

Edgar Filing: POGO PRODUCING CO - Form 10-Q

POGO PRODUCING CO
Form 10-Q
October 24, 2001

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

Quarterly report pursuant to section 13 or 15[d] of the Securities Exchange Act of 1934

For the quarterly period ended September 30, 2001 or

Transition report pursuant to section 13 or 15[d] of the Securities Exchange Act of 1934

For the transition period from to

Commission file number 1-7792

POGO PRODUCING COMPANY
[Exact Name of Registrant as Specified in Its Charter]

DELAWARE
[State or Other Jurisdiction of
Incorporation or Organization]

74-1659398
[I.R.S. Employer
Identification No.]

5 GREENWAY PLAZA, SUITE 2700
HOUSTON, TEXAS
[Address of principal executive offices]

77046-0504
[Zip Code]

[713] 297-5000

[Registrant's Telephone Number, Including Area Code]

Not Applicable

[Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report]

Indicate by check mark whether the registrant: [1] has filed all reports required to be filed by Section 13 or 15[d] of the Securities Exchange Act of 1934 during the preceding 12 months [or for such shorter period that the registrant was required to file such reports], and [2] has been subject to such filing requirement for the past 90 days: Yes X No

Registrant's number of common shares outstanding as of September 30, 2001:
53,634,752

PART I. FINANCIAL INFORMATION

Edgar Filing: POGO PRODUCING CO - Form 10-Q

ITEM 1. FINANCIAL STATEMENTS

POGO PRODUCING COMPANY AND SUBSIDIARIES

Consolidated Statements of Income (Unaudited)

	Three Months End September 30,	
	2001	2000
	(Expressed in thousands)	
REVENUES:		
Oil and gas	\$ 139,677	\$ 120,000
Pipeline sales and other	2,043	1,000
Gains (losses) on sales	1,815	1,000
Total	143,535	122,000
OPERATING COSTS AND EXPENSES:		
Lease operating	31,939	20,000
Pipeline operating and natural gas purchases	1,838	1,000
General and administrative	11,281	1,000
Exploration	5,013	1,000
Dry hole and impairment	3,053	1,000
Depreciation, depletion and amortization	55,754	30,000
Total	108,878	64,000
OPERATING INCOME	34,657	58,000
INTEREST:		
Charges	(15,119)	(1,000)
Income	690	1,000
Capitalized	9,324	1,000
MINORITY INTEREST -Dividends and costs associated with preferred securities of a subsidiary trust	(2,501)	(1,000)
FOREIGN CURRENCY TRANSACTION GAIN (LOSS)	338	1,000
INCOME BEFORE TAXES AND CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	27,389	57,000
INCOME TAX EXPENSE	(11,786)	(2,000)
INCOME BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	15,603	55,000
CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	--	--
NET INCOME	\$ 15,603	\$ 55,000

Edgar Filing: POGO PRODUCING CO - Form 10-Q

	=====	=====
EARNINGS PER COMMON SHARE		
Basic		
Income before cumulative effect of change in accounting principle	\$ 0.29	\$
Cumulative effect of change in accounting principle	--	-----
Net income	\$ 0.29	\$
Diluted		
Income before cumulative effect of change in accounting principle	\$ 0.28	\$
Cumulative effect of change in accounting principle	--	-----
Net income	\$ 0.28	\$
DIVIDENDS PER COMMON SHARE		
	\$ 0.03	\$
WEIGHTED AVERAGE NUMBER OF COMMON SHARES AND POTENTIAL COMMON SHARES OUTSTANDING:		
Basic	53,613	4
Diluted	60,480	5

See accompanying notes to consolidated financial statements.

-1-

POGO PRODUCING COMPANY AND SUBSIDIARIES

Consolidated Balance Sheets

	September 30, 2001	December 31 2000
	-----	-----
	(Unaudited)	
	(Expressed in thousands except share amounts)	
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 94,410	\$ 81,51
Accounts receivable	58,506	84,38
Other receivables	40,542	27,24
Federal income tax receivable	28,346	-
Inventory - Product	5,601	3,05
Inventories - Tubulars	8,882	8,05
Price hedge contracts	39,459	9,15
Other	2,949	1,27
Total current assets	278,695	214,67
PROPERTY AND EQUIPMENT:		
Oil and gas, on the basis of successful efforts accounting Proved properties being amortized	2,747,637	1,698,40

Edgar Filing: POGO PRODUCING CO - Form 10-Q

Unevaluated properties and properties under development, not being amortized	411,902	154,91
Pipelines, at cost	6,524	7,09
Other, at cost	18,503	15,25
	-----	-----
	3,184,566	1,875,67
	-----	-----
Accumulated depreciation, depletion and amortization		
Oil and gas	(1,119,169)	(1,053,47
Pipelines	(1,471)	(1,78
Other	(10,422)	(8,75
	-----	-----
	(1,131,062)	(1,064,01
	-----	-----
Property and equipment, net	2,053,504	811,65
	-----	-----
OTHER ASSETS:		
Deferred income tax	47,947	3,69
Debt issue expenses	16,124	10,71
Price hedge contracts	8,243	14,86
Foreign value added taxes receivable	6,234	7,26
Other	21,674	20,65
	-----	-----
	100,222	57,19
	-----	-----
	\$ 2,432,421	\$ 1,083,52
	=====	=====

See accompanying notes to consolidated financial statements.

-2-

POGO PRODUCING COMPANY AND SUBSIDIARIES

Consolidated Balance Sheets

September 30,
2001

(Unaudited)

(Expressed in
except shar

LIABILITIES AND SHAREHOLDERS' EQUITY

CURRENT LIABILITIES:

Accounts payable - operating activities	\$	39,035
Accounts payable - investing activities		56,150
Foreign income taxes payable		5,217
Accrued interest payable		15,698

Edgar Filing: POGO PRODUCING CO - Form 10-Q

Accrued dividends associated with preferred securities of a subsidiary trust	813
Accrued payroll and related benefits	2,653
Other	1,400

Total current liabilities	120,966

LONG-TERM DEBT	756,992
DEFERRED INCOME TAX	560,101
OTHER LIABILITIES AND DEFERRED CREDITS	15,326

Total liabilities	1,453,385

MINORITY INTEREST:	
Company-obligated mandatorily redeemable convertible preferred securities of a subsidiary trust, net of unamortized issue expenses	145,023

SHAREHOLDERS' EQUITY:	
Preferred stock, \$1 par; 4,000,000 and 2,000,000 shares authorized, respectively	--
Common stock, \$1 par; 200,000,000 and 100,000,000 shares authorized; 53,650,327 and 40,659,591 shares issued, respectively	53,650
Additional capital	658,430
Retained earnings	102,202
Accumulated other comprehensive income (loss)	20,055
Treasury stock (15,575 shares), at cost	(324)

Total shareholders' equity	834,013

	\$ 2,432,421
	=====

See accompanying notes to consolidated financial statements.

-3-

POGO PRODUCING COMPANY AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows (Unaudited)

Nine Months Ended

Edgar Filing: POGO PRODUCING CO - Form 10-Q

	September 30,	
	2001	2000
	(Expressed in thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	\$ 510,915	\$
Cash received from price hedge contracts	8,808	
Operating, exploration, and general and administrative expenses paid	(159,823)	
Interest paid	(29,919)	
Federal income taxes paid	(31,115)	
Federal income taxes received	--	
Value added taxes received	1,028	
Other	1,527	
	-----	-----
Net cash provided by operating activities	301,421	
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(280,819)	
Acquisition of NORIC, net of \$21,235 cash acquired	(323,476)	
Purchase of proved reserves	(2,714)	
Proceeds from the sale of properties and subsidiaries	20,001	
	-----	-----
Net cash used in investing activities	(587,008)	
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of new debt	200,000	
Borrowings under senior debt agreements	1,063,992	
Payments under senior debt agreements	(872,000)	
Payment of North Central senior debt acquired	(78,600)	
Payments of cash dividends on common stock	(4,438)	
Payments of preferred dividends of a subsidiary trust	(7,312)	
Payments of financing issue expenses	(8,720)	
Proceeds from exercise of stock options and other	6,699	
	-----	-----
Net cash provided by (used in) financing activities	299,621	
	-----	-----
EFFECT OF EXCHANGE RATE CHANGES ON CASH	(1,134)	
	-----	-----
NET CHANGE IN CASH AND CASH EQUIVALENTS	12,900	
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	81,510	
	-----	-----
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	\$ 94,410	\$
	=====	=====
RECONCILIATION OF NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Net income	\$ 86,528	\$
Adjustments to reconcile net income to net cash provided by operating activities -		
Cumulative effect of change in accounting principle	--	
Minority interest	7,499	
Foreign currency transaction (gains) losses	668	
(Gains) losses from the sales of properties	(4,487)	
Depreciation, depletion and amortization	146,286	
Dry hole and impairment	26,097	
Interest capitalized	(24,153)	

Edgar Filing: POGO PRODUCING CO - Form 10-Q

Price hedge contracts	5,342	
Deferred federal income taxes	48,588	
Change in operating assets and liabilities	9,053	
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 301,421	\$

See accompanying notes to consolidated financial statements.

-4-

POGO PRODUCING COMPANY AND SUBSIDIARIES

Consolidated Statements of Shareholders' Equity (Unaudited)

	For the Nine Months Ended Se		
	2001		
	Shareholders' Equity		Compre- hensive
	Shares	Amount	Income
	(Expressed in thousands, except		
COMMON STOCK:			
\$1.00 par-200,000,000 and 100,000,000 shares authorized, respectively			
Balance at beginning of year	40,659,591	\$ 40,660	40,2
Shares issued for acquisition of NORIC	12,615,816	12,615	
Stock options exercised	337,264	337	1
Shares issued as compensation	37,656	38	
Issued at end of period	53,650,327	53,650	40,5
ADDITIONAL CAPITAL:			
Balance at beginning of year		298,885	
Shares issued for acquisition of NORIC		351,729	
Stock options exercised		6,922	
Shares issued as compensation		894	
Balance at end of period		658,430	
RETAINED EARNINGS (DEFICIT):			
Balance at beginning of year		20,112	
Net income		86,528	\$ 86,528
Dividends (\$0.09 per common share)		(4,438)	
Balance at end of period		102,202	
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS):			

Edgar Filing: POGO PRODUCING CO - Form 10-Q

Balance at beginning of year		(1,062)	
Exchange gains (losses)			
on Canadian currency and other		2,253	2,253
Cumulative effect of			
change in accounting principle		(2,438)	(2,438)
Unrealized gains arising during the			
period on price hedge contracts		23,067	23,067
Reclassification adjustment for			
losses included in net income		(1,765)	(1,765)

Net unrealized gains (losses)			
on price hedge contracts		21,302	

Balance at end of period		20,055	

COMPREHENSIVE INCOME			\$ 107,645
			=====
TREASURY STOCK:			
Balance at beginning of year	(15,575)	(324)	
Activity during the period	--	--	

Balance at end of period	(15,575)	(324)	

COMMON STOCK OUTSTANDING,			
AT THE END OF THE PERIOD	53,634,752		40,5
	=====		=====
TOTAL SHAREHOLDERS' EQUITY		\$ 834,013	
		=====	

See accompanying notes to consolidated financial statements.

-5-

POGO PRODUCING COMPANY AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Unaudited)

(1) GENERAL INFORMATION -

The consolidated financial statements included herein have been prepared by Pogo Producing Company (the "Company") without audit and include all adjustments (of a normal and recurring nature) which are, in the opinion of management, necessary for the fair presentation of interim results which are not necessarily indicative of results for the entire year. Certain prior year amounts have been reclassified to conform with current year presentation. Refer to the Consolidated Statements of Shareholders' Equity for an analysis of Other Comprehensive Income which was \$23,533,000 and \$26,212,000, respectively, for the three months ended September 30, 2001 and 2000 and \$107,645,000 and \$51,286,000, respectively, for the nine months ended September 30, 2001 and 2000. The financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's annual report on Form 10-K for the year ended December 31, 2000.

(2) LONG-TERM DEBT -

Edgar Filing: POGO PRODUCING CO - Form 10-Q

Long-term debt and the amount due within one year at September 30, 2001 and December 31, 2000, consist of the following:

	September 30, 2001
(Expressed in	
Senior debt -	
Bank revolving credit agreement	
LIBOR based loans, borrowings at average interest rate of 4.76%	\$ 167,000
Banker's acceptances, borrowing at an interest rate of 4.01%	24,992

Total senior debt	191,992

Subordinated debt -	
8 3/4% Senior subordinated notes due 2007 ("2007 Notes")	100,000
10 3/8% Senior subordinated notes due 2009 ("2009 Notes")	150,000
8 1/4% Senior subordinated notes due 2011 ("2011 Notes")	200,000
5 1/2% Convertible subordinated notes due 2006 ("2006 Notes")	115,000

Total subordinated debt	565,000

Long-term debt, none due within one year	\$ 756,992
	=====

Refer to Note 3 in Notes to Consolidated Financial Statements included in the Company's annual report on Form 10-K for the year ended December 31, 2000, for further information on the Company's debt agreements.

On March 8, 2001, prior to the merger with NORIC Corporation ("NORIC") and the acquisition of North Central Oil Corporation ("North Central") on March 14, 2001, the Company entered into a reserve based revolving credit facility (the "Credit Facility"). The Credit Facility provides for a \$515,000,000 revolving credit facility until March 7, 2006. The amount that may be borrowed may not exceed a borrowing base which is determined semi-annually and is calculated based upon substantially all of the Company's proved oil and gas properties. The borrowing base is currently established at \$425,000,000. The Credit Facility is governed by various financial and other covenants, including requirements to maintain positive working capital (excluding current maturities of debt) and a fixed charge coverage ratio, creation of liens, a limitation on commodity hedging above certain specified limits, the prepayment of subordinated debt, the payment of dividends, mergers and consolidations, investments and asset dispositions. In addition, the Company has pledged the stock of North Central and its inter-company receivable with North Central as security for its obligations under the Credit Facility and is prohibited from pledging borrowing base properties as security for other debt. The Credit Facility also permits short-term "swing line" loans and the issuance of up to \$50,000,000 in letters of credit. Borrowings under the Credit facility bear interest, at the Company's option, at a base (prime) rate plus a variable margin (currently none) or LIBOR plus a variable margin (currently 1.25%). The margin varies as a function of the percentage of the borrowing base utilized. A commitment fee on the unborrowed amount that is currently available under the Credit Facility is also charged based on the percentage of the borrowing base that is being utilized.

In connection with its entering into the Credit Facility, the Company's

Edgar Filing: POGO PRODUCING CO - Form 10-Q

previously existing uncommitted money market line of credit with a commercial bank was terminated.

-6-

POGO PRODUCING COMPANY AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Unaudited)

(2) LONG-TERM DEBT (CONTINUED) -

The Master Banker's Acceptance Agreement between the Company and one of its lenders provides that the lender has agreed to accept bank drafts from the Company up to \$25,000,000. The banker's drafts are available on an uncommitted basis and the bank has no obligation to accept the Company's request for drafts. Drafts drawn under this agreement would be reflected as long-term debt on the Company's balance sheet because the Company currently has the ability and intent to reborrow such amounts under the Credit Facility. The Company's 2007 Notes, 2009 Notes, and the Company's new notes due 2011 (described below) may restrict all or a portion of the amounts that may be borrowed under the Master Banker's Acceptance Agreement as senior debt. The Master Banker's Acceptance Agreement permits either party to terminate the letter agreement at any time upon five business days notice.

On April 10, 2001 the Company issued \$200,000,000 principal amount of Senior Subordinated Notes due 2011 (the "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, commencing October 15, 2001. 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 and its banker's acceptances, are equal in right of payment to the 2007 Notes and the 2009 Notes, but are senior in right of payment to the Company's subordinated indebtedness, which currently includes the 2006 Notes. In addition, they are senior in right of payment to the liquidation preference under the Company's Trust Preferred Securities. 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 indentures governing the 2011 Notes also imposes certain covenants on the Company that are substantially identical to the covenants contained in the indentures governing the 2007 Notes and the 2009 Notes, 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 asset sales; non-guarantor restricted subsidiaries; dividends and other payment restrictions affecting restricted subsidiaries; and mergers, consolidations and the sale of assets.

(3) INCOME TAXES -

The Company does not provide for U.S. income taxes on unremitted earnings of foreign subsidiaries where the Company's present intention is to reinvest the unremitted earnings in its foreign operations. Unremitted earnings of foreign subsidiaries for which U.S. income taxes have not been provided are approximately \$48,000,000 at September 30, 2001. It is not practical to determine the amount of U.S. income taxes that would be payable upon remittance of the assets that represent those earnings.

During the three months ended September 30, 2001, the Company reevaluated its estimates regarding the realizability of its Thailand operating

Edgar Filing: POGO PRODUCING CO - Form 10-Q

loss carryforwards as well as its ability to indefinitely reinvest all unremitted foreign earnings in its foreign operations. Based on the Company's future expectations for its Thailand operations, the Company believes that it is more-likely-than-not that its remaining Thailand operating loss carryforward will be realized and, therefore, reversed the remaining valuation allowance accordingly. In addition, the Company has provided for U.S. income taxes on the unremitted earnings from a portion of its Thailand operations. However, where the Company's continued intention is to reinvest the unremitted earnings of a foreign subsidiary in its foreign operations, the Company will continue not to provide U.S. income taxes on those earnings.

-7-

POGO PRODUCING COMPANY AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Unaudited)

(4) HEDGING ACTIVITIES -

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities ("SFAS 133"). In June 2000, the FASB issued SFAS 138, Accounting for Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133. SFAS 133, as amended, establishes accounting and reporting standards requiring that every derivative instrument (including certain derivative instruments embedded in other contracts) be recorded in the balance sheet as either an asset or liability measured at its fair market value. The statement requires that changes in the derivative's fair value be recognized currently in earnings unless specific hedge criteria are met. Special accounting for qualifying hedges allows a derivative's gains and losses to offset related results on the hedged item in the income statement, and requires that a company must formally document, designate and assess the effectiveness of transactions that receive hedge accounting. The Company adopted SFAS 133 effective January 1, 2001. Based on the nature of the Company's derivative instruments currently outstanding and the historical volatility of oil and gas commodity prices, the Company expects that SFAS 133 could increase volatility in the Company's earnings and other comprehensive income for future periods.

SFAS 133, in part, allows special hedge accounting. SFAS 133 provides that the effective portion of the gain or loss on a derivative instrument designated and qualifying as a cash flow hedging instrument be reported as a component of other comprehensive income and be reclassified into earnings in the same period during which the hedged forecasted transaction affects earnings. The remaining gain or loss on the derivative instrument, if any, must be recognized currently in earnings.

SFAS 133 requires that as of the date of initial adoption, the difference between the market value of derivative instruments and the previous carrying amount of these derivatives be recorded in net income or other comprehensive income, as appropriate, as the cumulative effect of a change in accounting principle. Based on interpretive guidance issued during the first quarter of 2001, the Company determined that the cumulative effect of adopting SFAS 133 should be recorded in other comprehensive income. As such, effective January 1, 2001, the Company recorded an unrealized loss of \$2,438,000, net of deferred taxes of \$1,313,000, in other comprehensive income. During the first nine months of 2001, the Company recognized a \$2,716,000 gain included in oil and gas revenues on these contracts. An immaterial amount of ineffectiveness on these hedge contracts was also recognized in other income. Unrealized gains on

Edgar Filing: POGO PRODUCING CO - Form 10-Q

derivative instruments arising during the nine months ended September 30, 2001 of \$23,067,000, net of deferred taxes of \$12,421,000, has been reflected as a component of other comprehensive income. Based on the fair market value of the hedge contracts as of September 30, 2001, the Company would reclassify additional pre-tax income of approximately \$25,500,000 (approximately \$16,575,000 net of taxes) from other comprehensive income (shareholders' equity) to net income during the next twelve months.

As of September 30, 2001, the Company held options to sell 70 million cubic feet of natural gas production per day for the period from October 1, 2001 through December 31, 2002. The Company has designated these contracts as cash flow hedges designed to give the Company the right, but not the obligation, to sell natural gas at a sales price of \$4.25 per MMBtu for the period from October 2001 through March 2002 and \$4.00 per MMBtu for the period from April 2002 through December 2002. These contracts are designed to guarantee the Company a minimum "floor" price for the contracted volumes of production without limiting the Company's participation in price increases during the covered period. As of September 30, 2001, the Company was a party to the following hedging arrangements:

Contract Period	Volume in MMBtu (a)	NYMEX Contract Price per MMBtu (a)
October 2001 - March 2002	12,740	\$4.25
April 2002 - December 2002	19,250	\$4.00

(a) MMBtu means million British Thermal Units.

(b) Fair Market value is calculated using prices derived from NYMEX futures contract prices existing at September 30, 2001.

These hedging transactions are settled based upon the average of the reporting settlement prices on the NYMEX for the last three trading days or occasionally, the penultimate trading day of a particular contract month. For any particular floor transaction, the counter-party 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. The Company is not required to make any payment in connection with the settlement of a floor transaction.

As of September 30, 2001 the Company was not a party to any commodity price hedging contracts with respect to any of its current or future crude oil and condensate production.

-8-

POGO PRODUCING COMPANY AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Unaudited)

(5) BUSINESS SEGMENT INFORMATION -

Financial information by operating segment is presented below:

Edgar Filing: POGO PRODUCING CO - Form 10-Q

	COMPANY	OIL AND GAS	
	-----	-----	
			(Expressed in thousands)
LONG-LIVED ASSETS:			
As of September 30, 2001:			
United States	\$ 1,715,438	\$ 1,705,915	\$
Kingdom of Thailand	337,795	334,184	
Other	271	271	
	-----	-----	
Total	\$ 2,053,504	\$ 2,040,370	\$
	=====	=====	
As of December 31, 2000:			
United States	\$ 462,530	\$ 454,246	\$
Kingdom of Thailand	337,317	334,018	
Canada and other	11,807	11,576	
	-----	-----	
Total	\$ 811,654	\$ 799,840	\$
	=====	=====	
REVENUES:			
For the three months ended September 30, 2001			
United States	\$ 92,135	\$ 88,658	\$
Kingdom of Thailand	50,568	50,563	
Canada and other	832	456	
	-----	-----	
Total	\$ 143,535	\$ 139,677	\$
	=====	=====	
For the three months ended September 30, 2000			
United States	\$ 74,368	\$ 71,547	\$
Kingdom of Thailand	53,170	53,170	
Canada and other	1,544	1,003	
	-----	-----	
Total	\$ 129,082	\$ 125,720	\$
	=====	=====	
For the nine months ended September 30, 2001			
United States	\$ 341,225	\$ 326,869	\$
Kingdom of Thailand	136,639	136,575	
Canada and other	4,927	4,558	
	-----	-----	
Total	\$ 482,791	\$ 468,002	\$
	=====	=====	
For the nine months ended September 30, 2000			
United States	\$ 208,768	\$ 199,578	\$
Kingdom of Thailand	125,806	125,720	
Canada and other	3,446	2,871	
	-----	-----	
Total	\$ 338,020	\$ 328,169	\$
	=====	=====	
OPERATING INCOME (LOSS):			
For the three months ended September 30, 2001			
United States	\$ 14,741	\$ 13,270	\$
Kingdom of Thailand	21,317	21,312	
Canada and other	(1,401)	(1,777)	
	-----	-----	
Total	\$ 34,657	\$ 32,805	\$
	=====	=====	
For the three months ended September 30, 2000			
United States	\$ 21,365	\$ 22,286	\$

Edgar Filing: POGO PRODUCING CO - Form 10-Q

Kingdom of Thailand	30,057	30,057
Canada and other	689	148
	-----	-----
Total	\$ 52,111	\$ 52,491
	=====	=====
For the nine months ended September 30, 2001		
United States	\$ 114,052	\$ 110,531
Kingdom of Thailand	62,091	62,027
Canada and other	(10,041)	(10,410)
	-----	-----
Total	\$ 166,102	\$ 162,148
	=====	=====
For the nine months ended September 30, 2000		
United States	\$ 53,354	\$ 54,838
Kingdom of Thailand	59,945	59,859
Canada and other	122	(453)
	-----	-----
Total	\$ 113,421	\$ 114,244
	=====	=====

-9-

POGO PRODUCING COMPANY AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Unaudited)

(6) EARNINGS PER SHARE -

Earnings per common share (basic earnings per share) are based on the weighted average number of shares of common stock outstanding during the periods. Earnings per share and potential common share (diluted earnings per share) consider the effect of dilutive securities as set out below. Amounts are expressed in thousands, except per share amounts.

	Three Months Ended September 30, 2001			
	Income	Shares	Per Share	Inco
	-----	-----	-----	-----
BASIC EARNINGS PER SHARE -	\$ 15,603	53,613	\$ 0.29	\$ 86
			=====	
Effect of dilutive securities:				
Options to purchase common shares	--	551		
2006 Notes	--	--		3
Trust Preferred Securities	1,584	6,316		4
	-----	-----		-----
DILUTED EARNINGS PER SHARE	\$ 17,187	60,480	\$ 0.28	\$ 94
	=====	=====	=====	=====
Antidilutive securities -				
Options to purchase common shares	--	1,231	\$ 27.08	
2006 Notes	\$ 1,028	2,726	\$ 0.38	

Edgar Filing: POGO PRODUCING CO - Form 10-Q

	Three Months Ended September 30, 2000			Inco
	Income	Shares	Per Share	
BASIC EARNINGS PER SHARE -	\$ 26,182	40,403	\$ 0.65	\$ 53
Effect of dilutive securities:				
Options to purchase common shares	--	623		
2006 Notes	1,028	2,726		3
Trust Preferred Securities	1,584	6,316		4
DILUTED EARNINGS PER SHARE	\$ 28,794	50,068	\$ 0.58	\$ 60
Antidilutive securities -				
Options to purchase common shares	--	276	\$ 32.75	

(a) Represents income before cumulative effect of change in accounting principle.

(7) RECENT ACCOUNTING PRONOUNCEMENTS -

The Financial Accounting Standards Board has recently issued two new pronouncements, Statement of Financial Accounting Standards No. 143 ("SFAS 143"), "Accounting for Asset Retirement Obligations" and Statement of Financial Accounting Standard No. 144, ("SFAS 144"), "Accounting for the Impairment or Disposal of Long-Lived Assets."

SFAS 143 requires that the fair value of a liability for an asset retirement obligation be recorded in the period in which it is incurred and the corresponding cost capitalized by increasing the carrying amount of the related long-lived asset. The liability is accreted to its present value each period, and the capitalized cost is depreciated over the useful life of the related asset. If the liability is settled for an amount other than the recorded amount a gain or loss is recognized. The standard is effective for the Company beginning in 2003, but earlier adoption is encouraged. Adoption of the standard will result in recording a cumulative effect of a change in accounting principle to earnings in the period of adoption. The Company has not yet determined the impact of this new standard or when the new standard will be adopted.

SFAS 144 addresses the financial accounting and reporting for the impairment or disposal of long-lived assets. SFAS 144 supersedes SFAS 121 but retains its fundamental provisions for the (a) recognition/measurement of impairment of long-lived assets to be held and used and (b) measurement of long-lived assets to be disposed of by sale. SFAS 144 also supersedes the accounting/reporting provisions of APB Opinion No. 30 for segments of a business to be disposed of but retains the requirement to report discontinued operations separately from continuing operations and extends that reporting to a component of an entity that either has been disposed of or is classified as held for sale. SFAS 144 is effective for the Company beginning in 2002. The Company is currently evaluating the impact of this new standard.

-10-

POGO PRODUCING COMPANY AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Unaudited)

Edgar Filing: POGO PRODUCING CO - Form 10-Q

(8) ACQUISITION -

On March 14, 2001, the previously announced merger of the Company and NORIC was consummated. As a result of the merger, the Company acquired all of the outstanding capital stock of North Central which was the principal asset of NORIC. North Central was an independent domestic oil and gas exploration and production company. The merger was accounted for using the purchase method of accounting. Accordingly, the purchase price was allocated to the net assets acquired based upon their estimated fair market values at the date of acquisition. Such allocations are based upon preliminary information and are subject to change when final valuations are obtained. Commencing March 14, 2001, North Central's operations are consolidated with the operations of the Company. Pursuant to the merger agreement among the Company and NORIC and certain NORIC shareholders dated as of November 19, 2000, former shareholders received 12,615,816 shares of the Company's common stock and approximately \$344,711,000 in cash. In addition, at the closing the Company repaid all \$78,600,000 principal amount of North Central's existing bank debt. The sources of funds used in connection with the merger included cash on hand at the Company and NORIC and borrowings under the Company's new credit agreement.

The following summary presents unaudited pro forma consolidated results of operations as if the acquisition had occurred at the beginning of each period presented. The pro forma results are for illustrative purposes only and include adjustments in addition to the pre-acquisition historical results of North Central, such as increased depreciation, depletion and amortization expense resulting from the allocation of fair market value to oil and gas properties acquired and increased interest expense on acquisition debt. The unaudited pro forma financial information is not necessarily indicative of the operating results that would have occurred had the acquisition been consummated at those dates, nor are they necessarily indicative of future operating results.

		Nine Se
		----- 2001 -----
Revenues	\$	545,771
Income before cumulative effect of change in accounting principle	\$	102,922
Net income	\$	102,922
Earnings per share:		
Basic -		
Income before cumulative effect of change in accounting principle	\$	1.92
Net income	\$	1.92
Diluted -		
Income before cumulative effect of change in accounting principle	\$	1.75
Net income	\$	1.75

Edgar Filing: POGO PRODUCING CO - Form 10-Q

POGO PRODUCING COMPANY AND SUBSIDIARIES

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

This discussion should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations included in the Company's annual report on Form 10-K for the year ended December 31, 2000. Certain statements contained herein are prospective and therefore should be considered "Forward Looking Statements." As further discussed in the Company's annual report on Form 10-K for the year ended December 31, 2000, such forward-looking statements are subject to risks, uncertainties and other factors that could cause actual results to differ materially from future results expressed or implied by such forward looking statements.

On March 14, 2001, the previously announced merger of Pogo Producing Company (the "Company") and NORIC Corporation ("NORIC") was consummated. As a result of the merger, the Company acquired all of the outstanding capital stock of North Central Oil Corporation ("North Central"), an independent domestic oil and gas exploration and production company, which was the principal asset of NORIC. The merger was accounted for using the purchase method of accounting. Commencing March 14, 2001, the results of North Central's operations are consolidated with the Company's. Pursuant to the merger agreement among the Company, NORIC and certain NORIC shareholders dated as of November 19, 2000, former shareholders of NORIC received 12,615,816 shares of the Company's common stock and approximately \$344,711,000 in cash. In addition, at the closing the Company repaid all \$78,600,000 principal amount of North Central's existing bank debt. The sources of funds used in connection with the merger included cash on hand at the Company and NORIC and borrowings under the Company's credit agreement.

RESULTS OF OPERATIONS

Net income

The Company reported net income for the third quarter of 2001 of \$15,603,000 or \$0.29 per share (\$17,187,000 or \$0.28 per share on a diluted basis), compared to net income for the third quarter of 2000 of \$26,182,000 or \$0.65 per share (\$28,794,000 or \$0.58 per share on a diluted basis). The difference in net income during the third quarter of 2001, compared to the third quarter of 2000, was primarily related to increased oil and gas revenues resulting from improved oil and gas production levels that was more than offset by decreased average prices received by the Company for its natural gas, crude oil and condensate production and increased depreciation, depletion and amortization expenses related, in part, to the improved oil and gas production levels. For the first nine months of 2001, the Company reported net income of \$86,528,000 or \$1.72 per share (\$94,364,000 or \$1.57 per share on a diluted basis) compared to net income before cumulative effect of change in accounting principle for the first nine months of 2000 of \$53,124,000 or \$1.32 per share (\$60,960,000 or \$1.22 per share on a diluted basis). The increase in net income during the first nine months of 2001, compared to the first nine months of 2000, was primarily related to increased oil and gas revenues resulting from improved oil and gas production levels and increased average prices that the Company received for its natural gas production, which was partially offset by decreased average prices the Company received for its oil and condensate production. These factors were also partially offset in both comparative periods by a decrease in revenues from the sale of natural gas liquids ("NGL"). The net income reported in the third quarter and first nine months of 2001 was also positively impacted by a gain on the sale of certain non-strategic minor properties, including the sale of its Canadian operations and assets.

Earnings per common share are based on the weighted average number of

Edgar Filing: POGO PRODUCING CO - Form 10-Q

common shares outstanding for the respective periods. The increase in the weighted average number of common shares outstanding for the third quarter and first nine months of 2001, compared to the third quarter and first nine months of 2000, resulted primarily from the

-12-

issuance of common stock in connection with the merger with NORIC on March 14, 2001 and, to a lesser extent, the exercise of stock options pursuant to the Company's incentive plans. Earnings per share computations on a diluted basis for all periods reflect additional shares of common stock issuable upon the assumed conversion of Pogo Trust I's 6 1/2% Cumulative Quarterly Income Convertible Preferred Securities due 2029 (the "Trust Preferred Securities") and, to a much lesser extent, additional shares of common stock issuable upon the assumed exercise of options to purchase common shares under the Company's incentive plans, less treasury shares that are assumed to have been purchased by the Company from the option proceeds. Earnings per share computations for the first nine months of 2001, and the third quarter and first nine months of 2000, also reflect additional shares of common stock issuable upon the assumed conversion of the Company's 5 1/2% Convertible Subordinated Notes due 2006 (the "2006 Notes").

Total Revenues

The Company's total revenues for the third quarter of 2001 were \$143,535,000, an increase of approximately 11% from total revenues of \$129,082,000 for the third quarter of 2000. The Company's total revenues for the first nine months of 2001 were \$482,791,000, an increase of approximately 43% compared to total revenues of \$338,020,000 for the first nine months of 2000. The increase in the Company's total revenues for the third quarter and first nine months of 2001, compared to the third quarter and first nine months of 2000, resulted primarily from a substantial increase in oil and gas revenues and, to a much lesser extent, a gain on sales of certain non-strategic minor properties.

Oil and Gas Revenues

The Company's oil and gas revenues for the third quarter of 2001 were \$139,677,000, an increase of approximately 11% from oil and gas revenues of \$125,720,000 for the third quarter of 2000. The Company's oil and gas revenues for the first nine months of 2001 were \$468,002,000, an increase of approximately 43% from oil and gas revenues of \$328,169,000 for the first nine months of 2000. The following table reflects an analysis of variances in the Company's oil and gas revenues (expressed in thousands) between 2001 and 2000:

Increase (decrease) in oil and gas revenues resulting from variances in:	3RD QTR 2001 COMPARED TO 3RD QTR 2000 -----	NINE COMP NINE -----
---	--	-------------------------------

NATURAL GAS --

Edgar Filing: POGO PRODUCING CO - Form 10-Q

Price	\$	(4,479)	\$
Production		22,581	
		-----	-----
		18,102	
		-----	-----
CRUDE OIL AND CONDENSATE --			
Price		(13,477)	
Production		9,846	
		-----	-----
		(3,631)	
		-----	-----
NATURAL GAS LIQUIDS		(514)	
		-----	-----
Increase (decrease) in oil and gas revenues	\$	13,957	\$
		=====	=====

The increase in the Company's oil and gas revenues for the third quarter of 2001, compared to the third quarter of 2000, is primarily related to increases in the Company's natural gas and oil and condensate production volumes, that was only partially offset by a decrease in the average price that it received for its oil and condensate and natural gas production volumes and decreased revenues from its NGL production. The increase in the Company's oil and gas revenues for the first nine months of 2001, compared to the first nine months of 2000, is primarily related to increases in the Company's natural gas and oil and condensate production volumes and an increase in the average price that the Company received for its natural gas production volumes, that was only partially offset by a decrease in the average price that it received for its oil and condensate production volumes and decreased revenues from its NGL production. Due to the relatively high price (relative to crude oil and condensate) that the Company received for its natural gas production volumes during the third quarter and first nine months of 2001, the Company elected in many instances to leave the NGL in the natural gas. The Company has increased the incidence of processing its natural gas production volumes to extract NGL for resale due to the decline in natural gas prices, relative to oil and condensate prices.

-13-

Comparison of Increases (Decreases) in: NATURAL GAS --	3RD QUARTER		% CHANGE	1S 20
	2001	2000		
Average prices				
North America(a)	\$ 2.99	\$ 3.62	(17)%	\$
Kingdom of Thailand(b)	\$ 2.28	\$ 2.23	2%	\$
Company-wide average price	\$ 2.81	\$ 3.11	(10)%	\$
Average daily production volumes (MMcf per day)				
North America(a)	183.3	100.9	82%	1
Kingdom of Thailand	63.2	58.2	9%	
	-----	-----		-----
Company-wide average daily production	246.5	159.1	55%	2
	=====	=====		=====

Edgar Filing: POGO PRODUCING CO - Form 10-Q

-
- (a) North American average prices and production reflect production from the United States and Canada, prior to the sale of the Company's Canadian operations in the third quarter of 2001. "MMcf" and "Bbls" stand for million cubic feet and barrels, respectively.
- (b) The Company is paid for its natural gas production in the Kingdom of Thailand in Thai Baht. The average prices are presented in U.S. dollars based on the revenue recorded in the Company's financial records.

Comparison of Increases (Decreases) in: CRUDE OIL AND CONDENSATE --	3RD QUARTER		% CHANGE	1S 20
	2001	2000		
Average prices(a)				
North America	\$ 25.51	\$ 29.90	(15)%	\$ 2
Kingdom of Thailand	\$ 24.85	\$ 31.81	(22)%	\$ 2
Company-wide average price	\$ 25.17	\$ 30.90	(19)%	\$ 2
Average daily production volumes (Bbls per day)				
North America	15,009	12,698	18%	14
Kingdom of Thailand(b)	15,283	14,087	8%	14
Company-wide average daily production	30,292	26,785	13%	29
TOTAL LIQUID HYDROCARBONS --				
Company-wide average daily production (Bbls per day) (b)	32,824	29,056	13%	30

-
- (a) Average prices are computed on production that is actually sold during the period. For North American average prices, this equates to actual production. However, in the Gulf of Thailand, crude oil and condensate sold may be more or less than actual production. See footnote (b).
- (b) Oil and condensate production in the Gulf of Thailand is produced and stored on the FPSO and FSO pending sale and is sold in tanker loads that typically average between 300,000 and 750,000 barrels per sale. Therefore, oil and condensate sales volumes for a given period in the Gulf of Thailand may not equate to actual production. In accordance with generally accepted accounting principles, as currently interpreted, reported revenues are based on sales volumes. However, the Company believes that actual production volumes are a more meaningful measure of the Company's operating results and therefore reports production volumes as part of its operating results. The Company produced 94,000 barrels of oil and condensate less than it sold in the third quarter of 2001; 110,000 barrels more than it sold in the first nine months of 2001; and 26,000 and 223,000 barrels more than it sold in the third quarter and first nine months of 2000, respectively.

Edgar Filing: POGO PRODUCING CO - Form 10-Q

Natural Gas

Thailand Prices. The price that the Company receives under the gas sales agreement with the PTT Public Company Limited ("PTT") is based upon a formula that takes into account a number of factors including, among other items, changes in the Thai/U.S. exchange rate and fuel oil prices in Singapore. The increase in the average price that the Company received for its natural gas production in the Kingdom of Thailand for the third quarter and first nine months of 2001, compared to the third quarter and first nine months of 2000, reflects positive adjustments under the gas sales agreement.

Production. The increase in the Company's natural gas production during the third quarter and first nine months of 2001, compared to the third quarter and first nine months of 2000, was primarily related to production from properties

-14-

acquired in the North Central acquisition and, to a lesser extent, successful development programs on the Company's Thailand and New Mexico properties that were partially offset by natural production decline. The Company and its joint venture partners in Thailand recently reached a preliminary agreement with PTT to sell PTT up to an additional approximately 58 billion cubic feet of gas over the next two and a half years at production rates which vary, depending upon the time period, from 26 up to 85 Mcf per day (12Mcf to 40Mcf net to the Company). The additional gas volumes under this new agreement will be sold at prices that are 12% less than the prices the Company receives under its existing gas sales agreement.

Crude Oil and Condensate

Thailand Prices. Since the inception of production from the Company's properties located in the Gulf of Thailand, crude oil and condensate have been stored on storage vessels (an FPSO in the Tantanwan field and an FSO in the Benchamas field) until an economic quantity is accumulated for offloading and sale. A typical sale ranges from 300,000 to 750,000 barrels. Prices that the Company receives for its crude oil and condensate production from Thailand are based on world benchmark prices, typically as a differential to Malaysian TAPIS crude and are denominated in U.S. dollars. In addition, the Company is generally paid for its crude oil and condensate production from Thailand in U.S. dollars.

Thailand Production. The increase in the Company's crude oil and condensate production from the Gulf of Thailand during the third quarter and first nine months of 2001, compared to the third quarter and first nine months of 2000, largely resulted from increased production from the Benchamas Field. Due to a change in interpretation of an accounting principle, for purposes of the financial statements, the Company now records its oil production in Thailand at the time of sale rather than when produced, as it had previously done. In accordance with generally accepted accounting principles as currently interpreted, at the end of each quarter, the crude oil and condensate stored on board the FSO and FPSO pending sale is accounted for as inventory at cost and included on the Company's balance sheet as "Inventory - product." Reported revenues are based on sales volumes. When a tanker load of oil is sold in Thailand, the entire amount will be accounted for as production sold, regardless of when it was produced. The Company believes that actual production volumes are a more meaningful measure of the Company's operating results than sales volumes

Edgar Filing: POGO PRODUCING CO - Form 10-Q

and therefore reports production volumes as part of its operating results. The Company produced 94,000 barrels of oil and condensate less than it sold in the third quarter of 2001, 110,000 barrels more than it sold in the first nine months of 2001, and 26,000 and 223,000 barrels more than it sold in the third quarter and first nine months of 2000, respectively. As of September 30, 2001, the Company had approximately 460,000 net cumulative barrels stored on board the FPSO and FSO.

North American Production. The increase in the Company's North American crude oil and condensate production during the third quarter and first nine months of 2001, compared to the third quarter and first nine months of 2000, primarily related to production from properties acquired in the North Central acquisition and, to a lesser extent, successful development programs on the Company's other properties that was partially offset by natural production decline.

NGL Production. The Company's oil and gas revenues, and its total liquid hydrocarbon production, reflect the production and sale by the Company of NGL, which are liquid products extracted from natural gas production. The decrease in NGL revenues for the third quarter of 2001, compared with the third quarter of 2000, related to a decline in the average price that the Company received for its NGL production volumes, which was only partially offset by an increase in the volume of NGL produced by the Company. The decrease in NGL revenues for the first nine months of 2001, compared with the first nine months of 2000, primarily related to the decision by the Company not to extract NGL from its natural gas production due to the more favorable economics of leaving it in the natural gas stream and, to a lesser extent, a decline in the average price that the Company received for its NGL production volumes. The Company has resumed processing a higher percentage of its natural gas production volumes, where possible or practicable, to extract NGL for resale due to the recent decline in natural gas prices, relative to oil and condensate prices.

-15-

Costs and Expenses

Comparison of Increases (Decreases) in:	3RD QUARTER	
	2001	2000
LEASE OPERATING EXPENSES		
North America	\$ 21,163,000	\$ 15,092,000
Kingdom of Thailand	\$ 10,776,000	\$ 8,791,000
Total Lease Operating Expenses	\$ 31,939,000	\$ 23,883,000
PIPELINE OPERATING AND NATURAL		
GAS PURCHASES	\$ 1,838,000	\$ 3,576,000
GENERAL AND ADMINISTRATIVE EXPENSES	\$ 11,281,000	\$ 8,605,000
EXPLORATION EXPENSES	\$ 5,013,000	\$ 2,694,000
DRY HOLE AND IMPAIRMENT EXPENSES	\$ 3,053,000	\$ 6,570,000
DEPRECIATION, DEPLETION AND		
AMORTIZATION (DD&A) EXPENSES	\$ 55,754,000	\$ 31,643,000
DD&A rate	\$ 1.33	\$ 1.02
Mcf sold(a)	41,363,000	30,521,000
INTEREST--		

Edgar Filing: POGO PRODUCING CO - Form 10-Q

Charges	\$ (15,119,000)	\$ (8,504,000)
Interest Income	\$ 690,000	\$ 774,000
Capitalized Interest Expense	\$ 9,324,000	\$ 5,546,000
MINORITY INTEREST - DIVIDENDS AND COSTS	\$ (2,501,000)	\$ (2,351,000)
FOREIGN CURRENCY TRANSACTION GAIN(LOSS)	\$ 338,000	\$ (930,000)
INCOME TAX EXPENSE	\$ (11,786,000)	\$ (20,464,000)

Comparison of Increases (Decreases) in:	1ST NINE MONTHS	
	2001	2000
LEASE OPERATING EXPENSES		
North America	\$ 60,934,000	\$ 44,335,000
Kingdom of Thailand	\$ 26,528,000	\$ 24,804,000
Total Lease Operating Expenses	\$ 87,462,000	\$ 69,139,000
PIPELINE OPERATING AND NATURAL		
GAS PURCHASES	\$ 10,258,000	\$ 10,122,000
GENERAL AND ADMINISTRATIVE EXPENSES	\$ 29,139,000	\$ 26,567,000
EXPLORATION EXPENSES	\$ 17,447,000	\$ 8,481,000
DRY HOLE AND IMPAIRMENT EXPENSES	\$ 26,097,000	\$ 13,762,000
DEPRECIATION, DEPLETION AND		
AMORTIZATION (DD&A) EXPENSES	\$ 146,286,000	\$ 96,528,000
DD&A rate	\$ 1.27	\$ 1.06
Mcf sold(a)	113,604,000	89,547,000
INTEREST--		
Charges	\$ (41,411,000)	\$ (25,460,000)
Interest Income	\$ 2,686,000	\$ 1,253,000
Capitalized Interest Expense	\$ 24,153,000	\$ 15,160,000
MINORITY INTEREST - DIVIDENDS AND COSTS	\$ (7,499,000)	\$ (7,468,000)
FOREIGN CURRENCY TRANSACTION GAIN(LOSS)	\$ (668,000)	\$ (2,051,000)
INCOME TAX EXPENSE	\$ (56,835,000)	\$ (41,731,000)

(a) "Mcf" stands for thousands of cubic feet equivalent.

Lease Operating Expenses.

The increase in North American lease operating expenses for the third quarter and first nine months of 2001, compared to the third quarter and first nine months of 2000, primarily related to increased severance taxes resulting from increased production from the Company's non-U.S. government owned properties (accounting for approximately \$1,762,000 and \$10,272,000 of the increase for the quarter and nine-month periods, respectively), lease operating expenses attributable to properties acquired in the North Central acquisition and generally increasing costs resulting from an industry-wide increase in demand for oil field services and equipment, that was only partially offset by decreased lease maintenance expenses. The increase in lease operating expenses in the Kingdom of Thailand for the third quarter and first nine months of 2001, compared to the third quarter and first nine months of 2000, primarily related to increased expenses related to well workovers and increased insurance expenses related to construction of platforms for the Benchamas field, as well as generally increasing costs resulting from an industry-wide increase in demand for oil field services and equipment. A substantial portion of the Company's lease operating expenses in the Kingdom of Thailand relates to the lease

Edgar Filing: POGO PRODUCING CO - Form 10-Q

payments made in connection with the bareboat charter of the FPSO for the Tantawan field and the FSO for the Benchamas field. Collectively, these lease payments accounted for \$3,666,000, \$10,873,000, \$3,798,000 and \$11,311,000 (net to the Company's interest) of the Company's Thailand lease operating expenses for the third quarter and first nine months of 2001 and the third quarter and first nine months of 2000, respectively.

Pipeline Operating and Natural Gas Purchases

Revenue from the sale of natural gas purchased for resale is reported under "Pipeline sales and other." The decrease in pipeline operating expenses and natural gas purchase costs for the third quarter of 2001, compared to the third quarter of 2000, primarily related to the decreased cost of natural gas purchased for resale by the Company. The increase in pipeline operating expenses and natural gas purchase costs for the first nine months of 2001, compared to the first nine months of 2000, primarily related to increased cost of natural gas purchased for resale by the Company.

-16-

General and Administrative Expenses

The increase in general and administrative expenses for the third quarter and first nine months of 2001, compared with the third quarter and first nine months of 2000, related to increased expenses associated with the Company's acquisition of North Central and its employees, as well as an increase in the size of the Company's work force and normal salary and concomitant benefit expense adjustments.

Exploration Expenses

Exploration expenses consist primarily of rental payments required under oil and gas leases to hold non-producing properties ("delay rentals") and exploratory geological and geophysical costs that are expensed as incurred. The increase in exploration expense for the third quarter of 2001, compared to the third quarter of 2000, resulted primarily from the cost of acquisition of 3-D data in the Company's Offshore and Western divisions, a payment to transfer seismic licenses used by North Central and the payment of a reservation fee in Thailand, which was partially offset by generally decreased geophysical acquisition costs in the Company's Hungary exploration play. The increase in exploration expense for the first nine months of 2001, compared to the first nine months of 2000, resulted primarily from the cost of conducting two major 3-D projects in Hungary and a payment to transfer seismic licenses used by North Central.

Dry Hole and Impairment

The decrease in the Company's dry hole and impairment expense for the third quarter of 2001, compared to the third quarter of 2000, resulted primarily from the success of the Company's drilling program. The increase in the Company's dry hole and impairment expense for the first nine months of 2001, compared to the first nine months of 2000, resulted primarily from a non-operated property located in the offshore Gulf of Mexico that incurred unexpectedly high drilling and completion expenses. Accounting rules also require that if the expected future cash flow of the Company's reserves on a property fall below the cost that is recorded on the Company's books, these reserves must be impaired and written down to the property's fair value. No such impairments are currently required on the Company's properties. Depending on

Edgar Filing: POGO PRODUCING CO - Form 10-Q

market conditions, including the prices for oil and natural gas, and the results of operations, a similar test may be conducted at any time to determine whether impairments are appropriate. Depending on the results of this test, an impairment could be required on some of the Company's properties and this impairment could have a material negative non-cash impact on the Company's earnings and balance sheet.

Depreciation, Depletion and Amortization Expenses

The increase in the Company's depreciation, depletion and amortization ("DD&A") expense for the third quarter and first nine months of 2001, compared to the third quarter and first nine months of 2000, resulted primarily from an increase in the Company's natural gas and liquid hydrocarbon production and, to a lesser extent, an increase in the Company's composite DD&A rate.

The increase in the composite DD&A rate for all of the Company's producing fields for the third quarter and first nine months of 2001, compared to the third quarter and first nine months of 2000, resulted primarily from production from fields acquired in the North Central acquisition that, because they were valued at fair market value in connection with the acquisition, contribute a DD&A rate higher than the Company's recent historic average. The increase was partially offset by an increased percentage of the Company's production coming from certain of the Company's fields that have DD&A rates that are lower than the Company's recent historical composite rate (principally the Benchamas Field and certain Permian basin properties) and a corresponding decrease in the percentage of the Company's production coming from fields that have DD&A rates that are higher than the Company's recent historical composite DD&A rate.

Interest

Interest Charges. The increase in the Company's interest charges for the third quarter and first nine months of 2001, compared to the third quarter and first nine months of 2000, resulted primarily from an increase in the average

-17-

amount of the Company's outstanding debt related to the acquisition of North Central, partially offset by a decline in the average interest rate on the outstanding debt. The increase in the Company's interest charges for the first nine months of 2001, compared to the first nine months of 2000, was also affected by a charge for amortization of debt issuance expense during the first quarter of 2001 related to the termination of the Company's previous credit facility in connection with the North Central acquisition.

Interest Income. The decrease in the Company's interest income for the third quarter of 2001, compared to the third quarter of 2000, resulted primarily from a decrease in the amount of cash and cash equivalents temporarily invested. The increase in the Company's interest income for the first nine months of 2001, compared to the first nine months of 2000, resulted primarily from an increase in the amount of cash and cash equivalents temporarily invested.

Capitalized Interest. The increase in capitalized interest for the third quarter and first nine months of 2001, compared to the third quarter and

Edgar Filing: POGO PRODUCING CO - Form 10-Q

first nine months of 2000, resulted primarily from an increase in the amount of capital expenditures subject to interest capitalization during the relevant periods (\$406,624,000 and \$345,967,000 in 2001, compared to \$236,895,000 and \$239,844,000 in 2000), partially offset by a decrease in the interest rate used to determine the amount of capitalized interest. A substantial percentage of the Company's capitalized interest expense related to unevaluated properties acquired in the North Central acquisition and capital expenditures for the development of the Benchamas field in the Gulf of Thailand and several development projects in the Gulf of Mexico.

Minority Interest -- Dividends and Costs Associated with Preferred Securities of a Subsidiary Trust

Pogo Trust I, a business trust in which the Company owns all of the issued common securities, issued \$150,000,000 of Trust Preferred Securities on June 2, 1999. The amounts recorded for the third quarter and first nine months of 2000 and 2001, respectively, under Minority Interest -- Dividends and Costs Associated with Preferred Securities of a Subsidiary Trust principally reflect cumulative unpaid dividends and, to a lesser extent, the amortization of issuance expenses related to the offering and sale of the Trust Preferred Securities.

Foreign Currency Transaction Gain (Loss)

The foreign currency transaction gain reported in the third quarter of 2001, and the losses reported for the third quarter of 2000 and first nine months of 2000 and 2001 resulted primarily from the fluctuation against the U.S. dollar of cash and other monetary assets and liabilities denominated in Thai Baht that were on the Company's subsidiary financial statements during the respective periods. The Company cannot predict what the Thai Baht to U.S. dollar exchange rate will be in the future. As of September 30, 2001, the Company was not a party to any financial instrument that was intended to constitute a foreign currency hedging arrangement.

Income Tax Expense

Changes in the Company's income tax expense are a function of the Company's consolidated effective tax rate and its pre-tax income. The decrease in the Company's tax expense for the third quarter of 2001, compared to the third quarter of 2000, resulted primarily from a decrease in pre-tax income. The increase in the Company's tax expense for the first nine months of 2001, compared to the first nine months of 2000, resulted primarily from an increase in pre-tax income. The Company's consolidated effective tax rate for the third quarter and first nine months of 2001 was 43% and 39.6%, respectively, compared to 43.9% and 44% for the third quarter and first nine months of 2000, respectively. The Company conducts its operations in taxing jurisdictions with varying tax rates. The relative proportion of the Company's income earned in each taxing jurisdiction affects the Company's consolidated effective tax rate. Additionally, during the third quarter of 2001, the Company reevaluated certain estimates regarding its global tax and cash position and, as a result, recognized certain additional tax benefits attributable to previously unrecognized operating loss carryforwards and provided for U.S. income taxes on certain unremitted foreign earnings.

Edgar Filing: POGO PRODUCING CO - Form 10-Q

Cash Flows

The Company's Condensed Consolidated Statement of Cash Flows for the first nine months of 2001 reflects net cash provided by operating activities of \$301,421,000. In addition to net cash provided by operating activities, the Company received \$12,631,000 from the sale of its Canadian operations and assets, \$7,370,000 from the sale of certain non-strategic assets and \$6,699,000 primarily from the exercise of stock options. The Company also borrowed a net \$191,992,000 under its senior debt arrangements and issued \$200,000,000 of its 8 1/4% Senior Subordinated Notes due 2011 (the "2011 Notes").

During the first nine months of 2001, the Company expended \$344,711,000 in partial consideration for the NORIC shares, repaid all \$78,600,000 of North Central's senior indebtedness, invested \$280,819,000 in capital projects, paid \$8,720,000 in debt issuance expenses, paid \$7,312,000 in cash distributions to holders of its Trust Preferred Securities, paid \$2,714,000 to purchase proved reserves and paid \$4,438,000 (\$0.09 per share) in cash dividends to holders of the Company's common stock. As of October 22, 2001, the Company's cash and cash equivalents were \$100,722,000 and its long-term debt stood at \$782,000,000 and it had \$208,000,000 of availability under its revolving credit facility.

Future Capital Requirements

The Company's capital and exploration budget for 2001, which does not include any amounts that may be expended for the purchase of proved reserves or any interest that may be capitalized resulting from projects in progress, was recently increased by the Company's Board of Directors to \$385,000,000. The Company currently anticipates that its available cash and cash equivalents, cash provided by operating activities and funds available under its credit agreement and banker's acceptance facility will be sufficient to fund the Company's ongoing operating, interest and general and administrative expenses, any currently anticipated costs associated with the Company's projects during 2001, and future dividend and distribution payments at current levels (including a dividend payment of \$0.03 per share on its common stock to be paid on November 16, 2001 to shareholders of record on November 2, 2001). The declaration of future dividends on the Company's equity securities will depend upon, among other things, the Company's future earnings and financial condition, liquidity and capital requirements, its ability to pay dividends and distributions under certain covenants contained in its debt instruments, the general economic and regulatory climate and other factors deemed relevant by the Company's Board of Directors.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK.

The Company is exposed to market risk, including adverse changes in commodity prices, interest rates and foreign currency exchange rates. The information contained in the Company's annual report on Form 10-K for the year ended December 31, 2000, is incorporated by reference herein and should be read in conjunction with the following.

INTEREST RATE RISK

From time to time, the Company has entered into various financial instruments, such as interest rate swaps, to manage the impact of changes in interest rates. As of October 1, 2001, the Company has no open interest rate swap or interest rate lock agreements. Therefore, the Company's exposure to changes in interest rates primarily results from its short-term and long-term debt with both fixed and floating interest rates. The following table presents principal or notional amounts (stated in thousands) and related average interest rates by year of maturity for the Company's debt obligations and their indicated fair market value at September 30, 2001:

Edgar Filing: POGO PRODUCING CO - Form 10-Q

	2001	2002	2003	2004	2005	THEREAFTER
Liabilities Long-Term Debt:						
Variable Rate	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 191,9
Average Interest Rate	--	--	--	--	--	4.
Fixed Rate	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 565,0
Average Interest Rate	--	--	--	--	--	8.

-19-

FOREIGN CURRENCY EXCHANGE RATE RISK

In addition to U.S. dollars, the Company conducts business in Thai Baht and Hungarian Forints, and is therefore subject to foreign currency exchange rate risk on cash flows related to sales, expenses, financing and investing transactions. As of October 1, 2001, the Company is not a party to any foreign currency exchange agreement.

CURRENT HEDGING ACTIVITY

From time to time, the Company has used and expects to continue to use hedging transactions with respect to a portion of its oil and gas production to achieve a more predictable cash flow, as well as to reduce its exposure to price fluctuations. While the use of these hedging arrangements limits the downside risk of adverse price movements, they may also limit future revenues from favorable price movements. The use of hedging transactions also involves the risk that the counter-parties will be unable to meet the financial terms of such transactions. All of the Company's recent historical hedging transactions have been carried out in the over-the-counter market with investment grade institutions. In January 2001, the Company began to account for its hedging activities under SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities ("SFAS 133"). SFAS 133, as amended, establishes accounting and reporting standards requiring that every derivative instrument (including certain derivative instruments embedded in other contracts) be recorded in the balance sheet as either an asset or liability measured at its fair market value. The statement requires that changes in the derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met. Special accounting for qualifying hedges allows the effective portion of the gain or loss on a derivative instrument designated and qualifying as a cash flow hedging instrument be reported as a component of other comprehensive income and be reclassified into earnings in the same period during which the hedged forecasted transaction affects earnings. The remaining gain or loss on the derivative instruments, if any, must be recognized currently in earnings.

Natural Gas

As of September 30, 2001, the Company held options to sell 70 million cubic feet of natural gas production per day for the period from October 1, 2001 through December 31, 2002. The Company has designated these contracts as cash flow hedges designed to give the Company the right, but not the obligation, to sell natural gas at a sales price of \$4.25 per MMBtu for the period from October 2001 through March 2002 and \$4.00 per MMBtu for the period from April 2002

Edgar Filing: POGO PRODUCING CO - Form 10-Q

through December 2002. These contracts are designed to guarantee a minimum "floor" price for the contracted volumes of production without limiting the Company's participation in price increases during the covered period. As of September 30, 2001, the Company was a party to the following hedging arrangements:

CONTRACT PERIOD	VOLUME IN MMBtu (a)	NYMEX CONTRACT PRICE PER MMBtu (a)	FAIR MARKET VALUE (b)
Floor Contracts:			
October 2001 -- March 2002	12,740	\$ 4.25	\$ 22,082,000
April 2002 - December 2002	19,250	\$ 4.00	\$ 25,620,000

-
- (a) MMBtu means million British Thermal Units.
 - (b) Fair Market Value is calculated using prices derived from NYMEX futures contract prices existing at September 30, 2001.

These hedging transactions are settled based upon the average of the reported settlement prices on the NYMEX for the last three trading days or, occasionally, the penultimate trading day of a particular contract month. For any particular floor transaction, the counter-party 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. The Company is not required to make any payment in connection with the settlement of a floor transaction.

Crude Oil

As of September 30, 2001, the Company was not a party to any commodity price hedging contracts with respect to any of its current or future crude oil and condensate production.

-20-

PART II. OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

(A) Exhibits

None.

(B) Reports on Form 8-K

Report filed on August 10, 2001, providing the Company's Unaudited Condensed Consolidated Statement of Income for the Six Months ended June 30, 2001 and related notes, giving effect to the

Edgar Filing: POGO PRODUCING CO - Form 10-Q

merger of NORIC Corporation, the parent company of North Central Oil Corporation, with and into the Company on Item 5., and attaching an exhibit under Item 7.

SIGNATURES

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

POGO PRODUCING COMPANY
(Registrant)

/s/ Thomas E. Hart

Thomas E. Hart
Vice President and Chief
Accounting Officer

/s/ James P. Ulm, II

James P. Ulm, II
Vice President and Chief
Financial Officer

Date: October 24, 2001