

APACHE CORP  
Form 10-Q/A  
August 17, 2010

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**  
**FORM 10-Q/A**

**Amendment No. 1**

(Mark One)

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

**For the quarterly period ended June 30, 2010**

**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**

**APACHE CORPORATION**

(exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of  
incorporation or organization)

**41-0747868**

(I.R.S. Employer  
Identification Number)

**One Post Oak Central, 2000 Post Oak Boulevard, Suite 100, Houston, Texas 77056-4400**

(Address of principal executive offices)

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 ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer	Accelerated filer	Non-accelerated filer	Smaller reporting company
<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(Do not check if a smaller reporting company)			

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).  
Yes ☐ No ☒

Number of shares of registrant's common stock outstanding as of July 31, 2010  
364,278,514

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**EXPLANATORY NOTE**

Apache Corporation (Apache or the Company) is filing this Amendment No. 1 on Form 10-Q/A to amend and restate in its entirety the following items of our Quarterly Report on Form 10-Q for the quarter ended June 30, 2010, as originally filed with the Securities and Exchange Commission on August 6, 2010 (the Original Form 10-Q): (i) Item 1 of Part I Financial Information, and (ii) Item 2 of Part I, Management's Discussion and Analysis of Financial Condition and Results of Operations, and we have also updated the signature page, the certifications of our Chief Executive Officer and Chief Financial Officer in Exhibits 31.1, 31.2, and 32.1, and our financial statements formatted in Extensible Business Reporting Language (XBRL) in Exhibits 101. No other sections were affected, but for the convenience of the reader, this report on Form 10-Q/A restates in its entirety, as amended, our Original Form 10-Q.

In light of the repeal of SEC Rule 436(g) by Congress in the Dodd-Frank Act, effective Thursday, July 22, 2010, we have deleted the reference to our credit ratings in Note 6 Debt of Item 1 of Part I, Financial Information and have expanded our disclosure regarding our credit ratings in Item 2 of Part I, Management's Discussion and Analysis of Financial Condition and Results of Operations Capital Resources and Liquidity.

This report on Form 10-Q/A is presented as of the filing date of the Original Form 10-Q and does not reflect events occurring after that date, or modify or update disclosures in any way other than as required to reflect the amendments described above.

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**APACHE CORPORATION AND SUBSIDIARIES**  
**STATEMENT OF CONSOLIDATED OPERATIONS**  
**(Unaudited)**

	<b>For the Quarter Ended June 30,</b>		<b>For the Six Months Ended June 30,</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
	<b>(In thousands, except per common share data)</b>			
REVENUES AND OTHER:				
Oil and gas production revenues	\$ 2,968,765	\$ 2,074,344	\$ 5,662,390	\$ 3,677,958
Other	3,145	19,034	(17,229)	49,245
	2,971,910	2,093,378	5,645,161	3,727,203
OPERATING EXPENSES:				
Depreciation, depletion and amortization				
Recurring	729,751	573,359	1,368,249	1,153,976
Additional				2,818,161
Asset retirement obligation accretion	24,760	26,483	48,762	53,221
Lease operating expenses	445,949	405,273	886,195	802,762
Gathering and transportation	43,038	33,479	83,403	66,818
Taxes other than income	186,833	115,941	363,771	203,280
General and administrative	91,829	90,905	178,979	175,951
Financing costs, net	55,757	61,155	115,024	119,742
	1,577,917	1,306,595	3,044,383	5,393,911
INCOME (LOSS) BEFORE INCOME TAXES	1,393,993	786,783	2,600,778	(1,666,708)
Current income tax provision	339,151	218,247	682,125	220,741
Deferred income tax provision (benefit)	194,619	123,816	353,449	(575,229)
NET INCOME (LOSS)	860,223	444,720	1,565,204	(1,312,220)
Preferred stock dividends		1,420		2,840
INCOME (LOSS) ATTRIBUTABLE TO COMMON STOCK	\$ 860,223	\$ 443,300	\$ 1,565,204	\$ (1,315,060)
NET INCOME (LOSS) PER COMMON SHARE:				
Basic	\$ 2.55	\$ 1.32	\$ 4.64	\$ (3.92)
Diluted	\$ 2.53	\$ 1.31	\$ 4.61	\$ (3.92)

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

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

	<b>For the Six Months Ended June 30,</b>	
	<b>2010</b>	<b>2009</b>
	<b>(In thousands)</b>	
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income (loss)	\$ 1,565,204	\$ (1,312,220)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation, depletion and amortization	1,368,249	3,972,137
Asset retirement obligation accretion	48,762	53,221
Provision for (benefit from) deferred income taxes	353,449	(575,229)
Other	66,939	104,734
Changes in operating assets and liabilities:		
Receivables	(103,847)	(173,502)
Inventories	(6,812)	(4,049)
Drilling advances	21,827	(89,751)
Deferred charges and other	729	5,871
Accounts payable	49,573	(176,572)
Accrued expenses	(291,931)	(376,981)
Deferred credits and noncurrent liabilities	13,299	(60,930)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>3,085,441</b>	<b>1,366,729</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Additions to oil and gas property	(1,937,613)	(2,117,415)
Additions to gas gathering, transmission and processing facilities	(256,728)	(164,723)
Acquisition of Marathon properties		(181,133)
Acquisition of Devon properties	(1,017,238)	
Short-term investments		791,999
Restricted cash		13,880
Other, net	(6,904)	(85,399)
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(3,218,483)</b>	<b>(1,742,791)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Commercial paper, credit facility and bank notes, net	(55,384)	147,666
Payments on fixed-rate notes		(100,000)
Dividends paid	(101,065)	(103,331)
Common stock activity	21,346	9,971
Treasury stock activity, net	3,591	2,669
Cost of debt and equity transactions	(289)	(403)
Other	22,073	9,597
<b>NET CASH USED IN FINANCING ACTIVITIES</b>	<b>(109,728)</b>	<b>(33,831)</b>

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NET DECREASE IN CASH AND CASH EQUIVALENTS	(242,770)	(409,893)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	2,048,117	1,181,450
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 1,805,347	\$ 771,557

SUPPLEMENTARY CASH FLOW DATA:

Interest paid, net of capitalized interest	\$ 113,099	\$ 122,120
Income taxes paid, net of refunds	595,472	188,251

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



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**APACHE CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEET**  
**(Unaudited)**

	<b>June 30, 2010</b>	<b>December 31, 2009</b>
	<b>(In thousands)</b>	
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 1,805,347	\$ 2,048,117
Receivables, net of allowance	1,647,952	1,545,699
Inventories	508,702	533,251
Drilling advances	205,965	230,733
Prepaid taxes	137,556	146,653
Prepaid assets and other	201,418	81,396
	4,506,940	4,585,849
 <b>PROPERTY AND EQUIPMENT:</b>		
Oil and gas, on the basis of full-cost accounting:		
Proved properties	47,078,456	44,267,037
Unproved properties and properties under development, not being amortized	1,968,079	1,479,008
Gas gathering, transmission and processing facilities	3,445,906	3,189,177
Other	524,642	492,511
	53,017,083	49,427,733
Less: Accumulated depreciation, depletion and amortization	(27,893,628)	(26,527,118)
	25,123,455	22,900,615
 <b>OTHER ASSETS:</b>		
Goodwill, net	189,252	189,252
Deferred charges and other	612,760	510,027
	\$ 30,432,407	\$ 28,185,743

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

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**APACHE CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEET**  
**(Unaudited)**

	<b>June 30, 2010</b>	<b>December 31, 2009</b>
	<b>(In thousands)</b>	
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 485,601	\$ 396,564
Accrued operating expense	92,678	90,151
Accrued exploration and development	895,305	923,084
Accrued compensation and benefits	97,250	151,408
Current debt	116,205	117,326
Asset retirement obligation	147,374	146,654
Other	368,422	567,371
	2,202,835	2,392,558
<b>LONG-TERM DEBT</b>	4,896,127	4,950,390
<b>DEFERRED CREDITS AND OTHER NONCURRENT LIABILITIES:</b>		
Income taxes	3,247,065	2,764,901
Asset retirement obligation	1,874,743	1,637,357
Other	535,877	661,916
	5,657,685	5,064,174
<b>COMMITMENTS AND CONTINGENCIES (Note 9)</b>		
<b>SHAREHOLDERS' EQUITY:</b>		
Common stock, \$0.625 par, 430,000,000 shares authorized, 345,278,595 and 344,076,790 shares issued, respectively	215,799	215,048
Paid-in capital	4,748,709	4,634,326
Retained earnings	12,900,582	11,436,580
Treasury stock, at cost, 7,479,435 and 7,639,818 shares, respectively	(212,280)	(216,831)
Accumulated other comprehensive income (loss)	22,950	(290,502)
	17,675,760	15,778,621
	\$ 30,432,407	\$ 28,185,743

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

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**APACHE CORPORATION AND SUBSIDIARIES**  
**STATEMENT OF CONSOLIDATED SHAREHOLDERS' EQUITY**  
**(Unaudited)**

		Series B	Common	Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
	Comprehensive Income (Loss)	Preferred Stock	Stock	(In thousands)				
BALANCE AT DECEMBER 31, 2008		\$ 98,387	\$ 214,221	\$ 4,472,826	\$ 11,929,827	\$ (228,304)	\$ 21,764	\$ 16,508,721
Comprehensive loss:								
Net loss	\$ (1,312,220)				(1,312,220)			(1,312,220)
Commodity hedges, net of income tax benefit of \$108,393	(194,508)						(194,508)	(194,508)
Comprehensive loss	\$ (1,506,728)							
Dividends:								
Preferred					(2,840)			(2,840)
Common (\$.30 per share)					(100,567)			(100,567)
Common shares issued			537	(3,886)				(3,349)
Treasury shares issued, net				(4,840)		5,040		200
Compensation expense				63,356				63,356
Other				(98)				(98)
BALANCE AT JUNE 30, 2009		\$ 98,387	\$ 214,758	\$ 4,527,358	\$ 10,514,200	\$ (223,264)	\$ (172,744)	\$ 14,958,695
BALANCE AT DECEMBER 31, 2009		\$	\$ 215,048	\$ 4,634,326	\$ 11,436,580	\$ (216,831)	\$ (290,502)	\$ 15,778,621

Comprehensive income:							
Net income	\$ 1,565,204			1,565,204			1,565,204
Commodity hedges, net of income tax expense of \$150,207	313,452					313,452	313,452
Comprehensive income	\$ 1,878,656						
Common stock dividends (\$.30 per share)				(101,204)			(101,204)
Common shares issued	751	12,473					13,224
Treasury shares issued, net		(519)			4,551		4,032
Compensation expense		102,006					102,006
Other		423		2			425
BALANCE AT JUNE 30, 2010	\$	\$ 215,799	\$ 4,748,709	\$ 12,900,582	\$ (212,280)	\$ 22,950	\$ 17,675,760

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

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

These financial statements have been prepared by Apache Corporation (Apache or the Company) without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). They reflect all adjustments that are, in the opinion of management, necessary for a fair statement of the results for the interim periods, on a basis consistent with the annual audited financial 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 accounting principles generally accepted in the United States (U.S. GAAP) 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. This Quarterly Report on Form 10-Q should be read along with the Annual Report on Form 10-K for the fiscal year ended December 31, 2009, which contains a summary of the Company's significant accounting policies and other disclosures. Additionally, the Company's financial statements for prior periods include reclassifications that were made to conform to the current-period presentation.

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

As of June 30, 2010, Apache's significant accounting policies are consistent with those discussed in Note 1 of its consolidated financial statements contained in the Annual Report on Form 10-K for the fiscal year ended December 31, 2009.

**Use of Estimates**

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates with regard to these financial statements include the estimate of proved oil and gas reserves and related present value estimates of future net cash flow therefrom, asset retirement obligations and income taxes. Actual results could differ from those estimates.

**2. ACQUISITIONS**

**Kitimat LNG Terminal**

In the first quarter of 2010, Apache announced an agreement to acquire a 51-percent interest in Kitimat LNG Inc.'s proposed liquefied natural gas (LNG) export terminal (Kitimat) in British Columbia. The Company also reserved 51 percent of throughput capacity in the terminal. Planned plant gross capacity will be approximately 700 million cubic feet of natural gas per day (MMcf/d), or five million metric tons of LNG per year. This project has the potential to access new markets in the Asia-Pacific region and enable Apache to monetize gas from its Canadian region, including its interest in the Horn River Basin in northeast British Columbia. Kitimat is designed to be linked to the pipeline system servicing Western Canada's natural gas producing regions proposed by Pacific Trail Pipelines. In association with the Company's acquisition of interest in the Kitimat project, Apache also acquired a 25.5-percent interest in the proposed pipeline and 350 MMcf/d of net capacity rights. Preliminary gross construction cost of the Kitimat LNG export terminal, which will be refined upon completion of a front-end engineering and design (FEED) study, total C\$3 billion and of the pipeline total C\$1.1 billion. Apache projects that most of the costs for the LNG export terminal and pipeline will be incurred throughout a three and one-half year construction phase which is expected to begin in the second half of 2011.

During the second quarter Apache received proposals from three contractors on the FEED study and expects to award the contract by the end of the third quarter of 2010. Memorandums of Understanding (MOUs) have been developed and discussions with LNG buyers have been ongoing to market the LNG. Also, negotiations for specific agreements required with First Nations and Canadian federal and provincial governments are underway with completion anticipated during the third quarter of 2010. A final investment decision is expected in 2011, with the first LNG shipments projected as early as the end of 2014.

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### **Gulf of Mexico Shelf Acquisition**

On June 9, 2010, Apache completed a \$1.05 billion acquisition of oil and gas assets in the Gulf of Mexico shelf from Devon Energy Corporation (Devon). The acquisition was effective as of January 1, 2010. The acquired assets include 477,000 net acres across 150 blocks and estimated proved reserves of 41 million barrels of oil equivalent (MMboe). Approximately half of the estimated net proved reserves were liquid hydrocarbons and seven major fields account for 90 percent of the estimated proved reserves. Virtually all of the production is located in fields in water depths less than 500 feet and Apache operates 75 percent of the production. The acquisition was funded primarily from existing cash balances.

### **Mariner Energy, Inc. Merger Agreement**

On April 15, 2010, Apache and Mariner Energy, Inc., a Delaware corporation (Mariner), announced that we had entered into a definitive agreement pursuant to which Apache will acquire Mariner in a stock and cash transaction. The Agreement and Plan of Merger dated April 14, 2010 (as amended by amendment No. 1 dated August 2, 2010, referred to as the Merger Agreement), by and among Apache, Mariner and ZMZ Acquisitions LLC, a Delaware limited liability company and wholly owned subsidiary of Apache (Merger Sub), contemplates a merger (the Merger) whereby Mariner will be merged with and into Merger Sub, with Merger Sub surviving the Merger as a wholly owned subsidiary of Apache.

The total amount of cash and shares of Apache common stock that will be paid and issued, respectively, pursuant to the Merger Agreement is fixed, and Mariner stockholders will be entitled to receive (on an aggregate basis) 0.17043 of a share of Apache common stock, par value \$0.625 per share, and \$7.80 in cash for each share of Mariner common stock (the Mixed Consideration). Mariner stockholders have the right to elect to receive all cash (\$26.00 per share), all Apache common stock (0.24347 of a share of Apache common stock) or the Mixed Consideration, subject to proration procedures as provided in the Merger Agreement.

Upon completion of the Merger, each outstanding option to purchase Mariner common stock will be converted into a fully vested option to purchase 0.24347 shares of Apache common stock.

In connection with the Merger, Apache expects to issue approximately 17.5 million shares of common stock (an increase of approximately five percent of the Company's outstanding common shares) and pay cash of approximately \$800 million to Mariner stockholders. Apache intends to fund the cash portion of the consideration with existing cash balances and commercial paper. Upon consummation of the Merger, Apache will assume Mariner's debt, which was approximately \$1.2 billion at the time of the Merger Agreement.

The Merger Agreement has been approved by the boards of directors of Apache, Mariner, and Merger Sub. The completion of the Merger is subject to certain conditions, including: (i) the adoption of the Merger Agreement by the stockholders of Mariner; (ii) with certain materiality exceptions, the accuracy of the representations and warranties made by Apache and Mariner; (iii) the effectiveness of a registration statement on Form S-4 associated with the issuance of its common stock in the Merger, and the approval of the listing of these shares on the New York Stock Exchange; (iv) the termination or expiration of the applicable waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (HSR Act); (v) the delivery of customary opinions from counsel to Apache and Mariner that the Merger will be treated as a tax-free reorganization for U.S. federal income tax purposes; (vi) compliance by Apache and Mariner with their respective obligations under the Merger Agreement; and (vii) the absence of legal impediments prohibiting the Merger. On May 3, 2010, the U.S. Department of Justice and the Federal Trade Commission granted early termination of the waiting period under the HSR Act. Additional post-closing regulatory approvals are pending. Completion of the transaction is projected for the third quarter of 2010.

The Merger Agreement contains customary representations and warranties that the parties have made to each other as of specific dates. Apache and Mariner have each agreed to certain covenants in the Merger Agreement. Among other covenants, Mariner has agreed, subject to certain exceptions, not to initiate, solicit, negotiate, provide information in furtherance of, approve, recommend or enter into an Acquisition Proposal (as defined in the Merger Agreement).

The Merger Agreement also contains certain termination rights for both Apache and Mariner, including if the Merger is not completed by January 31, 2011. In the event of a termination of the Merger Agreement under certain circumstances, Mariner may be required to pay Apache a termination fee of \$67 million. (less any Apache expenses

previously reimbursed by Mariner). In connection with the settlement of two stockholder lawsuits, on August 2, 2010, Apache and Mariner amended the Merger Agreement to eliminate the termination fee for one of the events which would trigger the payment of the fee: in the event that Mariner terminates the Merger Agreement in order to enter into an unsolicited superior proposal with another party (refer to Note 9 Commitments and Contingencies, of Item I of this form 10-Q for further discussion). In addition, under certain circumstances, the Merger Agreement requires each of Apache and Mariner to reimburse the other's expenses, up to \$7.5 million, in the event the Merger Agreement is terminated. Any reimbursement of expenses by Mariner to Apache will reduce the amount of any termination fee paid by Mariner to Apache.

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At year-end 2009, Mariner had estimated proved reserves of 181 MMboe. Mariner's oil and gas properties are primarily located in the Gulf of Mexico deepwater and shelf, the Permian Basin and onshore in the Gulf Coast, encompassing 541,000 net developed and 623,000 net undeveloped acres at December 31, 2009. Mariner's current deepwater Gulf of Mexico portfolio includes over 99 blocks, seven discoveries in development and more than 50 drilling prospects. The Permian Basin and Gulf of Mexico Shelf assets fit well with Apache's existing holdings and provide an inventory of future potential drilling locations, particularly in the Spraberry, Wolfcamp and Wolfberry formation oil plays of the Permian Basin. Additionally, Mariner has accumulated acreage in emerging unconventional shale oil resources in the U.S.

Assuming the Merger is approved by Mariner stockholders and is cleared by regulatory authorities, the transaction will be accounted for as a business combination, with Mariner's assets and liabilities reflected in Apache's financial statements at fair value.

### **3. SUBSEQUENT EVENTS**

#### **Agreement to acquire Permian Basin, Egypt and Canada properties from BP**

On July 20, 2010, we announced the signing of three definitive purchase and sale agreements to acquire the properties described below (BP Properties) from subsidiaries of BP plc (collectively referred to as BP) for aggregate consideration of \$7.0 billion, subject to customary adjustments (BP Acquisition).

*Permian Basin.* All of BP's oil and gas operations, related infrastructure and acreage in the Permian Basin of West Texas and New Mexico. The assets include interests in 10 field areas in the Permian Basin, (including Block 16/Coy Waha, Block 31, Brown Basset, Empire/Yeso, Pegasus, Southeast Lea, Spraberry, Wilshire, North Misc and Delaware Penn), approximately 405,000 net mineral and fee acres, 358,000 leasehold acres, approximately 3,629 active wells and three gas processing plants, two of which are currently operated by BP. Based on our investigation and review of data provided by BP, these assets produced 15,110 barrels of liquid hydrocarbons (liquids) and 81 MMcf of gas per day in the first six months of 2010. The Permian Basin assets had estimated net proved reserves of 141 MMboe at June 30, 2010 (65 percent liquids).

*Western Canada Sedimentary Basin.* Substantially all of BP's Western Canadian upstream gas assets, including approximately 1,278,000 net mineral and leasehold acres, interests in approximately 1,600 active wells, and eight operated and 14 non-operated gas processing plants. The position includes many drilling opportunities ranging from conventional to several unconventional targets, including shale gas, tight gas and coal bed methane in historically productive formations including the Montney, Cadomin and Doig. Based on our investigation and review of data provided by BP, during the first half of 2010 these properties produced 6,529 barrels of liquids and 240 MMcf of gas per day and had estimated net proved reserves of 224 MMboe at June 30, 2010 (94 percent gas). We currently have operations in approximately half of these 13 field areas.

*Western Desert, Egypt.* BP's interests in four development licenses and one exploration concession (East Badr El Din), covering 394,000 net acres south of El Alamein in the Western Desert of Egypt. These properties are operated by Gulf of Suez Petroleum Company, a joint venture between BP and the Government of Egypt. The transaction includes BP's interests in 65 active wells, a 24-inch gas line to Dashour, a liquefied petroleum gas plant in Dashour, a gas processing plant in Abu Gharadig and a 12-inch oil export line to the El Hamra Terminal on the Mediterranean Sea. Based on our investigation and review of data provided by BP, during the first six months of 2010 these properties produced 6,016 barrels of oil and 11 MMcf of gas per day of BP's production, and had estimated net proved reserves of 20 MMboe at June 30, 2010 (59 percent liquids). The BP Properties in Egypt are complementary to the over 11 million gross acres in 21 separate concessions in the Western Desert we currently hold. The Merged Concession Agreement related to the development licenses runs through 2024, subject to a five year extension at the option of the operator.



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The acquisition is subject to a number of closing conditions, including regulatory approvals in the U.S., Canada and Egypt. On August 3, 2010, the U.S. Department of Justice and the Federal Trade Commission granted early termination of the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended. Additional regulatory approvals are pending. Also, some of the BP Properties are subject to preferential rights to purchase interests held by third parties, and those rights may be exercised before or after we close the acquisition. The acquisition is subject to certain post-closing requirements relating to, among other things, resolution of title, environmental and legal issues and any exercise of preferential purchase rights after closing.

In conjunction with the acquisition, Apache issued 26.45 million shares of common stock and 25.3 million depositary shares, raising net proceeds of \$3.5 billion (refer to Note 8 – Capital Stock, of Item 1 of this Form 10-Q for further discussion). The Company plans to fund the acquisition with the proceeds of these offerings and some combination of the following: cash on hand, our existing revolving credit and commercial paper facilities, a 364-day revolving credit facility, the issuance of term debt and the short term use of a bridge loan facility. The Company intends to increase its commercial paper program by \$1 billion, the amount of the new 364-day revolving credit facility. We also secured a \$5 billion bridge loan facility to backstop our financing requirements. The commitment under the bridge loan facility has been reduced by \$3.5 billion, which is the amount of the net proceeds from the common stock and mandatory convertible preferred offerings discussed above. Depending on when the closing of the acquisition of the Permian Basin BP Properties occurs, we may fund a portion of the amount due for those properties by drawing under the bridge loan facility. Any such borrowing would be repaid from the Company's next debt offering. Under the purchase and sale agreement, Apache advanced \$5 billion of the purchase price to BP plc on July 30, 2010, ahead of the anticipated closings. This advance will be returned to Apache or applied to the purchase price at closing. BP plc provided a limited guarantee with respect to the purchase and sale agreements, principally as to the return of the advance.

**4. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES****Objectives and Strategies for Using Derivative Instruments**

The Company is exposed to fluctuations in crude oil and natural gas prices on the majority of its worldwide production. Management occasionally manages the variability in cash flows by entering into hedges on a portion of its crude oil and natural gas production. The Company utilizes various types of derivative financial instruments, including swaps and options, to manage fluctuations in cash flows resulting from changes in commodity prices. Derivative instruments typically entered into are designated as cash flow hedges.

**Counterparty Risk**

The use of derivative transactions exposes the Company to counterparty credit risk, or the risk that a counterparty will be unable to meet its commitments. To reduce the concentration of exposure to any individual counterparty, Apache utilizes a diversified group of counterparties, primarily financial institutions, for its derivative transactions. As of June 30, 2010, Apache had positions with 16 counterparties, all but one of which were rated A or higher by Standard & Poor's and A2 or higher by Moody's. The Company monitors counterparty creditworthiness on an ongoing basis; however, it cannot predict sudden changes in counterparties' creditworthiness. In addition, even if such changes are not sudden, the Company may be limited in its ability to mitigate an increase in counterparty credit risk. Should any or all of these counterparties not perform, Apache may not realize the benefit of some or all of its derivative instruments resulting from lower commodity prices.

The Company executes commodity derivative transactions under master agreements that have netting provisions that provide for offsetting payables against receivables. In general, if a party to a derivative transaction incurs a material deterioration in its credit ratings, as defined in the applicable agreement, the other party will have the right to demand the posting of collateral, demand a transfer or terminate the arrangement.

**Commodity Derivative Instruments**

As of June 30, 2010, Apache had the following open crude oil derivative positions:

	<b>Fixed-Price Swaps</b>	<b>Collars</b>	
	<b>Weighted</b>	<b>Weighted</b>	<b>Weighted</b>
<b>Production</b>	<b>Average</b>	<b>Average</b>	<b>Average</b>

<b>Period</b>	<b>Mbbls</b>	<b>Fixed Price<sup>(1)</sup></b>	<b>Mbbls</b>	<b>Floor Price<sup>(1)</sup></b>	<b>Ceiling Price<sup>(1)</sup></b>
2010	1,840	\$ 70.10	5,474	\$ 67.37	\$ 84.51
2011	3,650	70.12	8,575	69.09	90.12
2012	3,292	70.99	5,482	72.17	95.34
2013	1,451	72.01	2,416	78.02	103.06
2014	76	74.50			

(1) Crude oil prices represent a weighted average of several contracts entered into on a per barrel basis. Crude oil contracts are primarily settled against NYMEX WTI Cushing Index.

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As of June 30, 2010, Apache had the following open natural gas derivative positions:

Production Period	Fixed-Price Swaps			Collars			
	MMBtu	GJ	Weighted Average Fixed Price <sup>(1)</sup>	MMBtu	GJ	Weighted Average Floor Price <sup>(1)</sup>	Weighted Average Ceiling Price <sup>(1)</sup>
	(in 000 s)	(in 000 s)		(in 000 s)	(in 000 s)		
2010	45,540		\$ 5.72	14,720		\$ 5.41	\$ 6.91
2010		27,600	C\$ 5.37				
2011	46,538		\$ 6.13	9,125		\$ 5.00	\$ 8.85
2011		51,100	C\$ 6.26		3,650	C\$ 6.50	C\$ 7.10
2012	19,215		\$ 6.51	21,960		\$ 5.54	\$ 7.30
2012		43,920	C\$ 6.61		7,320	C\$ 6.50	C\$ 7.27
2013	1,825		\$ 7.05	6,825		\$ 5.35	\$ 6.67
2014	755		\$ 7.23				

- (1) U.S. natural gas prices represent a weighted average of several contracts entered into on a per million British thermal units (MMBtu) basis and are settled primarily against NYMEX Henry Hub and various Inside FERC indices. The Canadian natural gas prices represent a weighted average of AECO Index prices and are shown in Canadian dollars. The Canadian gas contracts are entered into on a per gigajoule (GJ) basis and are settled

against AEEO  
Index.

As of June 30, 2010, Apache had the following open natural gas financial basis swap contracts:

<b>Production Period</b>	<b>MMBtu (in 000 s)</b>	<b>Weighted Average Price Differential<sup>(1)</sup></b>
2010	21,160	\$ (0.54)
2011	18,250	\$ (0.30)
2012	10,980	\$ (0.36)

(1) Natural gas financial basis swap contracts represent a weighted average differential between prices primarily against Inside FERC PEPL and NYMEX Henry Hub prices.

#### **Fair Values of Derivative Instruments Recorded in the Consolidated Balance Sheet**

The Company accounts for derivative instruments and hedging activity in accordance with Accounting Standards Codification (ASC) Topic 815, Derivatives and Hedging, and all derivative instruments are reflected as either assets or liabilities at fair value in the consolidated balance sheet. These fair values are recorded by netting asset and liability positions where counterparty master netting arrangements contain provisions for net settlement. The fair market value of the Company's derivative assets and liabilities are as follows:

	<b>June 30, 2010</b>	<b>December 31, 2009</b>
	<b>(In millions)</b>	
Current Assets: Prepaid assets and other	\$ 145	\$ 13
Other Assets: Deferred charges and other	155	51
<b>Total Derivative Assets</b>	<b>\$ 300</b>	<b>\$ 64</b>
Current Liabilities: Other	\$ 36	\$ 128
Noncurrent Liabilities: Other	65	202
<b>Total Derivative Liabilities</b>	<b>\$ 101</b>	<b>\$ 330</b>

The methods and assumptions used to estimate the fair values of the Company's commodity derivative instruments and gross amounts of commodity derivative assets and liabilities are more fully discussed in Note 10 Fair Value Measurements.

**Table of Contents****Commodity Derivative Activity Recorded in Statement of Consolidated Operations**

The following table summarizes the effect of derivative instruments on the Company's statement of consolidated operations:

	<b>Gain (Loss) on Derivatives Recognized In Income</b>	<b>For the Quarter Ended</b>		<b>For the Six Months Ended</b>	
		<b>June 30, 2010</b>	<b>June 30, 2009</b>	<b>June 30, 2010</b>	<b>June 30, 2009</b>
		<b>(In millions)</b>			
Gain (loss) reclassified from accumulated other comprehensive income (loss) into operations (effective portion)	Oil and Gas Production Revenues	\$ 52	\$ 52	\$ 51	\$ 108
Gain (loss) derivatives recognized in operations (ineffective portion and basis)	Revenues and Other: Other	\$	\$ (1)	\$ (1)	\$ (4)

**Commodity Derivative Activity in Accumulated Other Comprehensive Income (Loss)**

As of June 30, 2010, substantially all of the Company's derivative instruments were designated as cash flow hedges in accordance with ASC Topic 815. A reconciliation of the components of accumulated other comprehensive income (loss) in the statement of consolidated shareholders' equity related to Apache's cash flow hedges is presented in the table below:

	<b>For the Six Months Ended June 30,</b>			
	<b>2010</b>		<b>2009</b>	
	<b>Before tax</b>	<b>After tax</b>	<b>Before tax</b>	<b>After tax</b>
	<b>(In millions)</b>			
Unrealized gain (loss) on derivatives at beginning of period	\$ (267)	\$ (170)	\$ 212	\$ 138
Realized amounts reclassified into earnings	(51)	(33)	(108)	(73)
Net change in derivative fair value	514	346	(196)	(122)
Ineffectiveness reclassified into earnings	1	1	1	
Unrealized gain (loss) on derivatives at end of period	\$ 197	\$ 144	\$ (91)	\$ (57)

Based on market prices as of June 30, 2010, the Company's net unrealized income in accumulated other comprehensive income (loss) for commodity derivatives designated as cash flow hedges totaled a gain of \$197 million (\$144 million after tax). Gains and losses on hedges will be realized in future earnings through mid-2014, contemporaneously with the related sales of natural gas and crude oil production applicable to specific hedges. Included in accumulated other comprehensive income (loss) as of June 30, 2010 is a net gain of approximately \$109 million (\$77 million after tax) that applies to the next 12 months; however, estimated and actual amounts are likely to vary materially as a result of changes in market conditions.

**5. ASSET RETIREMENT OBLIGATION**

The following table describes changes to the Company's asset retirement obligation (ARO) liability for the six months ended June 30, 2010:

**(In millions)**

Asset retirement obligation at December 31, 2009	\$ 1,784
Liabilities incurred	314
Liabilities settled	(125)
Accretion expense	49
Asset retirement obligation at June 30, 2010	2,022
Less current portion	(147)
Asset retirement obligation, long-term	\$ 1,875

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The ARO reflects the estimated present value of the amount of dismantlement, removal, site reclamation and similar activities associated with Apache's oil and gas properties. The Company utilizes current retirement costs to estimate the expected cash outflows for retirement obligations. To determine the current present value of this obligation, some key assumptions the Company must estimate include the ultimate productive life of the properties, a risk adjusted discount rate and an inflation factor. To the extent future revisions to these assumptions impact the present value of the existing ARO liability, a corresponding adjustment is made to the oil and gas property balance. The period includes \$233 million of liabilities incurred related to the Devon acquisition which closed in June, 2010.

**6. DEBT**

As of June 30, 2010, the Company had unsecured committed revolving syndicated bank credit facilities totaling \$2.3 billion, which mature in May 2013. These consist of a \$1.5 billion facility and a \$450 million facility in the U.S., a \$200 million facility in Australia and a \$150 million facility in Canada. Since there are no outstanding borrowings or commercial paper at quarter-end, the full \$2.3 billion of unsecured credit facilities are available to the Company.

The Company has available a \$1.95 billion commercial paper program, which generally enables Apache to borrow funds for up to 270 days at competitive interest rates. The commercial paper program is fully supported by available borrowing capacity under U.S. committed credit facilities, which expire in 2013.

One of the Company's Australian subsidiaries has a secured revolving syndicated credit facility for its Van Gogh and Pyrenees oil developments offshore Western Australia. The facility provides for total commitments of up to \$350 million, with availability determined by a borrowing base formula. The borrowing base was initially set at \$350 million and will be redetermined upon project completion, as defined in the facility, which is expected to occur in the fourth quarter of 2010, and semi-annually thereafter. The Company has agreed to guarantee the credit facility until project completion. In the event project completion does not occur by December 31, 2010, pursuant to the terms of the facility, the lenders may require repayment of outstanding amounts in the first quarter of 2011.

The outstanding balance under the facility as of June 30, 2010 was \$300 million in accordance with the terms of the facility, down from \$350 million on December 31, 2009. Under the terms of the agreement, the facility amount was reduced initially on June 30, 2010 and will be further reduced semi-annually thereafter until maturity on March 31, 2014. As \$60 million and \$55 million of the existing balance will be repaid by December 31, 2010 and June 30, 2011, respectively, \$115 million has been classified as current debt at June 30, 2010.

At June 30, 2010 and December 31, 2009, there was \$1.2 million and \$7.3 million, respectively, borrowed on uncommitted overdraft lines in Argentina and the U.S.

**Financing Costs, Net**

Financing costs incurred during the periods noted are composed of the following:

	<b>For the Quarter Ended June 30,</b>		<b>For the Six Months Ended June 30,</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
	<b>(In millions)</b>			
Interest expense	\$ 75	\$ 77	\$ 151	\$ 156
Amortization of deferred loan costs	1	1	3	3
Capitalized interest	(18)	(15)	(35)	(31)
Interest income	(2)	(2)	(4)	(8)
Financing costs, net	\$ 56	\$ 61	\$ 115	\$ 120



**Table of Contents****7. INCOME TAXES**

The Company estimates its annual effective income tax rate in recording its quarterly provision for income taxes in the various jurisdictions in which the Company operates. Statutory tax rate changes and other significant or unusual items are recognized as discrete items in the quarter in which they occur. There were no significant discrete tax events that occurred during the first six months of 2010. The 2009 year-to-date tax provision includes the impact of the non-cash write-down of proved oil and gas properties, which was recognized as a discrete item in the first quarter of 2009.

Apache and its subsidiaries are subject to U.S. federal income tax as well as income or capital taxes in various state and foreign jurisdictions. The Company's tax reserves are related to tax years that may be subject to examination by the relevant taxing authority. The Company is in Administrative Appeals with the United States Internal Revenue Service (IRS) regarding the 2004 through 2007 tax years and under audit for the 2008 tax year. The Company is also under audit in various states and in most of the Company's foreign jurisdictions as part of its normal course of business.

**8. CAPITAL STOCK****Net Income (Loss) per Common Share**

A reconciliation of the components of basic and diluted net income (loss) per common share for the quarters and six-month periods ended June 30, 2010 and 2009 is presented in the table below. The loss for the first six months of 2009 reflects a \$1.98 billion after-tax write-down of the carrying value of the Company's March 31, 2009, proved property balances in the U.S. and Canada.

	For the Quarter Ended June 30,					
	2010			2009		
	Income	Shares	Per Share	Income	Shares	Per Share
(In millions, except per share amounts)						
<b>Basic:</b>						
Income attributable to common stock	\$ 860	338	\$ 2.55	\$ 443	336	\$ 1.32
<b>Effect of Dilutive Securities:</b>						
Stock options and other		1			1	
<b>Diluted:</b>						
Income attributable to common stock, including assumed conversions	\$ 860	339	\$ 2.53	\$ 443	337	\$ 1.31
	For the Six Months Ended June 30,					
	2010			2009		
	Income	Shares	Per Share	Loss	Shares	Per Share
(In millions, except per share amounts)						
<b>Basic:</b>						
Income (loss) attributable to common stock	\$ 1,565	337	\$ 4.64	\$ (1,315)	335	\$ (3.92)

**Effect of Dilutive Securities:**

Stock options and other 2

**Diluted:**

Income (loss) attributable to  
common stock, including

assumed conversions	\$ 1,565	339	\$ 4.61	\$ (1,315)	335	\$ (3.92)
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The diluted earnings per share calculation excludes options and restricted stock units that were anti-dilutive totaling 3.3 million and 4.1 million for the quarters ending June 30, 2010 and 2009 and 2.9 million and 3.9 million for the six months ended June 30, 2010 and 2009, respectively. The provisions of ASC Topic 260, Earnings Per Share, state that unvested share-based payment awards that contain rights to receive non-forfeitable dividends or dividend equivalents are participating securities prior to vesting and are required to be included in the earnings allocations in computing basic EPS under the two-class method. These participating securities had a negligible impact on earnings per share.

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### **Common and Preferred Stock Dividends**

For the quarter ending June 30, 2010 and 2009, Apache paid \$51 million and \$50 million, respectively, in dividends on its common stock. In both six-month periods ended June 30, 2010 and 2009, the Company paid \$101 million in dividends on its common stock. In the three-and six-month periods ended June 30, 2009, Apache paid a total of \$1.4 million and \$2.8 million, respectively, in dividends on its Series B Preferred Stock issued in August 1998. The Company redeemed all outstanding shares of its Series B Preferred Stock on December 30, 2009.

### **Stock-Based Compensation**

#### ***Share Appreciation Plans***

The Company utilizes share appreciation plans from time to time to provide incentives for substantially all full-time employees to increase Apache's share price within a stated measurement period. To achieve the payout under those plans, the Company's stock price must close at or above a stated threshold for 10 out of any 30 consecutive trading days before the end of the stated period. Since 2005, two separate share appreciation plans have been approved. A summary of these plans follows:

On May 7, 2008, the Stock Option Plan Committee of the Company's Board of Directors, pursuant to the Company's 2007 Omnibus Equity Compensation Plan, approved the 2008 Share Appreciation Program, with a target to increase Apache's share price to \$216 by the end of 2012 and an interim goal of \$162 to be achieved by the end of 2010. Any awards under the plan would be payable in five equal annual installments. As of June 30, 2010, neither share price threshold had been met.

On May 5, 2005, the Company's stockholders approved the 2005 Share Appreciation Plan, with a target to increase Apache's share price to \$108 by the end of 2008 and an interim goal of \$81 to be achieved by the end of 2007. Awards under the plan were payable in four equal annual installments to eligible employees remaining with the Company. Apache's share price exceeded the interim \$81 threshold for the 10-day requirement on June 14, 2007. The final installment was awarded in June 2010. Apache's share price exceeded the \$108 threshold for the 10-day requirement as of February 29, 2008. The third installment was awarded in March 2010.

#### ***2010 Performance Program and Restricted Stock Awards***

To provide long-term incentives for Apache employees to deliver competitive returns to our stockholders, in November 2009, the Company's Board of Directors approved the 2010 Performance Program, pursuant to the 2007 Omnibus Equity Compensation Plan. Eligible employees were granted initial conditional restricted stock units totaling 541,440 units. The ultimate number of restricted stock units to be awarded, will be based upon measurement of the total shareholder return of Apache common stock as compared to a designated peer group during a three-year performance period. Should any restricted stock units be awarded at the end of the three-year performance period, December 31, 2012, 50 percent of restricted stock units awarded will immediately vest, and an additional 25 percent will vest on the two succeeding anniversaries following the end of the performance period. In January 2010, the Company's Board of Directors also approved one-time restricted stock unit awards totaling 502,470 shares to eligible Apache employees, with one-third of the units granted immediately vesting and an additional one-third vesting on each of the first and second anniversaries of the grant date.

### **Subsequent Events**

#### ***Common and Depositary Share Offerings***

In conjunction with the BP Acquisition, Apache issued 26.45 million shares of common stock at a public offering price of \$88.00 per share. Proceeds, after underwriting discounts and before expenses, from the common stock offering were approximately \$2.3 billion. The initial offering of 21 million shares was increased to 23 million shares and the underwriters exercised their option to purchase an additional 3.45 million shares. The Company also received proceeds of \$1.2 billion, after underwriting discounts and before expenses, from the sale of 25.3 million depositary shares, each representing a 1/20th interest in a share of Apache's 6.00% Mandatory Convertible Preferred Stock, Series D, with an initial liquidation preference of \$1,000 per share (equivalent to \$50 liquidation preference per depositary share). The Company offered 22 million depositary shares and the underwriters exercised their option to purchase an additional 3.3 million depositary shares. Net proceeds to the Company from the common stock and

depository share offerings totaled approximately \$3.5 billion after underwriting discounts and before expenses.

## 9. COMMITMENTS AND CONTINGENCIES

### Legal Matters

Apache is party to various legal actions arising in the ordinary course of business, including litigation and governmental and regulatory controls. The Company has an accrued liability of approximately \$23 million for all legal contingencies that are deemed to be probable of occurring and can be reasonably estimated. Apache's estimates are based on information known about the matters and its experience in contesting, litigating and settling similar matters. Although actual amounts could differ from management's estimate, none of the actions are believed by management to involve future amounts that would be material to Apache's financial position or results of operations after consideration of recorded accruals. It is management's opinion that the loss for any other litigation matters and claims that are reasonably possible to occur will not have a material adverse effect on the Company's financial position or results of operations.

### Argentine Environmental Claims

In connection with the acquisition from Pioneer in 2006, the Company acquired a subsidiary of Pioneer in Argentina (PNRA) that is involved in various administrative proceedings with environmental authorities in the Neuquén Province relating to permits for and discharges from operations in that province. In addition, PNRA was named in a suit initiated against oil companies operating in the Neuquén basin entitled *Asociación de Superficiarios de la Patagonia v YPF S.A., et. al.*, originally filed on August 21, 2003, in the Argentine National Supreme Court of Justice. The plaintiffs, a private group of landowners, have also named the national government and several provinces as third parties. The lawsuit alleges injury to the environment generally by the oil and gas industry. The plaintiffs principally seek from all defendants, jointly, (i) the remediation of contaminated sites, of the superficial and underground waters, and of soil that allegedly was degraded as a result of deforestation, (ii) if the remediation is not possible, payment of an indemnification for the material and moral damages claimed from defendants operating in the Neuquén basin, of which PNRA is a small portion, (iii) adoption of all the necessary measures to prevent future environmental damages, and (iv) the creation of a private restoration fund to provide coverage for remediation of potential future environmental damages. Much of the alleged damage relates to operations by the Argentine state oil company, which conducted oil and gas operations throughout Argentina prior to its privatization, which began in 1990. While the plaintiffs will seek to make all oil and gas companies operating in the Neuquén basin jointly liable for each others' actions, PNRA will defend on an individual basis and attempt to require the plaintiffs to delineate damages by company. PNRA intends to defend itself vigorously in the case. It is not certain exactly how or what the court will do in this matter as it is the first of its kind. While it is possible PNRA may incur liabilities related to the environmental claims, no reasonable prediction can be made as PNRA's exposure related to this lawsuit is not currently determinable.

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### ***Louisiana Restoration***

Numerous surface owners have filed claims or sent demand letters to various oil and gas companies, including Apache, claiming that, under either expressed or implied lease terms or Louisiana law, they are liable for damage measured by the cost of restoration of leased premises to their original condition as well as damages from contamination and cleanup. Many of these lawsuits claim small amounts, while others assert claims in excess of one million dollars. Also, some lawsuits or claims are being settled or resolved, while others are still being filed. Any exposure, therefore, related to these lawsuits and claims is not currently determinable. While an adverse judgment against Apache is possible, Apache intends to actively defend the cases.

### ***Hurricane Related Litigation***

In a case styled *Ned Comer, et al vs. Murphy Oil USA, Inc., et al*, Case No: 1:05-cv-00436; U.S.D.C., *United States District Court, Southern District of Mississippi*, Mississippi property owners allege that hurricanes meteorological effects increased in frequency and intensity due to global warming, and there will be continued future damage from increasing intensity of storms and sea level rises. They claim this was caused by the various defendants (oil and gas companies, electric and coal companies, and chemical manufacturers). Plaintiffs claim defendants emissions of greenhouse gases cause global warming, which they blame as the cause of their damages. They also claim that the oil company defendants artificially inflated and manipulated the prices of gasoline, diesel fuel, jet fuel, natural gas, and other end-use petrochemicals, and covered it up by misrepresentations. They further allege a conspiracy to disseminate misinformation and cover up the relationship between the defendants and global warming. Plaintiffs seek, among other damages, actual, consequential, and punitive or exemplary damages. The District Court dismissed the case on August 30, 2007. The plaintiffs appealed the dismissal. Prior to the dismissal, the plaintiffs filed a motion to amend the lawsuit to add additional defendants, including Apache. On October 16, 2009, the United States Court of Appeals for the Fifth Circuit reversed the judgment of the District Court and remanded the case to the District Court. The Fifth Circuit held that plaintiffs have pleaded sufficient facts to demonstrate standing for their public and private nuisance, trespass, and negligence claims, and that those claims are justifiable and do not present a political question. However, the Fifth Circuit declined to find standing for the unjust enrichment, civil conspiracy, and fraudulent misrepresentation claims, and therefore dismissed those claims. Several defendants filed a petition with the Fifth Circuit for a rehearing *en banc*. In granting an appeal for an *en banc* hearing, the U.S. Fifth Circuit Court of Appeals vacated an earlier ruling by its three-member panel. That decision reinstated the district judge's dismissal of the lawsuit. Subsequently, the Fifth Circuit Court of Appeals could not form a quorum to hear the *en banc* appeal. Therefore, the court ruled that its earlier order (vacating the panel's ruling) stood, which had the effect of dismissing the original lawsuit. An appeal by the plaintiffs to the U.S. Supreme Court is possible.

### ***Australia Gas Pipeline Force Majeure***

The Company subsidiaries reported a pipeline explosion that interrupted deliveries of natural gas to customers under various long-term contracts. Company subsidiaries believe that the event was a force majeure and as a result, the subsidiaries and their joint venture participants have declared force majeure under those contracts. On December 16, 2009, a customer, Burrup Fertilisers Pty Ltd, filed a lawsuit on behalf of itself and certain of its underwriters at Lloyd's London and other insurers, against the Company and its subsidiaries in Texas state court, asserting claims for negligence, breach of contract, alter ego, single business enterprise, res ipsa loquitur, and gross negligence/exemplary damages. Other customers have threatened to file suit challenging the declaration of force majeure under their contracts. Contract prices under their contracts are significantly below current spot prices for natural gas in Australia. In the event it is determined that the pipeline explosion was not a force majeure, Company subsidiaries believe that liquidated damages should be the extent of the damages under those long-term contracts with such provisions. Approximately 90 percent of the natural gas volumes sold by Company subsidiaries under long-term contracts have liquidated damages provisions. Contractual liquidated damages under the long-term contracts with such provisions would not be expected to exceed \$200 million AUD. In their Harris County petition, Burrup Fertilisers and its underwriters and insurers seek to recover unspecified actual damages, cost of repair and replacement, exemplary damages, lost profits, loss of business goodwill, value of the gas lost under the GSA, interest and court costs. No assurance can be given that Burrup Fertilisers and other customers would not assert claims in excess of contractual liquidated damages, and exposure related to such claims is not currently determinable. While an adverse judgment

against Company subsidiaries (and Company, in the case of the Burrup Fertilisers lawsuit) is possible, Company and Company subsidiaries do not believe any such claims would have merit and plan to vigorously pursue their defenses against any such claims.

In December 2008, the Senate Economics Committee of the Parliament of Australia released its findings from public hearings concerning the economic impact of the gas shortage following the explosion on Varanus Island and the government's response. The Committee concluded, among other things, that the macroeconomic impact to Western Australia will never be precisely known, but cited to a range of estimates from \$300 million AUD to \$2.5 billion AUD consisting in part of losses alleged by some parties who have long-term contracts with Company subsidiaries (as described above), but also losses alleged by third parties who do not have contracts with Company subsidiaries (but who may have purchased gas that was re-sold by customers or who may have paid more for energy following the explosion or who lost wages or sales due to the inability to obtain energy or the increased price of energy). A timber industry group, whose members do not have a contract with Company subsidiaries, has announced that it intends to seek compensation for its members and their subcontractors from Company subsidiaries for \$20 million AUD in losses allegedly incurred as a result of the gas supply shortage following the explosion. In *Johnson Tiles Pty Ltd v. Esso Australia Pty Ltd* [2003] VSC 27 (Supreme Court of Victoria, Gillard J presiding), which concerned a 1998 explosion at an Esso natural gas processing plant at Longford in East Gippsland, Victoria, the Court held that Esso was not liable for \$1.3 billion AUD of pure economic losses suffered by claimants that had no contract with Esso, but was liable to such claimants for reasonably foreseeable property damage which Esso settled for \$32.5 million plus costs. In reaching this decision the Court held that third-party claimants should have protected themselves from pure economic losses, through the purchase of insurance or the installation of adequate backup measures, in case of an interruption in their gas supply from Esso. While an adverse judgment against Company subsidiaries is possible if litigation is filed, Company subsidiaries do not believe any such claims would have merit and plan to vigorously pursue their defenses against any such claims. Exposure related to any such potential claims is not currently determinable.

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On October 10, 2008, the Australia National Offshore Petroleum Safety Authority (NOPSA) released a self-titled Final Report of the findings of its investigation into the pipeline explosion, prepared at the request of the Western Australian Department of Industry and Resources (DoIR). NOPSA concluded in its report that the evidence gathered to date indicates that the main causal factors in the incident were: (1) ineffective anti-corrosion coating at the beach crossing section of the 12 inch sales gas pipeline, due to damage and/or dis-bondment from the pipeline; (2) ineffective cathodic protection of the wet-dry transition zone of the beach crossing section of the 12 inch sales gas pipeline; and (3) ineffective inspection and monitoring by Company subsidiaries of the beach crossing and shallow water section of the 12 inch sales gas pipeline. NOPSA further concluded that the investigation identified that Apache Northwest Pty Ltd and its co-licensees may have committed offences under the Petroleum Pipelines Act 1969, Sections 36A & 38(b) and the Petroleum Pipelines Regulations 1970, Regulation 10, and that some findings may also constitute non-compliance with pipeline license conditions. NOPSA states in its report that an application for renewal of the pipeline license covering the area of the Varanus Island facility was granted in May 1985 with 21 years validity, and an application for renewal of the license was submitted to DoIR by Company subsidiaries in December 2005 and remains pending.

Company subsidiaries disagree with NOPSA's conclusions and believe that the NOPSA report is premature, based on an incomplete investigation and misleading. In a July 17, 2008, media statement, DoIR acknowledged, "The pipelines and Varanus Island facilities have been the subject of an independent validation report [by Lloyd's Register] which was received in August 2007. NOPSA has also undertaken a number of inspections between 2005 and the present. These and numerous other inspections, audits and reviews conducted by top international consultants and regulators did not identify any warnings that the pipeline had a corrosion problem or other issues that could lead to its failure. Company subsidiaries believe that the explosion was not reasonably foreseeable, and was not within the reasonable control of Company's subsidiaries or able to be reasonably prevented by Company subsidiaries."

On January 9, 2009, the governments of Western Australia and the Commonwealth of Australia announced a joint inquiry to consider the effectiveness of the regulatory regime for occupational health and safety and integrity that applied to operations and facilities at Varanus Island and the role of DoIR, NOPSA and the Western Australian Department of Consumer and Employment Protection (DoCEP). The joint inquiry's report was published in June 2009.

On May 8, 2009, the government of Western Australia announced that its Department of Mines and Petroleum (DMP) will carry out the final stage of investigations into the Varanus Island gas explosion. Inspectors were appointed under the Petroleum Pipelines Act to coordinate the final stage of the investigations. Their report has been delivered to the Minister for Mines and Petroleum, but neither the report nor its contents have been made available to Company subsidiaries for their review and comment.

On May 28, 2009, the DMP filed a prosecution notice in the Magistrates Court of Western Australia, charging Apache Northwest Pty Ltd and its co-licensees with failure to maintain a pipeline in good condition and repair under the Petroleum Pipelines Act 1969, Section 38(b). The maximum fine associated with the alleged offense is \$50,000 AUD. The Company subsidiary does not believe that the charge has merit and plans to vigorously pursue its defenses.

### ***Seismic License***

In December 1996, the Company and Fairfield Industries Incorporated entered into a Master Licensing Agreement for the licensing of seismic data relating to certain blocks in the Gulf of Mexico. The Company and Fairfield also entered into supplemental agreements specifying the data to be licensed to the Company as well as the consideration due Fairfield. In February 2009, the Company filed an action in Texas state court se