

POGO PRODUCING CO
Form 10-Q
July 25, 2002

**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, 2002 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 1-7792

POGO PRODUCING COMPANY

(Exact Name of Registrant as Specified in Its Charter)

Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

5 Greenway Plaza, Suite 2700
Houston, Texas
(Address of principal executive offices)

74-1659398
(I.R.S. Employee
Identification No.)

77046-0504
(Zip Code)

(713) 297-5000
(Registrant's Telephone Number, Including Area Code)

Not Applicable
(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

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 requirement for the past 90 days: Yes No

Registrant's number of common shares outstanding as of July 22, 2002: 60,738,662

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

POGO PRODUCING COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2002	2001	2002	2001
(Expressed in thousands, except per share amounts)				
Revenues:				
Oil and gas	\$ 185,241	\$ 164,412	\$ 327,538	\$ 328,325
Pipeline sales	1	4,473	79	8,699
Gains (losses) on sales and other	(857)	509	(322)	2,232
Total	184,385	169,394	327,295	339,256
Operating Costs and Expenses:				
Lease operating	34,585	29,696	65,868	55,523
Pipeline operating and natural gas purchases		4,400	181	8,420
General and administrative	10,828	9,650	22,370	17,858
Exploration	1,352	5,486	1,176	12,434
Dry hole and impairment	3,500	12,277	8,495	23,044
Depreciation, depletion and amortization	73,942	53,464	139,748	90,532
Total	124,207	114,973	237,838	207,811
Operating Income	60,178	54,421	89,457	131,445
Interest:				
Charges	(14,500)	(14,988)	(29,088)	(26,292)
Income	534	694	912	1,996
Capitalized	6,859	10,303	13,512	14,829
Minority Interest Dividends and costs associated with preferred securities of a subsidiary trust	(1,638)	(2,501)	(4,140)	(4,998)
Foreign Currency Transaction Gain (Loss)	659	(421)	1,331	(1,006)
Income Before Taxes	52,092	47,508	71,984	115,974
Income Tax Expense	(23,474)	(16,529)	(34,341)	(45,049)
Net Income	\$ 28,618	\$ 30,979	\$ 37,643	\$ 70,925
Earnings Per Common Share				
Basic	\$ 0.51	\$ 0.58	\$ 0.68	\$ 1.46
Diluted	\$ 0.48	\$ 0.53	\$ 0.66	\$ 1.31
Dividends Per Common Share	\$ 0.03	\$ 0.03	\$ 0.06	\$ 0.06

Weighted Average Number of Common Shares and Potential Common Shares Outstanding:

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Basic	56,192	53,575	54,972	48,425
Diluted	64,340	63,494	61,210	58,373

See accompanying notes to consolidated financial statements.

POGO PRODUCING COMPANY AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS (UNAUDITED)

	June 30, 2002	December 31, 2001
	Expressed in thousands, except share amounts)	
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 110,500	\$ 94,294
Accounts receivable	76,985	52,440
Other receivables	26,146	32,159
Federal income tax receivable		27,441
Deferred income tax	26,111	25,712
Inventories Product	4,684	3,129
Inventories Tubulars	9,471	8,430
Price hedge contracts	8,665	34,275
Other	9,760	1,970
	_____	_____
Total current assets	272,322	279,850
	_____	_____
Property and Equipment:		
Oil and gas, on the basis of successful efforts accounting		
Proved properties	3,100,241	2,956,673
Unevaluated properties	249,995	257,158
Pipelines, at cost	775	775
Other, at cost	24,039	21,638
	_____	_____
	3,375,050	3,236,244
	_____	_____
Accumulated depreciation, depletion and amortization		
Oil and gas	(1,246,423)	(1,133,560)
Pipelines	(733)	(739)
Other	(12,897)	(11,217)
	_____	_____
	(1,260,053)	(1,145,516)
	_____	_____
Property and equipment, net	2,114,997	2,090,728
	_____	_____
Other Assets:		
Deferred income tax	8,465	13,359
Debt issue expenses	14,560	15,565
Foreign value added taxes receivable	10,698	6,200
Other	19,729	20,706
	_____	_____
	53,452	55,830
	_____	_____
	\$ 2,440,771	\$ 2,426,408
	_____	_____

See accompanying notes to consolidated financial statements.

POGO PRODUCING COMPANY AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS (UNAUDITED)

	<u>June 30, 2002</u>	<u>December 31, 2001</u>
(Expressed in thousands, except share amounts)		
LIABILITIES AND SHAREHOLDERS EQUITY		
Current Liabilities:		
Accounts payable operating activities	\$ 41,445	\$ 34,962
Accounts payable investing activities	74,069	94,523
Accrued interest payable	11,259	11,450
Foreign income taxes payable	17,987	7,966
Accrued dividends associated with preferred securities of a subsidiary trust		813
Accrued payroll and related benefits	2,933	2,670
Deferred income tax	5,324	3,875
Other	1,613	1,892
	<u>154,630</u>	<u>158,151</u>
Total current liabilities	154,630	158,151
Long-Term Debt	769,987	794,990
Deferred Income Tax	492,204	488,639
Deferred Credits	13,874	14,657
	<u>1,430,695</u>	<u>1,456,437</u>
Total liabilities	1,430,695	1,456,437
Minority Interest:		
Company-obligated mandatorily redeemable convertible preferred securities of a subsidiary trust, net of unamortized issue expenses		145,086
		<u>145,086</u>
Shareholders Equity:		
Preferred stock, \$1 par; 4,000,000 shares authorized		
Common stock, \$1 par; 200,000,000 shares authorized, 60,754,237 and 53,690,827 shares issued, respectively	60,754	53,691
Additional capital	814,604	659,227
Retained earnings	136,422	102,019
Accumulated other comprehensive income (loss)	(1,380)	10,272
Treasury stock (15,575 shares), at cost	(324)	(324)
	<u>1,010,076</u>	<u>824,885</u>
Total shareholders equity	1,010,076	824,885
	<u>\$ 2,440,771</u>	<u>\$ 2,426,408</u>

See accompanying notes to consolidated financial statements.

POGO PRODUCING COMPANY AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	Six Months Ended June 30,	
	2002	2001
	(Expressed in thousands)	
Cash Flows from Operating Activities:		
Cash received from customers	\$ 301,784	\$ 365,015
Operating, exploration, and general and administrative expenses paid	(96,328)	(91,077)
Interest paid	(28,156)	(19,255)
Federal income taxes paid	(4,059)	(14,807)
Federal income taxes received	25,884	
Value added taxes paid	(4,498)	(2,129)
Price hedge contracts	15,683	
Other	527	2,051
	210,837	239,798
Cash Flows from Investing Activities:		
Capital expenditures	(175,673)	(179,114)
Purchase of proved reserves		(2,714)
Proceeds from the sale of properties	5	4,348
Acquisition of NORIC, net of \$21,235 cash acquired		(323,476)
	(175,668)	(500,956)
Cash Flows from Financing Activities:		
Proceeds from the issuance of new debt		200,000
Borrowings under senior debt agreements	364,997	833,997
Payments under senior debt agreements	(390,000)	(684,000)
Payments of cash dividends on common stock	(3,240)	(2,830)
Payments of preferred dividends of a subsidiary trust	(4,850)	(4,875)
Payment of financing issue costs	(130)	(8,625)
Payment of North Central senior debt acquired		(78,600)
Proceeds from exercise of stock options and other	14,174	5,472
	(19,049)	260,539
Effect of exchange rate changes on cash	86	(948)
	16,206	(1,567)
Net increase (decrease) in cash and cash equivalents		
Cash and cash equivalents at the beginning of the year	94,294	81,510
	\$ 110,500	\$ 79,943
Reconciliation of net income to net cash provided by operating activities:		
Net income	\$ 37,643	\$ 70,925
Adjustments to reconcile net income to net cash provided by operating activities		
Minority interest	4,140	4,998
Foreign currency transaction (gains) losses	(1,331)	1,006
(Gains) losses from the sales of properties	303	(2,672)
Depreciation, depletion and amortization	139,748	90,532

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Dry hole and impairment	8,495	23,044
Interest capitalized	(13,512)	(14,829)
Price hedge contracts	7,685	2,469
Deferred federal income taxes	15,611	21,784
Change in operating assets and liabilities	12,055	42,541
	<u> </u>	<u> </u>
Net cash provided by operating activities	\$ 210,837	\$ 239,798
	<u> </u>	<u> </u>

See accompanying notes to consolidated financial statements.

POGO PRODUCING COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY (UNAUDITED)

For the Six Months Ended June 30,

	2002		2001			
	Shareholders Equity		Comprehensive Income	Shareholders Equity		Comprehensive Income
	Shares	Amount		Shares	Amount	
	(Expressed in thousands, except share amounts)					
Common Stock:						
\$1.00 par-200,000,000 shares authorized						
Balance at beginning of year	53,690,827	\$ 53,691	40,659,591	\$ 40,660		
Shares issued for Trust Preferred Securities conversion	6,309,972	6,310				
Stock options exercised	753,438	753	319,129	319		
Shares issued for acquisition of NORIC			12,615,816	12,615		
Issued at end of period	60,754,237	60,754	53,594,536	53,594		
Additional Capital:						
Balance at beginning of year		659,227		298,885		
Shares issued for Trust Preferred Securities conversion		138,720				
Stock options exercised		16,657		6,617		
Shares issued for acquisition of NORIC				351,729		
Balance at end of period		814,604		657,231		
Retained Earnings:						
Balance at beginning of year		102,019		20,112		
Net income		37,643	\$ 37,643	70,925		
Dividends (\$0.06 per common share)		(3,240)		(2,830)	\$ 70,925	
Balance at end of period		136,422		88,207		
Accumulated Other Comprehensive Income (Loss):						
Balance at beginning of year		10,272		(1,062)		
Exchange gains on Canadian currency				389	389	
Unrealized gain (loss) on price hedge contracts		(6,453)	(6,453)	14,504	14,504	
Cumulative effect of change in accounting principle				(2,438)	(2,438)	
Reclassification adjustment for losses included in net income		(5,199)	(5,199)	(1,521)	(1,521)	