

EOG RESOURCES INC
Form 10-Q
May 06, 2014
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 March 31, 2014

or

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

Commission File Number: 1-9743

EOG RESOURCES, INC.
(Exact name of registrant as specified in its charter)

Delaware 47-0684736
(State or other jurisdiction (I.R.S. Employer Identification No.)
of incorporation or organization)

1111 Bagby, Sky Lobby 2, Houston, Texas 77002
(Address of principal executive offices) (Zip Code)

713-651-7000
(Registrant's telephone number, including area code)

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

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

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date.

| <u>Title of each class</u> | <u>Number of shares</u> |
|--|------------------------------------|
| Common Stock, par value \$0.01 per share | 546,505,826 (as of April 28, 2014) |

EOG RESOURCES, INC.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

EOG RESOURCES, INC.

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

(In Thousands, Except Per Share Data)

(Unaudited)

| | Three Months Ended | |
|---|--------------------|-------------|
| | March 31, | |
| | 2014 | 2013 |
| Net Operating Revenues | | |
| Crude Oil and Condensate | \$2,397,102 | \$1,781,833 |
| Natural Gas Liquids | 246,235 | 169,529 |
| Natural Gas | 556,693 | 410,879 |
| Losses on Mark-to-Market Commodity Derivative Contracts | (155,736) | (104,956) |
| Gathering, Processing and Marketing | 1,015,411 | 922,957 |
| Gains on Asset Dispositions, Net | 11,498 | 164,233 |
| Other, Net | 12,468 | 12,039 |
| Total | 4,083,671 | 3,356,514 |
| Operating Expenses | | |
| Lease and Well | 320,834 | 249,000 |
| Transportation Costs | 243,237 | 184,257 |
| Gathering and Processing Costs | 33,924 | 24,504 |
| Exploration Costs | 48,058 | 44,216 |
| Dry Hole Costs | 8,348 | 3,962 |
| Impairments | 113,361 | 53,548 |
| Marketing Costs | 1,006,304 | 904,649 |
| Depreciation, Depletion and Amortization | 946,491 | 846,388 |
| General and Administrative | 82,862 | 77,985 |
| Taxes Other Than Income | 195,973 | 134,931 |
| Total | 2,999,392 | 2,523,440 |
| Operating Income | 1,084,279 | 833,074 |
| Other Expense, Net | (3,338) | (10,134) |
| Income Before Interest Expense and Income Taxes | 1,080,941 | 822,940 |
| Interest Expense, Net | 50,152 | 61,921 |
| Income Before Income Taxes | 1,030,789 | 761,019 |
| Income Tax Provision | 369,861 | 266,294 |
| Net Income | \$660,928 | \$494,725 |
| Net Income Per Share | | |
| Basic | \$1.22 | \$0.92 |
| Diluted | \$1.21 | \$0.91 |
| Dividends Declared per Common Share | \$0.125 | \$0.09375 |
| Average Number of Common Shares | | |
| Basic | 542,278 | 538,717 |
| Diluted | 548,071 | 544,526 |
| Comprehensive Income | | |
| Net Income | \$660,928 | \$494,725 |
| Other Comprehensive Income (Loss) | | |
| Foreign Currency Translation Adjustments | (12,930) | (14,264) |
| Foreign Currency Swap Transaction | 50 | 1,701 |

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| | | | |
|---|-----------|---|-----------|
| Income Tax Related to Foreign Currency Swap Transaction | (670 |) | - |
| Interest Rate Swap Transaction | 777 | | 737 |
| Income Tax Related to Interest Rate Swap Transaction | (281 |) | (265) |
| Other | 23 | | 28 |
| Other Comprehensive Income (Loss) | (13,031 |) | (12,063) |
| Comprehensive Income | \$647,897 | | \$482,662 |

The accompanying notes are an integral part of these consolidated financial statements.

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EOG RESOURCES, INC.
CONSOLIDATED BALANCE SHEETS
(In Thousands, Except Share Data)
(Unaudited)

| | March 31, 2014 | December 31, 2013 |
|--|-------------------|-------------------------|
| ASSETS | | |
| Current Assets | | |
| Cash and Cash Equivalents | \$1,667,212 | \$1,318,209 |
| Accounts Receivable, Net | 1,801,665 | 1,658,853 |
| Inventories | 635,419 | 563,268 |
| Assets from Price Risk Management Activities | - | 8,260 |
| Income Taxes Receivable | 191 | 4,797 |
| Deferred Income Taxes | 429,695 | 244,606 |
| Other | 288,294 | 274,022 |
| Total | 4,822,476 | 4,072,015 |
| Property, Plant and Equipment | | |
| Oil and Gas Properties (Successful Efforts Method) | 44,324,008 | 42,821,803 |
| Other Property, Plant and Equipment | 3,128,400 | 2,967,085 |
| Total Property, Plant and Equipment | 47,452,408 | 45,788,888 |
| Less: Accumulated Depreciation, Depletion and Amortization | (20,453,971) | (19,640,052) |
| Total Property, Plant and Equipment, Net | 26,998,437 | 26,148,836 |
| Other Assets | 320,375 | 353,387 |
| Total Assets | \$32,141,288 | \$30,574,238 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current Liabilities | | |
| Accounts Payable | \$2,647,209 | \$2,254,418 |
| Accrued Taxes Payable | 270,908 | 159,365 |
| Dividends Payable | 67,768 | 50,795 |
| Liabilities from Price Risk Management Activities | 227,036 | 127,542 |
| Current Portion of Long-Term Debt | 6,579 | 6,579 |
| Other | 176,142 | 263,017 |
| Total | 3,395,642 | 2,861,716 |
| Long-Term Debt | | |
| Other Liabilities | 5,902,952 | 5,906,642 |
| Deferred Income Taxes | 922,586 | 865,067 |
| Commitments and Contingencies (Note 8) | 5,886,794 | 5,522,354 |
| Stockholders' Equity | | |
| Common Stock, \$0.01 Par, 640,000,000 Shares Authorized and 546,892,339 Shares Issued at March 31, 2014 and 546,378,440 Shares Issued at December 31, 2013 | 205,471 | 202,732 |
| Additional Paid in Capital | 2,697,807 | 2,646,879 |
| Accumulated Other Comprehensive Income | 402,803 | 415,834 |

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| | | |
|---|--------------|--------------|
| Retained Earnings | 12,760,895 | 12,168,277 |
| Common Stock Held in Treasury, 396,906 Shares at March 31, 2014 and 206,830 Shares at December 31, 2013 | (33,662) | (15,263) |
| Total Stockholders' Equity | 16,033,314 | 15,418,459 |
| Total Liabilities and Stockholders' Equity | \$32,141,288 | \$30,574,238 |

The accompanying notes are an integral part of these consolidated financial statements.

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EOG RESOURCES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Thousands)
(Unaudited)

| | Three Months Ended March 31, | |
|---|---------------------------------|-------------|
| | 2014 | 2013 |
| Cash Flows from Operating Activities | | |
| Reconciliation of Net Income to Net Cash Provided by Operating Activities: | | |
| Net Income | \$660,928 | \$494,725 |
| Items Not Requiring (Providing) Cash | | |
| Depreciation, Depletion and Amortization | 946,491 | 846,388 |
| Impairments | 113,361 | 53,548 |
| Stock-Based Compensation Expenses | 35,565 | 30,436 |
| Deferred Income Taxes | 232,808 | 200,779 |
| Gains on Asset Dispositions, Net | (11,498) | (164,233) |
| Other, Net | 5,442 | 8,268 |
| Dry Hole Costs | 8,348 | 3,962 |
| Mark-to-Market Commodity Derivative Contracts | | |
| Total Losses | 155,736 | 104,956 |
| Net Cash (Payments for) Received from Settlements of Commodity Derivative Contracts | (34,033) | 67,050 |
| Excess Tax Benefits from Stock-Based Compensation | (27,422) | (11,673) |
| Other, Net | 3,589 | 5,022 |
| Changes in Components of Working Capital and Other Assets and Liabilities | | |
| Accounts Receivable | (144,317) | (236,757) |
| Inventories | (68,948) | (15,058) |
| Accounts Payable | 361,810 | 186,065 |
| Accrued Taxes Payable | 139,801 | 9,004 |
| Other Assets | (12,536) | (47,193) |
| Other Liabilities | (29,169) | (52,933) |
| Changes in Components of Working Capital Associated with Investing and Financing Activities | (68,283) | (57,421) |
| Net Cash Provided by Operating Activities | 2,267,673 | 1,424,935 |
| Investing Cash Flows | | |
| Additions to Oil and Gas Properties | (1,736,630) | (1,604,123) |
| Additions to Other Property, Plant and Equipment | (165,966) | (92,201) |
| Proceeds from Sales of Assets | 19,825 | 479,436 |
| Changes in Restricted Cash | (9,047) | - |
| Changes in Components of Working Capital Associated with Investing Activities | 68,258 | 57,149 |
| Net Cash Used in Investing Activities | (1,823,560) | (1,159,739) |
| Financing Cash Flows | | |
| Long-Term Debt Borrowings | 496,220 | - |
| Long-Term Debt Repayments | (500,000) | - |
| Settlement of Foreign Currency Swap | (31,573) | - |
| Dividends Paid | (51,780) | (46,220) |
| Excess Tax Benefits from Stock-Based Compensation | 27,422 | 11,673 |

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| | | |
|--|-------------|-------------|
| Treasury Stock Purchased | (28,897) | (11,024) |
| Proceeds from Stock Options Exercised | 985 | 8,004 |
| Debt Issuance Costs | (942) | - |
| Repayment of Capital Lease Obligation | (1,474) | (1,427) |
| Other, Net | 25 | 272 |
| Net Cash Used in Financing Activities | (90,014) | (38,722) |
| Effect of Exchange Rate Changes on Cash | (5,096) | 5,125 |
| Increase in Cash and Cash Equivalents | 349,003 | 231,599 |
| Cash and Cash Equivalents at Beginning of Period | 1,318,209 | 876,435 |
| Cash and Cash Equivalents at End of Period | \$1,667,212 | \$1,108,034 |

The accompanying notes are an integral part of these consolidated financial statements.

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EOG RESOURCES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Summary of Significant Accounting Policies

The consolidated financial statements of EOG Resources, Inc., together with its subsidiaries (collectively, EOG), included herein have been prepared by management without audit pursuant to the rules and regulations of the United States Securities and Exchange Commission (SEC). Accordingly, they reflect all normal recurring adjustments which are, in the opinion of management, necessary for a fair presentation of the financial results for the interim periods presented. Certain information and notes normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) have been condensed or omitted pursuant to such rules and regulations. However, management believes that the disclosures included either on the face of the financial statements or in these notes are sufficient to make the interim information presented not misleading. These consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto included in EOG's Annual Report on Form 10-K for the year ended December 31, 2013, filed on February 24, 2014 (EOG's 2013 Annual Report).

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. Actual results could differ from those estimates. The operating results for the three months ended March 31, 2014 are not necessarily indicative of the results to be expected for the full year.

On February 24, 2014, EOG's Board of Directors (Board) approved a two-for-one stock split in the form of a stock dividend, payable to stockholders of record as of March 17, 2014, and paid on March 31, 2014. All share and per share amounts in the financial statements and these notes for all periods have been restated to reflect the two-for-one stock split.

2. Stock-Based Compensation

As more fully discussed in Note 6 to the Consolidated Financial Statements included in EOG's 2013 Annual Report, EOG maintains various stock-based compensation plans. Stock-based compensation expense is included on the Consolidated Statements of Income and Comprehensive Income based upon the job function of the employees receiving the grants as follows (in millions):

| | Three Months Ended March 31, 2014 2013 | |
|--------------------------------|--|--------|
| Lease and Well | \$11.6 | \$9.8 |
| Gathering and Processing Costs | 0.3 | 0.3 |
| Exploration Costs | 7.9 | 7.5 |
| General and Administrative | 15.8 | 12.8 |
| Total | \$35.6 | \$30.4 |

The Amended and Restated EOG Resources, Inc. 2008 Omnibus Equity Compensation Plan (2008 Plan) provides for grants of stock options, stock-settled stock appreciation rights (SARs), restricted stock, restricted stock units, performance units, performance stock and other stock-based awards. At March 31, 2014, approximately 32.2 million common shares remained available for grant under the 2008 Plan. EOG's policy is to issue shares related to the 2008 Plan from either previously authorized unissued shares or treasury shares to the extent treasury shares are available.

Stock Options and Stock-Settled Stock Appreciation Rights and Employee Stock Purchase Plan. The fair value of stock option and SAR grants is estimated using the Hull-White II binomial option pricing model. The fair value of Employee Stock Purchase Plan (ESPP) grants is estimated using the Black-Scholes-Merton model. Stock-based compensation expense related to stock option, SAR and ESPP grants totaled \$12.0 million and \$10.4 million during the three months ended March 31, 2014 and 2013, respectively.

Weighted average fair values and valuation assumptions used to value stock option, SAR and ESPP grants during the three-month periods ended March 31, 2014 and 2013 are as follows:

| | Stock Options/SARs Three Months Ended March 31, 2014 2013 | | ESPP Three Months Ended March 31, 2014 2013 | |
|---------------------------------------|--|---------|---|---------|
| Weighted Average Fair Value of Grants | \$26.11 | \$19.31 | \$18.30 | \$14.40 |
| Expected Volatility | 35.89% | 35.54% | 25.83% | 29.95% |
| Risk-Free Interest Rate | 0.84 % | 0.50 % | 0.09 % | 0.12 % |
| Dividend Yield | 0.48 % | 0.60 % | 0.44 % | 0.60 % |
| Expected Life | 5.3 yrs | 5.6 yrs | 0.5 yrs | 0.5 yrs |

Expected volatility is based on an equal weighting of historical volatility and implied volatility from traded options in EOG's common stock. The risk-free interest rate is based upon United States Treasury yields in effect at the time of grant. The expected life is based upon historical experience and contractual terms of stock option, SAR and ESPP grants.

The following table sets forth stock option and SAR transactions for the three-month periods ended March 31, 2014 and 2013 (stock options and SARs in thousands):

| | Three Months Ended March 31, 2014 | | Three Months Ended March 31, 2013 | |
|---|---|---------------------------|---|---------------------------|
| | Weighted Number of Stock Options/ SARs | Average Grant Price | Weighted Number of Stock Options/ SARs | Average Grant Price |
| Outstanding at January 1 | 10,452 | \$ 54.43 | 12,438 | \$ 42.91 |
| Granted | 40 | 84.74 | 30 | 62.52 |
| Exercised ⁽¹⁾ | (353) | 44.40 | (1,122) | 31.16 |
| Forfeited | (66) | 61.56 | (60) | 47.25 |
| Outstanding at March 31 ⁽²⁾ | 10,073 | \$ 54.85 | 11,286 | \$ 44.11 |
| Vested or Expected to Vest ⁽³⁾ | 9,619 | \$ 54.44 | 10,820 | \$ 43.91 |
| Exercisable at March 31 ⁽⁴⁾ | 4,314 | \$ 44.00 | 5,206 | \$ 38.95 |

The total intrinsic value of stock options/SARs exercised for the three months ended March 31, 2014 and 2013 was (1)\$16.2 million and \$36.2 million, respectively. The intrinsic value is based upon the difference between the market price of EOG's common stock on the date of exercise and the grant price of the stock options/SARs.

The total intrinsic value of stock options/SARs outstanding at March 31, 2014 and 2013 was \$435.5 million and (2)\$225.1 million, respectively. At March 31, 2014 and 2013, the weighted average remaining contractual life was 4.4 years and 4.2 years, respectively.

The total intrinsic value of stock options/SARs vested or expected to vest at March 31, 2014 and 2013 was \$419.8 (3)million and \$218.0 million, respectively. At March 31, 2014 and 2013, the weighted average remaining contractual life was 4.3 years and 4.1 years, respectively.

The total intrinsic value of stock options/SARs exercisable at March 31, 2014 and 2013 was \$233.3 million and (4)\$130.7 million, respectively. At March 31, 2014 and 2013, the weighted average remaining contractual life was 3.0 years and 2.7 years, respectively.

Restricted Stock and Restricted Stock Units. Employees may be granted restricted (non-vested) stock and/or restricted stock units without cost to them. Stock-based compensation expense related to restricted stock and restricted stock units totaled \$22.7 million and \$19.7 million for the three months ended March 31, 2014 and 2013, respectively.

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The following table sets forth restricted stock and restricted stock unit transactions for the three-month periods ended March 31, 2014 and 2013 (shares and units in thousands):

| | Three Months Ended March 31, 2014 | | Three Months Ended March 31, 2013 | |
|--|--|---|--|---|
| | Weighted Number of Shares and Units | Average Grant Date Fair Value | Weighted Number of Shares and Units | Average Grant Date Fair Value |
| Outstanding at January 1 | 7,358 | \$ 49.54 | 7,636 | \$ 45.53 |
| Granted | 384 | 94.01 | 500 | 64.29 |
| Released ⁽¹⁾ | (838) | 24.47 | (306) | 59.81 |
| Forfeited | (55) | 57.73 | (62) | 46.66 |
| Outstanding at March 31 ⁽²⁾ | 6,849 | \$ 55.04 | 7,768 | \$ 46.17 |

The total intrinsic value of restricted stock and restricted stock units released for the three months ended March 31, (1)2014 and 2013 was \$79.0 million and \$19.0 million, respectively. The intrinsic value is based upon the closing price of EOG's common stock on the date restricted stock and restricted stock units are released.

(2) The total intrinsic value of restricted stock and restricted stock units outstanding at March 31, 2014 and 2013 was \$671.8 million and \$497.4 million, respectively.

Performance Units and Performance Stock. EOG grants performance units and/or performance stock to its executive officers. The fair value of the performance units and performance stock is estimated using a Monte Carlo simulation. Stock-based compensation expense related to performance unit and performance stock grants totaled \$0.9 million and \$0.3 million for the three months ended March 31, 2014 and 2013.

The following table sets forth performance unit and performance stock transactions for the three-month periods ended March 31, 2014 and 2013 (shares and units in thousands):

| | Three Months Ended March 31, 2014 | | Three Months Ended March 31, 2013 | |
|--------------------------|--|---|--|---|
| | Weighted Number of Shares and Units | Average Grant Date Fair Value | Weighted Number of Shares and Units | Average Grant Date Fair Value |
| Outstanding at January 1 | 261 | \$ 82.18 | 143 | \$ 67.05 |
| Granted | - | - | - | - |
| Released | - | - | - | - |

| | | | | |
|--|-----|----------|-----|----------|
| Forfeited | - | - | - | - |
| Outstanding at March 31 ⁽¹⁾ | 261 | \$ 82.18 | 143 | \$ 67.05 |

(1) The total intrinsic value of performance units and performance stock outstanding at March 31, 2014 and 2013 was \$21.9 million and \$8.7 million, respectively.

At March 31, 2014, unrecognized compensation expense related to performance unit and performance stock grants totaled \$5.2 million. Such unrecognized expense will be amortized on a straight-line basis over a weighted average period of 2.2 years.

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3. Net Income Per Share

The following table sets forth the computation of Net Income Per Share for the three-month periods ended March 31, 2014 and 2013 (in thousands, except per share data):

| | Three Months Ended March 31, 2014 | 2013 |
|--|---|------|
| Numerator for Basic and Diluted Earnings Per Share - Net Income | | |