

APACHE CORP  
Form 10-Q  
August 09, 2006

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
Form 10-Q**

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934**  
**For the Quarterly Period Ended June 30, 2006**

**OR**

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934**  
**For the Transition Period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission File Number 1-4300**

**APACHE CORPORATION**

(Exact Name of Registrant as Specified in Its Charter)

Delaware

41-0747868

(State or Other Jurisdiction of  
Incorporation or Organization)

(I.R.S. Employer  
Identification Number)

Suite 100, One Post Oak Central  
2000 Post Oak Boulevard, Houston, TX

77056-4400

(Address of Principal Executive Offices)

(Zip Code)

Registrant's Telephone Number, Including Area Code: (713) 296-6000

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES  NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer" and "large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

YES  NO

Number of shares of Registrant's common stock, outstanding as of June 30, 2006 329,240,307

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**APACHE CORPORATION AND SUBSIDIARIES**  
**STATEMENT OF CONSOLIDATED OPERATIONS**  
**(Unaudited)**

	<b>For the Quarter</b>		<b>For the Six Months</b>	
	<b>Ended June 30,</b>		<b>Ended June 30,</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
	(In thousands, except per common share data)			
<b>REVENUES AND OTHER:</b>				
Oil and gas production revenues	\$ 2,085,127	\$ 1,774,535	\$ 4,035,425	\$ 3,401,184
Other	(23,609)	(15,304)	25,195	20,335
	2,061,518	1,759,231	4,060,620	3,421,519
<b>OPERATING EXPENSES:</b>				
Depreciation, depletion and amortization	441,438	359,011	814,015	698,424
Asset retirement obligation accretion	20,861	13,330	41,506	26,489
Lease operating costs	312,402	255,430	604,016	488,601
Gathering and transportation costs	25,809	26,178	51,913	49,958
Severance and other taxes	168,402	86,593	314,816	158,779
General and administrative	52,191	52,002	97,863	102,413
<b>Financing costs:</b>				
Interest expense	50,136	44,807	92,999	90,073
Amortization of deferred loan costs	521	2,047	1,029	2,705
Capitalized interest	(15,882)	(14,254)	(30,075)	(27,663)
Interest income	(3,267)	(875)	(9,631)	(1,802)
	1,052,611	824,269	1,978,451	1,587,977
<b>INCOME BEFORE INCOME TAXES</b>	<b>1,008,907</b>	<b>934,962</b>	<b>2,082,169</b>	<b>1,833,542</b>
Provision for income taxes	285,282	346,932	697,623	685,029
<b>NET INCOME</b>	<b>723,625</b>	<b>588,030</b>	<b>1,384,546</b>	<b>1,148,513</b>
Preferred stock dividends	1,420	1,420	2,840	2,840
<b>INCOME ATTRIBUTABLE TO COMMON STOCK</b>	<b>\$ 722,205</b>	<b>\$ 586,610</b>	<b>\$ 1,381,706</b>	<b>\$ 1,145,673</b>
<b>NET INCOME PER COMMON SHARE:</b>				
Basic	\$ 2.19	\$ 1.79	\$ 4.19	\$ 3.49
Diluted	\$ 2.17	\$ 1.76	\$ 4.14	\$ 3.44

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

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**APACHE CORPORATION AND SUBSIDIARIES**  
**STATEMENT OF CONSOLIDATED CASH FLOWS**  
**(Unaudited)**

	<b>For the Six Months Ended</b>	
	<b>June 30,</b>	
	<b>2006</b>	<b>2005</b>
	(In thousands)	
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 1,384,546	\$ 1,148,513
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion and amortization	814,015	698,424
Asset retirement obligation accretion	41,506	26,489
Provision for deferred income taxes	214,883	227,417
Other	34,929	27,873
Changes in operating assets and liabilities:		
(Increase) decrease in receivables	42,240	(199,634)
(Increase) decrease in drilling advances and other	(2,824)	(21,631)
(Increase) decrease in inventories	4,927	9,020
(Increase) decrease in deferred charges and other	(30,876)	(13,368)
Increase (decrease) in accounts payable	(137,483)	2,063
Increase (decrease) in accrued expenses	(129,392)	(57,335)
Increase (decrease) in advances from gas purchasers	(12,245)	(10,883)
Increase (decrease) in deferred credits and noncurrent liabilities	1,082	(7,767)
Net cash provided by operating activities	2,225,308	1,829,181
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Additions to property and equipment	(1,873,238)	(1,760,690)
Acquisition of BP plc properties	(821,282)	
Acquisition of Pioneer s Argentine operations	(702,629)	
Acquisition of Amerada Hess properties	(229,095)	
Additions to gas gathering, transmission and processing facilities	(144,489)	(207,593)
Proceeds from sale of Egyptian properties	409,197	
Other, net	(138,268)	232,032
Net cash used in investing activities	(3,499,804)	(1,736,251)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Debt borrowings	1,356,648	84,025
Payments on debt	(72,574)	(193,530)
Dividends paid	(68,888)	(55,307)
Common stock activity	16,460	19,894
Treasury stock activity, net	(155,552)	8,409

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Cost of debt and equity transactions	(1,158)	(722)
Other	12,626	12,466
Net cash provided by (used in) financing activities	1,087,562	(124,765)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(186,934)	(31,835)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	228,860	111,093
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 41,926	\$ 79,258

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

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**APACHE CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEET**  
(Unaudited)

	<b>June 30, 2006</b>	<b>December 31, 2005</b>
	(In thousands)	
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 41,926	\$ 228,860
Receivables, net of allowance	1,506,322	1,444,545
Inventories	257,987	209,670
Drilling advances	127,455	146,047
Prepaid assets and other	169,449	132,955
	2,103,139	2,162,077
 <b>PROPERTY AND EQUIPMENT:</b>		
Oil and gas, on the basis of full cost accounting:		
Proved properties	26,700,080	23,836,789
Unproved properties and properties under development, not being amortized	1,149,667	795,706
Gas gathering, transmission and processing facilities	1,610,575	1,359,477
Other	336,283	312,970
	29,796,605	26,304,942
Less: Accumulated depreciation, depletion and amortization	(10,326,205)	(9,513,602)
	19,470,400	16,791,340
 <b>OTHER ASSETS:</b>		
Goodwill, net	189,252	189,252
Deferred charges and other	148,564	129,127
	\$ 21,911,355	\$ 19,271,796

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

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**APACHE CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEET**  
**(Unaudited)**

	<b>June 30, 2006</b>	<b>December 31, 2005</b>
	(In thousands)	
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 616,862	\$ 714,598
Accrued operating expense	66,616	66,609
Accrued exploration and development	441,737	460,203
Accrued compensation and benefits	115,944	125,022
Accrued interest	31,467	32,564
Accrued income taxes	31,961	120,153
Current debt	1,287,000	274
Asset retirement obligation	208,437	93,557
Derivative instruments	220,610	256,115
Other	288,532	317,469
	3,309,166	2,186,564
 <b>LONG-TERM DEBT</b>	 2,189,302	 2,191,954
 <b>DEFERRED CREDITS AND OTHER NONCURRENT LIABILITIES:</b>		
Income taxes	2,873,909	2,580,629
Advances from gas purchasers	56,523	68,768
Asset retirement obligation	1,392,233	1,362,358
Derivative instruments	70,449	152,430
Other	189,880	187,878
	4,582,994	4,352,063
 <b>SHAREHOLDERS EQUITY:</b>		
Preferred stock, no par value, 5,000,000 shares authorized Series B, 5.68% Cumulative Preferred Stock, 100,000 shares issued and outstanding	98,387	98,387
Common stock, \$0.625 par, 430,000,000 shares authorized, 338,198,348 and 336,997,053 shares issued, respectively	211,374	210,623
Paid-in capital	4,221,376	4,170,714
Retained earnings	7,832,485	6,516,863
Treasury stock, at cost, 8,958,041 and 6,875,823 shares, respectively	(245,316)	(89,764)
Accumulated other comprehensive loss	(288,413)	(365,608)

11,829,893 10,541,215

\$ 21,911,355 \$ 19,271,796

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are an integral part of this statement.

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**APACHE CORPORATION AND SUBSIDIARIES**  
**STATEMENT OF CONSOLIDATED SHAREHOLDERS EQUITY**  
**(Unaudited)**

	Series B		Accumulated						
			Comprehensive Income	Preferred Stock	Common Stock	Paid-In Capital	Retained Earnings	Treasury Stock	Other Comprehensive Income (Loss)
(In thousands, except per share)									
BALANCE AT DECEMBER 31, 2004		\$ 98,387	\$ 209,320	\$ 4,106,182	\$ 4,017,339	\$ (97,325)	\$ (129,482)	\$ 8,204,421	
Comprehensive income (loss):									
Net income	\$ 1,148,513				1,148,513			1,148,513	
Commodity hedges, net of income tax benefit of \$86,960	(144,797)						(144,797)	(144,797)	
Comprehensive income	\$ 1,003,716								
Dividends:									
Preferred					(2,840)			(2,840)	
Common (\$.16 per share)					(52,561)			(52,561)	
Common shares issued			597	35,475				36,072	
Treasury shares issued, net				2,043		5,678		7,721	
Other				99				99	
BALANCE AT JUNE 30, 2005		\$ 98,387	\$ 209,917	\$ 4,143,799	\$ 5,110,451	\$ (91,647)	\$ (274,279)	\$ 9,196,628	
BALANCE AT DECEMBER 31, 2005		\$ 98,387	\$ 210,623	\$ 4,170,714	\$ 6,516,863	\$ (89,764)	\$ (365,608)	\$ 10,541,215	
Comprehensive income (loss):									
Net income	\$ 1,384,546				1,384,546			1,384,546	
Commodity hedges, net of income tax expense of \$42,486	77,195						77,195	77,195	
Comprehensive income	\$ 1,461,741								
Dividends:									
Preferred					(2,840)			(2,840)	
Common (\$.20 per share)					(66,084)			(66,084)	
Common shares issued			751	46,661				47,412	
Treasury shares activity, net				3,944		(155,552)		(151,608)	
Other				57				57	
BALANCE AT JUNE 30, 2006		\$ 98,387	\$ 211,374	\$ 4,221,376	\$ 7,832,485	\$ (245,316)	\$ (288,413)	\$ 11,829,893	

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**APACHE CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**

These financial statements have been prepared by Apache Corporation (Apache or the Company) without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (SEC), and reflect all adjustments which are, in the opinion of management, necessary for a fair statement of the results for the interim periods, on a basis consistent with the annual audited financial statements. All such adjustments are of a normal recurring nature. Certain information, accounting policies, and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been omitted pursuant to such rules and regulations, although the Company believes that the disclosures are adequate to make the information presented not misleading. These financial statements should be read in conjunction with the financial statements and the summary of significant accounting policies and notes included in the Company's most recent annual report on Form 10-K.

**Reclassifications**

Certain prior period amounts have been reclassified to conform with current year presentations.

**1. ACQUISITIONS AND DIVESTITURES****2006 Acquisitions and Divestitures***Amerada Hess*

On January 5, 2006, the Company purchased Amerada Hess's interest in eight fields located in the Permian Basin of West Texas and New Mexico. The original purchase price was reduced from \$404 million to \$269 million because other interest owners exercised their preferential rights on a number of the properties. The settlement price on the date of closing of \$239 million was adjusted primarily for revenues and expenditures occurring between the closing date and the effective date of the acquisition. Apache estimates that these fields had proved reserves of 27 million barrels (MMbbls) of liquid hydrocarbons and 27 billion cubic feet (Bcf) of natural gas as of year-end 2005.

On January 6, 2006, the Company completed the sale of its 55 percent interest in the deepwater section of Egypt's West Mediterranean Concession to Amerada Hess for \$413 million. Apache did not have any proved reserves booked for these properties. Apache first announced this transaction on October 13, 2005.

*Pioneer Natural Resources (Pioneer)*

On April 25, 2006, the Company completed the previously announced acquisition of Pioneer's operations in Argentina. The transaction was first announced on January 17, 2006 for \$675 million. The total cash consideration allocated below includes working capital balances purchased by the Company, asset retirement liabilities assumed and transaction costs. The properties are located in the Neuquén, San Jorge and Austral basins of Argentina and had estimated net proved reserves of approximately 22 MMbbls of liquid hydrocarbons and 297 Bcf of natural gas as of December 31, 2005. The properties include eight gas processing plants (five operated and three non-operated) and 112 miles of operated pipelines in the Neuquén Basin. Also included are 2,200 square miles of 3-D seismic data. Apache financed the purchase with cash on hand and commercial paper.

The purchase price was allocated to the assets acquired and liabilities assumed based upon the estimated fair values as of the date of acquisition, as follows (in thousands):

Proved property	\$ 501,938
Unproved property	189,500
Gas Plants	51,200
Working capital acquired, net	11,256
Asset retirement obligation	(13,635)
Deferred income tax liability	(37,630)
Cash consideration	\$ 702,629