APACHE CORP
Form 10-Q
August 11, 2008

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

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

For the Quarterly Period Ended June 30, 2008

OR

o **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	41-0747868
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
Suite 100, One Post Oak Central 2000 Post Oak Boulevard, Houston, TX	77056-4400
(Address of principal executive offices)	(Zip Code)

Registrant s telephone number, including area code: (713) 296-6000

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES þ NO o

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. (Check one):

Large accelerated filer þ Accelerated filer o Non-accelerated filer o Smaller reporting company o
(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 o NO þ

Number of shares of registrant s common stock, outstanding as of June 30, 2008: 334,451,221

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PART I FINANCIAL INFORMATION

ITEM 1 FINANCIAL STATEMENTS

APACHE CORPORATION AND SUBSIDIARIES
STATEMENT OF CONSOLIDATED OPERATIONS
(Unaudited)

	For the Quarter Ended June 30, 2008	For the Quarter Ended June 30, 2007	For the Six Months Ended June 30, 2008	For the Six Months Ended June 30, 2007
	(In thousands, except per common share data)			
REVENUES AND OTHER:				
Oil and gas production revenues	$ 3,904,118	$ 2,444,031	$ 7,082,067	$ 4,467,098
Other	(3,927)	28,513	5,865	8,321
	3,900,191	2,472,544	7,087,932	4,475,419
OPERATING EXPENSES:				
Depreciation, depletion and amortization	627,668	591,107	1,248,157	1,122,020
Asset retirement obligation accretion	25,679	24,134	52,176	48,198
Lease operating expenses	446,738	406,667	901,376	788,774
Gathering and transportation	39,767	34,435	80,743	65,698
Taxes other than income	298,548	143,791	541,126	253,761
General and administrative	78,872	70,798	161,295	138,660
Financing costs, net:	39,050	63,358	83,303	105,421
	1,556,322	1,334,290	3,068,176	2,522,532
INCOME BEFORE INCOME TAXES	2,343,869	1,138,254	4,019,756	1,952,887
Current income tax provision	702,106	297,058	1,189,906	483,580
Deferred income tax provision	196,534	207,658	363,108	342,820
NET INCOME	1,445,229	633,538	2,466,742	1,126,487
Preferred stock dividends	1,420	1,420	2,840	2,840
INCOME ATTRIBUTABLE TO COMMON STOCK	$ 1,443,809	$ 632,118	$ 2,463,902	$ 1,123,647
NET INCOME PER COMMON SHARE:				
Basic	$ 4.32	$ 1.91	$ 7.38	$ 3.39
Diluted	$ 4.28	$ 1.89	$ 7.32	$ 3.37

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

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

	For the Six Months Ended June 30,	
	2008	2007
	(In thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 2,466,742	$ 1,126,487
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion and amortization	1,248,157	1,122,020
Asset retirement obligation accretion	52,176	48,198
Provision for deferred income taxes	363,108	342,820
Other	34,250	19,956
Changes in operating assets and liabilities:		
(Increase) decrease in receivables	(332,836)	(18,774)
(Increase) decrease in drilling advances and other	(92,352)	(4,812)
(Increase) decrease in inventories	(1,720)	21,900
(Increase) decrease in deferred charges and other	(133,128)	(18,822)
Increase (decrease) in accounts payable	246,449	(45,686)
Increase (decrease) in accrued expenses	(84,237)	(88,565)
Increase (decrease) in deferred credits and noncurrent liabilities	(28,696)	(54,717)
Net cash provided by operating activities	3,737,913	2,450,005
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to oil and gas property	(2,543,077)	(2,205,671)
Acquisition of U.S. Permian Basin properties		(1,000,000)
Additions to gas gathering, transmission and processing facilities	(245,627)	(202,824)
Restricted cash	(94,357)	
Proceeds from sale of oil and gas properties	299,937	11,149
Other, net	(25,438)	(96,392)
Net cash used in investing activities	(2,608,562)	(3,493,738)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Commercial paper and money market borrowings, net	(182,351)	(822,529)
Fixed-rate debt borrowings		1,991,753
Payments on fixed-rate debt	(353)	(3,000)
Dividends paid	(136,145)	(102,152)
Common stock activity	28,526	18,919
Treasury stock activity, net	3,416	10,476
Cost of debt and equity transactions	(964)	(16,145)

Other	41,139	14,529
Net cash provided by (used in) financing activities	(246,732)	1,091,851
NET INCREASE IN CASH AND CASH EQUIVALENTS	882,619	48,118
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	125,823	140,524
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 1,008,442	$ 188,642
SUPPLEMENTARY CASH FLOW DATA:		
Interest paid, net of capitalized interest	$ 90,316	$ 63,015
Income taxes paid, net of refunds	1,093,752	380,156

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)

	June 30, 2008	December 31, 2007
	(In thousands)	
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 1,008,442	$ 125,823
Receivables, net of allowance	2,266,357	1,936,977
Inventories	468,346	461,211
Drilling advances	204,683	112,840
Derivative instruments	864	20,889
Prepaid assets and other	207,654	94,511
	4,156,346	2,752,251
PROPERTY AND EQUIPMENT:		
Oil and gas, on the basis of full cost accounting:		
Proved properties	37,105,506	34,645,710
Unproved properties and properties under development, not being amortized	1,666,650	1,439,726
Gas gathering, transmission and processing facilities	2,452,081	2,206,453
Other	432,939	416,149
	41,657,176	38,708,038
Less: Accumulated depreciation, depletion and amortization	(14,722,923)	(13,476,445)
	26,934,253	25,231,593
OTHER ASSETS:		
Restricted cash	94,357	
Goodwill, net	189,252	189,252
Deferred charges and other	502,951	461,555
	$ 31,877,159	$ 28,634,651

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)

	June 30, 2008	December 31, 2007
	(In thousands)	
LIABILITIES AND SHAREHOLDERS EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 894,411	$ 617,937
Accrued operating expense	108,726	112,453
Accrued exploration and development	882,469	600,165
Accrued compensation and benefits	151,547	172,542
Accrued interest	78,175	78,187
Accrued income taxes	214,695	73,184
Current debt	133,792	215,074
Asset retirement obligation	340,812	309,777
Derivative instruments	1,014,122	286,226
United Kingdom Petroleum Revenue Tax	243,962	117,028
Other	61,592	82,443
	4,124,303	2,665,016
LONG-TERM DEBT	3,912,136	4,011,605
DEFERRED CREDITS AND OTHER NONCURRENT LIABILITIES:		
Income taxes	3,597,923	3,924,983
Asset retirement obligation	1,421,950	1,556,909
Derivative instruments	1,541,608	381,791
Other	764,770	716,368
	7,326,251	6,580,051
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, 342,543,560 and 341,322,088 shares issued, respectively	214,090	213,326
Paid-in capital	4,420,133	4,367,149
Retained earnings	13,788,073	11,457,592

Treasury stock, at cost, 8,092,339 and 8,394,945 shares, respectively	(229,674)	(238,264)
Accumulated other comprehensive loss	(1,776,540)	(520,211)
	16,514,469	15,377,979
	$ 31,877,159	$ 28,634,651

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)

	Comprehensive Income	Series B Preferred Stock	Common Stock	Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total Shareholders Equity
				(In thousands)				
BALANCE AT DECEMBER 31, 2006		$ 98,387	$ 212,365	$ 4,269,795	$ 8,898,577	$ (256,739)	$ (31,332)	$ 13,191,053
Comprehensive income (loss):								
Net income	$ 1,126,487				1,126,487			1,126,487
Commodity hedges, net of income tax benefit of $70,660	(126,848)						(126,848)	(126,848)
Comprehensive income	$ 999,639							
Dividends:								
Preferred					(2,840)			(2,840)
Common ($.30 per share)					(99,419)			(99,419)
Common shares issued			492	26,908				27,400
Treasury shares issued, net				2,438		13,668		16,106
Compensation Expense				21,422				21,422
FIN 48 Adoption					(48,502)			(48,502)
Other				77	252			329
BALANCE AT JUNE 30, 2007		$ 98,387	$ 212,857	$ 4,320,640	$ 9,874,555	$ (243,071)	$ (158,180)	$ 14,105,188
		$ 98,387	$ 213,326	$ 4,367,149	$ 11,457,592	$ (238,264)	$ (520,211)	$ 15,377,979

BALANCE AT DECEMBER 31, 2007								
Comprehensive income (loss):								
Net income	$ 2,466,742				2,466,742			2,466,742
Commodity hedges, net of income tax benefit of $667,072	(1,256,329)						(1,256,329)	(1,256,329)
Comprehensive income	$ 1,210,413							
Dividends:								
Preferred					(2,840)			(2,840)
Common ($.40 per share)					(133,435)			(133,435)
Common shares issued			764	34,858				35,622
Treasury shares issued, net				(270)		8,590		8,320
Compensation Expense				37,453				37,453
FIN 48				(19,142)				(19,142)
Other				85	14			99
BALANCE AT JUNE 30, 2008		$ 98,387	$ 214,090	$ 4,420,133	$ 13,788,073	$ (229,674)	$ (1,776,540)	$ 16,514,469

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

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

These financial statements have been prepared by Apache Corporation (Apache or the Company) without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (SEC), and reflect all adjustments which 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 have been omitted pursuant to such rules and regulations, although the Company believes that the disclosures are adequate to make the information presented not misleading. These financial statements should be read in conjunction with the financial statements and the summary of significant accounting policies and notes included in the Company s most recent annual report on Form 10-K.

Reclassifications

Certain prior-period amounts have been reclassified to conform with current year presentations.

1. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITY

Cash Flow Hedges We periodically use derivative instruments in connection with anticipated crude oil and natural gas sales to mitigate the variability of cash flows associated with commodity price fluctuations. While these instruments mitigate the cash flow risk of future reductions in commodity prices they may also curtail benefits from future increases in commodity prices. We account for derivative instruments and hedging activities in accordance with SFAS 133 and typically elect to designate our commodity derivatives instruments as cash flow hedges.

As of June 30, 2008, we had entered into the following crude oil derivative instruments:

	Fixed-Price Swaps		Call Options		Collars		
Production Period	Mbbls	Weighted Average Fixed Price(1)	Mbbls	Weighted Average Strike Price(1)	Mbbls	Weighted Average Floor Price	Weighted Average Ceiling Price(1)
2008	2,208	$ 69.21		$	6,900	$65.51	$ 81.43
2009	368	67.95			9,321	63.39	80.14
2010	2,018	70.87	368	129.50	6,016	62.11	77.44
2011	3,285	71.16	1,095	134.17	4,377	65.83	84.41
2012	2,926	71.34	364	138.00	1,456	66.88	85.52
2013	1,086	71.34					

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

As of June 30, 2008, we had entered into the following natural gas derivative instruments:

Put Options			Collars				
Production Period	MMBtu (in 000 s)	Weighted Average Strike Price(1)	Production Period	MMBtu (in 000 s)	GJ (in 000 s)	Weighted Average Floor Price(1)	Weighted Average Ceiling Price(1)
2008	3,680	$ 8.75	2008	46,920		$ 7.27	$ 10.31
2009			2008		16,560	6.47	10.13
2010			2009	18,250		7.35	10.19
2011			2009		29,200	6.38	9.92
2012			2010	1,350		7.17	10.58

(1) U.S. natural gas prices represent a weighted average of several contracts entered into on a per million British thermal units (MMBtu) basis and are settled against a combination of indices, including NYMEX Henry Hub, Panhandle Eastern Pipe Line and Houston Ship Channel. The Canadian natural gas prices represent a weighted average of AECO Index prices. The Canadian gas collars are entered into on a per gigajoule (GJ) basis, are converted to U.S. dollars utilizing a June 30, 2008 exchange rate, and are settled against the AECO Index.

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Commodity Derivative Activity in Accumulated Other Comprehensive Income (Loss) (OCI) Based on market prices as of June 30, 2008, the Company s net unrealized loss in OCI for commodity derivatives designated as cash flow hedges totaled $2.6 billion ($1.7 billion after tax). Gains and losses on the hedges will be realized in future earnings contemporaneously with the related sales of natural gas and crude oil production applicable to specific hedges, which will occur through mid-2013. A reconciliation of the components of accumulated OCI 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 loss on derivatives at December 31, 2007	$ (639)	$ (412)
Realized amounts reclassified into earnings	314	203
Net change in derivative fair value	(2,237)	(1,459)
Unrealized loss on derivatives at June 30, 2008	$ (2,562)	$ (1,668)

Receivables/Payables Related to Crude Oil and Natural Gas Derivative Instruments The assets and liabilities for derivative instruments, including $7 million related to recognition of unrealized derivatives that did not qualify for hedge accounting and hedge ineffectiveness are as follows:

	June 30, 2008	December 30 2007
	(In millions)	
Current asset	$ 1	$ 21
Long-term asset		7
Current liability	(1,014)	(286)
Long-term liability	$ (1,542)	$ (382)

2. DEBT

Credit Facilities

The Company s June 30, 2008 debt-to-capitalization ratio was 20 percent, down from 22 percent at December 31, 2007.

In February 2008, the Company requested amendments to its existing $1.5 billion U.S. five-year revolving credit facility to (a) extend the maturity date one year to May 28, 2013 and (b) remove certain restrictions on our Australian entities including their ability to incur liens and issue guarantees. The Company also requested amendments to its $450 million U.S. credit facility, $150 million Australian credit facility and $150 million Canadian credit facility to (a) extend the maturity date one year to May 12, 2013, (b) remove certain restrictions on our Australian entities including their ability to incur liens and issue guarantees, and (c) specific to the Australian credit facility, give the Company the option of increasing the size of the facility up to a maximum amount of $400 million from the current limit of $300 million by adding commitments from new or existing lenders.

Lenders approved the amendments removing certain restrictions on our Australian entities, including their ability to incur liens and issue guarantees as well as the amendment allowing the Company to increase the size of Australian credit facility to a maximum of $400 million. In April 2008, the Company increased the Australian credit facility by $50 million to $200 million and as of April 30, lenders had extended the maturity dates on all of the credit facilities.

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Financing Costs, Net

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

	For the Quarter Ended June 30,		For the Six Months Ended June 30,	
	2008	2007	2008	2007
	(In thousands)			
Interest expense	$ 66,328	$ 81,816	$ 135,635	$ 147,548
Amortization of deferred loan costs	829	852	1,680	1,546
Capitalized interest	(22,810)	(15,898)	(44,387)	(37,674)
Interest income	(5,297)	(3,412)	(9,625)	(5,999)
Financing costs, net	$ 39,050	$ 63,358	$ 83,303	$ 105,421

3. 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 infrequent or unusual items are recognized as discrete items in the quarter in which they occur.

Apache and its subsidiaries are subject to U.S. federal income tax as well as income tax 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 2002 through 2005 tax years and under IRS audit for the 2006 tax year. The Company is also under audit in various states and in most of the Company s foreign jurisdictions as part of its normal course of business.

4. CAPITAL STOCK

Net Income per Common Share

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

	For the Quarter Ended June 30,					
	2008			2007		
	Income	Weighted Average Common Shares Outstanding	Per Share	Income	Weighted Average Common Shares Outstanding	Per Share
	(In thousands, except per share amounts)					
Basic:						
Income attributable to common stock	$ 1,443,809	334,208	$ 4.32	$ 632,118	331,812	$ 1.91
Effect of Dilutive Securities:						
Stock options and other		3,468			2,094	
Diluted:						
Income attributable to common stock, including assumed	$ 1,443,809	337,676	$ 4.28	$ 632,118	333,906	$ 1.89

conversions

	For the Six Months Ended June 30,					
	2008			2007		
	Income	Weighted Average Common Shares Outstanding	Per Share	Income	Weighted Average Common Shares Outstanding	Per Share
	(In thousands, except per share amounts)					
Basic:						
Income attributable to common stock	$ 2,463,902	333,801	$ 7.38	$ 1,123,647	331,514	$ 3.39
Effect of Dilutive Securities:						
Stock options and other		3,001			2,081	
Diluted:						
Income attributable to common stock, including assumed conversions	$ 2,463,902	336,802	$ 7.32	$ 1,123,647	333,595	$ 3.37

The diluted earnings per share calculation excluded 378,293 shares of common stock that were anti-dilutive at June 30, 2008. There were no anti-dilutive shares excluded from the diluted earnings per share calculation at June 30, 2007.

Common and Preferred Stock Dividends

During the second quarter of 2008 and 2007, Apache paid $50 million in dividends on its common stock. For the six-month periods ended June 30, 2008 and 2007, the Company paid $133 million and $99 million, respectively. Dividends paid during the 2008 six-month period included a special cash dividend of 10 cents per common share, paid March 18, 2008. In addition, for the three-month and six-month periods ended June 30, 2008 and 2007, Apache paid a total of $1.4 million and $2.8 million, respectively, in dividends on its Series B Preferred Stock.

Stock-Based Compensation

2005 Share Appreciation Plan On May 5, 2005, the Company s stockholders approved the 2005 Share Appreciation Plan that provided incentives for employees to double Apache s share price to $108 by the end of 2008, with an interim goal of $81 to be achieved by the end of 2007. To achieve the trigger price, the Company s stock price had to close at or above the stated threshold for 10 days out of any 30 consecutive trading days by the end of the stated period.

On June 14, 2007, Apache s share price exceeded the interim threshold for the required 10-day period. As such, Apache will issue approximately one million shares of its common stock, after minimum tax withholding requirements, in four equal annual installments. The first and second installments have already been issued. Subsequent installments will be issued in 2009 and 2010 to eligible employees remaining with the Company during that period.

On February 29, 2008, Apache s share price exceeded the second threshold for the required 10-day period. As such, Apache will issue approximately two million shares of its common stock, after minimum tax withholding requirements, in four equal annual installments. The first installment was issued in March 2008. Subsequent installments will be issued in 2009, 2010 and 2011 to eligible employees remaining with the Company during that period.

2008 Share Appreciation Program On May 7, 2008, the Stock Option Plan Committee of the Company s board of directors, pursuant to the Apache Corporation 2007 Omnibus Equity Compensation Plan, approved the 2008 Share Appreciation Program (the Program) that provides incentives for employees to double Apache s share price to $216 by the end of 2012, with an interim goal of $162 to be achieved by the end of 2010. To achieve the payout, the Company s stock price must close at or above the stated threshold for 10 out of any 30 consecutive trading days before the end of the stated period. Under the Program, if the first threshold is achieved, approximately 1.1 million shares would be awarded at an intrinsic cost of $180 million. Achieving the second threshold would result in awards of approximately 1.7 million shares at an intrinsic cost of $359 million. Shares issued to employees would be reduced by the required minimum tax withholding. Awards under the Program are payable in five equal annual installments, beginning on a date not more than 30 days after a threshold is attained for the required measurement period and on the four succeeding anniversaries of the attainment date. Over 90 percent of the value will go to non-executive employees.

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Current accounting practices dictate that, regardless of whether these thresholds are ultimately achieved, the Company will recognize, over time, the fair value cost determined at the grant date based on numerous assumptions, including an estimate of the likelihood that Apache s stock price will achieve these thresholds and the expected forfeiture rate. As a result, the Company will recognize expense and capitalized costs of approximately $193 million over the expected service life of the Program.

The weighted average fair value, based on a Monte Carlo Simulation Model, was $84.32 per share, determined by using expected volatility of 27.35 percent, an expected dividend yield of 0.52 percent, and a risk free interest rate of 3.03 percent.

On May 7, 2008, the Stock Option Plan Committee of Apache s Board of Directors awarded its Chief Executive Officer 250,000 restricted stock units, 50,000 of which will vest on July 1, 2009. The remaining 200,000 shares will vest ratably on the first business day of the years 2010, 2011, 2012 and 2013. Upon vesting, the Company will issue one share of the Company s common stock as settlement for each restricted stock unit. Thirty thousand of the shares vesting each year will not be eligible for sale by the executive until such time as he retires or otherwise terminates employment with the Company. The restricted stock unit agreement, dated May 8, 2008, is included as an exhibit to this quarterly report on Form 10-Q and incorporated herein by reference.

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5. BUSINESS SEGMENT INFORMATION

Apache has producing operations in six countries: the United States (Gulf Coast and Central regions), Canada, Egypt, Australia, offshore the United Kingdom (U.K.) in the North Sea, and Argentina. Early in the second quarter of 2008, we finalized contracts for two exploration blocks in Chile. Financial information by country is presented below:

	United States	Canada	Egypt	Australia	U.K. North Sea	Argentina	Other International	Total
				(In thousands)				
For the Quarter Ended June 30, 2008								
Oil and Gas Production Revenues	$ 1,665,167	$ 516,058	$ 878,418	$ 127,499	$ 628,428	$ 88,548	$	$ 3,904,118
Operating Income (1)	$ 1,069,688	$ 295,585	$ 731,592	$ 69,182	$ 287,706	$ 11,965	$	$ 2,465,718
Other Income (Expense):								
Other								(3,927)
General and administrative								(78,872)
Financing costs, net								(39,050)
Income Before Income Taxes								$ 2,343,869
For the Six Months Ended June 30, 2008								
Oil and Gas Production Revenues	$ 3,034,635	$ 922,320	$ 1,550,316	$ 251,598	$ 1,144,804	$ 178,394	$	$ 7,082,067
Operating Income (1)	$ 1,852,807	$ 476,309	$ 1,264,220	$ 114,101	$ 519,535	$ 31,517	$	$ 4,258,489

Other Income (Expense):								
Other								5,865
General and administrative								(161,295)
Financing costs, net								(83,303)
Income Before Income Taxes								$ 4,019,756
Total Assets	$ 13,191,709	$ 7,542,245	$ 4,258,260	$ 2,308,963	$ 2,816,537	$ 1,745,382	$ 14,063	$ 31,877,159
For the Quarter Ended June 30, 2007								
Oil and Gas Production Revenues	$ 1,060,972	$ 358,543	$ 469,635	$ 141,620	$ 336,899	$ 76,362	$	$ 2,444,031
Operating Income (1)	$ 521,001	$ 152,307	$ 349,040	$ 59,859	$ 151,014	$ 10,676	$	$ 1,243,897
Other Income (Expense):								
Other								28,513
General and administrative								(70,798)
Financing costs, net								(63,358)
Income Before Income Taxes								$ 1,138,254
For the Six Months Ended June 30, 2007								
Oil and Gas Production Revenues	$ 1,922,289	$ 678,713	$ 866,242	$ 245,804	$ 610,507	$ 143,543	$	$ 4,467,098

Operating Income (1)	$	894,557	$	280,613	$	622,949	$	102,583		$	266,762	$	21,183	$		$	2,188,647

Other Income (Expense):
Other