

APACHE CORP
Form 10-Q
November 06, 2009

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

(Mark One)

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

For the quarterly period ended September 30, 2009

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, 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
(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 September 30, 2009 _____ 336,174,361

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APACHE CORPORATION AND SUBSIDIARIES
STATEMENT OF CONSOLIDATED OPERATIONS
(Unaudited)

	For the Quarter		For the Nine Months	
	Ended September 30,		Ended September 30,	
	2009	2008	2009	2008
	(In thousands, except per common share data)			
REVENUES AND OTHER:				
Oil and gas production revenues	\$ 2,325,705	\$ 3,368,882	\$ 6,003,663	\$ 10,450,949
Other	6,726	(3,998)	55,971	1,867
	2,332,431	3,364,884	6,059,634	10,452,816
OPERATING EXPENSES:				
Depreciation, depletion and amortization				
Recurring	625,898	600,887	1,779,874	1,849,044
Additional			2,818,161	
Asset retirement obligation accretion	26,053	24,970	79,274	77,146
Lease operating expenses	445,535	488,166	1,248,297	1,389,542
Gathering and transportation	36,232	42,375	103,050	123,118
Taxes other than income	183,931	304,280	387,211	845,406
General and administrative	82,492	57,561	258,443	218,856
Financing costs, net	61,684	33,291	181,426	116,594
	1,461,825	1,551,530	6,855,736	4,619,706
INCOME (LOSS) BEFORE INCOME TAXES	870,606	1,813,354	(796,102)	5,833,110
Current income tax provision	262,430	305,735	483,171	1,495,641
Deferred income tax provision (benefit)	166,160	316,794	(409,069)	679,902
NET INCOME (LOSS)	442,016	1,190,825	(870,204)	3,657,567
Preferred stock dividends	1,420	1,420	4,260	4,260
INCOME (LOSS) ATTRIBUTABLE TO COMMON STOCK	\$ 440,596	\$ 1,189,405	\$ (874,464)	\$ 3,653,307
NET INCOME (LOSS) PER COMMON SHARE:				
Basic	\$ 1.31	\$ 3.55	\$ (2.61)	\$ 10.93

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

	For the Nine Months Ended	
	September 30,	
	2009	2008
	(In thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	\$ (870,204)	\$ 3,657,567
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation, depletion and amortization	4,598,035	1,849,044
Asset retirement obligation accretion	79,274	77,146
Provision for (benefit from) deferred income taxes	(409,069)	679,902
Unrealized loss on derivatives		35,586
Other	140,527	(11,231)
Changes in operating assets and liabilities:		
Receivables	(228,095)	251,920
Inventories	11,897	(7,729)
Advances and other	(49,569)	27,891
Deferred charges and other	868	(200,038)
Accounts payable	(183,884)	71,188
Accrued expenses	(351,153)	(367,553)
Deferred credits and noncurrent liabilities	(59,156)	(35,125)
NET CASH PROVIDED BY OPERATING ACTIVITIES	2,679,471	6,028,568
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to oil and gas property	(2,838,537)	(4,062,975)
Additions to gas gathering, transmission and processing facilities	(203,783)	(420,850)
Acquisition of Marathon properties	(181,133)	
Short-term investments	791,999	
Restricted cash	13,880	(13,844)
Proceeds from sale of oil and gas properties		306,701
Other, net	(98,096)	(42,509)
NET CASH USED IN INVESTING ACTIVITIES	(2,515,670)	(4,233,477)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Commercial paper, credit facility and bank notes, net	230,176	(169,042)
Payments on fixed-rate notes	(100,000)	(353)
Dividends paid	(155,125)	(187,735)
Common stock activity	19,028	31,207
Treasury stock activity, net	5,344	4,171

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Cost of debt and equity transactions	(618)	(1,224)
Other	13,308	46,666
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	12,113	(276,310)
NET INCREASE IN CASH AND CASH EQUIVALENTS	175,914	1,518,781
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	1,181,450	125,823
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 1,357,364	\$ 1,644,604
SUPPLEMENTARY CASH FLOW DATA:		
Interest paid, net of capitalized interest	\$ 199,570	\$ 137,106
Income taxes paid, net of refunds	461,024	1,512,864

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)

	September 30, 2009	December 31, 2008
	(In thousands)	
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 1,357,364	\$ 1,181,450
Short-term investments		791,999
Receivables, net of allowance	1,590,913	1,356,979
Inventories	539,442	498,567
Drilling advances	138,889	93,377
Derivative instruments	29,166	154,280
Prepaid taxes	292,332	303,414
Prepaid assets and other	71,596	70,908
	4,019,702	4,450,974
PROPERTY AND EQUIPMENT:		
Oil and gas, on the basis of full-cost accounting:		
Proved properties	43,516,994	40,639,281
Unproved properties and properties under development, not being amortized	1,370,951	1,300,347
Gas gathering, transmission and processing facilities	3,087,572	2,883,789
Other	481,619	452,989
	48,457,136	45,276,406
Less: Accumulated depreciation, depletion and amortization	(25,911,605)	(21,317,889)
	22,545,531	23,958,517
OTHER ASSETS:		
Restricted cash		13,880
Goodwill, net	189,252	189,252
Deferred charges and other	471,011	573,862
	\$ 27,225,496	\$ 29,186,485

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)

	September 30, 2009	December 31, 2008
	(In thousands)	
LIABILITIES AND SHAREHOLDERS EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$ 391,900	\$ 548,945
Accrued operating expense	114,409	168,531
Accrued exploration and development	662,387	964,859
Accrued compensation and benefits	122,216	111,907
Accrued interest	75,153	91,456
Accrued income taxes	50,311	48,028
Current debt	39,669	112,598
Asset retirement obligation	267,269	339,155
Derivative instruments	63,842	
Other	199,793	134,956
	1,986,949	2,520,435
LONG-TERM DEBT	5,010,030	4,808,975
DEFERRED CREDITS AND OTHER NONCURRENT LIABILITIES:		
Income taxes	2,643,522	3,166,657
Asset retirement obligation	1,623,347	1,555,529
Other	606,326	626,168
	4,873,195	5,348,354
COMMITMENTS AND CONTINGENCIES (Note 7)		
SHAREHOLDERS EQUITY:		
Preferred stock, no par value, 5,000,000 shares authorized Series B, 5.68% Cumulative, \$100 million aggregate liquidation value, 100,000 shares issued and outstanding	98,387	98,387
Common stock, \$0.625 par, 430,000,000 shares authorized, 343,907,219 and 342,754,114 shares issued, respectively	214,942	214,221
Paid-in capital	4,563,848	4,472,826
Retained earnings	10,904,323	11,929,827
Treasury stock, at cost, 7,732,858 and 8,044,050 shares, respectively	(219,472)	(228,304)

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Accumulated other comprehensive income (loss)	(206,706)	21,764
	15,355,322	16,508,721
	\$ 27,225,496	\$ 29,186,485

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		Paid-In	Retained	Treasury	Accumulated		Total
	Comprehensive	B Preferred				Common	Capital	
	Income	Stock	Stock	Capital	Earnings	Stock	Income	Equity
	(Loss)			(In thousands)			(Loss)	
BALANCE								
AT								
DECEMBER								
31, 2007		\$ 98,387	\$ 213,326	\$ 4,367,149	\$ 11,457,592	\$ (238,264)	\$ (520,211)	\$ 15,377,979
Comprehensive								
income:								
Net income	\$ 3,657,567				3,657,567			3,657,567
Commodity								
hedges, net of								
income tax								
benefit of								
\$89,376	(172,989)						(172,989)	(172,989)
Comprehensive								
income	\$ 3,484,578							
Dividends:								
Preferred					(4,260)			(4,260)
Common (\$.55					(183,735)			(183,735)
per share)								
Common			885	36,109				36,994
shares issued								
Treasury								
shares issued,				247		9,283		9,530
net								
Compensation				65,645				65,645
expense				(23,770)				(23,770)
FIN 48				131	14			145
Other								
BALANCE								
AT								
SEPTEMBER								
30, 2008		\$ 98,387	\$ 214,211	\$ 4,445,511	\$ 14,927,178	\$ (228,981)	\$ (693,200)	\$ 18,763,106

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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	\$ (870,204)			(870,204)			(870,204)
Commodity hedges, net of income tax benefit of \$124,671	(228,470)					(228,470)	(228,470)
Comprehensive loss	\$ (1,098,674)						
Dividends:							
Preferred Common (\$.45 per share)				(4,260)			(4,260)
Common shares issued		721	3,778	(151,040)			(151,040)
Treasury shares issued, net			(5,706)		8,832		3,126
Compensation expense			95,731				95,731
Other			(2,781)				(2,781)

BALANCE AT SEPTEMBER 30, 2009	\$ 98,387	\$ 214,942	\$ 4,563,848	\$ 10,904,323	\$(219,472)	\$(206,706)	\$ 15,355,322
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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)**

0. General Accounting Description

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, 2008, 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 September 30, 2009, 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, 2008.

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.

Recently Adopted Accounting Pronouncements

In December 2007, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 141 (Revised), Business Combinations (SFAS No. 141 (R)), which was amended by FASB Staff Position (FSP) FAS No. 141 (R)-1 in April 2009. This guidance has been primarily codified into the FASB Accounting Standards Codification (ASC, also known collectively as the Codification) Topic 805, Business Combinations. The guidance broadens the definition of a business combination to include all transactions or other events in which control of one or more businesses is obtained. Further, the standard establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any non-controlling interests in the acquiree and the goodwill acquired. The statement requires the acquiring entity in a business combination to recognize the fair value of all the assets acquired and liabilities assumed in the transaction. It also modifies disclosure requirements. Apache adopted this statement effective January 1, 2009. However, since the Company did not close any material business combinations during the nine months ended September 30, 2009, the adoption had a negligible impact on the Company's consolidated financial statements.

Also in December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements, which was primarily codified into ASC Topic 810, Consolidations. This statement amends Accounting Research Bulletin No. 51, Consolidated Financial Statements. This guidance establishes accounting and reporting standards for the noncontrolling interests in a subsidiary and for the deconsolidation of a subsidiary. It clarifies that a noncontrolling interest in a subsidiary, sometimes called a minority interest, is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. Additionally, the amounts of consolidated net income attributable to both the parent and the noncontrolling interest must be reported separately on the face of the income statement. Apache adopted this statement as of January 1, 2009. There were no noncontrolling interests at the adoption date. Adoption did not impact the Company's financial position or results of

operations.

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In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities, which was primarily codified into ASC Topic 815, Derivatives and Hedging. This guidance amends and expands the disclosure requirements of SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, and requires qualitative disclosures about objectives and strategies for using derivative instruments, quantitative disclosures about fair value of derivative instruments and related gains and losses, and disclosures about credit risk-related contingent features in derivative agreements. This statement is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. Apache adopted this standard as of January 1, 2009. The statement provides only for enhanced disclosures. Therefore, adoption of this standard had no impact on the Company's financial position or results of operations.

In June 2008, the FASB issued FSP Emerging Issues Task Force (EITF) Issue No. 03-6-1, Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities, which was primarily codified into ASC Topic 260, Earnings Per Share. This guidance addresses whether instruments granted in share-based payment transactions should be considered participating securities for the purposes of applying the two-class method of calculating earnings per share (EPS) pursuant to FASB Statement No. 128, Earnings Per Share, also codified into ASC Topic 260. This guidance concludes that unvested share-based payment awards that contain rights to receive nonforfeitable dividends or dividend equivalents are participating securities prior to vesting and, therefore, should be included in the earnings allocations in computing basic EPS under the two-class method. Apache adopted this standard effective January 1, 2009. The number of unvested shares subject to the two-class method had a negligible impact on Apache's earnings per share.

In April 2009, the FASB issued FSP FAS No. 107-1 and APB Opinion No. 28-1, Interim Disclosures About Fair Value of Financial Instruments, which was primarily codified into ASC Topic 825, Financial Instruments. This guidance requires quarterly fair value disclosures for financial instruments that are not reflected on the Company's Consolidated Balance Sheet at fair value in interim financial statements effective for interim periods ending after June 15, 2009. Apache adopted the new standard for the quarter ended June 30, 2009. Adoption had no impact on the Company's financial position or results of operations. See Note 9 Fair Value Measurements of this Form 10-Q for interim disclosures required by this statement.

In May 2009, the FASB issued SFAS No. 165, Subsequent Events, which was primarily codified into ASC Topic 855, Subsequent Events. This guidance establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued. In particular, this statement sets forth:

The period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements;

The circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements; and

The disclosures that an entity should make about events or transactions that occurred after the balance sheet date.

This standard is effective for interim or annual periods ending after June 15, 2009, and is to be applied prospectively. Apache adopted this statement as of June 30, 2009. For evaluation of subsequent events, see Note 8 Subsequent Events of this Form 10-Q.

In June 2009, the FASB issued SFAS No. 168, The FASB Accounting Standards CodificationTM and the Hierarchy of Generally Accepted Accounting Principles, which has been primarily codified into ASC Topic 105, Generally Accepted Accounting Standards. This guidance establishes the FASB Accounting Standards Codification, which officially commenced July 1, 2009, to become the single source of authoritative U.S. GAAP recognized by the FASB to be applied by nongovernmental entities. Rules and interpretive releases of the SEC under authority of federal securities laws are also sources of authoritative U.S. GAAP for SEC registrants. All other accounting literature excluded from the Codification is considered nonauthoritative. The subsequent issuances of new standards will be in the form of Accounting Standards Updates that will be included in the Codification. Generally, the Codification does not change U.S. GAAP. This statement is effective for financial statements issued for interim and annual periods ending after September 15, 2009. Apache has adopted this standard for the quarter ending September 30, 2009. The standard has had a minimal effect on the Company's financial statement disclosures, as all references to authoritative

accounting literature are referenced in accordance with the Codification.

Table of Contents**New Pronouncements Issued But Not Yet Adopted**

In December 2008, the FASB issued FSP FAS No. 132(R)-1, *Employers' Disclosures about Postretirement Benefit Plan Assets*, which was primarily codified into ASC Topic 715, *Compensation - Retirement Benefits*. This guidance requires additional disclosures about plan assets of a defined benefit pension or other postretirement plan, including investment strategies, major categories of plan assets, concentrations of risk within plan assets, inputs and valuation techniques used to measure the fair value of plan assets and the effect of fair value measurements using significant unobservable inputs on changes in plan assets for the period. This standard is effective for fiscal years ending after December 15, 2009, with earlier application permitted. The statement provides only for enhanced disclosures and does not require additional interim disclosures. Adoption will have no impact on the Company's financial position or results of operations.

In January 2009, the SEC issued Release No. 33-8995, *Modernization of Oil and Gas Reporting*, amending oil and gas reporting requirements under Rule 4-10 of Regulation S-X and Industry Guide 2 in Regulation S-K and bringing full-cost accounting rules into alignment with the revised disclosure requirements. The new rules include changes to the pricing used to estimate reserves, the ability to include nontraditional resources in reserves, the use of new technology for determining reserves and permitting disclosure of probable and possible reserves. In September 2009, the FASB issued Proposed Accounting Standards Update (ASU), *Extractive Industries - Oil and Gas (Topic 932): Oil and Gas Reserve Estimation and Disclosures* (Exposure Draft No. 1730-100), to align the guidance in U.S. GAAP with the changes the SEC made in December 2008. The final rules are effective for registration statements filed on or after January 1, 2010, and for annual reports for fiscal years ending on or after December 31, 2009. The public comment period for the Proposed ASU ended October 15, 2009; however, no final guidance has been issued by the FASB. The Company is continuing to evaluate the impact of this release.

2. 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 believes it is prudent to manage the variability in cash flows on a portion of its crude oil and natural gas production. The Company utilizes various types of derivative financial instruments to manage fluctuations in cash flows resulting from changes in commodity prices. Derivative instruments typically entered into are swaps and options and are generally 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. Apache's commodity derivative instruments are with a diversified group of counterparties, primarily financial institutions. To reduce the concentration of exposure to any individual counterparty, Apache had positions with 17 counterparties as of September 30, 2009. All of these counterparties are rated A- or higher by Standard & Poor's and A3 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 one of these counterparties not perform, Apache may not realize the benefit of some of its derivative instruments under 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, as defined in the applicable agreement, in its credit ratings, the other party will have the right to demand the posting of collateral, demand a transfer or terminate the arrangement.

Table of Contents**Commodity Derivative Instruments**

As of September 30, 2009, Apache had the following open crude oil derivative positions:

Production Period	Mbbls	Weighted Average Floor Price (1)	Weighted Average Ceiling Price (1)
2009	3,036	\$ 63.24	\$ 78.13
2010 (2)	12,049	65.44	77.54
2011	9,122	67.45	79.09
2012	5,846	68.84	78.91
2013	1,451	72.01	72.01
2014	76	74.50	74.50

(1) Crude oil prices represent a weighted average of all fixed-price swap contracts and collars.

(2) Subsequent to September 30, 2009, Apache entered into crude oil hedges totaling 730 thousands of barrels (Mbbls). After consideration of these hedges, the weighted average floor and ceiling prices for our 2010 production period positions are \$65.70 and \$78.58 per barrel, respectively.

As of September 30, 2009, Apache had the following open natural gas derivative positions:

Production Period	MMBtu (1) (in 000 s)	Weighted Average Floor Price (1)	Weighted Average Ceiling Price (1)
------------------------------	---------------------------------	---	---

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2009	22,036	\$ 5.63	\$ 7.34
2010 ⁽²⁾	128,071	5.59	5.62
2011	35,985	6.61	6.67
2012	42,927	6.72	6.98
2013	1,825	7.05	7.05
2014	755	7.23	7.23

(1) Natural gas prices and volumes represent a weighted average of all fixed-price swap contracts and collars for U.S. and Canadian dollar-denominated contracts entered into on a per million British thermal units (MMBtu) basis and on a per gigajoule (GJ) basis, respectively. Canadian gas contracts are converted to U.S. dollars utilizing a period-end exchange rate and are converted to an MMBtu equivalent for purposes of this table. Natural gas contracts are settled primarily against NYMEX Henry Hub, various Inside FERC indices and the AECO Index.

(2) Subsequent to September 30, 2009, Apache entered into natural gas hedges totaling 21,900 MMBtu (in 000 s). After consideration of these hedges, the weighted average

floor and ceiling prices for our 2010 production period positions are \$5.62 and \$5.82 per MMBtu, respectively.

As of September 30, 2009, Apache had the following open natural gas financial basis swap contracts:

Production	MMBtu	Weighted Average Price Differential
Period	(in 000 s)	(1)
2009	2,760	\$ (0.52)
2010	41,975	(0.54)

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

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

The Company accounts for derivative instruments and hedging activity in accordance with 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:

	September 30, 2009	December 31, 2008
	(In millions)	
Current Assets: Derivative instruments	\$ 29	\$ 154
Other Assets: Deferred charges and other	23	65
Total Assets	\$ 52	\$ 219
Current Liabilities: Derivative instruments	\$ 63	\$
Noncurrent Liabilities: Other	130	7
Total Liabilities	\$ 193	\$ 7

Note 9 Fair Value Measurements of this Form 10-Q discusses 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.

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:

	Gain (Loss) on Derivatives Recognized in Operations	For the Quarter Ended		For the Nine Months Ended	
		September 30, 2009	2008	September 30, 2009	2008
		(In millions)			
Gain (loss) reclassified from accumulated other comprehensive income (loss) into operations (effective portion)	Oil and Gas Production Revenues	\$48	\$(202)	\$154	\$(515)
Gain (loss) on derivatives recognized in operations (ineffective portion and basis)	Revenues and Other: Other	\$ 2	\$ (39)	\$	\$ (34)

Commodity Derivative Activity in Accumulated Other Comprehensive Income (Loss)

As of September 30, 2009, 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:

	Before tax	After tax
	(In millions)	
Unrealized gain on derivatives as of December 31, 2008	\$ 212	\$ 138
Realized amounts reclassified into earnings	(154)	(105)
Net change in derivative fair value	(199)	(124)
Ineffectiveness and basis swaps reclassified into earnings		
Unrealized loss on derivatives as of September 30, 2009	\$ (141)	\$ (91)

Based on market prices as of September 30, 2009, the Company's net unrealized earnings in accumulated other comprehensive income (loss) for commodity derivatives designated as cash flow hedges totaled a loss of \$141 million (\$91 million after tax). Gains and losses on hedges are realized in future earnings through mid-2014, in the same period as the related sales of natural gas and crude oil production applicable to specific hedges. Included in accumulated other comprehensive income (loss) as of September 30, 2009 is a net loss of approximately \$33 million (\$21 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.

Table of Contents**3. DEBT**

As of September 30, 2009, the Company had unsecured committed revolving syndicated bank credit facilities totaling \$2.3 billion. The facilities 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. There are no outstanding borrowings or commercial paper at quarter-end, and the full \$2.3 billion of unsecured credit facilities is 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 \$350 million, with availability determined by a borrowing-base formula. The borrowing base was set at \$350 million and will be redetermined after the fields commence production and certain tests have been met, and semi-annually thereafter. The outstanding balance under the facility as of September 30, 2009 and December 31, 2008, respectively, was \$335 million and \$100 million. As of September 30, 2009, available borrowing capacity was \$15 million. Under the terms of the agreement, the facility amount begins reducing on June 30, 2010 and semi-annually thereafter until maturity on March 31, 2014. The outstanding amount under this facility must not exceed \$300 million on June 30, 2010. Accordingly, \$35 million of the current balance will be repaid by June 30, 2010 and has been classified as current debt at September 30, 2009.

At September 30, 2009 and December 31, 2008, there was \$4.7 million and \$12.6 million, respectively, borrowed on uncommitted overdraft lines.

On March 15, 2009, \$100 million of Apache Finance Pty Ltd (Apache Finance Australia) 7.0% notes matured and were repaid using existing cash balances.

Financing Costs, Net

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

	For the Quarter Ended		For the Nine Months	
	September 30,		Ended	
	2009	2008	2009	2008
	(In thousands)			
Interest expense	\$ 76,860	\$ 66,055	\$ 233,137	\$ 201,690
Amortization of deferred loan costs	1,400	818	4,173	2,498
Capitalized interest	(14,345)	(24,032)	(45,325)	(68,419)
Interest income	(2,231)	(9,550)	(10,559)	(19,175)
Financing costs, net	\$ 61,684	\$ 33,291	\$ 181,426	\$ 116,594

4. 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. The year-to-date tax provision includes the tax impact of the non-cash write-down of proved oil and gas properties recorded 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 and 2005 tax years and under IRS audit for the 2006 and 2007 tax years. 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.

Table of Contents**5. CAPITAL STOCK****Net Income (Loss) per Common Share**

A reconciliation of the components of basic and diluted net income (loss) per common share is presented in the table below:

	For the Quarter Ended September 30,					
	2009			2008		
	Income	Shares	Per Share	Income	Shares	Per Share
	(In thousands, except per share amounts)					
Basic:						
Income attributable to common stock	\$ 440,596	336,159	\$ 1.31	\$ 1,189,405	334,825	\$ 3.55
Effect of Dilutive Securities:						
Stock options and other		1,713			3,069	
Diluted:						
Income attributable to common stock, including assumed conversions	\$ 440,596	337,872	\$ 1.30	\$ 1,189,405	337,894	\$ 3.52
	For the Nine Months Ended September 30,					
	2009			2008		
	Loss	Shares	Per Share	Income	Shares	Per Share
	(In thousands, except per share amounts)					
Basic:						
Income (Loss) attributable to common stock	\$ (874,464)	335,637	\$ (2.61)	\$ 3,653,307	334,145	\$ 10.93
Effect of Dilutive Securities:						
Stock options and other					3,006	
Diluted:						
Income (Loss) attributable to common stock, including assumed conversions	\$ (874,464)	335,637	\$ (2.61)	\$ 3,653,307	337,151	\$ 10.84

The diluted earnings per share calculation excludes options and restricted stock that were anti-dilutive totaling 2.4 million and 4.0 million for the three- and nine-month periods ending September 30, 2009, respectively, and 358,000 for the three- and nine-month periods ending September 30, 2008. As more fully described in Note 1

Summary of Significant Accounting Policies of this Form 10-Q, the Company adopted the provisions of ASC Topic 260, Earnings Per Share. The adoption of ASC Topic 260 had a negligible impact on Apache's earnings per share.

Common and Preferred Stock Dividends

For each of the quarters ending September 30, 2009 and 2008, Apache paid \$50 million in dividends on its common stock. For the nine-month periods ended September 30, 2009 and 2008, the Company paid \$151 million and \$183 million, respectively. The higher common stock dividends for the first nine months of 2008 were attributable to a special cash dividend of 10 cents per common share paid on March 18, 2008. In addition, for each of the three- and nine-month periods ended September 30, 2009 and 2008, Apache paid a total of \$1.4 million and \$4.3 million, respectively, in dividends on its Series B Preferred Stock.

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, 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 program would be payable in five equal annual installments. As of September 30, 2009, neither share price threshold had been met.

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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 are 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 as of June 14, 2007, and the first and second installments were awarded in July 2007 and 2008. The third installment was awarded in June 2009. Apache's share price exceeded the \$108 threshold for the 10-day requirement as of February 29, 2008, and the first and second installments were awarded in March of 2008 and 2009.

6. ASSET RETIREMENT OBLIGATION

The following table describes changes to the Company's asset retirement obligation (ARO) liability for the nine months ended September 30, 2009:

	(In thousands)
Asset retirement obligation at December 31, 2008	\$ 1,894,684
Liabilities incurred	180,133
Liabilities settled	(304,806)
Accretion expense	79,274
Revisions in estimated liabilities	41,331
Asset retirement obligation at September 30, 2009	1,890,616
Less current portion	267,269
Asset retirement obligation, long-term	\$ 1,623,347

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.

Liabilities settled primarily relate to individual properties plugged and abandoned during the period. Most of the activity was in the Gulf of Mexico, a portion of which relates to the continued abandonment activity on platforms toppled in 2005 during Hurricanes Katrina and Rita and in 2008 during Hurricane Ike.

7. COMMITMENTS AND CONTINGENCIES

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 \$18 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 affect on the Company's financial position or results of operations.

Legal Matters

Grynberg As more fully described in Note 9 of the financial statements in our Annual Report on Form 10-K for our 2008 fiscal year, in 1997, Jack J. Grynberg began filing lawsuits against other natural gas producers, gatherers and pipelines claiming that the defendants have underpaid royalty to the federal government and Indian tribes by mismeasurement of the volume and heating content of natural gas and are responsible for acts of others who mis-measured natural gas. The claims filed against Apache in 2005 were dismissed, though Mr. Grynberg appealed

the dismissal. On March 17, 2009, the United States Court of Appeals for the Tenth Circuit affirmed the dismissal, and on May 4, 2009, the Tenth Circuit denied Mr. Grynberg's petition for rehearing. On October 5, 2009, the United States Supreme Court denied Mr. Grynberg's petition for a writ of certiorari. This matter is concluded.

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Argentine Environmental Claims As more fully described in Note 9 of the financial statements in our Annual Report on Form 10-K for our 2008 fiscal year, in connection with the Pioneer acquisition 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 Superficiaarios de la Patagonia v. YPF S.A., et. al.*, originally filed on August 21, 2003, in the Argentine National Supreme Court of Justice relating to various environmental and remediation claims. No material change in the status of these matters has occurred since the filing of our most recent Annual Report on Form 10-K.

Louisiana Restoration As more fully described in Note 9 of the financial statements in our Annual Report on Form 10-K for our 2008 fiscal year, 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 for contamination and cleanup. No material change in the status of these matters has occurred since the filing of our most recent Annual Report on Form 10-K.

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.

Australia Gas Pipeline Force Majeure As more fully described in Note 9 of the financial statements in our Annual Report on Form 10-K for our 2008 fiscal year, Company subsidiaries reported a pipeline explosion that interrupted deliveries of natural gas in Australia to customers under various long-term contracts. On May 27, 2009, the Department of Mines and Petroleum of Western Australia 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 AU\$50,000. The Company subsidiary does not believe that the charge has merit and plans to vigorously pursue its defenses. No material change in the status of these matters has occurred since the filing of our most recent Annual Report on Form 10-K.

Environmental Matters

As of September 30, 2009, the Company had an undiscounted reserve for environmental remediation of approximately \$29 million. The Company is not aware of any environmental claims existing as of September 30, 2009 that have not been provided for or would otherwise have a material impact on its financial position or results of operations. There can be no assurance, however, that current regulatory requirements will not change or past non-compliance with environmental laws will not be discovered on the Company's properties.

Table of Contents**8. SUBSEQUENT EVENTS**

Subsequent events have been evaluated for recognition and disclosure through November 6, 2009, the date these financial statements were filed with the SEC.

On October 22, 2009, Apache and Kuwait Foreign Petroleum Exploration Co. (KUFPEC) signed an exclusive agreement to supply gas from the Julimar and Brunello discoveries and become foundation equity partners in Chevron's Wheatstone liquefied natural gas (LNG) hub in Western Australia, opening up new markets for gas reserves from two of Apache's largest discoveries. Apache holds a 65-percent interest in the discoveries. Apache's projected net sales would approximate 190 MMcf/d and 5,100 b/d with a projected 15-year production plateau when the multi-year project is fully operational.

Chevron, which has a 100-percent interest in the Wheatstone field, will operate the LNG facilities with a 75-percent project interest. Apache and KUFPEC will own the remaining 25-percent project interest. Wheatstone's first phase will consist of an offshore processing platform and pipeline to shore, along with two LNG processing trains with a combined capacity of approximately 8.6 million tons per year. Our net capital for the project is currently estimated to be \$1.2 billion for upstream development of the Julimar and Brunello fields and \$3.0 billion in the Wheatstone facilities. The investment will be funded as the multi-year project is developed.

9. FAIR VALUE MEASUREMENTS

ASC 820-10-35 provides a hierarchy that prioritizes and defines the types of inputs used to measure fair value. The fair value hierarchy gives the highest priority to Level 1 inputs, which consist of unadjusted quoted prices for identical instruments in active markets. Level 2 inputs consist of quoted prices for similar instruments. Level 3 valuations are derived from inputs that are significant and unobservable, and these valuations have the lowest priority.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

Certain assets and liabilities are reported at fair value on a recurring basis in Apache's Consolidated Balance Sheet. The following methods and assumptions were used to estimate the fair values:

Cash, Cash Equivalents, Short-Term Investments, Accounts Receivable and Accounts Payable The carrying amounts approximate fair value due to the short-term nature or maturity of the instruments.

Commodity Derivative Instruments Apache's commodity derivative instruments consist of variable-to-fixed price commodity swaps and options. The Company estimates the fair values of derivative instruments using published commodity futures price strips for the underlying commodities as of the date of the estimate. The fair values of the Company's derivative instruments are not actively quoted in the open market and are valued using forward commodity price curves provided by a reputable third-party. These valuations are Level 2 inputs. See Note 2 - Derivative Instruments and Hedging Activities of this Form 10-Q for further information.

The following table presents the Company's material assets and liabilities measured at fair value on a recurring basis for each hierarchy level:

	September 30, 2009			Total Fair Value	Netting (¹)	Carrying Amount
	Quoted Price in Active Markets (Level 1)	Significant Other Inputs (Level 2)	Significant Unobservable Inputs (Level 3)			
Assets:						
Commodity Derivative Instruments	\$	\$ 81	\$	\$ 81	\$(29)	\$ 52

Liabilities:

Commodity Derivative
Instruments

222

222

(29)

193

(1) The derivative fair values above are based on analysis of each contract as required by ASC Topic 820. Derivative assets and liabilities with the same counterparty are presented here on a gross basis, even where the legal right of offset exists. See Note 2 Derivative Instruments and Hedging Activities of this Form 10-Q for a discussion of net amounts recorded on the Consolidated Balance Sheet at September 30, 2009.

Table of Contents**10. BUSINESS SEGMENT INFORMATION**

Apache is engaged in a single line of business. Both domestically and internationally, the Company explores for, develops, and produces natural gas, crude oil and natural gas liquids. The Company has production in six countries: the United States (Gulf Coast and Central regions), Canada, Egypt, offshore Australia, offshore the United Kingdom (U.K.) in the North Sea and Argentina. Apache also has exploration interests on the Chilean side of the island of Tierra del Fuego. Financial information by country is presented below:

	United				U.K.		Other	
	States	Canada	Egypt	Australia	North Sea	Argentina	International	Total
	(In thousands)							
For the Quarter Ended September 30, 2009								
Oil and Gas Production Revenues	\$ 801,841	\$ 213,840	\$ 697,207	\$ 115,868	\$ 411,148	\$ 85,801	\$	\$ 2,325,705