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515,229

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204,811

The components of income tax expense (benefit) for each of the three years in the period ended December 31, 2004, are as follows (expressed in thousands):

	2004	2003	2002
Current			
United States	\$ 147,759	\$ 116,813	\$ 15,497
Foreign	96,262	51,491	11,351
Deferred			
United States	3,896	26,375	32,451
Foreign	(13,268)	25,443	38,481
Income tax expense	\$ 234,649	\$ 220,122	\$ 97,780

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POGO PRODUCING COMPANY & SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Total income tax expense for each of the three years in the period ended December 31, 2004, differs from the amounts computed by applying the statutory federal income tax rate to income before taxes as follows (expressed as percent of pretax income):

	2004	2003	2002
Federal statutory income tax rate	35.0 %	35.0 %	35.0 %
Increases resulting from:			
Foreign income taxed at different rates	6.4	4.6	7.8
Recognition of valuation allowance on foreign losses	2.2		
U.S. taxes on repatriation of foreign earnings.	1.1	1.9	2.3
State income taxes, net of federal benefits	1.2	0.7	0.5
Other	1.4	0.5	2.2
	47.3 %	42.7 %	47.8 %

The principal components of the Company's deferred income tax assets and liabilities at December 31, 2004 and 2003 (expressed in thousands) are as follows:

	December 31, 2004	2003
Deferred tax assets:		
Foreign deferred tax assets and net operating loss carry forwards	\$ 12,143	\$ 2,795
Valuation allowance of deferred tax assets and foreign net operating loss	(12,143)	(379)
Other	16,252	9,938
	16,252	12,354
Deferred tax liabilities:		
Book basis in excess of tax basis for oil and gas properties and equipment	(613,664)	(553,967)
Other	(9,195)	(8,004)
	(622,859)	(561,971)
Net deferred tax liability	\$ (606,607)	\$ (549,617)

Book basis in excess of tax basis for oil and gas properties and equipment primarily results from differing methodologies for recording property costs and depreciation, depletion and amortization under United States generally accepted accounting principles and income tax reporting. In addition, the Company recorded a deferred tax liability resulting from book and tax basis differences of the acquired corporations during 2004.

During 2003, the Company utilized its remaining Thailand net operating loss carryforwards to offset current year income taxes. As of December 31, 2004 the Company had \$20,595,000 in net operating loss carryforwards available to offset future income tax in Hungary. Such net operating loss carryforwards do not expire. In addition, there are additional loss carryforwards of \$44,606,000 that may be available pending approval of the Hungarian tax authorities

Where the Company's present intention is to reinvest the unremitted earnings in its foreign operations, the Company does not provide for U.S. income taxes on unremitted earnings of foreign

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

subsidiaries. Unremitted earnings of foreign subsidiaries for which U.S. income taxes have not been provided are approximately \$122,328,000 at December 31, 2004. It is not practicable to determine the amount of U.S. income taxes that would be payable upon remittance of the assets that represent those earnings.

On October 22, 2004, the President signed the American Jobs Creation Act of 2004 (the Act). The Act creates a temporary incentive for U.S. corporations to repatriate accumulated income earned abroad by providing an 85% dividend received deduction for certain dividends from controlled foreign corporations. The deduction is subject to a number of limitations and, as of March 1, 2005, uncertainty remains as to how to interpret numerous provisions of the Act. As a result, the Company is not yet in a position to decide whether, and to what extent, it might repatriate foreign earnings that have not yet been remitted to the U.S. If certain technical corrections to the Act are passed, the Company may consider repatriating an amount up to \$195,669,000 of the cash and current investments held by international subsidiaries as of December 31, 2004, with an associated tax liability of approximately \$10.2 million (assuming 15% of such cash is subject to tax at the U.S. statutory rate).

(4) Long-Term Debt

Long-term debt at December 31, 2004 and 2003, consists of the following (dollars expressed in thousands):

	December 31, 2004	2003
Senior debt		
Bank revolving credit agreement:		
LIBOR based loans, borrowings at December 31, 2004 and 2003 at interest rates of 3.665% and 2.3125%, respectively	\$ 515,000	\$ 135,000
LIBOR Rate Advances, borrowings at December 31, 2004 at an interest rate of 3.5275%	40,000	
Swing line money market loans, borrowings at December 31, 2003 at an interest rate of 2.375%.		4,000
Total senior debt	555,000	139,000
Subordinated debt		
10 ³ / ₈ % Senior subordinated notes, due 2009		150,000
8 ¹ / ₄ % Senior subordinated notes, due 2011	200,000	200,000
Total subordinated debt	200,000	350,000
Unamortized discount on 2009 Notes		(1,739)
Long-term debt	\$ 755,000	\$ 487,261

On December 16, 2004, the Company entered into a new credit agreement (the Credit Facility), replacing its then existing credit agreement dated as of March 8, 2001, as amended. The Credit Facility is with various financial institutions and provides for revolving credit borrowings up to a maximum principal amount of \$750,000,000 at any one time outstanding, with borrowings not to exceed a borrowing base determined at least semiannually using the administrative agent's usual and customary criteria for oil and gas reserve valuation, adjusted for incurrences of other indebtedness since the last redetermination of the borrowing base. As of December 31, 2004, the borrowing base was \$900,000,000. The Credit Facility

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

provides that in specified circumstances involving an increase in ratings assigned to the Company's debt, the Company may elect for the borrowing base limitation to no longer apply to restrict available borrowings. The Credit Facility also includes procedures for additional financial institutions selected by the Company to become lenders under the agreement, or for any existing lender to increase its commitment in an amount approved by the Company and the lender, subject to a maximum of \$250,000,000 for all such increases in commitments of new or existing lenders. Additionally, the Credit Facility permits short-term swing-line loans up to \$10,000,000 and the issuance of letters of credit up to \$75,000,000, which in each case reduce the credit available for revolving credit borrowings. All outstanding amounts owed under the Credit Facility become due and payable no later than the final maturity date of December 16, 2009, and are subject to acceleration upon the occurrence of events of default which the Company considers usual and customary for an agreement of this type, including failure to make payments under the credit agreement, non-performance of covenants and obligations continuing beyond any applicable grace period, default in the payment of other indebtedness in excess in principal amount of \$25,000,000 or a default accelerating or permitting the acceleration of any such indebtedness, or the occurrence of a change in control of the Company, including the acquisition of beneficial ownership of in excess of 50% of its capital stock. If at any time the outstanding credit extended under the agreement exceeds the applicable borrowing base, the deficiency is required to be amortized in four monthly installments commencing 90 days after the deficiency arises, and until the deficiency is eliminated, increases in some applicable interest rate margins apply.

Borrowings under the Credit Facility bear interest, at the Company's election, at a prime rate or Eurodollar rate, plus in each case an applicable margin. In addition, a commitment fee is payable on the unused portion of each lender's commitment. The applicable interest rate margin varies from 0% to 0.25% in the case of borrowings based on the prime rate and from 1.00% to 2.00% in the case of borrowings based on the Eurodollar rate, depending on the utilization level in relation to the borrowing base and, in the case of Eurodollar borrowings, ratings assigned to the Company's debt.

The Credit Facility contains various covenants, including among others restrictions on liens, restrictions on incurring other indebtedness if a default under the credit agreement exists or would result or if a borrowing base deficiency would result, restrictions on dividends and other restricted payments if a default under the credit agreement exists or would result, restrictions on mergers, restrictions on investments, and restrictions on hedging activity of a speculative nature or with counterparties having credit ratings below specified levels. Financial covenants include a covenant not to permit the Company's ratio of consolidated debt to consolidated total capitalization (determined without reduction for any non-cash write downs after the date of the credit agreement) to exceed 60% at any time, and not to permit the Company's consolidated ratio of EBITDAX to Fixed Charges (as those terms are defined in the credit agreement) for the four most recent fiscal quarters to be less than or equal to 2.5 to 1.0 at the end of any quarter.

The Company gave notice on March 18, 2004 of its intent to redeem all \$150,000,000 of its 10³/₈% Senior Subordinated Notes due 2009 (the 2009 Notes) at 105.188% of their face amount. On April 19, 2004, the Company paid \$157,782,000 (excluding accrued interest) in cash to holders of the 2009 Notes. The cash redemption payment was funded through borrowings under the Company's existing bank credit facility. The Company recorded a pre-tax expense on the redemption of the 2009 Notes of \$10,893,000 in Loss on debt extinguishment during the year ended December 31, 2004.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

On April 10, 2001, the Company issued \$200,000,000 principal amount of 2011 Notes. The 2011 Notes bear interest at a rate of 8 1/4%, payable semi-annually in arrears on April 15 and October 15 of each year. The 2011 Notes are general unsecured senior subordinated obligations of the Company, are subordinated in right of payment to the Company's senior indebtedness, which currently includes the Company's obligations under the Credit Facility. The Company, at its option, may redeem the 2011 Notes in whole or in part, at any time on or after April 15, 2006, at a redemption price of 104.125% of their principal value and decreasing percentages thereafter. The indenture governing the 2011 Notes also imposes certain covenants on the Company including covenants limiting: incurrence of indebtedness including senior indebtedness; restricted payments; the issuance and sales of restricted subsidiary capital stock; transactions with affiliates; liens; disposition of proceeds of assets sales; non-guarantor restricted subsidiaries; dividends and other payment restrictions affecting restricted subsidiaries; and merger, consolidations and the sale of assets.

(5) Commitments and Contingencies

The Company has commitments for operating leases (primarily for office space) in Houston, Midland, Fort Worth, Bangkok, Budapest, for an FPSO and FSO in the Gulf of Thailand, and for other equipment (including gas compressors). Rental expense for office space was \$3,096,000 in 2004, \$2,942,000 in 2003, and \$2,821,000 in 2002. Expenses for the FPSO lease were approximately \$10,600,000 in each of the years 2004, 2003 and 2002. Expenses for the FSO were approximately \$4,000,000 in each of the years 2004, 2003 and 2002. Rental expense for other equipment was \$5,497,000 in 2004, \$4,241,000 in 2003 and \$2,022,000 in 2002.

Future minimum lease payments related to the Company's operating leases at December 31, 2004 are approximately \$23,500,000 in 2005; \$23,500,000 in 2006; \$20,200,000 in 2007; \$16,800,000 in 2008; \$9,900,000 in 2009 and \$47,100,000 thereafter. Where rented equipment such as compressors is considered essential to the operation of the lease, the Company has assumed that such equipment will be leased for the estimated productive life of the reserves, even if the contract terminates prior to such date.

POGO PRODUCING COMPANY & SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(6) Geographic Information

The Company's reportable geographic information is identified below. The accounting policies of the geographic regions are the same as those described in the summary of significant accounting policies (Note 1). The Company evaluates performance based on operating income (loss). Financial information by geographic region is presented below:

	2004	2003	2002
	(Expressed in thousands)		
Long-Lived Assets:			
As of December 31,			
United States	\$ 2,576,120	\$ 1,943,564	\$ 1,780,431
Kingdom of Thailand	433,032	420,856	378,260
Other	42	11,421	358
Total	\$ 3,009,194	\$ 2,375,841	\$ 2,159,049
Capital Expenditures:			
(including interest capitalized)			
For the year ended December 31,			
United States	\$ 931,444	\$ 376,430	\$ 269,250
Kingdom of Thailand	122,748	132,409	112,440
Other	32,033	11,485	
Total	\$ 1,086,225	\$ 520,324	\$ 381,690
Revenues:			
For the year ended December 31,			
United States	\$ 987,688	\$ 858,505	\$ 542,014
Kingdom of Thailand	335,237	303,470	212,763
Other	54	21	77
Total	\$ 1,322,979	\$ 1,161,996	\$ 754,854
Depreciation, depletion, and amortization expense:			
For the year ended December 31,			
United States	\$ 258,467	\$ 237,853	\$ 221,646
Kingdom of Thailand	106,556	87,906	66,099
Other	66	61	64
Total	\$ 365,089	\$ 325,820	\$ 287,809
Operating income (loss):			
For the year ended December 31,			
United States	\$ 424,790	\$ 399,678	\$ 138,934
Kingdom of Thailand	147,953	151,830	103,021
Other	(48,264)	(3,779)	(1,782)
Total	\$ 524,479	\$ 547,729	\$ 240,173

POGO PRODUCING COMPANY & SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(7) Sales to Major Customers

The Company is an oil and gas exploration and production company that generally sells its oil and gas to numerous customers on a month-to-month basis. For purposes of comparison, sales have been presented for all three years for those customers who have exceeded 10% of revenues in any given year (expressed in thousands):

	2004	2003	2002
Shell Trading Company	\$ 147,076	\$ 161,451	\$ 103,714
Pacific Petroleum and Trading Co. Ltd.	135,160	30,018	

(8) Credit Risk

Substantially all of the Company's accounts receivable at December 31, 2004 and 2003, result from oil and gas sales and joint interest billings to other companies in the energy industry. This concentration of customers and joint interest owners may impact the Company's overall credit risk, either positively or negatively, in that these entities may be similarly affected by industry-wide changes in economic or other conditions. Such receivables are generally not collateralized. As of December 31, 2004 and 2003, the Company had provided reserves for receivables from specifically identified receivables from customers and joint interest owners that are considered doubtful of collection of \$3,882,000 and \$3,810,000, respectively.

A substantial portion of the Company's oil and gas operations are conducted in Southeast Asia, and a substantial portion of its natural gas and liquids hydrocarbon production are sold there. Southeast Asia in general, and the Kingdom of Thailand in particular, experienced severe economic difficulties in 1997 and 1998 which were characterized by sharply reduced economic activity, illiquidity, highly volatile foreign currency exchange rates and unstable stock markets. Since that time, the economic situation in the Kingdom of Thailand has generally stabilized and begun to improve. However, as with most emerging market economies, the Thai economy remains particularly sensitive to worldwide economic trends and to the effect of the recent tsunami disaster in the Kingdom. The economic health of the Thai economy and its effect on the volatility of the Thai Baht against the U.S. dollar will continue to have a material impact on the Company's operations in the Kingdom of Thailand, as well as the prices that the company receives for its natural gas production there.

As a result of the substantial oil and gas operations and earnings from its Thailand operations, the Company generates a significant amount of cash which is maintained in various bank accounts with multi-national banks for future foreign investment. These balances are diversified between cash and short-term investments.

(9) Employee Benefit Plans

The Company has a tax-advantaged savings plan in which all U.S. salaried employees may participate. Under such plan, a participating employee may allocate up to 30% of their salary, up to a maximum allowed by law, and the Company will then match the employee's contribution on a dollar for dollar basis up to the lesser of 6% of the employee's salary or \$13,000 in 2004. Funds contributed by the employee and the matching funds contributed by the Company are held in trust by a bank trustee in six separate funds. Amounts contributed and earnings and accretions thereon may be used to purchase shares of the Company's common stock, invest in a money market fund or invest in four stock, bond, or blended stock

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and bond mutual funds according to instructions from the employee. The Company contributed \$1,360,000 to the savings plan in 2004, \$1,233,000 in 2003, and \$1,068,000 in 2002.

The Company has adopted a trustee retirement plan for its U.S. salaried employees. The benefits are based on years of service and the employee's average compensation for five consecutive years within the final ten years of service which produce the highest average compensation. The Company makes annual contributions to the plan in the amount of retirement plan cost accrued or the maximum amount that can be deducted for federal income tax purposes. The Company does not expect to make a contribution to the plan in 2005. The plan's investment strategy and goals are to ensure, over the long-term life of the retirement plan, an adequate pool of sufficiently liquid assets to support the benefit obligations to participants, retirees and beneficiaries. Investment objectives are long-term in nature covering typical market cycles of three to five years.

Although the Company has no obligation to do so, the Company currently provides full medical benefits to its retired U.S. employees and dependents. For current employees, the Company assumes all or a portion of post-retirement medical and term life insurance costs based on the employee's age and length of service with the Company. The post-retirement medical plan has no assets and is currently funded by the Company on a pay-as-you-go basis. The expected Company contributions to the post-retirement medical plan during 2005 are approximately \$554,000.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table sets forth the plans status (in thousands of dollars) as of December 31, 2004 and 2003. The Company uses a December 31 measurement date for its plans.

	Retirement Plan		Post-Retirement Medical Plan	
	2004	2003	2004	2003
Change in benefit obligation				
Benefit obligation at beginning of year	\$ 29,519	\$ 24,297	\$ 17,145	\$ 15,067
Service cost	2,631	2,248	1,385	1,102
Interest cost	1,751	1,546	1,044	915
Benefits paid	(1,302)	(340)	(356)	(338)
Actuarial loss	4,259	1,768	1,984	399
Benefit obligation at end of year	\$ 36,858	\$ 29,519	\$ 21,202	\$ 17,145
Change in plan assets				
Fair value of plan assets at beginning of year	\$ 32,236	\$ 26,625	\$	\$
Actual return on plan assets	1,729	6,234		
Employer contributions			356	338
Benefits paid	(1,302)	(340)	(356)	(338)
Administrative expenses	(364)	(283)		
Fair value of plan assets at end of year	\$ 32,299	\$ 32,236	\$	\$
Reconciliation of funded status				
Funded status	\$ (4,559)	\$ 2,717	\$ (21,202)	\$ (17,145)
Unrecognized actuarial loss	13,849	9,037	5,086	3,292
Unrecognized transition (asset) or obligation			303	608
Unrecognized prior service cost	625	671		
Prepaid (accrued) benefit cost at year-end	\$ 9,915	\$ 12,425	\$ (15,813)	\$ (13,245)
Components of net periodic benefit cost				
Service cost	\$ 2,631	\$ 2,248	\$ 1,385	\$ 1,102
Interest cost	1,750	1,546	1,044	915
Expected return on plan assets	(2,639)	(2,176)		
Amortization of prior service cost	46	43		
Amortization of transition (asset) obligation			305	305
Amortization of net loss	722	1,040	190	64
	\$ 2,510	\$ 2,701	\$ 2,924	\$ 2,386
Accumulated benefit obligation	\$ 28,248	\$ 23,591		

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Plan Assumptions

	Retirement Plan			Post-Retirement Medical Plan		
	2004	2003	2002	2004	2003	2002
Plan assumptions to determine benefit obligations						
Discount rate	5.75 %	6.00 %	6.50 %	5.75 %	6.00 %	6.50 %
Rate of compensation increase	5.50 %	4.75 %	4.75 %			
Plan assumptions to determine net cost						
Discount rate	6.00 %	6.50 %	7.25 %	6.00 %	6.50 %	7.25 %
Expected long-term rate of return on plan assets	8.50 %	8.50 %	9.50 %			
Rate of compensation increase	4.75 %	4.75 %	4.75 %			

To develop the expected long-term rate of return on plan assets assumption, the Company considered the current level of expected returns on risk free investments (primarily government bonds), the historical level of the risk premium associated with the other asset classes in which the portfolio is invested and the expectations for future returns of each asset class. The expected return for each asset class was then weighted based on the target asset allocation to develop the expected long-term rate of return on plan assets assumption for the portfolio. This resulted in the selection of the 8.50% assumption for 2004.

Expected benefit payments for the retirement plan for the next ten years are as follows (amounts expressed in thousands):

Year Ending December 31,	Expected Benefit Payment
2005	\$ 2,905
2006	3,435
2007	2,761
2008	3,442
2009	3,375
Next 5 years	19,667

The following table provides the target and actual asset allocations in the retirement plan:

Asset Category	Target	Actual as of December 31,	
		2004	2003
Equity securities	100 %	99 %	100 %
Debt securities	0 %	0 %	0 %
Real estate	0 %	0 %	0 %
Other	0 %	1 %	0 %
Total	100 %	100 %	100 %

For measurement purposes related to the Company's post-retirement medical plan, a 11% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2005. The rate is assumed

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

to decrease gradually to 5% for 2012 and remain at that level thereafter. This compares to the amounts used for 2004 measurement purposes, where a 12% annual rate of increase in the per capita cost of covered health care benefits was assumed, decreasing gradually to 5% for 2012 and remaining level thereafter.

Assumed health care cost trends have a significant effect on the amount reported for the health care plan. A one-percentage-point change in assumed health care cost trend rates would have the following effects (in thousands):

	One Percentage Point	
	Increase	Decrease
Effect on total of service and interest cost components for 2004	\$ 472	\$ (376)
Effect on year-end 2004 postretirement benefit obligation	\$ 3,539	\$ (2,868)

In December 2003, the Medicare Prescription Drug Improvement and Modernization Act of 2003 (the Act) was signed into law. The Act introduced a prescription drug benefit under Medicare (Medicare Part D), as well as a nontaxable federal subsidy to sponsors of retiree health care benefit plans that provide a benefit that is at least actuarially equivalent to Medicare Part D. In May 2004, the FASB issued Staff Position No. 106-2, Accounting and Disclosure Requirements Related to the Medicare Prescription Drug Improvement and Modernization Act of 2003 (FSP No. 106-2), which addresses the accounting and disclosure requirements associated with the effects of the Act.

The Company has elected not to reflect changes in the Act in its 2004 financial statements since the Company has concluded that the effects of the Act are not a significant event that calls for remeasurement under FAS 106.

(10) Stock-Based Compensation Plans

The Company's incentive plans authorize awards granted wholly or partly in common stock (including rights or options which may be exercised for or settled in common stock) to key employees and non-employee directors. Awards to employees of the Company may be made as grants of stock options, stock appreciation rights, stock awards, cash awards, performance awards or any combination thereof (collectively, Awards). Employee Awards generally become exercisable in three installments. The number of shares available for future issuance was 3,975,757, 2,297,657 and 2,911,565 as of December 31, 2004, 2003 and 2002, respectively. Stock options granted during and after 2003 expire 5 years from the date of grant, if not exercised. Stock options granted prior to 2003, if not exercised, expire 10 years from the date of grant.

Restricted Stock

The Company granted the following shares of restricted stock during the indicated periods:

Year Ended December 31,	Number of Awards	Weighted Average Grant Date Fair Value
2004	303,400	\$ 13,164,429
2003	144,000	\$ 6,045,840
2002	40,065	\$ 1,192,935

The number of unvested shares of restricted stock was 403,900, 157,019 and 38,621 as of December 31, 2004, 2003 and 2002, respectively.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Stock Options

A summary of the status of the Company's stock option activity as of December 31, 2004, 2003 and 2002, and changes during the years ended on those dates is presented below:

	Number of Awards	Weighted Average Exercise Price
Outstanding, December 31, 2001	3,852,580	\$ 22.01
Granted in 2002	960,900	\$ 29.84
Exercised in 2002	(1,022,034)	\$ 19.72
Canceled in 2002	(44,000)	\$ 23.49
Outstanding, December 31, 2002	3,747,446	\$ 24.62
Exercisable, December 31, 2002	1,992,883	\$ 22.41
Weighted-average fair value of options granted during 2002		\$ 12.43
Outstanding, December 31, 2002	3,747,446	\$ 24.54
Granted in 2003	403,000	\$ 42.02
Exercised in 2003	(1,553,573)	\$ 21.48
Canceled in 2003	(14,100)	\$ 17.14
Outstanding, December 31, 2003	2,582,773	\$ 29.16
Exercisable, December 31, 2003	1,258,999	\$ 25.75
Weighted-average fair value of options granted during 2003		\$ 9.61
Outstanding, December 31, 2003	2,582,773	\$ 29.16
Granted in 2004	30,000	\$ 48.50
Exercised in 2004	(452,437)	\$ 26.55
Canceled in 2004	(15,000)	\$ 26.98
Outstanding, December 31, 2004	2,145,336	\$ 30.00
Exercisable, December 31, 2004	1,553,567	\$ 27.66
Weighted-average fair value of options granted during 2004		\$ 10.88

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The following table summarizes information about stock options outstanding at December 31, 2004

Range of Option Prices	Options Outstanding			Options Exercisable	
	Number Outstanding	Weighted Average Remaining Contractual Life (days)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
\$17.91 to \$19.56	50,800	1,578	\$ 18.35	50,800	\$ 18.35
\$20.31 to \$24.77	772,702	2,178	\$ 23.33	772,702	\$ 23.33
\$25.38 to \$29.78	766,834	2,701	\$ 29.60	478,467	\$ 29.50
\$31.18 to \$33.94	54,000	2,163	\$ 32.03	40,665	\$ 32.24
\$36.00	35,000	519	\$ 36.00	35,000	\$ 36.00
\$40.63 to \$43.46	436,000	1,252	\$ 41.87	175,933	\$ 41.65
\$45.89 to \$49.48	30,000	1,590	\$ 48.50		
Total	2,145,336	2,127	\$ 30.00	1,553,567	\$ 27.66

(11) Change in Accounting Principle

The Company adopted Statement of Financial Accounting Standard (SFAS) No. 143, Accounting for Asset Retirement Obligations (SFAS 143), as of January 1, 2003. SFAS 143 requires the Company to record the fair value of a liability for an asset retirement obligation (ARO) in the period in which it is incurred. Upon adoption of SFAS 143, the Company was required to recognize a liability for the present value of all legal obligations associated with the retirement of tangible long-lived assets and an asset retirement cost (ARC) was capitalized as part of the carrying value of the associated asset. Upon initial application of SFAS 143, a cumulative effect of a change in accounting principle was also required in order to recognize a liability for any existing AROs adjusted for cumulative accretion, an increase to the carrying amount of the associated long-lived asset and accumulated depreciation on the capitalized cost. Subsequent to initial measurement, liabilities are required to be accreted to their present value each period and capitalized costs are depreciated over the estimated useful life of the related assets. This periodic accretion expense is recorded as Transportation and other in the consolidated statement of income. Upon settlement of the liability, the Company will settle the obligation against its recorded amount and will record any resulting gain or loss.

Activity related to the Company's ARO during the years ended December 31, 2004 and 2003 is as follows (in thousands):

	Year Ended December 31,	
	2004	2003
Initial ARO as of January 1,	\$ 70,790	\$ 63,643
Liabilities incurred during period	22,224	(a) 3,001
Liabilities settled during period	(3,856)	(691)
Accretion expense	5,982	4,837
Balance of ARO as of December 31,	\$ 95,140	\$ 70,790

(a) \$14.1 million of this amount relates to acquisitions during 2004.

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For the years ended December 31, 2004 and 2003, the Company recognized depreciation expense related to its ARC of \$3,017,000 and \$3,850,000, respectively. As a result of the adoption of SFAS 143 on January 1, 2003, the Company recorded a \$56,769,000 increase in the net capitalized cost of its oil and gas properties and recognized an after-tax charge of \$4,166,000 for the cumulative effect of the change in accounting principle (net of related income tax benefit of \$2,707,000).

Had SFAS 143 been applied retroactively during the year ended December 31, 2002, the Company's net income and earnings per share would have been as follows (expressed in thousands, except per share amounts):

	Year Ended December 31, 2002	
	As Reported	Pro forma
Net Income	\$ 107,031	\$ 106,662
Earnings per share:		
Basic	\$ 1.85	\$ 1.84
Diluted	\$ 1.77	\$ 1.76

(12) Minority Interest

Pogo Trust I, a subsidiary of the Company, called for redemption of its 6½% Cumulative Quarterly Income Convertible Preferred Securities due 2029 (the Trust Preferred Securities) on June 3, 2002. Prior to their redemption, holders of 2,997,196 of the 3,000,000 outstanding Trust Preferred Securities converted their Trust Preferred Securities, representing \$149,850,000 face value of Trust Preferred Securities, into 6,309,972 shares of the Company's common stock. In connection with the redemption, Pogo Trust I paid a total of \$147,000 to former holders of the Trust Preferred Securities. Subsequent to June 3, 2002, there were no Trust Preferred Securities outstanding.

The amount recorded under Minority Interests Dividends and costs associated with mandatorily redeemable preferred securities of a subsidiary trust principally reflect cumulative dividends and, to a lesser extent, the amortization of issuance expenses related to the offering and sale of the Trust Preferred Securities.

(13) Fair Value of Financial Instruments

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value.

Cash and Cash Equivalents

Fair value is carrying value.

Current Investments

Fair value is carrying value due to short term holding period.

Receivables and Payables

Fair value is approximately carrying value.

POGO PRODUCING COMPANY & SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Derivative Financial Instruments

Fair value is carrying value.

Debt and Other

Instrument	Basis of Fair Value Estimate
Bank revolving credit agreement(s)	Fair value is carrying value as of December 31, 2004 and 2003 based on the market value interest rates.
LIBOR Rate Advances	Fair value is carrying value as of December 31, 2004 based on the market value interest rates.
2009 Notes	Fair value is 106% of carrying value as of December 31, 2003 based on quoted market value.
2011 Notes	Fair value is 108.1% and 110.6% of carrying value as of December 31, 2004 and 2003, based on quoted market value.

The carrying value and estimated fair value of the Company's financial instruments at December 31, 2004 and 2003 (in thousands of dollars) are as follows:

	2004 Carrying Value	Fair Value	2003 Carrying Value	Fair Value
Cash and cash equivalents	\$ 86,456	\$ 86,456	\$ 104,474	\$ 104,474
Current investments	\$ 135,000	\$ 135,000	\$ 74,280	\$ 74,280
Receivables	\$ 178,217	\$ 178,217	\$ 156,467	\$ 156,467
Payables	\$ (235,079)	\$ (235,079)	\$ (148,942)	\$ (148,942)
Debt:				
Bank revolving credit agreement loans	\$ (515,000)	\$ (515,000)	\$ (139,000)	\$ (139,000)
LIBOR Rate Advances	\$ (40,000)	\$ (40,000)	\$	\$
2009 Notes	\$	\$	\$ (148,261)	\$ (159,000)
2011 Notes	\$ (200,000)	\$ (216,250)	\$ (200,000)	\$ (221,250)

The Company occasionally enters into hedging contracts to minimize the impact of oil and gas price fluctuations. See Note 14 for a further discussion of these contracts.

(14) Hedging Activities

During the year ended December 31, 2004, the Company did not recognize any gains or losses from its hedging activities related to 2004 production. The Company did recognize a pre-tax gain of \$657,000 due to ineffectiveness on hedge contracts during the year ended 2004. The Company recognized a pre-tax loss of \$22,822,000 (\$14,873,000 after taxes) for the year ended December 31, 2003 and a pre-tax gain of \$3,640,000 (\$2,367,000 after tax) for the year ended December 31, 2002 from its price hedge contracts, which are included in oil and gas revenues. Net unrealized gains on derivative instruments of \$2,565,000, net of deferred taxes of \$1,381,000, have been reflected as a component of other comprehensive income for the year ended December 31, 2004. Based on the fair market value of the hedge contracts as of December 31, 2004, the Company would reclassify additional pre-tax losses of approximately \$6,722,000

POGO PRODUCING COMPANY & SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(approximately \$4,369,000 after taxes) from accumulated other comprehensive loss (shareholders' equity) to net income during the next twelve months.

As of December 31, 2004, the Company held various derivative instruments. During 2004, the Company entered into natural gas and crude oil option agreements referred to as collars. Collars are designed to establish floor and ceiling prices on anticipated future natural gas and crude oil production. The Company has designated these contracts as cash flow hedges designed to achieve a more predictable cash flow, as well as to reduce its exposure to price volatility. While the use of these derivative instruments limits the downside risk of adverse price movements, they may also limit future revenues from favorable price movements. The use of derivatives also involves the risk that the counterparties to such instruments will be unable to meet the financial terms of such contracts. Currently, the Company does not expect losses due to creditworthiness of its counterparties.

The gas hedging transactions are generally settled based upon the average of the reporting settlement prices on the NYMEX for the last three trading days of a particular contract month. The oil hedging transactions are generally settled based on the average of the reporting settlement prices for West Texas Intermediate on the NYMEX for each trading day of a particular calendar month. For any particular collar transaction, the counterparty is required to make a payment to the Company if the settlement price for any settlement period is below the floor price for such transaction, and the Company is required to make a payment to the counterparty if the settlement price for any settlement period is above the ceiling price of such transaction.

The estimated fair value of these transactions is based upon various factors that include closing exchange prices on the NYMEX, volatility and the time value of options. Further details related to the Company's hedging activities as of December 31, 2004 are as follows:

Contract Period and Type of Contract	Volume	NYMEX Contract Price Floor	Ceiling	Fair Value of Asset/(Liability)
Natural Gas Contracts (MMBtu)(a)				
Collar Contracts:				
January 2005 - December 2005	5,475	\$ 5.50	\$ 8.00	\$ 214,810
January 2005 - December 2005	1,825	\$ 6.00	\$ 9.30	\$ 658,634
January 2005 - December 2005	1,825	\$ 6.00	\$ 9.25	\$ 652,362
January 2005 - December 2006	3,650	\$ 6.00	\$ 9.25	\$ 1,304,729
January 2006 - December 2006	5,475	\$ 5.00	\$ 7.50	\$ (2,116,689)
January 2006 - December 2006	3,650	\$ 5.50	\$ 8.25	\$ (184,107)
January 2006 - December 2006	3,650	\$ 5.75	\$ 8.27	\$ 182,666
Crude Oil Contracts (Barrels)				
Collar Contracts:				
January 2005 - December 2005	1,825,000	\$ 40.00	\$ 62.50	\$ 3,891,103

(a) MMBtu means million British Thermal Units.

POGO PRODUCING COMPANY & SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

In February 2005, the Company entered into additional crude oil collars to establish floor and ceiling prices on anticipated future crude oil production. The Company has designated these contracts as cash flow hedges. Further details related to this hedging activity is as follows:

Contract Period and Type of Contract	Volume	NYMEX Contract Price Floor	Ceiling
Crude Oil Contracts (Barrels)			
Collar Contracts:			
March 2005 - December 2005	1,530,000	\$ 40.00	\$ 62.50

(15) Acquisitions

In December 2004, the Company completed the acquisition of two privately held corporations for approximately \$282.5 million in cash and a deferred payment of \$26.4 million to be made in 2005 to the former owner of one of the corporations. The corporations have subsequently been named Pogo Producing (San Juan) Company and Pogo Producing (Texas Panhandle) Company (the corporations). The transactions included properties located primarily in the San Juan basin of New Mexico and the Texas Panhandle. The Company acquired the corporations primarily to strengthen its position in domestic natural gas properties. The corporations had an estimated 133 billion cubic feet of gas equivalent proven reserves (Bcfe) as of the dates of acquisition. The Company recorded the estimated fair values of the assets acquired and the liabilities assumed at the closing date of the transactions, which primarily consisted of oil and gas properties of \$423.7 million, long term debt of \$50.1 million and deferred tax liabilities of \$67.4 million. No goodwill was recorded for the transactions.

In 2004, the Company also completed six other producing property acquisitions for cash consideration totaling approximately \$186 million. These acquisitions added approximately 119 Bcfe to the Company's proved reserves.

POGO PRODUCING COMPANY & SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Pro Forma Information

The following summary presents unaudited pro forma consolidated results of operations as if the acquisitions had occurred as of January 1, 2002. The pro forma results are for illustrative purposes only and include adjustments in addition to the pre-acquisition historical results of the corporations, such as increased depreciation, depletion and amortization expense resulting from the allocation of fair value to oil and gas properties acquired and increased interest expense on acquisition debt. The unaudited pro forma information (presented in thousands of dollars, except per share amounts) is not necessarily indicative of the operating results that would have occurred had the acquisitions been consummated at that date, nor are they necessarily indicative of future operating results.

	Year Ended December 31,		
	2004	2003	2002
	(Unaudited)		
Pro Forma:			
Revenues	\$ 1,385,056	\$ 1,203,236	\$ 789,382
Income before cumulative effect of change in accounting principle	271,853	298,959	106,499
Net income	271,853	294,830	106,499
Earnings per share:			
Basic			
Income before cumulative effect of change in accounting principle	\$ 4.26	\$ 4.78	\$ 1.84
Net income	\$ 4.26	\$ 4.66	\$ 1.84
Diluted			
Income before cumulative effect of change in accounting principle	\$ 4.22	\$ 4.71	\$ 1.76
Net income	\$ 4.22	\$ 4.59	\$ 1.76

POGO PRODUCING COMPANY & SUBSIDIARIES
UNAUDITED SUPPLEMENTARY FINANCIAL DATA

Oil and Gas Producing Activities

The results of operations from oil and gas producing activities exclude non-oil and gas revenues, general and administrative expenses, other non oil and gas producing expenses, interest charges, interest income and interest capitalized. Income tax (expense) or benefit was determined by applying the statutory rates to pretax operating results with adjustments for permanent differences.

	Total Company (Expressed in thousands)	United States	Kingdom of Thailand	Other International
2004				
Revenues	\$ 1,308,225	\$ 973,083	\$ 335,142	\$
Lease operating expense	(144,444)	(100,506)	(43,938)	
Exploration expense	(23,063)	(21,557)	(197)	(1,309)(a)
Dry hole and impairment expense	(106,417)	(57,443)	(5,594)	(43,380)(a)
Depreciation, depletion and amortization expense	(360,569)	(255,022)	(105,547)	
Production and other taxes	(67,984)	(44,104)	(23,880)	
Transportation and accretion	(21,651)	(19,487)	(2,164)	
Pretax operating results	584,097	474,964	153,822	(44,689)
Income tax (expense) benefit	(264,503)	(178,416)	(83,663)	(2,424)
Operating results	\$ 319,594	\$ 296,548	\$ 70,159	\$ (47,113)
2003				
Revenues	\$ 1,159,544	\$ 856,074	\$ 303,470	\$
Lease operating expense	(123,098)	(81,731)	(41,367)	
Exploration expense	(7,547)	(6,899)	(644)	(4)(a)
Dry hole and impairment expense	(35,102)	(31,600)	(3,231)	(271)(a)
Depreciation, depletion and amortization expense	(321,572)	(234,579)	(86,993)	
Production and other taxes	(35,485)	(23,735)	(11,750)	
Transportation and accretion	(17,952)	(16,949)	(1,003)	
Pretax operating results	618,788	460,581	158,482	(275)
Income tax (expense) benefit	(256,198)	(176,957)	(79,241)	
Operating results	\$ 362,590	\$ 283,624	\$ 79,241	\$ (275)
2002				
Revenues	\$ 750,401	\$ 537,717	\$ 212,684	\$
Lease operating expense	(112,663)	(74,416)	(38,247)	
Exploration expense	(4,783)	(4,161)	(544)	(78)(a)
Dry hole and impairment expense	(26,999)	(26,999)		
Depreciation, depletion and amortization expense	(283,865)	(218,636)	(65,229)	
Production and other taxes	(20,058)	(20,058)		
Transportation	(10,194)	(10,194)		
Pretax operating results	291,839	183,253	108,664	(78)
Income tax (expense) benefit	(128,498)	(65,545)	(62,967)	14
Operating results	\$ 163,341	\$ 117,708	\$ 45,697	\$ (64)

(a) Included in Other International for 2004, 2003 and 2002 are costs associated with activities related primarily to Hungary with the exception of \$5,551 of dry hole and impairment cost related to the Danish North Sea in 2004, \$182 of exploration expense in 2004 related to New Zealand, and \$271 of dry hole and impairment expense in 2003 related to the Company's British North Sea block that was relinquished in 2003.

POGO PRODUCING COMPANY & SUBSIDIARIES
UNAUDITED SUPPLEMENTARY FINANCIAL DATA (Continued)

The following table sets forth the Company's costs incurred (expressed in thousands) for oil and gas producing activities during the years indicated.

	Total Company	United States	Kingdom of Thailand	Other International(a)
Costs incurred (capitalized unless otherwise indicated):				
2004:				
Property acquisition				
Proved	\$ 608,496	\$ 608,496	\$	\$
Unproved	26,707	26,707		
Exploration				
Capitalized	89,673	56,533	2,018	31,122
Expensed	23,063	21,553	379	1,131
Development	340,967	226,804	113,252	911
Asset retirement cost	19,603	15,569	4,034	
Interest	14,216	6,738	6,960	518
Total oil and gas costs incurred	\$ 1,122,725	\$ 962,400	\$ 126,643	\$ 33,682
Provision for depreciation, depletion and amortization	\$ 360,569	\$ 255,022	\$ 105,547	\$
2003:				
Property acquisition				
Proved	\$ 177,680	\$ 177,680	\$	\$
Unproved	15,540	12,065	3,475	
Exploration				
Capitalized	59,714	42,248	6,155	11,311
Expensed	7,547	6,899	644	4
Development	248,348	131,732	116,616	
Asset retirement cost(b)	59,142	49,706	9,436	
Interest	16,531	10,194	6,163	174
Total oil and gas costs incurred	\$ 584,502	\$ 430,524	\$ 142,489	\$ 11,489
Provision for depreciation, depletion and amortization	\$ 321,572	\$ 234,579	\$ 86,993	\$
2002:				
Property acquisition				
Proved	\$	\$	\$	\$
Unproved	8,030	8,030		
Exploration				
Capitalized	43,165	40,028	3,137	
Expensed	4,783	4,161	544	78
Development	303,197	205,035	98,162	
Interest	24,033	12,892	11,141	
Total oil and gas costs incurred	\$ 383,208	\$ 270,146	\$ 112,984	\$ 78
Provision for depreciation, depletion and amortization	\$ 283,865	\$ 218,636	\$ 65,229	\$

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(a) Included in Other International for 2004 are costs associated with Hungary, the Danish North Sea and New Zealand. Included for the years 2003 and 2002 are costs associated with initial activities related almost entirely to Hungary.

(b) Includes \$56,769 of cumulative asset retirement cost recorded to adopt the provisions of SFAS 143 on January 1, 2003. Of these costs \$47,893 has been reflected as activity in the United States and \$8,876 has been reflected as activity in the Kingdom of Thailand.

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POGO PRODUCING COMPANY & SUBSIDIARIES
UNAUDITED SUPPLEMENTARY FINANCIAL DATA (Continued)

The following information regarding estimates of the Company's proved oil and gas reserves, which are located offshore in United States waters of the Gulf of Mexico, onshore in the United States, offshore in the Kingdom of Thailand and in Hungary is based on reports prepared by Ryder Scott Company, L.P. and Miller & Lents, Ltd. The definitions and assumptions that serve as the basis for the discussions under the caption "Item 1, Business - Exploration and Production Data - Reserves" should be referred to in connection with the following information.

Estimates of Proved Reserves

Oil, Condensate and Natural Gas Liquids (Bbls.)

	Total Company	United States	Kingdom of Thailand	Other International
Proved Reserves as of December 31, 2001	119,279,395	79,978,695	39,300,700	
Revisions of previous estimates	9,563,087	9,290,517	272,570	
Extensions, discoveries and other additions	8,460,885	3,965,585	4,495,300	
Sale of properties	(202,785)	(202,785)		
Estimated 2002 production	(18,921,750)	(12,939,750)	(5,982,000)	
Proved Reserves as of December 31, 2002	118,178,832	80,092,262	38,086,570	
Revisions of previous estimates	9,964,506	6,338,668	3,625,838	
Extensions, discoveries and other additions	6,305,471	2,982,400	3,312,627	10,444
Purchase of properties	4,301,200	4,301,200		
Estimated 2003 production	(23,880,000)	(16,162,000)	(7,718,000)	
Proved Reserves as of December 31, 2003	114,870,009	77,552,530	37,307,035	10,444
Revisions of previous estimates	4,281,792	5,012,763	(720,527)	(10,444)
Extensions, discoveries and other additions	4,197,673	1,727,761	2,469,912	
Purchase of properties	13,775,000	13,775,000		
Sale of properties	(1,832,000)	(1,832,000)		
Estimated 2004 production	(18,910,000)	(12,370,000)	(6,540,000)	
Proved Reserves as of December 31, 2004	116,382,474	83,866,054	32,516,420	
Proved Developed Reserves as of:				
December 31, 2001	79,777,300	59,383,200	20,394,100	
December 31, 2002	97,873,000	74,041,149	23,831,851	
December 31, 2003	87,269,277	67,391,031	19,878,246	
December 31, 2004	92,574,224	72,968,008	19,606,216	

POGO PRODUCING COMPANY & SUBSIDIARIES
UNAUDITED SUPPLEMENTARY FINANCIAL DATA (Continued)

Estimates of Proved Reserves

Natural Gas (MMcf)

	Total Company	United States	Kingdom of Thailand	Other International
Proved Reserves as of December 31, 2001	818,792	670,567	148,225	
Revisions of previous estimates	66,796	38,237	28,559	
Extensions, discoveries and other additions	89,774	78,575	11,199	
Estimated 2002 production	(101,852)	(73,473)	(28,379)	
Proved Reserves as of December 31, 2002	873,510	713,906	159,604	
Revisions of previous estimates	22,408	5,686	16,722	
Extensions, discoveries and other additions	95,664	65,095	20,438	10,131
Purchase of properties	129,119	129,119		
Estimated 2003 production	(108,378)	(76,802)	(31,576)	
Proved Reserves as of December 31, 2003	1,012,323	837,004	165,188	10,131
Revisions of previous estimates	(20,854)	(16,357)	5,634	(10,131)
Extensions, discoveries and other additions	37,648	33,610	4,038	
Purchase of properties	172,022	172,022		
Sale of properties	(2,888)	(2,888)		
Estimated 2004 production	(118,581)	(89,410)	(29,171)	
Proved Reserves as of December 31, 2004	1,079,670	933,981	145,689	
Proved Developed Reserves as of:				
December 31, 2001	602,345	532,348	69,997	
December 31, 2002	687,556	600,255	87,301	
December 31, 2003	780,774	702,836	77,938	
December 31, 2004	852,848	769,753	83,095	

POGO PRODUCING COMPANY & SUBSIDIARIES**STANDARDIZED MEASURE OF DISCOUNTED FUTURE
NET CASH FLOWS RELATED TO PROVED OIL AND GAS RESERVES Unaudited**

The standardized measure of discounted future net cash flows from the production of proved reserves is developed as follows:

1. Estimates are made of quantities of proved reserves and the future periods in which they are expected to be produced based on year-end economic conditions.
2. The estimated future gross revenues from proved reserves are priced on the basis of year-end market prices, except in those instances where fixed and determinable natural gas price escalations are covered by contracts.
3. The future gross revenue streams are reduced by estimated future costs to develop and to produce the proved reserves, as well as certain abandonment costs based on year-end cost estimates, and the estimated effect of future income taxes. These cost estimates are subject to some uncertainty.

The standardized measure of discounted future net cash flows does not purport to present the fair value of the Company's oil and gas reserves. An estimate of fair value would also take into account, among other things, the recovery of reserves in excess of proved reserves, anticipated future changes in prices and costs, a discount factor more representative of the time value of money and the risks inherent in reserve estimates.

The following are the principal sources of change in the standardized measure of discounted future net cash flows. All amounts are related to changes in reserves located in the United States, the Kingdom of Thailand and Hungary, as noted.

	Year Ended December 31, 2004			
	Total Company (Expressed in thousands)	United States	Kingdom of Thailand	Hungary
Beginning balance	\$ 2,450,030	\$ 2,009,123	\$ 424,439	\$ 16,468
Revisions to prior years' proved reserves:				
Net changes in prices and production costs	868,070	631,060	237,010	
Net changes due to revisions in quantity estimates	25,232	39,661	3,739	(18,168)
Net changes in estimates of future development costs	(161,666)	(154,659)	(7,007)	
Accretion of discount	369,000	292,866	74,482	1,652
Changes in production rate and other	(43,414)	(51,192)	7,778	
Total revisions	1,057,222	757,736	316,002	(16,516)
New field discoveries and extensions, net of future production and development costs	212,963	126,167	86,796	
Purchases of properties	596,173	596,173		
Sales of properties	(58,570)	(58,570)		
Sales of oil and gas produced, net of production costs	(1,074,146)	(808,986)	(265,160)	
Previously estimated development costs incurred	148,290	98,135	50,155	
Net change in income taxes	(236,395)	(161,067)	(75,376)	48
Net change in standardized measure of discounted future net cash flows	645,537	549,588	112,417	(16,468)
Ending balance	\$ 3,095,567	\$ 2,558,711	\$ 536,856	\$

POGO PRODUCING COMPANY & SUBSIDIARIES

STANDARDIZED MEASURE OF DISCOUNTED FUTURE

NET CASH FLOWS RELATED TO PROVED OIL AND GAS RESERVES Unaudited (Continued)

	Year Ended December 31, 2003			
	Total Company	United States	Kingdom of Thailand	Hungary
Beginning balance	\$ 2,055,215	\$ 1,714,788	\$ 340,427	\$
Revisions to prior years proved reserves:				
Net changes in prices and production costs	619,394	434,060	185,334	
Net changes due to revisions in quantity estimates	200,593	113,329	87,264	
Net changes in estimates of future development costs	(70,226)	(21,781)	(48,445)	
Accretion of discount	309,836	249,556	60,280	
Changes in production rate and other	(194,267)	(182,172)	(12,095)	
Total revisions	865,330	592,992	272,338	
New field discoveries and extensions, net of future production and development costs	320,188	241,946	61,726	16,516
Purchases of properties	289,484	289,484		
Sales of oil and gas produced, net of production costs	(987,981)	(737,628)	(250,353)	
Previously estimated development costs incurred	104,624	46,311	58,313	
Net change in income taxes	(196,830)	(138,770)	(58,012)	(48)
Net change in standardized measure of discounted future net cash flows	394,815	294,335	84,012	16,468
Ending balance	\$ 2,450,030	\$ 2,009,123	\$ 424,439	\$ 16,468

	Year Ended December 31, 2002		
	Total Company	United States	Kingdom of Thailand
Beginning balance	\$ 1,138,048	\$ 826,570	\$ 311,478
Revisions to prior years proved reserves:			
Net changes in prices and production costs	1,285,867	1,096,580	189,287
Net changes due to revisions in quantity estimates	255,617	202,952	52,665
Net changes in estimates of future development costs	(103,916)	(56,659)	(47,257)
Accretion of discount	154,066	113,035	41,031
Changes in production rate and other	16,577	60,325	(43,748)
Total revisions	1,608,211	1,416,233	191,978
New field discoveries and extensions, net of future production and development costs	334,335	218,991	115,344
Sales of properties	(2,344)	(2,344)	
Sales of oil and gas produced, net of production costs	(607,486)	(433,049)	(174,437)
Previously estimated development costs incurred	224,980	165,374	59,606
Net change in income taxes	(640,529)	(476,987)	(163,542)
Net change in standardized measure of discounted future net cash flows	917,167	888,218	28,949
Ending balance	\$ 2,055,215	\$ 1,714,788	\$ 340,427

POGO PRODUCING COMPANY & SUBSIDIARIES

STANDARDIZED MEASURE OF DISCOUNTED FUTURE
NET CASH FLOWS RELATED TO PROVED OIL AND GAS RESERVES Unaudited (Continued)

	Total Company (Expressed in thousands)	United States	Kingdom of Thailand	Hungary
2004				
Future gross revenues	\$ 10,574,504	\$ 8,850,237	\$ 1,724,267	\$
Future production costs:				
Lease operating expense	(2,529,480)	(2,123,530)	(405,950)	
Future development and abandonment costs	(580,701)	(437,117)	(143,584)	
Future net cash flows before income taxes	7,464,323	6,289,590	1,174,733	
Discount at 10% per annum	(2,892,390)	(2,650,272)	(242,118)	
Discounted future net cash flows before income taxes	4,571,933	3,639,318	932,615	
Future income taxes, net of discount at 10% per annum	(1,476,366)	(1,080,607)	(395,759)	
Standardized measure of discounted future net cash flows related to proved oil and gas reserves	\$ 3,095,567	\$ 2,558,711	\$ 536,856	\$
2003				
Future gross revenues	\$ 8,507,228	\$ 6,912,547	\$ 1,545,580	\$ 49,101
Future production costs:				
Lease operating expense	(1,811,584)	(1,417,118)	(385,058)	(9,408)
Future development and abandonment costs	(520,159)	(324,813)	(181,396)	(13,950)
Future net cash flows before income taxes	6,175,485	5,170,616	979,126	25,743
Discount at 10% per annum	(2,485,484)	(2,241,953)	(234,304)	(9,227)
Discounted future net cash flows before income taxes	3,690,001	2,928,663	744,822	16,516
Future income taxes, net of discount at 10% per annum	(1,239,971)	(919,540)	(320,383)	(48)
Standardized measure of discounted future net cash flows related to proved oil and gas reserves	\$ 2,450,030	\$ 2,009,123	\$ 424,439	\$ 16,468
2002				
Future gross revenues	\$ 7,078,353	\$ 5,486,454	\$ 1,591,899	\$
Future production costs:				
Lease operating expense	(1,819,485)	(1,150,305)	(669,180)	
Future development and abandonment costs	(406,101)	(267,578)	(138,523)	
Future net cash flows before income taxes	4,852,767	4,068,571	784,196	
Discount at 10% per annum	(1,754,411)	(1,573,013)	(181,398)	
Discounted future net cash flows before income taxes	3,098,356	2,495,558	602,798	
Future income taxes, net of discount at 10% per annum	(1,043,141)	(780,770)	(262,371)	
Standardized measure of discounted future net cash flows related to proved oil and gas reserves	\$ 2,055,215	\$ 1,714,788	\$ 340,427	\$

POGO PRODUCING COMPANY & SUBSIDIARIES**STANDARDIZED MEASURE OF DISCOUNTED FUTURE
NET CASH FLOWS RELATED TO PROVED OIL AND GAS RESERVES Unaudited (Continued)****Quarterly Results Unaudited**

Summaries of the Company's results of operations by quarter for the years 2004 and 2003 are as follows:

	Quarter Ended			
	Mar. 31	June 30	Sept. 30	Dec. 31
	(Expressed in thousands, except per share amounts)			
2004				
Revenues	\$ 307,882	\$ 326,893	\$ 364,197	\$ 324,007
Gross profit(a)	\$ 150,911	\$ 152,403	\$ 173,775	\$ 117,165
Net income	\$ 71,640	\$ 65,189	\$ 86,612	\$ 38,313
Earnings per share(b):				
Basic	\$ 1.13	\$ 1.02	\$ 1.36	\$ 0.60
Diluted	\$ 1.12	\$ 1.01	\$ 1.35	\$ 0.59
2003				
Revenues	\$ 312,673	\$ 297,146	\$ 279,332	\$ 272,845
Gross profit(a)	\$ 181,206	\$ 158,970	\$ 148,682	\$ 120,162
Net income	\$ 88,477	\$ 79,719	\$ 67,660	\$ 55,085
Earnings per share(b):				
Basic	\$ 1.45	\$ 1.29	\$ 1.07	\$ 0.87
Diluted	\$ 1.37	\$ 1.24	\$ 1.06	\$ 0.86

(a) Represents revenues less lease operating, production and other taxes, transportation and other, exploration, dry hole, and impairment, and depreciation, depletion and amortization expenses.

(b) The sum of the individual quarterly earnings (loss) per share may not agree with year-to-date earnings (loss) per share as each quarterly computation is based on the income or loss for that quarter and the weighted average number of common shares outstanding during that period.

ITEM 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure.

None.

ITEM 9A. Controls and Procedures**Evaluation of Disclosure Controls and Procedures**

The Company has established disclosure controls and procedures to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to the officers who certify the Company's financial reports and to other members of senior management and the Board of Directors.

Based on their evaluation as of December 31, 2004, the Company's Chairman, President and Chief Executive Officer and its Senior Vice President and Chief Financial Officer have concluded that the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) are effective to ensure that the information required to be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms.

POGO PRODUCING COMPANY & SUBSIDIARIES

**STANDARDIZED MEASURE OF DISCOUNTED FUTURE
NET CASH FLOWS RELATED TO PROVED OIL AND GAS RESERVES Unaudited (Continued)**

Management's Report on Internal Control Over Financial Reporting

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f). Under the supervision and with the participation of the Company's management, including the Chairman, President and Chief Executive Officer and its Senior Vice President and Chief Financial Officer, the Company conducted an evaluation of the effectiveness of its internal control over financial reporting based on the framework in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on the Company's evaluation under the framework in *Internal Control - Integrated Framework*, the Company's management concluded that its internal control over financial reporting was effective as of December 31, 2004. The Company's management's assessment of the effectiveness of our internal control over financial reporting as of December 31, 2004 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which is included herein.

Changes in Internal Controls

There were no changes in the Company's internal control over financial reporting that occurred during the most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect the Company's internal control over financial reporting.

ITEM 9B. Other Information

There is no information required to be disclosed on Form 8-K for the quarter ended December 31, 2004 that has not been previously reported.

PART III

ITEM 10. *Directors and Executive Officers of the Registrant.*

The information responsive to Items 401, 405 and 406 of Regulation S-K in the Company's definitive Proxy Statement for its annual meeting to be held on April 26, 2005, to be filed within 120 days of December 31, 2004 pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended (the Company's 2005 Proxy Statement), is incorporated herein by reference. See also Item S-K 401(b) appearing in Part I of this Form 10-K.

ITEM 11. *Executive Compensation.*

The information responsive to Item 402 of Regulation S-K in the Company's 2005 Proxy Statement is incorporated herein by reference. The portion of the incorporated material consisting of the Compensation Committee Report on Executive Compensation and the Performance Graph is not to be considered filed with the Commission.

ITEM 12. *Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.*

The information responsive to Items 201(d) and 403 of Regulation S-K in the Company's 2005 Proxy Statement is incorporated herein by reference.

ITEM 13. *Certain Relationships and Related Transactions.*

The information responsive to Item 404 of Regulation S-K in the Company's 2005 Proxy Statement is incorporated herein by reference.

ITEM 14. *Principal Accountant Fees and Services.*

The information responsive to Item 9(e) of Schedule 14A in the Company's 2005 Proxy Statement is incorporated herein by reference.

PART IV

ITEM 15. *Exhibits and Financial Statement Schedules.*

(a) Documents Filed as Part of this Form 10-K

	Page
1. Financial Statements and Supplementary Data:	
<u>Report of Independent Registered Public Accounting Firm</u>	50
<u>Consolidated statements of income</u>	52
<u>Consolidated balance sheets</u>	53
<u>Consolidated statements of cash flows</u>	55
<u>Consolidated statements of shareholders' equity</u>	56
<u>Notes to consolidated financial statements</u>	57
<u>Unaudited supplementary financial data</u>	84

2. Financial Statement Schedules:

All Financial Statement Schedules have been omitted because they are not required, are not applicable or the information required has been included elsewhere herein.

3. Exhibits:

- *3.1 Restated Certificate of Incorporation of Pogo Producing Company, as filed on April 28, 2004 (Exhibit 3.1, Quarterly Report on Form 10-Q for the quarter ended March 31, 2004, File No. 1-7796).
- *3.2 Bylaws of Pogo Producing Company, as amended and restated through July 16, 2002 (Exhibit 4.1, Quarterly Report on Form 10-Q for the quarter ended June 30, 2002, File No. 1-7792).
- *4.1 Credit Agreement dated as of December 16, 2004 among Pogo Producing Company, as the Borrower, certain commercial lending institutions, as the Lenders, Bank of Montreal, acting through its Chicago, Illinois branch, as the Administrative Agent for the Lenders, Bank of America, N.A., Toronto Dominion (Texas) LLC and BNP Paribas, as Co-Syndication Agents, Wachovia Bank, National Association, as Documentation Agent, and Citibank, N.A. and the Bank of Nova Scotia, as Managing Agents (Exhibit 4.1, Current Report on Form 8-K filed December 22, 2004, File No. 1-7792).
- *4.2 Indenture dated as of April 10, 2001, between Pogo Producing Company and Wells Fargo Bank Minnesota, National Association, as Trustee (Exhibit 4.2, Registration Statement on Form S-4, filed April 24, 2001, File No. 333-59426).
- *4.3 Rights Agreement dated as of April 26, 1994, between Pogo Producing Company and Harris Trust Company of New York, as Rights Agent (Exhibit 4, Current Report on Form 8-K filed April 26, 1994, File No. 1-7792).
- *4.4 Amendment to Rights Agreement dated as of April 26, 2004 between Pogo Producing Company and Computershare Investor Services, L.L.C., as successor Rights Agent (Exhibit 99.2, Current Report on Form 8-K filed April 29, 2004, File No. 1-7792).
Other instruments defining the rights of holders of long-term debt of Pogo Producing Company and its subsidiaries are not being filed because the total amount of securities authorized by such instruments does not exceed 10% of the total assets of Pogo Producing Company and its subsidiaries on a consolidated basis as of December 31, 2003. Pogo Producing Company hereby agrees to furnish to the Commission a copy of any such debt instrument upon request.

Executive Compensation Plans and Arrangements (comprising Exhibits 10.1 through 10.33, inclusive)

- *10.1 1989 Incentive and Nonqualified Stock Option Plan of Pogo Producing Company, as amended and restated effective January 25, 1994 (Exhibit 99, Definitive Proxy Statement on Schedule 14A, filed March 22, 1994, File No. 1-7792).
- *10.2 Form of Stock Option Agreement under 1989 Incentive and Nonqualified Stock Option Plan, as amended and restated effective January 22, 1991 (Exhibit 10(d)(1), Annual Report on Form 10-K for the year ended December 31, 1991, File No. 0-5468).

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- *10.3 Form of Director Stock Option Agreement under 1989 Incentive and Nonqualified Stock Option Plan as amended and restated effective January 22, 1991 (Exhibit 10(d)(2), Annual Report on Form 10-K for the year ended December 31, 1991, File No. 0-5468).
- *10.4 1995 Long-Term Incentive Plan (Exhibit 4(c), Registration Statement on Form S-8 filed May 22, 1996, File No. 333-04233).
- *10.5 1998 Incentive Plan (Exhibit 4.7, Registration Statement on Form S-8 filed August 15, 2002, File No. 333-98205).
- *10.6 2000 Incentive Plan (Exhibit B to the Company's Definitive Proxy Statement filed on Schedule 14A, March 27, 2000, File No. 001-7792).
- *10.7 2002 Incentive Plan (Exhibit B to the Company's Definitive Proxy Statement filed on Schedule 14A, March 25, 2002, File No. 001-7792).
- 10.8 Amended and Restated Executive Employment Agreement by and between Pogo Producing Company and Paul G. Van Wagenen, dated February 1, 2005.
- 10.9 Amended and Restated Executive Employment Agreement by and between Pogo Producing Company and Stephen R. Brunner, dated February 1, 2005.
- 10.10 Amended and Restated Executive Employment Agreement by and between Pogo Producing Company and Jerry A. Cooper, dated February 1, 2005.
- 10.11 Amended and Restated Executive Employment Agreement by and between Pogo Producing Company and John O. McCoy, Jr., dated February 1, 2005.
- 10.12 Amended and Restated Executive Employment Agreement by and between Pogo Producing Company and David R. Beathard, dated February 1, 2005.
- 10.13 Amended and Restated Executive Employment Agreement by and between Pogo Producing Company and Radford P. Laney, dated February 1, 2005.
- 10.14 Amended and Restated Executive Employment Agreement by and between Pogo Producing Company and J. Don McGregor, dated February 1, 2005.
- 10.15 Amended and Restated Executive Employment Agreement by and between Pogo Producing Company and Gerald A. Morton, dated February 1, 2005.
- 10.16 Amended and Restated Executive Employment Agreement by and between Pogo Producing Company and James P. Ulm, II, dated February 1, 2005.
- 10.17 Amended and Restated Executive Employment Agreement by and between Pogo Producing Company and Barry W. Acomb, dated February 1, 2005.
- 10.18 Amended and Restated Executive Employment Agreement by and between Pogo Producing Company and Bruce E. Archinal, dated February 1, 2005.
- 10.19 Amended and Restated Executive Employment Agreement by and between Pogo Producing Company and Michael J. Killelea, dated February 1, 2005.
- *10.32 Form of Restricted Stock Award Agreement Under Incentive Plans (Exhibit 10.1, Quarterly Report on Form 10-Q for the quarter ended June 30, 2003, File No. 1-7792).
- *10.33 Form of Directors Phantom Stock Agreement (Exhibit 10.2, Quarterly Report on Form 10-Q for the quarter ended June 30, 2003, File No. 1-7792).
- *10.34 Amended and Restated Bareboat Charter Agreement by and between Tantawan Services, L.L.C. and Tantawan Production B.V., dated February 9, 1996 (Exhibit 10.26, Annual Report on Form 10-K for the year ended December 31, 1999, File No. 001-7792).

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- *10.35 Bareboat Charter Agreement by and between Thaipo Limited, Thai Romo Limited, Palang Sophon Limited, B8/32 Partners Limited and Watertight Shipping B.V. dated as of August 24, 1998 (Exhibit 10.27, Annual Report on Form 10-K for the year ended December 31, 1999, File No. 001-7792).
- *10.36 Gas Sales Agreement dated November 7, 1995, among The Petroleum Authority of Thailand, Thaipo, Limited, Thai Romo Ltd. and The Sophonpanich Co., Ltd. (Exhibit 10(k), Quarterly Report on Form 10-Q for the quarter ended June 30, 1996, File No. 001-7792).
- *10.37 The First Amendment to the Gas Sales Agreement dated November 12, 1997, among The Petroleum Authority of Thailand, B8/32 Partners Limited, Thaipo, Limited, Thai Romo Limited and Palang Sophon Limited (Exhibit 10(g)(ii), Annual Report on Form 10-K for the year ended December 31, 1998, File No. 001-7792).
- *10.38 The Second Amendment to the Gas Sales Agreement dated effective as of October 1, 2001, among The Petroleum Authority of Thailand, Chevron Offshore (Thailand) Limited, Thaipo Limited, Palang Sophon Limited and B8/32 Partners Limited (Exhibit 10.23, Annual Report on Form 10-K for the year ended December 31, 2002, File No. 1-7792).
- *10.39 The Third Amendment to the Gas Sales Agreement dated November 7, 1995 between PTT Public Company Limited and Chevron Offshore (Thailand) Limited, Thaipo Limited, Palang Sophon Limited and B8/32 Partners Limited, dated effective as of October 1, 2001 (Exhibit 10.1, Quarterly Report on Form 10-Q for the quarter ended September 30, 2003, File No. 1-7792).
- 21 List of Subsidiaries of Pogo Producing Company
- 23.1 Consent of PricewaterhouseCoopers LLP
- 23.2 Consent of Ryder Scott Company, L.P.
- 23.3 Consent of Miller and Lents, Ltd.
- 24 Powers of Attorney from each director of Pogo Producing Company whose signature is affixed to this Form 10-K for year ended December 31, 2004.
- 31.1 Certification of Chief Executive Officer, pursuant to Rule 13a-14(a) under the Securities Exchange Act.
- 31.2 Certification of Chief Financial Officer, pursuant to Rule 13a-14(a) under the Securities Exchange Act.
- 32.1 Certification of Chief Executive Officer, pursuant to 18 U.S.C. Section 1350.
- 32.2 Certification of Chief Financial Officer, pursuant to 18 U.S.C. Section 1350
- 99.1 Summary Report of Ryder Scott Company, L.P. for the year ended December 31, 2004.
- 99.2 Summary Report of Miller and Lents, Ltd. for the year ended December 31, 2004.
- *99.3 Summary Report of Ryder Scott Company, L.P. for the year ended December 31, 2003 (Exhibit 99.1, Annual Report on Form 10-K for the year ended December 31, 2003).
- *99.4 Summary Report of Miller and Lents, Ltd. for the year ended December 31, 2003 (Exhibit 99.2, Annual Report on Form 10-K for the year ended December 31, 2003).
- 99.5 Summary Report of Ryder Scott Company, L.P. for the year ended December 31, 2002.
- 99.6 Summary Report of Miller and Lents, Ltd. for the year ended December 31, 2002.

* Asterisk indicates exhibits incorporated by reference as shown.

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, thereunto duly authorized.

Pogo Producing Company
(REGISTRANT)

BY: /s/ PAUL G. VAN WAGENEN
Paul G. Van Wagenen
Chairman, President and Chief Executive Officer

Date: March 7, 2005

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated on March 2, 2005.

Signatures	Title
/s/ PAUL G. VAN WAGENEN Paul G. Van Wagenen <i>Chairman, President and Chief Executive Officer</i>	Principal Executive Officer and Director
/s/ JAMES P. ULM, II James P. Ulm, II <i>Senior Vice President and Chief Financial Officer</i>	Principal Financial Officer
/s/ THOMAS E. HART Thomas E. Hart <i>Vice President and Chief Accounting Officer</i>	Principal Accounting Officer
/s/ JERRY M. ARMSTRONG Jerry M. Armstrong	Director
/s/ ROBERT H. CAMPBELL Robert H. Campbell	Director
/s/ WILLIAM L. FISHER William L. Fisher	Director
/s/ THOMAS A. FRY, III Thomas A. Fry, III	Director
/s/ GERRIT W. GONG Gerrit W. Gong	Director
/s/ CARROLL W. SUGGS Carroll W. Suggs	Director
/s/ STEPHEN A. WELLS Stephen A. Wells	Director
/s/ THOMAS E. HART Thomas E. Hart <i>Attorney-in-Fact</i>	Director