

# SECURITIES AND EXCHANGE COMMISSION

## FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1994-05-13** | Period of Report: **1994-03-31**  
SEC Accession No. **0000006769-94-000007**

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### FILER

#### APACHE CORP

CIK: **6769** | IRS No.: **410747868** | State of Incorporation: **DE** | Fiscal Year End: **1231**  
Type: **10-Q** | Act: **34** | File No.: **001-04300** | Film No.: **94527963**  
SIC: **1311** Crude petroleum & natural gas

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HOUSTON TX 77056-4400  
7132966000

## PART I - FINANCIAL INFORMATION

## ITEM 1 - FINANCIAL STATEMENTS

APACHE CORPORATION AND SUBSIDIARIES  
STATEMENT OF CONSOLIDATED INCOME  
(Unaudited)

(In thousands, except per share data)

	For the Three Months Ended March 31,	
	1994	1993
REVENUES:		
Oil and gas production revenues	\$ 114,207	\$ 101,750
Gathering, processing and marketing revenues	6,764	6,070
Equity in income of affiliates	95	270
Other revenues	525	502
	121,591	108,592
OPERATING EXPENSES:		
Depreciation, depletion and amortization	51,297	38,779
International impairments	3,500	3,600
Operating costs	33,149	29,272
Gathering, processing and marketing costs	5,583	4,371
Administrative, selling and other	8,555	8,758
Financing costs:		
Interest expense	6,531	7,927
Amortization of deferred loan costs	763	1,041
Capitalized interest	(1,021)	(1,365)
Interest income	(43)	(140)
	108,314	92,243
INCOME BEFORE INCOME TAXES	13,277	16,349
Provision for income taxes	3,870	4,757
NET INCOME	\$ 9,407	\$ 11,592

NET INCOME PER COMMON SHARE	\$ .15	\$ .24
	=====	=====
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING	61,164	47,525
	=====	=====

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

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

(In thousands)

	For the Three Months Ended March 31,	
	1994	1993
	-----	-----
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 9,407	\$ 11,592
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion and amortization	51,297	38,779
International impairments	3,500	3,600
Amortization of deferred loan costs	763	1,041
Provision for deferred income taxes	5,370	4,757
	-----	-----
	70,337	59,769
Cash distributions less than earnings of affiliates	(95)	(282)
Changes in operating assets and liabilities:		
Increase in receivables	(5,677)	(8,918)
(Increase) decrease in advances to oil and gas ventures and other	598	(401)
Increase in deferred charges and other	(384)	(596)
Decrease in payables	(2,051)	(20,528)
Decrease in accrued operating costs	(7,288)	(15,936)
Increase in deferred credits and other noncurrent liabilities	974	535
	-----	-----
Net cash provided by operating activities	56,414	13,643
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:		
Exploration and development expenditures	(68,661)	(42,468)
Acquisition of oil and gas properties	(4,489)	(13,888)

Non-cash portion of net oil and gas property additions	(2,533)	2,288
Purchase of HERC stock and other	(14,885)	-
Proceeds from sale of oil and gas properties	-	2,398
Proceeds from sale of gas gathering system	-	32,201
Increase in inventory, net	(158)	(477)
Other capital expenditures	(1,547)	(18,831)
	-----	-----
Net cash used in investing activities	(92,273)	(38,777)
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:		
Long-term borrowings	44,456	30,652
Payments on long-term debt	(5,260)	(86,858)
Proceeds from issuance of common stock, net	1,124	131,893
Dividends paid	(4,268)	(3,286)
	-----	-----
Net cash provided by financing activities	36,052	72,401
	-----	-----
NET INCREASE IN CASH AND CASH EQUIVALENTS	193	47,267
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	17,064	26,127
	-----	-----
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 17,257	\$ 73,394
	=====	=====

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

APACHE CORPORATION AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEET

(In thousands)	March 31, 1994	December 31, 1993
	-----	-----
	(Unaudited)	
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 17,257	\$ 17,064
Receivables	97,517	91,840
Inventories	7,310	7,152
Advances to oil and gas ventures and other	6,286	6,884
	-----	-----
	128,370	122,940
	-----	-----

PROPERTY AND EQUIPMENT:

Oil and gas, on the basis of full cost accounting:

Proved properties	2,582,030	2,516,801
Unproved properties and properties under development, not being amortized	113,517	105,597
Gas gathering, transmission and processing facilities	25,809	25,809
Other	38,214	36,938
	-----	-----
	2,759,570	2,685,145
Less: Accumulated depreciation, depletion and amortization	(1,302,982)	(1,248,685)
	-----	-----
	1,456,588	1,436,460
	-----	-----

OTHER ASSETS:

Investment in affiliate	5,772	5,677
Deferred charges and other	27,723	27,330
	-----	-----
	33,495	33,007
	-----	-----
	\$ 1,618,453	\$ 1,592,407
	=====	=====

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

APACHE CORPORATION AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEET

(In thousands)

March 31,

December 31,

	1994	1993
	-----	-----
	(Unaudited)	
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current maturities of long-term debt	\$ 8,858	\$ 9,017
Accounts payable	102,453	118,447
Accrued operating expense	14,448	17,371
Accrued exploration and development	12,550	15,083
Accrued interest	5,153	2,010
Accrued income taxes	4,543	6,048
Accrued compensation and benefits	3,721	9,170
Other accrued expenses	7,820	8,244
	-----	-----
	159,546	185,390
	-----	-----
LONG-TERM DEBT	492,364	453,009
	-----	-----
DEFERRED CREDITS AND OTHER NONCURRENT LIABILITIES:		
Income taxes	133,794	128,554
Advances on gas contracts	3,914	3,914
Future operating costs for royalty interest sold	9,680	10,389
Other	26,980	25,297
	-----	-----
	174,368	168,154
	-----	-----
SHAREHOLDERS' EQUITY:		
Common stock, \$1.25 par, 215,000,000 shares authorized, 62,352,490 and 62,334,241 shares issued, respectively	77,941	77,918
Paid-in capital	540,490	540,155
Retained earnings	187,316	182,195
Treasury stock, at cost, 1,128,937 and 1,248,827 shares, respectively	(13,572)	(14,414)
	-----	-----
	792,175	785,854
	-----	-----
	\$ 1,618,453	\$ 1,592,407
	=====	=====

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

APACHE CORPORATION AND SUBSIDIARIES  
STATEMENT OF RETAINED EARNINGS  
(Unaudited)

(In thousands)

	For the Three Months Ended March 31,	
	1994	1993
Retained earnings, beginning of period	\$ 182,195	\$ 160,763
Net income	9,407	11,592
Dividends declared:		
Common stock, \$.07 per share	(4,286)	(3,694)
Retained earnings, end of period	\$ 187,316	\$ 168,661

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

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

The financial statements included herein have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission, and reflect all adjustments which are, in the opinion of management, necessary to a fair statement of the results for the interim periods, on a basis consistent with the annual audited 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 generally accepted accounting principles 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. These financial statements should be read in conjunction with the financial statements and the summary of significant accounting policies and notes thereto included in the Company's latest annual report on Form 10-K.

#### INCOME TAXES

Under the liability method specified by Statement of Financial Accounting Standards No. 109, deferred taxes are determined based on the estimated future tax effect of differences between the financial



statement and tax bases of assets and liabilities given the provisions of enacted laws.

#### INCOME PER SHARE

Primary income per common share was calculated by dividing net income by the weighted average common shares outstanding. The effect of common stock equivalents, including shares issuable upon the exercise of stock options (calculated using the treasury stock method) and upon the assumed conversion of the Company's 3.93 percent convertible notes, was not significant or was anti-dilutive for all periods presented.

#### SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

(In thousands)	For the Three Months Ended March 31,	
	1994	1993
Cash paid during the period for:		
Interest (net of amounts capitalized)	\$ 2,632	\$ 10,154
Income taxes (net of refunds)	\$ (53)	\$ 325

The Company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. These investments are carried at cost which approximates market.

#### ITEM 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

##### Financial Results

Apache reported first quarter 1994 earnings of \$9.4 million, or \$.15 per share, on total revenues of \$121.6 million. During the comparable 1993 period, Apache realized net income of \$11.6 million, or \$.24 per share, on total revenues of \$108.6 million. The significant factor that contributed to lower earnings was a 30-percent decline in oil prices from a year ago. The first quarter's 1994 financial performance was impacted by the following items:

##### Acquisitions:

During the second half of 1993, Apache completed acquisitions which impacted most aspects of the Company's financial statements.

Hall-Houston - Apache acquired substantially all of Hall-

Houston Oil Company's (Hall-Houston) producing properties in the Gulf of Mexico for \$84.4 million and Hall-Houston's interest in Mustang Island 787 and 805 for \$29.3 million. The two transactions included interests in 63 producing fields and 12 fields under development or awaiting pipeline connections.

HERC - Apache purchased Hadson Energy Resources Corporation (HERC) for approximately \$98 million through a series of privately negotiated transactions and a merger approved with an affirmative vote by 66 2/3 percent of the HERC stockholders other than Apache. In addition to its domestic and foreign proved properties, HERC held a 22.5 percent interest in a 60-mile, offshore pipeline and an interest in over 6 million gross (2.5 million, net) acres in the Carnarvon Basin located offshore Western Australia.

#### Oil and Gas Production and Pricing:

With posted oil prices declining since mid-1993 in response to OPEC's failure to reduce its production quotas, Apache's average realized oil price dropped by \$5.58 per barrel from the first quarter of 1993. The 30-percent decline in price, after considering amortization expense and income taxes, negatively impacted Apache's first quarter earnings by approximately \$.11 per share.

A five percent increase in the average gas prices combined with an increase in production, due mainly to the acquisition of the Hall-Houston and HERC properties, contributed to a 50-percent increase in gas revenues.

#### Results of Operations

-----	For the Three Months Ended March 31,	
Selected Oil and Gas Operating Statistics	1994	1993
-----	-----	-----
Oil Volume - Barrels per day:		
Domestic	32,003	30,844
Foreign	2,644	374
Total	34,647	31,218
Average Oil Price - Per barrel	\$ 12.85	\$ 18.43
Gas Volume - Mcf per day:		
Domestic	382,764	271,004
Foreign	4,139	-
Total	386,903	271,004

Average Gas Price - Per Mcf	\$ 2.09	\$ 1.99
Natural Gas Liquids (NGL) - Barrels per day	1,323	1,269
NGL Price - Per barrel	\$ 11.03	\$ 12.71
Domestic Full Cost Amortization Rate	43.1%	36.9%

Oil and gas production revenues for the first quarter of 1994 totaled \$114.2 million, up 12 percent from the same period last year. A 30-percent increase in equivalent production and five-percent improvement in gas prices more than offset the impact of lower oil prices on revenues from a year ago.

Higher production, reflecting both acquisitions and drilling, and a \$.10 per thousand cubic feet (Mcf) increase in Apache's average gas price from a year ago contributed to first quarter natural gas sales rising to \$72.8 million. Gas sales for the quarter were up \$24.4 million, or 50 percent, from last year's sales. The HERC and Hall-Houston acquisitions added a total of 79 million cubic feet per day (MMcfd) to Apache's first quarter production for a total of 386.9 MMcfd. Developmental drilling and recompletions in Matagorda Island properties in the Gulf of Mexico and the Permian Basin also increased the Company's production by 41 MMcfd. Spot market gas prices continued to rise as cold weather in the northeastern United States and a reduction in volumes available from gas storage facilities increased the demand for natural gas. The five-percent increase over the prior year in Apache's average price of natural gas to \$2.09 per Mcf favorably impacted 1994 sales by \$3.6 million.

First quarter oil sales of \$40.1 million declined \$11.7 million, or 23 percent, from the comparable period in 1993 as a result of lower oil prices. With a decline in posted prices and the expiration of a hedging agreement on certain oil production acquired from Amoco in 1991, Apache's average oil price declined from \$18.43 in the first quarter of 1993 to \$12.85 in the current period. A 3,429 barrels per day (Bopd) increase in Apache's daily oil production from a year ago partially offset the \$17.4 million revenue decrease attributable to lower prices. Apache's first quarter oil production rose to 34,647 Bopd, with 4,600 Bopd coming from the HERC and Hall-Houston acquisitions. These increases in production were partially offset by Grant Canyon wells watering-out.

Revenues from the sale of natural gas liquids and sulfur for the first quarter of 1994 totaled \$1.3 million. Lower natural gas liquid prices contributed to the \$.2 million decline from a year ago as lower crude oil prices depressed gas liquid prices.

First quarter gathering, processing and marketing revenues of \$6.8 million were up 11 percent from the comparable period in 1993 while the operating margin decreased by \$.5 million. The first quarter of 1993 included results of operations from Apache's interest in a western Oklahoma gathering system and processing plant which was sold effective March 31, 1993. This gathering and processing operation required a greater investment and generated a higher operating margin relative to sales than Apache's current oil and gas marketing activities.

Depreciation, depletion and amortization (DD&A) expense for the first quarter of 1994 totaled \$51.3 million compared to \$38.8 million a year ago, a 32-percent increase. DD&A expense for domestic oil and gas properties rose as a result of an increase in oil and gas sales and an increase in Apache's domestic amortization rate, expressed as a percentage of sales, from 36.9 percent in 1993 to 43.1 percent in 1994. Lower oil prices from a year ago and the higher costs associated with the acquisition of offshore properties, combined to increase Apache's domestic rate for the first quarter of 1994. Higher costs for offshore reserves reflect Apache's expectations of more rapid payouts associated with generally shorter reserve lives found in Gulf of Mexico properties.

Reflecting the impact of acquisitions, operating costs for the first quarter of 1994 rose 13 percent from a year ago to \$33.1 million. Operating costs include lifting costs, workover expense, production taxes and severance taxes. Based on an equivalent unit of production, operating costs declined 13 percent in 1994 to \$3.72 per barrel of oil equivalent (boe). The unit cost decline reflects continued cost savings efforts and the addition of offshore properties which are not subject to production taxes and traditionally have lower unit lifting costs.

First quarter administrative, selling and other costs declined two percent in total from a year ago, while dropping 24 percent on a Boe basis. Apache has assimilated the HERC and Hall-Houston acquisitions with minimal increases in administrative staff.

Net financing costs for the quarter declined \$1.2 million, or 17 percent, from the first quarter of 1993. The \$1.2 million reduction in net financing costs was largely attributable to replacing the \$150 million of 7 1/2 percent debentures with bank debt accruing interest at approximately 4.2 percent. The \$150 million of debentures converted to equity was subsequently replaced with bank debt drawn to fund acquisitions. Due to the replacement of the 7 1/2 percent debentures with bank debt, Apache's average interest rate declined from approximately 6.1 percent in the first quarter of 1993 to approximately 5.1 percent in the current period.

Liquidity and Capital Resources

Apache's primary needs for cash are for exploration, development and acquisition of oil and gas properties, repayment of principal and interest on outstanding debt and payment of dividends. The Company generally funds its exploration and development activities through internally generated cash flows. Apache budgets its capital expenditures based upon projected cash flows and routinely adjusts its capital expenditures in response to changes in oil and gas prices and corresponding changes in cash flow.

Expenditures for exploration and development increased to \$68.7 million for the first quarter of 1994 from \$42.5 million during the comparable period last year. Apache has completed 55 producing wells out of 64 gross domestic wells drilled this year. This compares to 35 wells completed out of 49 gross domestic wells drilled during the first quarter of 1993. At the end of March 1994, there were another 30 wells in various stages of drilling with results expected by mid-year.

Apache's acquisitions in the first quarter of 1994 were relatively small at \$4.5 million as compared to \$13.9 million in 1993. The acquisitions were primarily purchases of additional working interest in existing Apache properties.

Other capital expenditures for 1994 were \$1.5 million as compared to \$18.8 million in 1993. The 1993 expenditures included the purchase of NGC's interest in the western Oklahoma gas gathering system which was subsequently sold in a transaction discussed under Capital Resources.

The purchase of HERC stock largely reflects cash payments for HERC common stock which had not been tendered to Apache as of December 31, 1993. The shares were accrued as a cost of the HERC acquisition in 1993.

#### Capital Resources

Apache's primary capital resources are net cash provided by operating activities, unused borrowing capacity under the Company's revolving bank credit facility, proceeds from other financing activities and proceeds from the sale of non-strategic assets. Net cash provided by operating activities totaled \$56.4 million during the first quarter of 1994 compared to \$13.6 million for the same period last year. The 314-percent improvement in cash flows primarily reflects increased gas production, higher gas prices and reduced interest costs from a year ago. In addition, 1993 net cash provided by operating activities was reduced by \$20.1 million for the repayment of advances on gas contracts.

In March 1993, Apache and NGC completed the sale of their respective interest in a gas gathering system in western Oklahoma. Apache

received gross cash proceeds of approximately \$32.2 million in the transaction, of which \$16.4 million was attributable to NGC's interest in the system. The sale price approximated the net book value of the interests sold.

Also in March 1993, Apache completed the public offering of approximately 5.8 million shares of common stock for net proceeds of \$131.8 million. In April 1993, Apache applied the proceeds of the equity offering to repay all outstanding debt under the revolving bank credit. As of March 31, 1994, the Company had reborrowed \$282 million, largely to fund the purchase of Hall-Houston properties and the HERC acquisition.

During the quarter, Apache increased its outstanding debt by \$39.2 million to fund the purchase of the outstanding HERC common stock and other working capital requirements.

### Liquidity

The Company had \$17.2 million in cash equivalents on hand at March 31, 1994, up slightly from the \$17.1 million at the end of 1993. The Company's ratio of current assets to current liabilities at year-end of .8:1 was virtually unchanged from year-end 1993.

Management believes that cash on hand, net cash generated from operations and unused available borrowing capacity under the revolving credit facility of \$118 million at March 31, 1994 will be adequate to meet future liquidity needs for the next two fiscal years, including satisfying the Company's financial obligations and funding exploration and development operations and routine acquisitions.

### Future Trends

Apache intends to continue increasing production and reserves through drilling and property acquisitions. Apache is in the process of amending its bank credit facility. The size of the facility is expected to increase from \$400 million to \$700 million, subject to borrowing base availability. The current borrowing base is expected to increase from \$400 million to \$450 million. These increases will enhance Apache's ability to pursue growth opportunities. Spot market natural gas prices remain volatile and continue to behave independent of historical seasonal patterns. Spot market oil prices, which are especially vulnerable to complex and unpredictable political and economic forces, have improved since the end of the first quarter 1994, but are expected to remain volatile.

## PART II. - OTHER INFORMATION

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ITEM 1. LEGAL PROCEEDINGS

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The information set forth in Note 8 to the Consolidated Financial Statements contained in the registrant's 1993 Form 10-K filed March 28, 1994, is incorporated herein by reference.

ITEM 2. CHANGES IN SECURITIES

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None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

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None.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

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None.

ITEM 5. OTHER INFORMATION

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None.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

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a. Exhibits.

11.1 Computation of Earnings per Share.

b. Reports filed on Form 8-K.

None.

EXHIBIT 11.1

APACHE CORPORATION  
COMPUTATION OF EARNINGS PER SHARE  
(In thousands except per share data)

For the Three Months Ended

March 31, 1994

	Fully Primary	Diluted
Net income	\$ 9,407	\$ 9,407
Assumed reduction of interest expense upon conversion of \$75 million 3.93% convertible notes, net of tax	539	539
Net income, as adjusted	\$ 9,946	\$ 9,946
Weighted average common shares outstanding	61,164	61,164
Stock options: common stock equivalents outstanding using the treasury stock method	662	662
Common shares issuable upon assumed conversion of 3.93% notes	2,778	2,778
Common shares outstanding, as adjusted	64,604	64,604
Earnings per share	\$ .15	\$ .15

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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

For the quarterly period ended March 31, 1994

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

1-4300



(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)

Suite 100, One Post Oak Central  
2000 Post Oak Boulevard, Houston, TX

77056-4400

(Address of Principal Executive Offices)

(Zip Code)

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 X . NO .

Number of shares of Apache Corporation common stock, \$1.25 par value, outstanding as of March 31, 1994. . . . .61,223,553

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereto duly authorized.

APACHE CORPORATION

Dated: May 13, 1994

/S/ Mark A. Jackson

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Mark A. Jackson  
Vice President and  
Chief Accounting Officer

Dated: May 13, 1994

/S/ R. Kent Samuel

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R. Kent Samuel  
Controller