low commodity prices. The period of low prices resulted in significant attrition within the industry workforce. More recently, competition for talented geoscientists and petroleum engineers has become more acute. We believe that it is imperative that we maintain highly competitive compensation programs to attract and retain quality personnel.

The cornerstone of our compensation program at all levels is pay for performance. We measure performance at individual and corporate levels. To achieve our objectives, we have structured our compensation program for executive officers to include a base salary, current and deferred awards under our performance-based incentive compensation plan and grants of long-term equity awards with performance-based vesting.

Historically, we have set base salaries for our executive officers below the median for comparable positions at a selected group of peer companies in our industry. This places a large percentage of our executive officers compensation at risk under our performance-based incentive compensation plan and long-term equity awards with performance-based vesting, which is consistent with our pay for performance philosophy.

Our incentive compensation plan (discussed below) is designed to reward profitability. We do not grant significant awards under our incentive compensation plan to our executive officers during years of lower profitability. Our incentive compensation plan is also designed to reward individual performance. Individual awards are granted based upon an executive s impact during the year and his or her overall value to our company. In determining overall value, we take into account long-term performance, leadership, mentoring skills and other intangible qualities that contribute to corporate and individual success.

Awards under our incentive compensation plan generally exceed industry average bonuses. We use current awards under our incentive compensation plan to keep our current cash compensation for our executive officers competitive with our industry peers and to balance the total cash portion of our compensation package when justified by performance. We use deferred awards under our incentive compensation plan and grants of long-term equity awards as retention incentives for employees and as an attempt to remain competitive with awards granted to comparable positions for comparable performance in our industry. Usually, a significant portion of the awards granted to our executive officers under our incentive compensation plan are deferred and paid out in four equal annual installments. With a few exceptions, executives are entitled to deferred awards only if they remain employed by us through the date of payment of the awards. We use these deferred awards along with grants of long-term equity awards as incentives to retain our executives and to align their interests with the interests of our stockholders.

We take into account the following items of corporate performance in making compensation decisions for our executive officers:

- our financial and operational performance for the year measured against our budget, after taking into account industry conditions, and against our peers;
- total return to our stockholders as compared to our peers;

capital efficient growth of oil and natural gas reserves and production as measured against annual goals and objectives;

projected future growth through the development of existing projects, the creation and capture of new play concepts and the potential for new transactions;

leadership and representation of our company; and

contribution to the overall success of our company.

Compensation Process. The committee has the sole authority to oversee the administration of compensation programs applicable to all of our employees, including executive officers. The managers of our operating and service units (most of whom are executive officers) are primarily responsible for evaluating and making recommendations regarding annual incentive compensation and equity awards with respect to those employees assigned to his or her unit. These recommendations are reviewed by an executive team consisting of our chief executive officer and our executive and senior vice presidents. After preparing his own evaluation of each unit manager and the other executive officers, our chief executive officer makes recommendations to the committee. Beginning with the 2005 award year, the committee retained Hewitt Associates LLC, a consulting firm, to assist it in compensation matters. The committee considers the information and recommendations provided by our chief executive officer and Hewitt in making compensation determinations.

Chief Executive Officer. Our chief executive officer provides the committee with an evaluation of his performance that is based, in large part, upon the items listed above. The committee evaluates our chief executive officer on these and other criteria. The total compensation package for our chief executive officer is determined based on this evaluation and input from Hewitt. This package reflects his performance, the performance of our company and competitive industry practices.

Other Executive Officers. Our chief executive officer makes recommendations to the committee on all compensation actions (other than his own compensation) affecting our executive officers. In developing his recommendation for an executive officer, our chief executive officer considers the self-evaluation prepared by the executive officer, the recommendations of our executive team to the extent applicable, input from Hewitt and his own evaluation. Our chief executive officer s evaluation includes an assessment of the impact that the executive officer has had on our company during the award year and the executive officer s overall value to the company as a senior leader. The assessment covers leadership and management capability, potential for future advancement and contributions to the long-term success of our company.

The committee is provided with a summary of the self-evaluations of the executive officers and a summary of our chief executive officer s evaluation along with the summaries for the past two or three years, which are used to assess long-term performance. Hewitt reviews and provides comments to the committee on our chief executive officer s recommendations. The committee considers the information and recommendations provided by our chief executive officer and Hewitt when it establishes current and deferred awards under our incentive compensation plan and grants of long-term equity awards.

Role of Consultant. Hewitt assists the committee and our chief executive officer in developing a competitive total compensation program that is consistent with our philosophy of pay for performance and to maintain a competitive total compensation package that will allow us to attract and retain top executives. Hewitt s services include providing an annual comprehensive evaluation of the compensation of our top executive officers and their counterparts at a group of peer companies. The evaluation consists of a comparison of each element of compensation and a comparison of total compensation. For purposes of the 2006 compensation review process, the peer companies included in the evaluation were Apache Corporation, Cabot Oil & Gas Corporation, Chesapeake Energy Corporation, EOG Resources, Inc., Forest Oil Corporation, Kerr-McGee Corporation, Murphy Oil Corporation, Nexen Inc., Noble Energy, Inc., Pioneer Natural Resources Company, Plains Exploration & Production Company, Pogo Producing Company and Western Gas Resources, Inc.

Elements of Compensation. Our compensation program for executive officers includes a base salary, current and deferred awards under our incentive compensation plan and grants of long-term equity awards. We also encourage our executive officers to save for retirement by matching (subject to the limits described below) each executive s contribution to our 401(k) plan and deferred compensation plan for highly compensated employees. We do not, however, offer defined pension benefits or significant perquisites to our executive officers.

Base Salary. Base salaries for executive officers are generally set below the median for comparable positions within our industry. As a result, a large portion of each executive officer s compensation is dependent upon corporate and individual performance.

Current and Deferred Awards Under Our Incentive Compensation Plan. We grant awards under our incentive compensation plan to reward our profitability. Our incentive compensation plan provides for the creation each calendar year of an award pool that is generally equal to 5% of our adjusted net income (as defined in the plan) plus the revenues attributable to designated overriding royalty or similar interests bearing on the interests of certain third party participants. At least 85% of the annual award pool must be paid out each year and up to 15% may be carried forward to the next year. All awards are paid in cash. Historically, the vast majority of awards have consisted of both a current and a deferred amount. Deferred awards are paid in four annual installments, each installment consisting of 25% of the deferred award, plus interest. Usually, a significant portion of the grants under the plan are in the form of deferred awards (38.1% in the aggregate and 47.6% for executive officers for the 2006 plan year and 33% in the aggregate and 47% for executive officers for the 2005 plan year). Employees are generally entitled to a deferred award only if they remain employed by us through the date of payment of the award. If an employee is terminated by us without cause (as defined in the plan), however, such employee will be entitled to receive regular installments of any outstanding deferred awards. Employees that have been continuously employed by us since December 31, 1992 are entitled to regular installments of their deferred awards regardless of their employment status with us unless they are terminated for cause (as defined in the plan).

In addition to rewarding our executive officers for our profitability, we grant awards under our incentive compensation plan to reward individual performance that contributed to the performance of our company. Annual current awards are set to bring total cash compensation to a competitive level for comparable positions within our industry if justified by performance. Deferred awards are long-term incentives designed to smooth out compensation in high and low net income years and as a retention incentive.

Long-Term Equity Awards Under Our Omnibus Stock Plans. We provide equity-based compensation and incentives to our executive officers through the award of restricted shares with performance-based vesting. We also may provide equity-based compensation and incentives to our executive officers through the award of time vested restricted shares or share units. Long-term equity awards are granted to executive officers as a reward for performance and to align their interests with the long-term growth and profitability of our company. The amount of each award is based upon individual performance and industry trends. Amounts realizable from prior equity-based awards also are considered in setting the amount of each award. Prior to 2003, long-term equity awards consisted of a combination of stock options and restricted shares.

Savings/Deferred Compensation Plans. Our 401(k) plan and deferred compensation plan for highly compensated employees allow an eligible executive to defer up to 90% of his or her salary and all of his or her bonus on an annual basis. We make a matching contribution for up to 8% of the executive s base salary.

Perquisites. We do not provide any significant perquisites to our executive officers.

Stock Ownership. We do not have stock ownership requirements or guidelines for our executive officers. However, all of our executive officers receive a significant amount of their total compensation in the form of grants of long-term equity awards. Our employees and directors generally are prohibited from trading in any derivatives related to our stock. Our executive officers and directors, however, may enter into long-term hedging transactions involving our stock if they receive approval from our Board.

Financial Restatements. Our Board has not adopted a formal policy regarding the effects of a financial restatement on prior awards. Our incentive compensation plan, however, provides for adjustments to future award pools for financial restatements.

Tax Deductibility Considerations. Section 162(m) of the Internal Revenue Code generally disallows a tax deduction to a public company for compensation paid to its chief executive officer or any of its four other most highly compensated executive officers to the extent that the compensation of any of these officers exceeds $1 million in any calendar year. Qualifying performance-based compensation is not subject to the deduction limit.

The committee s primary goal is to design compensation strategies that further our best interests and the best interests of our stockholders. To the extent not inconsistent with that goal, we attempt where practical to use compensation policies and programs that preserve the deductibility of compensation expense. The restricted stock awards granted in 2005 and 2006 under our stock plans are designed to qualify as performance-based compensation. However, the restricted stock granted in 2003 and all of the awards under our incentive compensation plan do not qualify as performance-based compensation for purposes of Section 162(m).

2006 Executive Compensation. The 2006 Hewitt report was an important factor in the committee s determination of the level of total compensation for our executive officers and for allocations between current and deferred awards under our incentive compensation plan. The report was used to set total cash compensation for our executive officers at the appropriate level based upon performance. The remainder of the awards were deferred. Specific actions taken by the committee regarding 2006 compensation for our chief executive officer, our chief financial officer and each of our three other most highly compensated executive officers (these five executive officers are referred to as the named executive officers) are summarized below.

Mr. Pew, one of our named executive officers, retired from our company effective immediately after the end of 2006. The committee did not grant Mr. Pew a deferred award under our incentive compensation plan because it would have been immediately forfeited as result of his prior retirement.

Base Salary. Annual base salaries for our named executive officers increased between 12% and 37% in 2006 compared to 2005 (37% for Mr. Trice, 16% for Mr. Rathert, 17% for Mr. Schaible, 19% for Mr. Pew and 12% for Mr. Boothby). The relatively large increase in Mr. Trice s base salary was primarily attributable to the committee s efforts to keep his salary within a reasonable range of the base salaries paid to chief executive officers of peer companies in our industry. Base salary adjustments in 2006 for the other named executive officers were based on peer group information, general levels of market salary increases, cost of living adjustments, individual performance and our overall financial and operating results, without any specific relative weight assigned to any of these factors.

Base salaries for our named executive officers represented between 10% and 20% of their total compensation for 2006 (10% for Mr. Trice, 11% for Mr. Rathert, 12% for Mr. Schaible, 20% for Mr. Pew and 11% for Mr. Boothby). With the exception of Mr. Pew, these percentages are consistent with our pay for performance philosophy. Mr. Pew s base salary as a percentage of total compensation is relatively high because he did not receive a deferred award under our incentive compensation plan because of his retirement.

Incentive Compensation Awards. Awards granted under our incentive compensation plan to the named executive officers in February 2007 for the 2006 performance period are presented under Bonus in the 2006 Summary Compensation Table set forth below. After taking into account carryovers, the available award pool for our incentive compensation plan in 2006 was comparable to the 2005 award pool.

The changes in incentive compensation awards granted to our named executive officers in 2006 from the awards granted in 2005 ranged between a 50% decrease and a 72% increase (an 8% decrease for Mr. Trice, a 9% increase for Mr. Rathert, a 7% decrease for Mr. Schaible, a 50% decrease for Mr. Pew and a 72% increase for Mr. Boothby). Awards for Messrs. Trice, Schaible and Pew were negatively impacted by our corporate performance during 2006. Mr. Pew s award also decreased because he did not receive a deferred award as a result of his retirement. Mr. Rathert s award increased as a result of his efforts in reaching an agreement with our insurance underwriters to settle all claims related to Hurricanes Katrina and Rita, in obtaining insurance for the 2006 hurricane season and in connection with the April 2006 issuance of $550 million principal amount of our 6 % Senior Subordinated Notes due 2016 and the redemption of $250 million principal amount of our 8 % Senior Subordinated Notes due 2012. Mr. Boothby s award was increased to recognize the exceptional performance of our Mid-Continent division and the impact the resource plays in the Mid-Continent have had on our results.

Incentive compensation awards for our named executive officers represented between 43% and 65% of their total compensation for 2006 (50% for Mr. Trice, 50% for Mr. Rathert, 51% for Mr. Schaible, 43% for Mr. Pew and 65% for Mr. Boothby). With the exception of Mr. Pew, these percentages are consistent with our pay for

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performance philosophy. Mr. Pew s incentive compensation award as a percentage of total compensation is relatively low because he did not receive a deferred award as a result of his retirement.

The allocation of the available pool among employees was based upon an employee s impact on our 2006 results (weighted approximately 50%) and overall value to our company (including some consideration of future expectations) (weighted approximately 50%). The committee established awards for each of our named executive officers (other than our chief executive officer) after considering the recommendations of our chief executive officer and Hewitt. Based on these recommendations, with the exception of Mr. Pew, about 50% of the grants to these executive officers were in the form of deferred awards. The committee established the award for our chief executive o