

OCCIDENTAL PETROLEUM CORP /DE/
Form 10-Q
May 04, 2006
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 March 31, 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 1-9210

OCCIDENTAL PETROLEUM CORPORATION

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

95-4035997
(I.R.S. Employer
Identification No.)

10889 Wilshire Boulevard
Los Angeles, California
(Address of principal executive offices)
(310) 208-8800

90024
(Zip Code)

(Registrant's telephone number, including area code)

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

Large Accelerated Filer Accelerated Filer Non-Accelerated Filer

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at March 31, 2006
Common stock \$.20 par value	428,268,858 shares

OCCIDENTAL PETROLEUM CORPORATION AND SUBSIDIARIES

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PART I FINANCIAL INFORMATION**Item 1. Financial Statements**

OCCIDENTAL PETROLEUM CORPORATION AND SUBSIDIARIES

CONSOLIDATED CONDENSED BALANCE SHEETS

MARCH 31, 2006 AND DECEMBER 31, 2005

(Amounts in millions)

	2006	2005
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,804	\$ 2,189
Short-term investments	227	252
Receivables, net	3,453	3,141
Inventories	718	735
Prepaid expenses and others	378	256
Assets held for sale	1,502	1
Total current assets	8,082	6,574
LONG-TERM RECEIVABLES, net	324	377
INVESTMENTS IN UNCONSOLIDATED ENTITIES	1,254	1,209
PROPERTY, PLANT AND EQUIPMENT, net of accumulated depreciation, depletion and amortization of \$10,558 at March 31, 2006 and \$10,088 at December 31, 2005	22,122	17,534
OTHER ASSETS	418	414
	\$ 32,200	\$ 26,108

The accompanying notes are an integral part of these financial statements.

OCCIDENTAL PETROLEUM CORPORATION AND SUBSIDIARIES

CONSOLIDATED CONDENSED BALANCE SHEETS

MARCH 31, 2006 AND DECEMBER 31, 2005

(Amounts in millions)

	2006	2005
LIABILITIES AND EQUITY		
CURRENT LIABILITIES		
Current maturities of long-term debt and capital lease liabilities	\$ 255	\$ 46
Accounts payable	2,335	2,069
Accrued liabilities	1,829	1,780
Domestic and foreign income taxes	776	383
Liabilities held for sale	460	2
Total current liabilities	5,655	4,280
LONG-TERM DEBT, net of current maturities and unamortized discount	3,273	2,873
DEFERRED CREDITS AND OTHER LIABILITIES		
Deferred and other domestic and foreign income taxes	2,055	962
Other	2,914	2,621
	4,969	2,583
MINORITY INTEREST	356	340
STOCKHOLDERS' EQUITY		
Common stock, at par value	86	80
Treasury stock	(229)	(8)
Additional paid-in capital	7,010	4,908
Retained earnings	11,497	10,425
Accumulated other comprehensive income	(417)	(373)
	17,947	15,032
	\$ 32,200	\$ 26,108

The accompanying notes are an integral part of these financial statements.

OCCIDENTAL PETROLEUM CORPORATION AND SUBSIDIARIES

CONSOLIDATED CONDENSED STATEMENTS OF INCOME

FOR THE THREE MONTHS ENDED MARCH 31, 2006 AND 2005

(Amounts in millions, except per-share amounts)

	2006	2005
REVENUES		
Net sales	\$ 4,570	\$ 3,303
Interest, dividends and other income	54	33
Gains on disposition of assets, net	3	4
	4,627	3,340
COSTS AND OTHER DEDUCTIONS		
Cost of sales	1,989	1,532
Selling, general and administrative and other operating expenses	376	276
Environmental remediation	7	9
Exploration expense	71	47
Interest and debt expense, net	68	75
	2,511	1,939
Income before taxes and other items	2,116	1,401
Provision for domestic and foreign income and other taxes	932	601
Minority interest	37	21
Income from equity investments	(69)	(71)
Income from continuing operations	1,216	850
Discontinued operations, net	13	(4)
NET INCOME	\$ 1,229	\$ 846
BASIC EARNINGS PER COMMON SHARE		
Income from continuing operations	\$ 2.87	\$ 2.12
Discontinued operations, net	0.03	(0.01)
Basic earnings per common share	\$ 2.90	\$ 2.11
DILUTED EARNINGS PER COMMON SHARE		
Income from continuing operations	\$ 2.83	\$ 2.09
Discontinued operations, net	0.03	(0.01)
Diluted earnings per common share	\$ 2.86	\$ 2.08
DIVIDENDS PER COMMON SHARE	\$ 0.36	\$ 0.31
BASIC SHARES	424.2	400.4
DILUTED SHARES	430.5	406.3

The accompanying notes are an integral part of these financial statements.

OCCIDENTAL PETROLEUM CORPORATION AND SUBSIDIARIES

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

FOR THE THREE MONTHS ENDED MARCH 31, 2006 AND 2005

(Amounts in millions)

	2006	2005
CASH FLOW FROM OPERATING ACTIVITIES		
Net income	\$ 1,229	\$ 846
Adjustments to reconcile income to net cash provided by operating activities:		
Discontinued operations, net	(13)	4
Depreciation, depletion and amortization of assets	480	344
Deferred income tax provision	34	30
Other non-cash charges to income	205	152
Gains on disposition of assets, net	(3)	(4)
Income from equity investments	(69)	(71)
Dry hole and impairment expense	29	31
Changes in operating assets and liabilities	168	(29)
Other operating, net	(75)	(64)
Operating cash flow from continuing operations	1,985	1,239
Operating cash flow from discontinued operations	36	(5)
Net cash provided by operating activities	2,021	1,234
CASH FLOW FROM INVESTING ACTIVITIES		
Capital expenditures	(605)	(536)
Purchase of businesses, net	(1,488)	(321)
Sales of businesses and disposal of property, plant, and equipment, net	5	4
Purchase of short-term investments	(5)	(41)
Sales of short-term investments	30	21
Equity investments and other investing, net	(56)	27
Investing cash flow from continuing operations	(2,119)	(846)
Investing cash flow from discontinued operations	(11)	
Net cash used by investing activities	(2,130)	(846)
CASH FLOW FROM FINANCING ACTIVITIES		
Proceeds from long-term debt	70	46
Payments on long-term debt and capital lease liabilities	(45)	(459)
Proceeds from issuance of common stock	2	1
Purchase of treasury stock	(176)	
Excess tax benefits related to share-based payments	7	
Cash dividends paid	(147)	(109)
Stock options exercised	12	27
Other	1	(1)
Net cash used by financing activities	(276)	(495)
Decrease in cash and cash equivalents	(385)	(107)
Cash and cash equivalents beginning of period	2,189	1,199
Cash and cash equivalents end of period	\$ 1,804	\$ 1,092

The accompanying notes are an integral part of these financial statements.

OCCIDENTAL PETROLEUM CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

March 31, 2006

1. General

In these unaudited consolidated condensed financial statements, "Occidental" means Occidental Petroleum Corporation (OPC) and/or one or more entities where it owns a majority voting interest. Certain information and disclosures normally included in notes to consolidated financial statements have been condensed or omitted pursuant to the Securities and Exchange Commission's rules and regulations, but resultant disclosures are in accordance with accounting principles generally accepted in the United States of America as they apply to interim reporting. The consolidated condensed financial statements should be read in conjunction with the consolidated financial statements and the notes thereto in Occidental's Annual Report on Form 10-K for the year ended December 31, 2005 (2005 Form 10-K).

In the opinion of Occidental's management, the accompanying consolidated condensed financial statements contain all adjustments (consisting only of normal recurring adjustments) necessary to fairly present Occidental's consolidated financial position as of March 31, 2006 and the consolidated statements of income and cash flows for the three months ended March 31, 2006 and 2005. The income and cash flows for the periods ended March 31, 2006 and 2005, are not necessarily indicative of the income or cash flows to be expected for the full year.

Certain financial statement elements and notes for the prior year have been reclassified to conform to the 2006 presentation.

2. Asset Acquisitions, Dispositions and Other Transactions

On January 30, 2006, Occidental completed the merger of Vintage Petroleum, Inc. (Vintage) into a wholly-owned Occidental subsidiary. Occidental acquired producing assets in Argentina, the United States, Yemen and Bolivia. The Argentine assets consist of 22 concessions, 19 of which Occidental will operate, located in the San Jorge Basin in southern Argentina and the Cuyo Basin in western Argentina. Occidental paid approximately \$1.3 billion to former Vintage shareholders for the cash portion of the merger consideration and issued approximately 28 million shares for the stock portion, which was valued at \$2.1 billion. The value of Occidental's shares was determined by the average share price for the five-day period beginning two days before the acquisition announcement. In addition, Occidental assumed Vintage's debt, which had an estimated fair market value of \$585 million at closing. Occidental intends to divest a portion of these assets. Occidental believes that the merger provides significant growth opportunities represented by Vintage's assets in Argentina, California and Yemen, all of which will complement and enhance Occidental's current operations and production in those regions. Furthermore, the addition of Vintage's assets is expected to make significant long-term contributions to Occidental's cash flow.

The acquisition was accounted for using the purchase method of accounting in accordance with SFAS No. 141, Business Combinations. The results of Vintage's operations have been included in the consolidated financial statements since January 30, 2006. A preliminary allocation of the purchase price has been made based on currently available information. The assets acquired and liabilities assumed were recorded at their estimated fair values at the acquisition date. However, certain information necessary to complete Occidental's final purchase price allocation is not yet available. Occidental is currently evaluating the assets to determine the fair value of the existing oil and gas

reserves associated with the acquired assets. In addition, Occidental is in the process of divesting a portion of the assets acquired and is still gathering market information about these assets. Occidental also has not made a final determination of all the liabilities that may be attributable to the proposed transaction as well as the fair values of all existing liabilities, including any contingent liabilities. Occidental expects to finalize its allocation of the purchase price as soon as practicable.

At March 31, 2006, certain Vintage assets and their related liabilities are classified as held for sale as Occidental expects to divest of these assets in the next 12 months. On the March 31, 2006 consolidated balance sheet, the assets held for sale amount includes approximately \$1.46 billion of property, plant and equipment and the

liabilities held for sale amount includes approximately \$395 million of deferred income taxes. The results of operations for the assets held for sale are not included in the revenue, cost or production amounts and are treated as discontinued operations. Net revenues and pre-tax income for discontinued operations for the first quarter of 2006 were \$57 million and \$21 million, respectively.

The following unaudited pro forma summary presents the consolidated results of operations as if the acquisition of Vintage had occurred at the beginning of each period (in millions):

Three Months Ended March 31,	2006	2005
PRO FORMA RESULTS OF OPERATIONS		
Net sales	\$ 4,694	\$ 3,480
Net income	\$ 1,201	\$ 869
Basic earnings per common share	\$ 2.83	\$ 2.03
Diluted earnings per common share	\$ 2.79	\$ 2.00

The unaudited pro forma data presented above use estimates and assumptions based on information currently available, and are not necessarily indicative of the results of operations of Occidental that would have occurred had such acquisition actually been consummated as of the beginning of the periods presented, nor are they necessarily indicative of future results of operations.

3. Accounting Changes

In February 2006, the FASB issued SFAS No. 155, Accounting for Certain Hybrid Financial Instruments, an amendment of FASB Statement No. 133 and 140. This Statement provides new accounting guidance for embedded derivatives and other issues. SFAS No. 155 is effective for all financial instruments acquired or issued after the beginning of an entity's first fiscal year that begins after September 15, 2006. Occidental is currently assessing the effect of SFAS No. 155 on its financial statements.

In March 2006, the FASB issued SFAS No. 156, Accounting for Servicing of Financial Assets, an amendment of FASB Statement No. 140. SFAS No. 156 amends SFAS No. 140 with respect to the accounting for separately recognized servicing assets and servicing liabilities. SFAS No. 156 is effective for all servicing assets and servicing liabilities recognized and measured after the beginning of an entity's first fiscal year that begins after September 15, 2006. SFAS No. 156 is not expected to have a material effect on Occidental's financial statements.

In April 2006, the FASB issued FASB Staff Position (FSP) FIN 46(R)-6, Determining the Variability to be Considered in Applying FASB Interpretation No. 46(R). FSP FIN 46(R)-6 provides further accounting guidance in assessing whether an entity is subject to the accounting requirements of FIN 46(R). FSP FIN 46(R)-6 is effective for all entities with which an enterprise becomes involved and all existing entities when a reconsideration event has occurred, in each case, at the beginning of the first reporting period that starts after June 15, 2006. Occidental is currently assessing the effect of FIN 46(R)-6 on its financial statements.

4. Comprehensive Income

The following table presents Occidental's comprehensive income items (in millions):

Three Months Ended March 31,	2006	2005
Net income	\$ 1,229	\$ 846
Other comprehensive income items		