

POGO PRODUCING CO
Form 10-Q
October 15, 2003

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 September 30, 2003

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

74-1659398
(I.R.S. Employee

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Incorporation or Organization)

Identification No.)

5 Greenway Plaza, Suite 2700

Houston, Texas
(Address of principal executive offices)

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2): Yes No

Registrant's number of common shares outstanding as of October 13, 2003: 63,745,605

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

POGO PRODUCING COMPANY AND SUBSIDIARIES

Consolidated Statements of Income (Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2003	2002	2003	2002
	(Expressed in thousands, except per share amounts)			
Revenues:				
Oil and gas	\$ 277,067	\$ 203,919	\$ 882,464	\$ 531,457
Other	848	3,889	1,804	3,646
Total	277,915	207,808	884,268	535,103
Operating Costs and Expenses:				
Lease operating	32,886	29,734	97,459	87,862
General and administrative	16,936	14,445	45,362	36,815
Exploration	1,432	2,508	5,091	3,684
Dry hole and impairment	4,568	8,179	10,666	16,674
Depreciation, depletion and amortization	79,688	73,960	244,454	213,708
Production and other taxes	8,084	5,254	27,269	12,994
Accretion and other	8,468	2,133	16,364	2,314
Total	152,062	136,213	446,665	374,051
Operating Income	125,853	71,595	437,603	161,052
Interest:				
Charges	(10,255)	(14,364)	(36,934)	(43,452)
Income	446	404	1,380	1,316
Capitalized	4,246	5,933	12,377	19,445
Minority Interest - Dividends and costs associated with preferred securities of a subsidiary trust				(4,140)
Foreign Currency Transaction Gain (Loss)	587	(458)	1,149	873
Income Before Taxes and Cumulative Effect of Change in Accounting Principle	120,877	63,110	415,575	135,094
Income Tax Expense	(53,217)	(31,473)	(175,553)	(65,814)
Income Before Cumulative Effect of Change in Accounting Principle	67,660	31,637	240,022	69,280

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Cumulative Effect of Change in Accounting Principle			(4,166)	
Net Income	\$ 67,660	\$ 31,637	\$ 235,856	\$ 69,280
Earnings Per Common Share				
Basic:				
Income before cumulative effect of change in accounting principle	\$ 1.07	\$ 0.52	\$ 3.86	\$ 1.22
Cumulative effect of change in accounting principle			(0.07)	
Net income	\$ 1.07	\$ 0.52	\$ 3.79	\$ 1.22
Diluted:				
Income before cumulative effect of change in accounting principle	\$ 1.06	\$ 0.51	\$ 3.74	\$ 1.17
Cumulative effect of change in accounting principle			(0.07)	
Net income	\$ 1.06	\$ 0.51	\$ 3.67	\$ 1.17
Dividends Per Common Share	\$ 0.05	\$ 0.03	\$ 0.15	\$ 0.09
Weighted Average Number of Common Shares and Potential Common Shares Outstanding:				
Basic	63,379	60,779	62,170	56,953
Diluted	63,963	64,454	64,826	64,111

See accompanying notes to consolidated financial statements.

POGO PRODUCING COMPANY AND SUBSIDIARIES
Consolidated Balance Sheets (Unaudited)

	September 30, 2003	December 31, 2002
	<u> </u>	<u> </u>
	(Expressed in thousands, except share amounts)	
Assets		
Current Assets:		
Cash and cash equivalents	\$ 161,601	\$ 134,449
Accounts receivable	108,622	101,807
Other receivables	43,886	14,634
Deferred income tax		20,041
Inventories - Product	2,717	2,501
Inventories - Tubulars	8,450	9,406
Other	8,983	4,818
	<u> </u>	<u> </u>
Total current assets	334,259	287,656
	<u> </u>	<u> </u>
Property and Equipment:		
Oil and gas, on the basis of successful efforts accounting		
Proved properties	3,649,627	3,396,669
Unevaluated properties	141,380	141,094
Other, at cost	28,650	26,626
	<u> </u>	<u> </u>
	3,819,657	3,564,389
	<u> </u>	<u> </u>
Accumulated depreciation, depletion and amortization		
Oil and gas	(1,606,541)	(1,389,976)
Other	(18,494)	(15,364)
	<u> </u>	<u> </u>
	(1,625,035)	(1,405,340)
	<u> </u>	<u> </u>
Property and equipment, net	2,194,622	2,159,049
	<u> </u>	<u> </u>
Other Assets:		
Deferred income tax	2,416	2,416
Debt issue costs	8,000	11,368
Foreign value added taxes receivable	3,736	13,908
Other	18,408	17,196
	<u> </u>	<u> </u>
	32,560	44,888
	<u> </u>	<u> </u>
	\$ 2,561,441	\$ 2,491,593
	<u> </u>	<u> </u>

See accompanying notes to consolidated financial statements.

POGO PRODUCING COMPANY AND SUBSIDIARIES

Consolidated Balance Sheets (Unaudited)

	September 30, 2003	December 31, 2002
	<u> </u>	<u> </u>
	(Expressed in thousands, except share amounts)	
Liabilities and Shareholders Equity		
Current Liabilities:		
Accounts payable - operating activities	\$ 59,873	\$ 41,102
Accounts payable - investing activities	57,830	68,963
Accrued interest payable	10,053	11,096
Income taxes payable	28,510	15,527
Accrued payroll and related benefits	2,988	3,011
Deferred income tax	5,324	5,324
Price hedge contracts	1,079	2,433
Other	12,969	2,229
	<u> </u>	<u> </u>
Total current liabilities	178,626	149,685
	<u> </u>	<u> </u>
Long-Term Debt	369,174	722,903
Deferred Income Tax	526,929	526,897
Asset Retirement Obligation	69,125	
Other Liabilities and Deferred Credits	19,831	14,324
	<u> </u>	<u> </u>
Total liabilities	1,163,685	1,413,809
	<u> </u>	<u> </u>
Commitments and Contingencies		
Shareholders Equity:		
Preferred stock, \$1 par; 4,000,000 shares authorized		
Common stock, \$1 par; 200,000,000 shares authorized, 63,797,764 and 61,061,888 shares issued, respectively	63,798	61,062
Additional capital	913,273	822,526
Retained earnings	428,671	202,155
Accumulated other comprehensive loss	(2,510)	(6,249)
Deferred compensation	(3,766)	
Treasury stock (55,359 shares), at cost	(1,710)	(1,710)
	<u> </u>	<u> </u>
Total shareholders equity	1,397,756	1,077,784
	<u> </u>	<u> </u>
	\$ 2,561,441	\$ 2,491,593
	<u> </u>	<u> </u>

See accompanying notes to consolidated financial statements.

POGO PRODUCING COMPANY AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows (Unaudited)

	Nine Months Ended September 30,	
	2003	2002
	(Expressed in thousands)	
Cash Flows from Operating Activities:		
Cash received from customers	\$ 911,304	\$ 506,759
Operating, exploration, and general and administrative expenses paid	(167,812)	(154,713)
Interest paid	(36,373)	(38,122)
Income taxes paid	(129,612)	(9,288)
Income taxes received		25,884
Value added taxes paid	(4,287)	(6,523)
Value added taxes received	14,459	1,763
Price hedge contracts	(14,612)	20,449
Other	6,395	2,090
Net cash provided by operating activities	579,462	348,299
Cash Flows from Investing Activities:		
Capital expenditures	(241,687)	(276,392)
Purchase of proved reserves	(18,968)	
Proceeds from the sale of properties	47	4,255
Net cash used in investing activities	(260,608)	(272,137)
Cash Flows from Financing Activities:		
Borrowings under senior debt agreements	417,012	529,995
Payments under senior debt agreements	(556,000)	(585,000)
Redemption of debt	(176,578)	
Payments of cash dividends on common stock	(9,340)	(5,064)
Payments of preferred dividends of a subsidiary trust		(4,850)
Payment of debt issue costs	(100)	(182)
Proceeds from exercise of stock options and other	32,677	17,252
Net cash used in financing activities	(292,329)	(47,849)
Effect of exchange rate changes on cash	627	62
Net increase in cash and cash equivalents	27,152	28,375
Cash and cash equivalents at the beginning of the year	134,449	94,294
Cash and cash equivalents at the end of the period	\$ 161,601	\$ 122,669
Reconciliation of net income to net cash provided by operating activities:		
Net income	\$ 235,856	\$ 69,280
Adjustments to reconcile net income to net cash provided by operating activities -		
Cumulative effect of change in accounting principle	4,166	

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Minority interest		4,140
Accretion and other	21,054	(873)
(Gains) Losses from the sales of properties	87	(3,100)
Depreciation, depletion and amortization	244,454	213,708
Dry hole and impairment	10,666	16,674
Interest capitalized	(12,377)	(19,445)
Price hedge contracts	4,899	13,016
Deferred income taxes	32,961	60,017
Change in operating assets and liabilities	37,696	(5,118)
	<u> </u>	<u> </u>
Net cash provided by operating activities	\$ 579,462	\$ 348,299
	<u> </u>	<u> </u>

See accompanying notes to consolidated financial statements.

POGO PRODUCING COMPANY AND SUBSIDIARIES

Consolidated Statements of Shareholders Equity (Unaudited)

For the Nine Months Ended September 30,

	2003		2002		
	Shareholders Equity		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	61,061,888	\$ 61,062	53,690,827	\$ 53,691	
Shares issued for stock options exercised and other	1,557,369	1,558	845,437	845	
Shares issued for 2006 Notes conversion	1,008,299	1,008			
Shares issued as compensation	170,208	170	39,055	39	
Shares issued for Trust Preferred Securities conversion			6,309,972	6,310	
Issued at end of period	63,797,764	63,798	60,885,291	60,885	
Additional Capital:					
Balance at beginning of year		822,526		659,227	
Shares issued for stock options exercised and other		42,526		18,845	
Shares issued for 2006 Notes conversion		41,186			
Shares issued as compensation		6,816		1,124	
Stock options granted		219			
Shares issued for Trust Preferred Securities conversion				138,715	
Balance at end of period		913,273		817,911	
Retained Earnings:					
Balance at beginning of year		202,155		102,019	
Net income		235,856	\$ 235,856	69,280	\$ 69,280
Dividends (\$0.15 and \$0.09 per common share in 2003 and 2002, respectively)		(9,340)		(5,064)	
Balance at end of period		428,671		166,235	
Deferred Compensation - Restricted Stock		(3,766)	(3,766)		
Accumulated Other Comprehensive Income (Loss):					
Balance at beginning of year		(6,249)		10,272	
Change in fair value of price hedge contracts		(8,619)	(8,619)	(7,936)	(7,936)
Reclassification adjustment for losses (gains) included in net income		12,358	12,358	(4,831)	(4,831)

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Balance at end of period	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	(2,510)		(2,495)	