

SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

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PENZOIL CO /DE/

CIK: **77320** | IRS No.: **741597290** | State of Incorporation: **DE** | Fiscal Year End: **1231**
Type: **10-Q** | Act: **34** | File No.: **001-05591** | Film No.: **96662709**
SIC: **2911** Petroleum refining

Mailing Address

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HOUSTON TX 77252-2967*

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HOUSTON TX 77252-2967
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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 Quarter Ended September 30, 1996 Commission File No. 1-5591

PENNZOIL COMPANY
(Exact name of registrant as specified in its charter)

Delaware 74-1597290
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

Pennzoil Place, P.O. Box 2967
Houston, Texas 77252-2967
(Address of principal executive offices)

Registrant's telephone number, including area code: (713) 546-4000

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 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 X . No .

Number of shares outstanding of each class of common stock, as of latest practicable date, October 31, 1996:

Common stock, par value \$0.83-1/3 per share, 46,537,819 shares.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

<TABLE>

PENNZOIL COMPANY
CONDENSED CONSOLIDATED STATEMENT OF INCOME
(UNAUDITED)

<CAPTION>

	Three Months Ended September 30		Nine Months Ended September 30	
	1996	1995	1996	1995
	(Expressed in thousands except per share amounts)			
<S>	<C>	<C>	<C>	<C>
REVENUES	\$ 653,688	\$ 600,012	\$1,877,609	\$1,881,965
COSTS AND EXPENSES				
Cost of sales	360,013	373,665	1,071,762	1,129,101
Selling, general and administrative expenses	88,432	103,759	257,979	306,217
Depreciation, depletion and amortization	68,727	73,050	207,726	256,476
Exploration expenses	8,306	4,706	30,014	25,087
Taxes, other than income	13,688	12,736	41,035	41,318
Impairment of long-lived assets (See Note 2)	-	399,830	-	399,830
Interest charges, net	43,585	48,322	137,952	144,568

INCOME (LOSS) BEFORE INCOME TAX	70,937	(416,056)	131,141	(420,632)
Income tax provision (benefit)	5,812	(140,770)	25,704	(143,299)
NET INCOME (LOSS)	\$ 65,125	\$ (275,286)	\$ 105,437	\$ (277,333)
EARNINGS (LOSS) PER SHARE	\$ 1.40	\$ (5.95)	\$ 2.27	\$ (6.00)
DIVIDENDS PER COMMON SHARE	\$.25	\$.75	\$.75	\$ 2.25
AVERAGE SHARES OUTSTANDING	46,494	46,273	46,445	46,216
END OF PERIOD SHARES OUTSTANDING	46,518	46,303	46,518	46,303

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 <F1>
 See Notes to Condensed Consolidated Financial Statements.
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PART I. FINANCIAL INFORMATION - continued

<TABLE>

PENNZOIL COMPANY
 CONDENSED CONSOLIDATED BALANCE SHEET
 (UNAUDITED)

<CAPTION>

	September 30, 1996	December 31, 1995
	(Expressed in thousands)	
	<C>	<C>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 33,082	\$ 23,615
Receivables	198,253	335,876
Inventories		
Crude oil, natural gas and sulphur	25,132	41,363
Motor oil and refined products	129,933	119,830
Deferred income tax	20,351	26,452
Other current assets	68,944	57,689
Total current assets	475,695	604,825
Property, plant and equipment, net	2,231,251	2,418,025
Marketable securities and other investments	955,058	910,334
Other assets	325,261	374,592
TOTAL ASSETS	\$ 3,987,265	\$ 4,307,776
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Current maturities of long-term debt	\$ 1,656	\$ 2,263
Notes payable	-	468,934
Accounts payable and accrued liabilities	228,277	330,263
Interest accrued	49,324	35,358
Other current liabilities	80,882	81,450
Total current liabilities	360,139	918,268
Long-term debt	2,139,880	2,038,921
Deferred income tax	242,043	227,941
Other liabilities	297,720	286,414
TOTAL LIABILITIES	3,039,782	3,471,544
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS' EQUITY	947,483	836,232

TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY

\$ 3,987,265

\$ 4,307,776

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<F1>
See Notes to Condensed Consolidated Financial Statements.
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PART I. FINANCIAL INFORMATION - continued

<TABLE>

PENNZOIL COMPANY
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
(UNAUDITED)

<CAPTION>

	Nine Months Ended September 30	
	1996	1995
	(Expressed in thousands)	
	<C>	<C>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	\$ 105,437	\$ (277,333)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation, depletion and amortization	207,726	256,476
Impairment of long-lived assets	-	399,830
Dry holes and impairments	5,240	7,917
Deferred income tax	14,805	(148,461)
Non-cash and other nonoperating items	(9,474)	(4,978)
Change in operating assets and liabilities	16,516	158,624
Net cash provided by operating activities	340,250	392,075
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(400,815)	(288,801)
Acquisition of Viscosity Oil	-	(33,642)
Purchases of marketable securities and other investments	(433,716)	(496,287)
Proceeds from sales of marketable securities and other investments	443,469	490,056
Proceeds from sales of assets	463,360	90,964
Other investing activities	(3,214)	(5,975)
Net cash provided by (used in) investing activities	69,084	(243,685)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds (repayments) of notes payable, net	(167,755)	165,334
Debt and capital lease obligation repayments	(1,419,731)	(208,741)
Proceeds from issuance of debt	1,222,206	25,000
Dividends paid	(34,839)	(104,009)
Other Financing Activities	252	-
Net cash used in financing activities	(399,867)	(122,416)
NET INCREASE IN CASH AND CASH EQUIVALENTS	9,467	25,974
CASH AND CASH EQUIVALENTS, beginning of period	23,615	24,884
CASH AND CASH EQUIVALENTS, end of period	\$ 33,082	\$ 50,858

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See Notes to Condensed Consolidated Financial Statements.
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PART I. FINANCIAL INFORMATION - continued

PENNZOIL COMPANY
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
 (UNAUDITED)

(1) General -

The condensed consolidated financial statements included herein have been prepared by Pennzoil Company ("Pennzoil") without audit and should be read in conjunction with the financial statements and the notes thereto included in Pennzoil's latest annual report. The foregoing financial statements include only normal recurring accruals and all adjustments which Pennzoil considers necessary for a fair presentation. Certain prior period items have been reclassified in the condensed consolidated financial statements in order to conform with the current year presentation.

(2) Adoption of New Accounting Standards -

In October 1995, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards ("SFAS") No. 123, "Accounting for Stock-Based Compensation," which established an elective new standard on accounting for stock-based compensation. SFAS No. 123 establishes a fair value-based method of accounting for stock-based compensation plans awarded after December 31, 1995 and encourages companies to adopt the accounting method set forth in SFAS No. 123 in place of the existing accounting method, which requires expense recognition only in situations where stock compensation plans award intrinsic value to employees at the date of grant. Companies that elect not to follow SFAS No. 123 for accounting purposes must make annual pro forma disclosure of its effects.

As of January 1, 1996, Pennzoil adopted SFAS No. 123 using the pro forma disclosure method described in the pronouncement. Accordingly, adoption of the statement did not affect Pennzoil's results of operations or financial position. Information required by SFAS No. 123 relating to stock-based compensation will be included in footnotes to Pennzoil's audited financial statements.

Effective July 1, 1995, Pennzoil adopted the requirements of SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," which is intended to establish more consistent accounting standards for measuring the recoverability of long-lived assets. In certain instances, the statement specifies that the carrying values of assets be written down to fair values, which, for Pennzoil, resulted in write-downs that were previously not required under its prior impairment policy. The charges, which totaled \$265.5 million (\$399.8 million before tax), or \$5.74 per share, as of July 1, 1995, resulted primarily from the more detailed impairment review procedures that were required on Pennzoil's proved oil and gas properties. In determining whether an asset is impaired under the new standard, assets are required to be grouped at the lowest level for which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets. On this basis, certain fields in North America were deemed to be impaired because they were not expected to recover their entire carrying value through the future cash flows expected to result from the operation of the field and its eventual disposition. Under Pennzoil's prior policy, oil and gas assets reviewed for impairment were grouped at a higher level.

PART I. FINANCIAL INFORMATION - continued

(3) Transactions Involving Oil and Gas and Other Assets -

In July 1996, Pennzoil completed two related transactions with Gulf Canada Resources Limited ("Gulf Canada"): (i) the establishment of a joint venture for the development of natural gas reserves in the Zama area of northern Alberta and (ii) the sale by Pennzoil of its remaining, non-strategic Canadian oil and gas assets. After working capital and closing adjustments, Pennzoil received net proceeds of US \$192.8 million from the sale of the Canadian oil and gas assets to Gulf Canada. No material pretax gain resulted from the sale, but an approximate \$19 million tax

benefit was recorded in the third quarter of 1996. The sale included 840,000 net acres of land, 75 percent of which is undeveloped. The properties sold were located in Alberta and northwestern British Columbia and included net proved reserves of approximately 35 million barrels ("MMbbls") of oil equivalent and in July 1996 were producing approximately 5.5 thousand barrels ("Mbbbls") per day of liquids and 34 million cubic feet ("MMcf") per day of natural gas, net of royalties. Included in Pennzoil's consolidated results are revenues of \$26.9 million and operating income of \$.2 million from these properties during the first six months of 1996.

In July 1996, Pennzoil completed the sale of approximately half of its interest in the Azeri-Chirag-Gunashli ("ACG") joint development unit offshore Azerbaijan in the Caspian Sea to Exxon Azerbaijan Limited ("Exxon"), ITOCHU Oil Exploration Co., Ltd. ("ITOCHE") and Unocal Khazar, Ltd. ("Unocal"). The three companies will pay approximately \$130 million to Pennzoil for a 5 percent working interest in the ACG unit (3.0006 percent to Exxon, 1.4705 percent to ITOCHU and 0.5289 percent to Unocal) and the right to receive 51 percent of the payments due Pennzoil for reimbursement of costs incurred in developing a gas utilization project for the Gunashli Field. Cash payments are scheduled in three installments with the first installment having been made in two payments consisting of approximately \$83 million received at closing and another \$5 million received in August 1996. Subsequent installments of \$22 million and \$20 million are due at first production and when the unit reaches production of 200,000 barrels per day, respectively. Pennzoil retains a 4.8175 percent working interest in the ACG unit. As part of the transaction, the three companies will fund all of Pennzoil's future obligations in the ACG project, retroactive to January 1, 1996, until all such expenditures and accrued interest are recovered from Pennzoil's share of production from the ACG unit. Pennzoil received a net cash payment of approximately \$16 million in August 1996 for reimbursement of Pennzoil's obligations in the ACG unit incurred from January 1996 through July 1996. No gain or loss resulted from this transaction as proceeds from the sale were applied to reduce Pennzoil's net investment in the ACG unit.

In addition to its interest in the ACG unit, Pennzoil holds a 30 percent interest in a definitive exploration, development and production sharing contract covering the Karabakh prospect, also located in the Caspian Sea. The Karabakh agreement was ratified by the Azerbaijan Parliament in February 1996.

In the first quarter of 1996, Pennzoil substantially completed its domestic asset highgrading program and the related disposition of noncore oil and gas assets commenced in 1992. Excluding proceeds from the two sales discussed above, proceeds from the sale of oil and gas assets totaled \$88.6 million for the nine months ended September 30, 1996 with \$88.1 million of those sales occurring during the first quarter of 1996. Gains or losses on such sales during the nine months ended September 30, 1996 were insignificant.

In September 1996, Pennzoil completed the sale of Vermejo Park Ranch to Vermejo Park, L.L.C., a Georgia limited liability company. The ranch is located in northern New Mexico and southern Colorado and is approximately 578,000 acres. Pennzoil recorded a pretax gain of \$41.3 million from the sale in the third quarter of 1996.

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PART I. FINANCIAL INFORMATION - continued

(4) Acquisitions -

In April 1995, Pennzoil Gas Marketing Company, an indirect wholly owned Pennzoil subsidiary ("PGMC"), and BRING Gas Services Corp. ("BRING"), a subsidiary of Brooklyn Union Gas Co., formed PennUnion Energy Services L.L.C. ("PennUnion"), a 50-50 gas marketing joint venture. In September 1996, Pennzoil Energy Marketing Company, an indirect wholly owned Pennzoil subsidiary ("PEMC"), purchased the 50% interest in PennUnion owned by BRING. Pennzoil is actively seeking a partner or partners to help develop and expand this business and anticipates reducing its total ownership interest in PennUnion to 50% or below in the near future.

In September 1995, Pennzoil Products Company ("PPC"), a wholly owned subsidiary of Pennzoil, acquired the assets of the Viscosity Oil division ("Viscosity") of Case Corporation ("Case") for \$33.6 million. The acquisition was financed by a combination of cash on hand and borrowings under Pennzoil's commercial paper and money market line facilities. The acquisition was accounted for using the purchase method of accounting and

results of operations of Viscosity subsequent to September 1995 are reflected in Pennzoil's consolidated statement of income.

(5) Accounts Receivable -

In September 1996, Pennzoil Receivables Company ("PRC"), a wholly owned special purpose subsidiary of Pennzoil, entered into a receivables sales facility, which provides for the ongoing sales of up to \$135 million of accounts receivable of certain Pennzoil subsidiaries. The facility expires in September 1997. Sales of accounts receivable under this agreement totaled \$128.0 million as of September 30, 1996. Pennzoil used the proceeds to reduce outstanding debt. Fees incurred on the sale of accounts receivable were not material in the third quarter of 1996 and are included in other income, net.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Results of Operations

Net income for the quarter and nine months ended September 30, 1996 was \$65.1 million, or \$1.40 per share, and \$105.4 million, or \$2.27 per share, respectively. This compares with net losses of \$275.3 million, or \$5.95 per share, for the third quarter of 1995 and \$277.3 million, or \$6.00 per share, for the nine months ended September 30, 1995. Effective July 1, 1995, Pennzoil adopted the requirements of SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." Results for the quarter and nine months ended September 30, 1995 include a charge of \$265.5 million (\$399.8 million before tax), or \$5.74 per share, as of July 1, 1995 to reflect the impairment of long-lived assets.

Excluding the net charges associated with the impairment of long-lived assets in 1995, earnings increased \$74.9 million and \$117.2 million for the quarter and nine months ended September 30, 1996, respectively, compared to the prior year. Results for the third quarter and nine months ended September 30, 1996 include a \$41.3 million pretax gain on the sale of Vermejo Park Ranch and an approximate \$19 million tax benefit associated with the sale of Canadian oil and gas assets. In addition, earnings for the third quarter and nine months ended September 30, 1996 increased compared to the prior year due to improved results from the oil and gas segment, lower overall operating costs and lower general and administrative expenses.

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PART I. FINANCIAL INFORMATION - continued

Oil and Gas

Operating income from this segment for the quarter and nine months ended September 30, 1996 was \$60.7 million and \$175.5 million, respectively. This compares with operating income of \$19.5 million and \$64.9 million, respectively, for the same periods in 1995. The increase in operating income for both the quarter and nine months ended September 30, 1996 was primarily due to higher natural gas prices, lower operating and general and administrative expenses and lower depreciation, depletion and amortization ("DD&A") expense. The lower DD&A expense experienced in the third quarter of 1996 was primarily due to a decrease in natural gas and liquids volumes resulting from the disposition of noncore oil and gas properties. The lower DD&A expense experienced during the nine months ended September 30, 1996 was primarily attributable to lower DD&A rates as a result of the July 1, 1995 write-down of assets associated with the adoption of SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," and to a decrease in natural gas and liquids volumes resulting from the disposition of noncore oil and gas properties.

Effective July 1, 1995, Pennzoil adopted the requirements of SFAS No. 121 which, in certain instances, specifies that the carrying values of assets be written down to fair values. For Pennzoil, this resulted in write-downs of proved oil and gas properties that were not required under its prior impairment policy. The pretax charge taken in the third quarter of 1995 for the asset impairment of Pennzoil's proved oil and gas properties was \$378.9 million.

Natural gas price realizations averaged \$1.80 per thousand cubic feet ("Mcf") and \$1.81 per Mcf, respectively, for the quarter and nine months ended September 30, 1996, compared to \$1.32 per Mcf and \$1.39 per Mcf, respectively, for the same periods in 1995. Natural gas volumes produced for sale were 599.6 MMcf per day and 596.0 MMcf per day, respectively, for the quarter and nine months ended September 30, 1996, compared to 662.9 MMcf per day and 687.9 MMcf per day, respectively, for the same periods in 1995. Liquids production volumes were 58.4 Mbbbls per day and 61.3 Mbbbls per day, respectively, for the quarter and nine months ended September 30, 1996, compared to 64.6 Mbbbls per day and 69.1 Mbbbls per day, respectively, for the same periods in 1995. The decrease in natural gas and liquids volumes resulted from the disposition of noncore oil and gas properties.

In July 1996, Pennzoil completed two related transactions with Gulf Canada: (i) the establishment of a joint venture for the development of natural gas reserves in the Zama area of northern Alberta and (ii) the sale by Pennzoil of its remaining, non-strategic Canadian oil and gas assets. After working capital and closing adjustments, Pennzoil received net proceeds of US \$192.8 million from the sale of the Canadian oil and gas assets to Gulf Canada. No material pretax gain resulted from the sale, but an approximate \$19 million tax benefit was recorded in the third quarter of 1996. The sale included 840,000 net acres of land, 75 percent of which is undeveloped. The properties sold were located in Alberta and northwestern British Columbia and included net proved reserves of approximately 35 MMbbbls of oil equivalent and in July 1996 were producing approximately 5.5 Mbbbls per day of liquids and 34 MMcf per day of natural gas, net of royalties. Included in Pennzoil's consolidated results are revenues of \$26.9 million and operating income of \$.2 million from these properties during the first six months of 1996.

PART I. FINANCIAL INFORMATION - continued

In July 1996, Pennzoil completed the sale of approximately half of its interest in the ACG joint development unit offshore Azerbaijan in the Caspian Sea to Exxon, ITOCHU and Unocal. The three companies will pay approximately \$130 million to Pennzoil for a 5 percent working interest in the ACG unit (3.0006 percent to Exxon, 1.4705 percent to ITOCHU and 0.5289 percent to Unocal) and the right to receive 51 percent of the payments due Pennzoil for reimbursement of costs incurred in developing a gas utilization project for the Gunashli Field. Cash payments are scheduled in three installments with the first installment having been made in two payments consisting of approximately \$83 million received at closing and another \$5 million received in August 1996. Subsequent installments of \$22 million and \$20 million are due at first production and when the unit reaches production of 200,000 barrels per day, respectively. Pennzoil retains a 4.8175 percent working interest in the ACG unit. As part of the transaction, the three companies will fund all of Pennzoil's future obligations in the ACG project, retroactive to January 1, 1996, until all such expenditures and accrued interest are recovered from Pennzoil's share of production from the ACG unit. Pennzoil received a net cash payment of approximately \$16 million in August 1996 for reimbursement of Pennzoil's obligations in the ACG unit incurred from January 1996 through July 1996. No gain or loss resulted from this transaction as proceeds from the sale were applied to reduce Pennzoil's net investment in the ACG unit.

In addition to its interest in the ACG unit, Pennzoil holds a 30 percent interest in a definitive exploration, development and production sharing contract covering the Karabakh prospect, also located in the Caspian Sea. The Karabakh agreement was ratified by the Azerbaijan Parliament in February 1996.

In the first quarter of 1996, Pennzoil substantially completed its domestic asset highgrading program and the related disposition of noncore oil and gas assets commenced in 1992. Excluding proceeds from the two sales discussed above, proceeds from the sale of oil and gas assets totaled \$88.6 million for the nine months ended September 30, 1996 with \$88.1 million of those sales occurring during the first quarter of 1996. Gains or losses on such sales during the nine months ended September 30, 1996 were insignificant.

In September 1996, Pennzoil and a subsidiary of Enterprise Oil plc ("Enterprise") agreed to form a strategic alliance to pursue certain exploration opportunities on 102 leases in Pennzoil's Gulf of Mexico portfolio where Pennzoil's working interest is 50 percent or more. Enterprise will earn an interest equal to half of

Pennzoil's working interest in each prospect (and any leases within the portfolio into which the prospect extends) by contributing funds towards the costs of drilling a jointly-agreed upon exploration well on each prospect. On 59 of the 102 leases within the portfolio, where Pennzoil's average equity is 92 percent, Enterprise has agreed to contribute funds to cover 100 percent of such costs, subject to a minimum investment of \$100 million through 1998. On the remaining 43 leases, where Pennzoil's average equity is 80 percent, Enterprise has agreed to cover 66.66 percent of such costs, with no minimum commitment, through 1999. These periods may be extended by one year and two years, respectively, if Enterprise elects to increase its minimum commitment from \$100 million to \$150 million. During the next two to three years, Pennzoil and Enterprise expect to drill about 20 wells under the program.

In April 1995, PGMC and BRING formed PennUnion, a 50-50 gas marketing joint venture. In September 1996, PEMC purchased the 50% interest in PennUnion owned by BRING. Pennzoil is actively seeking a partner or partners to help develop and expand this business and anticipates reducing its total ownership interest in PennUnion to 50% or below in the near future.

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PART I. FINANCIAL INFORMATION - continued

Motor Oil & Refined Products

Operating income from this segment for the quarter and nine months ended September 30, 1996 was \$9.5 million and \$39.7 million, respectively. This compares to operating income of \$11.9 million and \$39.6 million, respectively, for the same periods in 1995.

The decrease in operating income for the quarter ended September 30, 1996 from the comparable period in 1995 was primarily attributable to lower refining margins and to pre-operating expenses related to the start-up costs of Excel Paralubes, a joint venture partnership with Conoco, Inc. for construction and operation of a new lube base oil plant near Lake Charles, Louisiana. Construction was completed in October 1996 with product shipments to begin in December 1996. The lower refining margins were primarily the result of higher crude oil prices and higher operating expenses. Higher domestic marketing operating results offset lower refinery margins, resulting in operating income for the nine months ended September 30, 1996 being essentially flat compared to the same period last year.

In September 1995, PPC acquired the Viscosity Oil division of Case for \$33.6 million. Viscosity is a leading supplier of premium-quality lubricants to the North American off-road industry and it supplies lubricants to substantially all of the Case dealer network, with locations in all 50 states and Canada. In addition, Viscosity supplies virtually all of the factory fill lubricants for Case's North American manufacturing plants. As part of the acquisition, a long-term supply agreement was entered into whereby Pennzoil will supply the aftermarket lubricant products that Case will continue to sell to its dealerships. The agreement also calls for Pennzoil to supply factory-fill lubricants to Case. The acquisition was financed by a combination of cash on hand and borrowings under Pennzoil's commercial paper and money market line facilities.

Franchise Operations

The franchise operations segment, operating through Pennzoil's wholly owned subsidiary Jiffy Lube International, Inc. ("Jiffy Lube"), recorded operating income of \$6.2 million and \$16.0 million, respectively, for the quarter and nine months ended September 30, 1996. This compares with operating income of \$5.4 million and \$10.3 million, respectively, for the same periods in 1995. The increase in operating income for the three months ended September 30, 1996 is primarily due to lower selling, general and administrative ("SG&A") expenses partially offset by startup costs associated with 27 company-operated centers opened since June 30, 1996. Results for the nine months ended September 30, 1995 included net charges of \$6.0 million related to litigation settlements. Results for the first nine months of 1996 reflect the first quarter impact of severe winter weather-related costs in the northeastern part of the United States where Jiffy Lube has a high concentration of company-operated stores as well as the startup costs associated with 68 company-operated centers opened since December 31, 1995. These costs were partially offset by lower SG&A

expenses for the nine month period as compared to the prior year.

Domestic systemwide sales reported on a comparable store basis for the three months ended September 30, 1996 decreased \$4.2 million and for the nine months ended September 30, 1996 increased \$6.9 million, from comparable periods in 1995. There were 1,332 domestic lube centers (including 514 Jiffy Lube company-operated centers) open as of September 30, 1996. Total domestic systemwide sales increased 4.9% to \$180 million for the quarter and increased 6.4% to \$523 million for the nine month period.

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PART I. FINANCIAL INFORMATION - continued

Beginning in 1995, Jiffy Lube and the Sears Merchandise Group ("Sears") agreed to open fast-oil change units in Sears Auto Centers over a three year period. Under the agreement, Jiffy Lube remodels, equips and operates service areas within the Sears Auto Centers, while Sears continues to utilize the remaining bays for its operations. As of September 30, 1996, there were 88 Jiffy Lube units open and operating within Sears Auto Centers. Sears and Jiffy Lube will continue to review the market and work toward agreement on the final plans for additional units.

Other

Other operating income for the quarter and nine months ended September 30, 1996 was \$51.6 million and \$77.4 million, respectively, compared with \$10.5 million and \$58.4 million for the same periods in 1995. The increase in other operating income for the quarter and nine months ended September 30, 1996 compared to the same period in 1995 was primarily due to the gain on the sale of Vermejo Park Ranch and to higher investment income.

In September 1996, Pennzoil completed the sale of Vermejo Park Ranch to Vermejo Park, L.L.C., a Georgia limited liability company. The ranch is located in northern New Mexico and southern Colorado and is approximately 578,000 acres. Pennzoil recorded a \$41.3 million pretax gain on the sale in the third quarter of 1996.

Other operating income for the nine months ended September 30, 1995 includes a favorable resolution of a Texas franchise tax issue which resulted in Pennzoil receiving a \$23.2 million refund in the second quarter of 1995. In addition, Pennzoil received approximately \$1.5 million in interest in 1995 associated with the franchise tax refund.

Pennzoil's other income includes dividend income of \$9.8 million and \$27.9 million for the quarter and nine months ended September 30, 1996, respectively, from its investment in common stock of Chevron Corporation ("Chevron"). In July 1996, Chevron increased the amount of quarterly dividends paid to holders of its common stock from \$.50 per share to \$.54 per share. Pennzoil beneficially owns approximately 18 million shares of common stock of Chevron.

Net interest expense for the quarter and nine months ended September 30, 1996 decreased \$4.7 million and \$6.6 million, respectively, from the same periods in 1995 primarily due to a reduced amount of outstanding debt and increased capitalized interest.

Capital Resources and Liquidity

Cash Flow. As of September 30, 1996, Pennzoil had cash and cash equivalents of \$33.1 million. During the nine months ended September 30, 1996, cash and cash equivalents increased \$9.5 million. Cash flows from operating activities totaled \$340.3 million during the first nine months of 1996.

Accounts Receivable. In September 1996, PRC, a wholly owned special purpose subsidiary of Pennzoil, entered into a receivables sales facility, which provides for the ongoing sales of up to \$135 million of accounts receivable of certain Pennzoil subsidiaries. The facility expires in September 1997. Sales of accounts receivable under this agreement totaled \$128.0 million as of September 30, 1996. Pennzoil used the proceeds to reduce outstanding debt. Fees incurred on the sale of accounts receivable were not material in the third quarter of 1996 and are included in other income, net.

Debt Instruments and Repayments. In May 1996, Pennzoil entered into a revolving credit facility with a group of banks which

provides for up to \$600 million of unsecured revolving credit borrowings through May 1997, with any outstanding borrowings at such time being converted into a term facility terminating in May

PART I. FINANCIAL INFORMATION - continued

1998. Pennzoil has the option, subject to the extension of additional credit by new or existing banks, to increase the size of the facility by \$100 million. This revolving credit facility replaces and supersedes the previous revolving credit facility of Pennzoil. As of September 30, 1996, borrowings under this facility totaled \$75.0 million.

As of September 30, 1996, borrowings under Pennzoil's commercial paper and short-term variable-rate credit arrangements totaled \$301.2 million, all of which, beginning with the execution of the aforementioned revolving credit facility, has been classified as long-term debt. Such debt classification is based upon the availability of committed long-term credit facilities to refinance such commercial paper and short-term borrowings and Pennzoil's intent to maintain such commitments in excess of one year subject to overall reductions in debt levels. Similar borrowings totaling \$468.9 million were reflected as short-term debt as of December 31, 1995.

In July 1996, Pennzoil completed the sale of its non-strategic Canadian oil and gas assets to Gulf Canada. Pennzoil received net proceeds of US \$192.8 million, which were used to reduce outstanding debt under Pennzoil's Canadian revolving credit facilities.

In July 1996, Pennzoil completed the sale of approximately half of its interest in the ACG joint development unit offshore Azerbaijan in the Caspian Sea, and in September 1996, completed the sale of Vermejo Park Ranch. Pennzoil used the proceeds from both of these sales to partially fund its 1996 capital spending program and to reduce outstanding debt.

Price Risk Management. Pennzoil has a price risk management program that permits utilization of agreements and financial instruments (such as futures, forward and option contracts and swaps and collars) to reduce the price risks associated with fluctuations in crude oil and natural gas prices. The primary purpose of the program, as it relates to 1996 crude oil and natural gas production, is to help provide Pennzoil with sufficient cash from operations in 1996 to fund its capital spending program without increasing debt. As of September 30, 1996, Pennzoil had entered into transactions that committed an average of approximately 309 MMcf per day of natural gas for the remainder of 1996 to be sold at fixed prices (New York Mercantile Exchange ("NYMEX")-based) ranging from \$1.76 to \$2.12 per Mcf, with a weighted average price of \$1.88 per Mcf, and Pennzoil had entered into transactions that committed an average of approximately 37 Mbbbls per day of crude oil for the remainder of 1996 to be sold at fixed prices (NYMEX-based) ranging from \$16.75 per barrel to \$17.40 per barrel, with a weighted average price of \$16.94 per barrel. Pennzoil has not materially hedged crude oil or natural gas prices beyond 1996. Pennzoil will constantly review and may alter its hedged positions as conditions change.

PART I. FINANCIAL INFORMATION - continued

<TABLE>

(UNAUDITED)

The following tables show revenues and operating income by segment, other components of income and operating data.

<CAPTION>

	Three Months Ended September 30		Nine Months Ended September 30	
	1996	1995	1996	1995
	(Dollar amounts expressed in thousands)			
<S>	<C>	<C>	<C>	<C>
REVENUES				

Oil and Gas	\$ 186,797	\$ 166,700	\$ 566,097	\$ 557,719
Motor Oil & Refined Products	426,475	380,801	1,258,141	1,159,802
Franchise Operations	78,626	76,791	226,617	216,790
Other	55,352	15,353	90,640	70,809
Intersegment sales	(93,562)	(39,633)	(263,886)	(123,155)
Total revenues	\$ 653,688	\$ 600,012	\$1,877,609	\$1,881,965
OPERATING INCOME (LOSS)				
Oil and Gas	\$ 60,715	\$ 19,548	\$ 175,522	\$ 64,931
Motor Oil & Refined Products	9,459	11,891	39,667	39,550
Franchise Operations	6,152	5,416	15,988	10,314
Impairment of long-lived assets	-	(399,830)	-	(399,830)
Other	51,609	10,475	77,411	58,389
Total operating income (loss)	127,935	(352,500)	308,588	(226,646)
Corporate administrative expenses	13,413	15,234	39,495	49,418
Interest charges, net	43,585	48,322	137,952	144,568
Income (loss) before income tax	70,937	(416,056)	131,141	(420,632)
Income tax provision (benefit)	5,812	(140,770)	25,704	(143,299)
NET INCOME (LOSS)	\$ 65,125	\$ (275,286)	\$ 105,437	\$ (277,333)

RATIO OF EARNINGS TO FIXED CHARGES

1.76

-

AMOUNT BY WHICH FIXED CHARGES EXCEED EARNINGS

\$ -

\$ 424,080

</TABLE>

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PART I. FINANCIAL INFORMATION - continued

<TABLE>

(UNAUDITED)

<CAPTION>

	Three Months Ended September 30		Nine Months Ended September 30	
	1996	1995	1996	1995
<S>	<C>	<C>	<C>	<C>
OPERATING DATA				
OIL AND GAS				
Net production				
Crude oil, condensate and natural gas liquids (barrels per day)	58,442	64,604	61,274	69,139
Natural gas produced for sale (Mcf per day)	599,615	662,923	595,967	687,863
Weighted average prices				
Crude oil, condensate and natural gas liquids (per barrel)	\$ 14.85	\$ 14.00	\$ 14.85	\$ 14.46
Natural gas (per Mcf)	\$ 1.80	\$ 1.32	\$ 1.81	\$ 1.39
MOTOR OIL & REFINED PRODUCTS				
Sales (barrels per day)				
Gasoline and naphtha	21,332	19,586	21,043	20,168
Distillates and gas oils	25,984	24,681	26,711	27,148
Lubricating oil and other specialty products	24,638	22,156	23,768	23,435
Residual fuel oils	4,221	3,140	4,120	3,654
Total sales (barrels per day)	76,175	69,563	75,642	74,405
Raw materials processed (barrels per day)	54,330	50,650	53,302	53,492
Refining capacity (barrels per day)	62,700	62,700	62,700	62,700
FRANCHISE OPERATIONS				
Domestic systemwide sales (in thousands)	\$ 179,980	\$ 171,627	\$ 523,394	\$ 491,839

Same center sales (in thousands)	\$ 166,658	\$ 170,884	\$ 495,295	\$ 488,355
Centers open (U.S.)	1,332	1,165	1,332	1,165

</TABLE>

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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

PENNZOIL COMPANY
Registrant

S/N Michael J. Maratea
Michael J. Maratea
Vice President and Controller

November 12, 1996

<TABLE>

EXHIBIT 12

PENNZOIL COMPANY AND SUBSIDIARIES
COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES

<CAPTION>

	For the nine months ended September 30,	
	1996	1995
	(Dollar amounts expressed in thousands)	
	<C>	<C>
Net Income (Loss)	\$ 105,437	\$ (277,333)
Income tax provision (benefit)		
Federal and foreign	20,255	(134,938)
State	5,449	(8,361)
Total income tax provision (benefit)	25,704	(143,299)
Interest charges	156,533	164,601
Income before income tax provision (benefit) and interest charges	\$ 287,674	\$ (256,031)
Fixed charges	\$ 163,407	\$ 168,049
Ratio of earnings to fixed charges	1.76	(1.52)
Amount by which fixed charges exceed earnings	\$ -	\$ 424,080

<CAPTION>

DETAIL OF INTEREST AND FIXED CHARGES

	For the nine months ended September 30,	
	1996	1995
	(Expressed in thousands)	
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Interest charges per Consolidated Statement of Income which includes amortization of debt discount, expense and premium	\$ 144,826	\$ 148,016
Add: portion of rental expense representative of interest factor <F1>	18,581	20,033
Total fixed charges	\$ 163,407	\$ 168,049
Less: interest capitalized per Consolidated Statement of Income	6,874	3,448
Total interest charges	\$ 156,533	\$ 164,601

<FN>

<F1> Interest factor based on management's estimates and approximates one-third of rental expense.

</FN>

</TABLE>

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 Quarter Ended September 30, 1996 Commission File No. 1-5591

PENNZOIL COMPANY

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

74-1597290

(I.R.S. Employer
Identification No.)

Pennzoil Place, P.O. Box 2967
Houston, Texas 77252-2967
(Address of principal executive offices)

EXHIBIT

PENNZOIL COMPANY AND SUBSIDIARIES
INDEX TO EXHIBITS

Exhibit No.

- 12 Computation of Ratio of Earnings to Fixed Charges for the nine months ended September 30, 1996 and 1995.
- 27 Financial Data Schedule

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