APACHE CORP
Form 10-Q
May 07, 2010

Table of Contents

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

(Mark One)

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 2010

OR

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission File Number 1-4300
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)

One Post Oak Central, 2000 Post Oak Boulevard, Suite 100, Houston, Texas 77056-4400
(Address of principal executive offices)
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 þ No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer þ	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ

Number of shares of registrant s common stock outstanding as of April 30, 2010
337,268,303

TABLE OF CONTENTS

Table of Contents

PART I FINANCIAL INFORMATION

ITEM 1 FINANCIAL STATEMENTS

APACHE CORPORATION AND SUBSIDIARIES
STATEMENT OF CONSOLIDATED OPERATIONS
(Unaudited)

	For the Quarter Ended March 31, 2010	2009
	(In thousands, except per common share data)	
REVENUES AND OTHER:		
Oil and gas production revenues	$ 2,693,625	$ 1,603,614
Other	(20,374)	30,211
	2,673,251	1,633,825
OPERATING EXPENSES:		
Depreciation, depletion and amortization		
Recurring	638,498	580,617
Additional		2,818,161
Asset retirement obligation accretion	24,002	26,738
Lease operating expenses	440,246	397,489
Gathering and transportation	40,365	33,339
Taxes other than income	176,938	87,339
General and administrative	87,150	85,046
Financing costs, net	59,267	58,587
	1,466,466	4,087,316
INCOME (LOSS) BEFORE INCOME TAXES	1,206,785	(2,453,491)
Current income tax provision	342,974	2,494
Deferred income tax provision (benefit)	158,830	(699,045)
NET INCOME (LOSS)	704,981	(1,756,940)
Preferred stock dividends		1,420
INCOME (LOSS) ATTRIBUTABLE TO COMMON STOCK	$ 704,981	$ (1,758,360)
NET INCOME (LOSS) PER COMMON SHARE:		
Basic	$ 2.09	$ (5.25)
Diluted	$ 2.08	$ (5.25)

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

Table of Contents

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

	For the Quarter Ended March 31, 2010	2009
	(In thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$ 704,981	$ (1,756,940)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation, depletion and amortization	638,498	3,398,778
Asset retirement obligation accretion	24,002	26,738
Provision for (benefit from) deferred income taxes	158,830	(699,045)
Other	41,569	13,528
Changes in operating assets and liabilities:		
Receivables	(268,852)	69,138
Inventories	(7,884)	6,522
Drilling advances	4,376	(16,095)
Deferred charges and other	3,392	44,394
Accounts payable	116,378	(161,200)
Accrued expenses	(274,086)	(341,717)
Deferred credits and noncurrent liabilities	12,225	(40,885)
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,153,429	543,216
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to oil and gas property	(958,759)	(946,352)
Additions to gas gathering, transmission and processing facilities	(115,302)	(112,839)
Restricted cash		13,880
Other	26,311	(36,480)
NET CASH USED IN INVESTING ACTIVITIES	(1,047,750)	(1,081,791)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Commercial paper, credit facility and bank notes, net	(3,327)	92,563
Payments on fixed-rate notes		(100,000)
Dividends paid	(50,481)	(51,633)
Common stock activity	11,170	245
Treasury stock activity, net	1,222	1,755
Cost of debt and equity transactions	(228)	(72)
Other	13,482	3,960

NET CASH USED IN FINANCING ACTIVITIES	(28,162)	(53,182)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	77,517	(591,757)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	2,048,117	1,181,450
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 2,125,634	$ 589,693
SUPPLEMENTARY CASH FLOW DATA:		
Interest paid, net of capitalized interest	$ 74,186	$ 77,468
Income taxes paid, net of refunds	292,926	(19,615)

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

2

Table of Contents

APACHE CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
(Unaudited)

	March 31, 2010	December 31, 2009
	(In thousands)	
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 2,125,634	$ 2,048,117
Receivables, net of allowance	1,818,139	1,545,699
Inventories	497,749	533,251
Drilling advances	224,492	230,733
Prepaid taxes	130,119	146,653
Prepaid assets and other	242,122	81,396
	5,038,255	4,585,849
PROPERTY AND EQUIPMENT:		
Oil and gas, on the basis of full-cost accounting:		
Proved properties	45,106,536	44,267,037
Unproved properties and properties under development, not being amortized	1,654,341	1,479,008
Gas gathering, transmission and processing facilities	3,304,479	3,189,177
Other	504,480	492,511
	50,569,836	49,427,733
Less: Accumulated depreciation, depletion and amortization	(27,164,979)	(26,527,118)
	23,404,857	22,900,615
OTHER ASSETS:		
Goodwill, net	189,252	189,252
Deferred charges and other	595,797	510,027
	$ 29,228,161	$ 28,185,743

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

Table of Contents

APACHE CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
(Unaudited)

	March 31, 2010	December 31, 2009
	(In thousands)	
LIABILITIES AND SHAREHOLDERS EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 536,613	$ 396,564
Accrued operating expense	86,990	90,151
Accrued exploration and development	929,233	923,084
Accrued compensation and benefits	92,062	151,408
Current debt	113,634	117,326
Asset retirement obligation	138,879	146,654
Other	343,315	567,371
	2,240,726	2,392,558
LONG-TERM DEBT	4,950,755	4,950,390
DEFERRED CREDITS AND OTHER NONCURRENT LIABILITIES:		
Income taxes	3,015,580	2,764,901
Asset retirement obligation	1,652,137	1,637,357
Other	610,427	661,916
	5,278,144	5,064,174
COMMITMENTS AND CONTINGENCIES (Note 9)		
SHAREHOLDERS EQUITY:		
Common stock, $0.625 par, 430,000,000 shares authorized, 344,722,767 and 344,076,790 shares issued, respectively	215,452	215,048
Paid-in capital	4,708,010	4,634,326
Retained earnings	12,091,022	11,436,580
Treasury stock, at cost, 7,595,503 and 7,639,818 shares, respectively	(215,574)	(216,831)
Accumulated other comprehensive income (loss)	(40,374)	(290,502)
	16,758,536	15,778,621
	$ 29,228,161	$ 28,185,743

The accompanying notes to consolidated financial statements
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Table of Contents

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

	Comprehensive Income (Loss)	Series B Preferred Stock	Common Stock	Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total Shareholders Equity
				(In thousands)				
BALANCE AT DECEMBER 31, 2008		$ 98,387	$ 214,221	$ 4,472,826	$ 11,929,827	$ (228,304)	$ 21,764	$ 16,508,721
Comprehensive income (loss):								
Net income (loss)	$ (1,756,940)				(1,756,940)			(1,756,940)
Commodity hedges, net of income tax expense of $5,073	15,251						15,251	15,251
Comprehensive income (loss)	$ (1,741,689)							
Dividends:								
Preferred					(1,420)			(1,420)
Common ($.15 per share)					(50,221)			(50,221)
Common shares issued			245	(836)				(591)
Treasury shares issued, net				(1,574)		2,374		800
Compensation expense				26,486				26,486
Other				(936)				(936)
BALANCE AT MARCH 31, 2009		$ 98,387	$ 214,466	$ 4,495,966	$ 10,121,246	$ (225,930)	$ 37,015	$ 14,741,150
BALANCE AT		$	$ 215,048	$ 4,634,326	$ 11,436,580	$ (216,831)	$ (290,502)	$ 15,778,621

DECEMBER 31, 2009								
Comprehensive income (loss):								
Net income (loss)	$ 704,981				704,981			704,981
Commodity hedges, net of income tax expense of $110,536	250,128						250,128	250,128
Comprehensive income (loss)	$ 955,109							
Common stock dividends ($.15 per share)					(50,539)			(50,539)
Common shares issued			404	11,519				11,923
Treasury shares issued, net				888		1,257		2,145
Compensation expense				61,127				61,127
Other				150				150
BALANCE AT MARCH 31, 2010		$	$ 215,452	$ 4,708,010	$ 12,091,022	$ (215,574)	$ (40,374)	$ 16,758,536

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

5

Table of Contents

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

0. General Accounting Description

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). They reflect all adjustments that 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 (U.S. GAAP) 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. This Quarterly Report on Form 10-Q should be read along with the Annual Report on Form 10-K for the fiscal year ended December 31, 2009, which contains a summary of the Company s significant accounting policies and other disclosures. Additionally, the Company s financial statements for prior periods include reclassifications that were made to conform to the current-period presentation.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As of March 31, 2010, Apache s significant accounting policies are consistent with those discussed in Note 1 of its consolidated financial statements contained in the Annual Report on Form 10-K for the fiscal year ended December 31, 2009.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates with regard to these financial statements include the estimate of proved oil and gas reserves and related present value estimates of future net cash flow therefrom, asset retirement obligations and income taxes. Actual results could differ from those estimates.

2. ACQUISITIONS

In the first quarter of 2010, Apache acquired a 51-percent interest in Kitimat LNG Inc s. proposed LNG export terminal (Kitimat) in British Columbia. The Company also reserved 51 percent of throughput capacity in the terminal. Planned plant gross capacity will be approximately 700 million cubic feet of natural gas per day (MMcf/d), or five million metric tons of LNG per day. This project has the potential to access new markets in the Asia-Pacific region and allow Apache to monetize gas from its Canadian region, including its interest in the Horn River Basin in northeast British Columbia. A final investment decision is expected in 2011, with the first LNG shipments projected as early as 2014. Apache became the operator of the Kitimat LNG export project in the first quarter of 2010. Preliminary gross construction cost estimates, which will be refined upon completion of a front-end engineering and design (FEED) study, total C$3 billion. Kitimat is designed to be linked to the pipeline system servicing Western Canada s natural gas producing regions via the proposed Pacific Trail Pipelines, a project with a current estimated gross cost of C$1.1 billion. In association with the Company s acquisition of interest in the Kitimat project, Apache also acquired a 25.5-percent interest in the proposed pipeline and 350 MMcf/d of net capacity rights.

Table of Contents

3. SUBSEQUENT EVENTS

Gulf of Mexico Shelf Acquisition

On April 12, 2010, Apache announced the acquisition of oil and gas assets on the Gulf of Mexico shelf from Devon Energy Corporation (Devon) for $1.05 billion, effective January 1, 2010. Completion of the transaction is subject to preferential rights to purchase held by the other working interest owners in the properties (preferential rights) as well as customary closing conditions, purchase price adjustments and the expiration of the waiting periods under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (the HSR Act). On April 23, 2010, we received noticed from the Federal Trade Commission that the early termination of the waiting period under the HSR Act has been granted effective immediately. Approximately half of the value of this transaction is subject to preferential rights.

The acquired assets comprise 477,000 net acres across 158 blocks. The fields have 80 platforms and 211 production caissons in waters to 450 feet deep. Approximately half of the estimated proved reserves of 41 million barrels of oil equivalent (MMboe) are oil and natural gas liquids. The property interests are projected to produce 9,500 barrels of oil per day (b/d) and 55 MMcf/d (net) after closing, which is expected in June 2010. Devon operates 75 percent of the production. Apache will fund the acquisition primarily from existing cash balances supplemented with commercial paper.

Mariner Energy, Inc. Merger Agreement

On April 15, 2010, Apache Corporation, a Delaware corporation (Apache), and Mariner Energy, Inc., a Delaware corporation (Mariner), announced that they have entered into a definitive agreement pursuant to which Apache will acquire Mariner in a stock and cash transaction. The Agreement and Plan of Merger dated April 14, 2010 (the Merger Agreement), by and among Apache, Mariner and ZMZ Acquisitions LLC, a Delaware limited liability company and wholly owned subsidiary of Apache (Merger Sub), contemplates a merger (the Merger) whereby Mariner will be merged with and into Merger Sub, with Merger Sub surviving the Merger as a wholly owned subsidiary of Apache.

The total amount of cash and shares of Apache common stock that will be paid and issued, respectively, pursuant to the Merger Agreement is fixed, and Mariner stockholders will be entitled to receive (on an aggregate basis) 0.17043 of a share of Apache common stock, par value $0.625 per share, and $7.80 in cash for each share of Mariner common stock (the Mixed Consideration). Mariner stockholders have the right to elect to receive all cash ($26.00 per share), all Apache common stock (0.24347 of a share of Apache common stock) or the Mixed Consideration, subject to proration procedures as provided in the Merger Agreement.

Upon completion of the Merger, each outstanding option to purchase Mariner common stock will be converted into a fully vested option to purchase 0.24347 shares of Apache common stock.

In connection with the Merger, Apache expects to issue approximately 17.5 million shares of common stock (an increase of approximately five percent in our outstanding common shares) and pay cash of approximately $800 million to Mariner stockholders. Apache intends to fund the cash portion of the consideration with existing cash balances and commercial paper. Upon consummation of the Merger, Apache will assume Mariner s debt, which was approximately $1.2 billion at the time of the Merger Agreement.

The Merger Agreement has been approved by the boards of directors of Apache, Mariner, and Merger Sub. The completion of the Merger is subject to certain conditions, including: (i) the adoption of the Merger Agreement by the stockholders of Mariner; (ii) subject to certain materiality exceptions, the accuracy of the representations and warranties made by Apache and Mariner; (iii) the effectiveness of a registration statement on Form S-4 that will be filed by Apache for the issuance of its common stock in the Merger, and the approval of the listing of these shares on the New York Stock Exchange; (iv) the termination or expiration of the applicable waiting period under the HSR Act; (v) the delivery of customary opinions from counsel to Apache and Mariner that the Merger will be treated as a tax-free reorganization for U.S. federal income tax purposes; (vi) compliance by Apache and Mariner with their respective obligations under the Merger Agreement; and (vii) the absence of legal impediments prohibiting the Merger. On May 3, 2010, the U.S. Department of Justice and the Federal Trade Commission granted early termination of the waiting period under the HSR Act. Additional regulatory approvals are pending. Completion of the transaction is projected for the third quarter of 2010.

The Merger Agreement contains customary representations and warranties that the parties have made to each other as of specific dates. Apache and Mariner have each agreed to certain covenants in the Merger Agreement. Among other covenants, Mariner has agreed, subject to certain exceptions, not to initiate, solicit, negotiate, provide information in furtherance of, approve, recommend or enter into an Acquisition Proposal (as defined in the Merger Agreement).

The Merger Agreement also contains certain termination rights for both Apache and Mariner, including if the Merger is not completed by January 31, 2011. In the event of a termination of the Merger Agreement under certain circumstances, Mariner may be required to pay to Apache a termination fee of $67 million. In certain circumstances involving termination of the Merger Agreement, one of Apache or Mariner will be obligated to reimburse the other s expenses incurred in connection with the transactions contemplated by the Merger Agreement in an aggregate amount not to exceed $7.5 million. Any reimbursement of expenses by Mariner to Apache will reduce the amount of any termination fee paid by Mariner to Apache.

At year-end 2009, Mariner had estimated proved reserves of 181 MMboe. Mariner s oil and gas properties are primarily located in the Gulf of Mexico deepwater and shelf, the Permian Basin and onshore in the Gulf Coast, encompassing 541,000 net developed and 623,000 net undeveloped acres at December 31, 2009. Mariner s current deepwater Gulf of Mexico portfolio includes 99 blocks, seven discoveries in development and more than 50 drilling prospects. The Permian Basin assets are long-lived and fit well with Apache s existing Permian Basin properties.

Assuming the Merger is approved by Mariner stockholders and is cleared by regulatory authorities, the transaction will be accounted for as a purchase, with Mariner s assets and liabilities reflected in Apache s books at fair value.

4. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

Objectives and Strategies for Using Derivative Instruments

The Company is exposed to fluctuations in crude oil and natural gas prices on the majority of its worldwide production. Management believes it is prudent to manage the variability in cash flows on a portion of its crude oil and natural gas production. The Company utilizes various types of derivative financial instruments, including swaps and options, to manage fluctuations in cash flows resulting from changes in commodity prices. Derivative instruments typically entered into are designated as cash flow hedges.

Counterparty Risk

The use of derivative transactions exposes the Company to counterparty credit risk, or the risk that a counterparty will be unable to meet its commitments. To reduce the concentration of exposure to any individ