

OCCIDENTAL PETROLEUM CORP /DE/
Form 8-K
August 04, 2006

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

**Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934**

Date of Report (Date of earliest event reported) August 4, 2006

OCCIDENTAL PETROLEUM CORPORATION

(Exact name of registrant as specified in its charter)

| | | |
|--|--|--|
| Delaware (State or other jurisdiction of incorporation) | 1-9210 (Commission File Number) | 95-4035997 (I.R.S. Employer Identification No.) |
|--|--|--|

10889 Wilshire Boulevard

| | |
|--|----------------------------|
| Los Angeles, California (Address of principal executive offices) | 90024 (ZIP code) |
|--|----------------------------|

Registrant's telephone number, including area code:

(310) 208-8800

Check the appropriate box below if the Form 8-K is intended to simultaneously satisfy the filing obligation of the Registrant under any of the following provisions (see General Instruction A.2. below):

Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Section 2 Financial Information

Item 2.02. Results of Operations and Financial Condition

On August 4, 2006, Occidental Petroleum Corporation released information regarding its results of operations for the six months ended June 30, 2006. The exhibits to this Form 8-K and the information set forth in this Item 2.02 are being furnished pursuant to Item 2.02, Results of Operations and Financial Condition. The full text of the press release is attached to this report as Exhibit 99.1. The full text of the speeches given by Dr. Ray R. Irani and Stephen I. Chazen is attached to this report as Exhibit 99.2. Investor Relations Supplemental Schedules are attached to this report as Exhibit 99.3.

Section 8 Other Events

Item 8.01. Other Events

On August 4, 2006, Occidental Petroleum Corporation announced income from continuing operations was \$2.77 per diluted share for the second quarter 2006, compared with \$3.63 per diluted share for the second quarter 2005. Net income for the second quarter 2006 was \$857 million (\$1.97 per diluted share), compared with \$1.536 billion (\$3.77 per diluted share) for the second quarter 2005.

Core earnings for the second quarter 2006 were \$1.204 billion (\$2.77 per diluted share), compared with \$799 million (\$1.96 per diluted share) for the same period in 2005. The second quarter 2006 core earnings excludes a net after-tax loss of \$347 million in discontinued operations, which includes the impairment charge for Occidental's Block 15 investment in Ecuador and income from Vintage properties held for sale. The second quarter 2005 core income excludes a \$619 million tax benefit related to the resolution of tax issues with the IRS and an \$89 million after-tax gain from the sale of an investment. See the attached schedule for a reconciliation of net income to core earnings.

Oil and Gas

Oil and gas segment earnings were \$1.953 billion for the second quarter 2006, a 56 percent increase from the \$1.255 billion segment earnings for the second quarter 2005. The improvement in the second quarter 2006 earnings reflected

a \$557 million increase from higher worldwide crude oil prices, a \$262 million increase from higher production, and lower exploration expense, partially offset by higher operating expenses and increased DD&A rates.

The average price for West Texas Intermediate crude oil in the second quarter 2006 was \$70.70 per barrel compared to \$53.17 per barrel in the second quarter 2005. Occidental's realized price for worldwide crude oil was \$60.67 per barrel for the second quarter 2006, compared with \$46.27 per barrel for the second quarter 2005. The average price for NYMEX gas in the second quarter 2006 was \$7.26 per MMCF, compared with \$6.80 per MMCF in the second quarter 2005. Domestic realized gas prices increased from \$6.18 per MMCF in the second quarter 2005 to \$6.24 per MMCF for the second quarter 2006.

Production

For the quarter, oil and gas daily production from continuing operations averaged 609,000 barrels of oil equivalent (BOE), which was an 18 percent increase over the 516,000 equivalent barrels per day produced in the second quarter 2005. The increase included Vintage production of 62,000 BOE per day and Libya production of 27,000 BOE per day.

Worldwide daily production from continuing operations for the six months of 2006 averaged 601,000 BOE, compared with 519,000 BOE for the six months of 2005. The increase included five months of Vintage production at 60,000 BOE per day which added 50,000 BOE per day to Occidental's year-to-date production and Libya production of 25,000 BOE per day that came on line in the third quarter of 2005.

Chemicals

Chemical segment earnings were \$250 million for the second quarter 2006, compared with \$225 million for the second quarter 2005. The improvement in the second quarter 2006 results was due to chlor-alkali volume increases.

Six-Months Results

For the first six months of 2006, net income was \$2.086 billion (\$4.83 per diluted share), compared with \$2.382 billion (\$5.86 per diluted share) for the first six months of 2005.

Core earnings were \$2.355 billion (\$5.45 per diluted share) for 2006, compared with \$1.612 billion (\$3.96 per diluted share) for 2005. See the attached schedule for a reconciliation of net income to core earnings.

Statements in this release that contain words such as "will," "expect" or "estimate," or otherwise relate to the future, are forward-looking and involve risks and uncertainties that could significantly affect expected results. Factors that could cause results to differ materially include, but are not limited to: exploration risks such as drilling of unsuccessful wells, global commodity pricing fluctuations, changes in tax rates, and supply/demand considerations for oil, gas and chemicals; higher-than-expected costs; and not successfully completing (or any material delay in) any expansion, capital expenditure, acquisition, or disposition. You should not place undue reliance on these forward-looking statements which speak only as of the date of this presentation. Unless legally required, Occidental does not undertake any obligation to update any forward-looking statements as a result of new information, future events or otherwise. U.S. investors are urged to consider carefully the disclosure in our Form 10-K, available through the following toll-free telephone number, 1-888-OXYPETE (1-888-699-7383) or on the Internet at <http://www.oxy.com>. You also can obtain a copy from the SEC by calling 1-800-SEC-0330.

SUMMARY OF SEGMENT NET SALES AND EARNINGS

| (\$ millions, except per-share amounts) | Second Quarter | | Six Months | |
|--|----------------|-----------------|-----------------|-----------------|
| | 2006 | 2005 | 2006 | 2005 |
| SEGMENT NET SALES | | | | |
| Oil and Gas | \$ 3,292 | \$ 2,220 | \$ 6,417 | \$ 4,309 |
| Chemical | 1,273 | 1,128 | 2,514 | 2,189 |
| Other | 34 | 37 | 64 | 60 |
| Net sales | \$ 4,599 | \$ 3,385 | \$ 8,995 | \$ 6,558 |
| SEGMENT EARNINGS | | | | |
| Oil and Gas | \$ 1,953 | \$ 1,255 | \$ 3,863 | \$ 2,534 |
| Chemical | 250 | 225 | 498 | 439 |
| | 2,203 | 1,480 | 4,361 | 2,973 |
| Unallocated Corporate Items | | | | |
| Interest expense, net (a) | (33) | (47) | (62) | (108) |
| Income taxes (b) | (882) | (26) | (1,787) | (610) |
| Other (c) | (84) | 73 | (157) | 22 |
| Income from Continuing Operations | 1,204 | 1,480 | 2,355 | 2,277 |
| Discontinued operations, net (d) | (347) | 56 | (269) | 105 |
| NET INCOME | \$ 857 | \$ 1,536 | \$ 2,086 | \$ 2,382 |
| BASIC EARNINGS PER COMMON SHARE | | | | |
| Income from continuing operations | \$ 2.80 | \$ 3.68 | \$ 5.51 | \$ 5.68 |
| Discontinued operations, net (d) | (0.81) | 0.14 | (0.63) | 0.26 |
| | \$ 1.99 | \$ 3.82 | \$ 4.88 | \$ 5.94 |
| DILUTED EARNINGS PER COMMON SHARE | | | | |
| Income from continuing operations | \$ 2.77 | \$ 3.63 | \$ 5.45 | \$ 5.60 |
| Discontinued operations, net (d) | (0.80) | 0.14 | (0.62) | 0.26 |
| | \$ 1.97 | \$ 3.77 | \$ 4.83 | \$ 5.86 |
| AVERAGE COMMON SHARES OUTSTANDING | | | | |
| BASIC | 430.1 | 401.9 | 427.3 | 401.2 |
| DILLUTED | 433.9 | 407.3 | 432.2 | 406.8 |

Occidental has classified its Ecuador Block 15 operations as discontinued operations on a retrospective application basis.

See footnotes on following page.

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- (a) The second quarter and six months 2006 include \$4 million pre-tax interest charges to purchase various debt issues in the open market. The six months 2005 includes \$11 million pre-tax interest charges to purchase various debt issues in the open market.
- (b) The second quarter 2005 includes a \$619 million tax benefit resulting from a closing agreement with the U.S. Internal Revenue Service (IRS) resolving certain tax issues. The six months 2005 also includes a net \$10 million charge related to a state income tax issue.
- (c) The second quarter 2005 includes a \$140 million pre-tax gain from the sale of 11 million shares of Lyondell Chemical Company.
- (d) On May 15, 2006, Ecuador's Minister of Energy terminated Occidental's contract for the operation of Block 15 and the Government of Ecuador seized Occidental's Block 15 assets shortly thereafter. As a result of the seizure, Occidental has classified its Block 15 operations as discontinued operations on a retrospective application basis. The second quarter and six months 2006 discontinued operations also include income from the Vintage properties that were held for sale.

SUMMARY OF CAPITAL EXPENDITURES AND DD&A EXPENSE

| (\$ millions) | Second Quarter | | Six Months | |
|---|----------------|--------|-----------------|--------|
| | 2006 | 2005 | 2006 | 2005 |
| CAPITAL EXPENDITURES | \$ 646 | \$ 492 | \$ 1,242 | \$ 998 |
| DEPRECIATION, DEPLETION AND AMORTIZATION OF ASSETS | \$ 494 | \$ 342 | \$ 953 | \$ 673 |

SUMMARY OF OPERATING STATISTICS

| | Second Quarter | | Six Months | |
|--|----------------|------|------------|------|
| | 2006 | 2005 | 2006 | 2005 |
| NET OIL, GAS AND LIQUIDS PRODUCTION PER DAY | | | | |
| United States | | | | |
| Crude oil and liquids (MBBL) | | | | |
| California | 82 | 75 | 83 | 76 |
| Permian | 168 | 156 | 167 | 152 |
| Horn Mountain | 12 | 11 | 13 | 14 |
| Hugoton and other | 3 | 3 | 3 | 3 |
| Total | 265 | 245 | 266 | 245 |
| Natural Gas (MMCF) | | | | |
| California | 258 | 240 | 255 | 240 |
| Hugoton and other | 136 | 133 | 134 | 131 |
| Permian | 199 | 166 | 194 | 156 |
| Horn Mountain | 8 | 9 | 9 | 11 |
| Total | 601 | 548 | 592 | 538 |
| Latin America | | | | |
| Crude oil (MBBL) | | | | |
| Argentina | 38 | | 31 | |
| Colombia | 34 | 36 | 36 | 34 |
| Total | 72 | 36 | 67 | 34 |
| Natural Gas (MMCF) | | | | |
| Argentina | 21 | | 17 | |
| Bolivia | 20 | | 17 | |
| Total | 41 | | 34 | |
| Middle East/North Africa | | | | |
| Crude oil (MBBL) | | | | |
| Oman | 17 | 19 | 17 | 21 |
| Qatar | 44 | 43 | 44 | 43 |
| Yemen | 30 | 28 | 31 | 31 |
| Libya | 27 | | 25 | |
| Total | 118 | 90 | 117 | 95 |
| Natural Gas (MMCF) | | | | |
| Oman | 35 | 61 | 30 | 58 |
| Other Eastern Hemisphere | | | | |
| Crude oil (MBBL) | | | | |

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| | | | | |
|--|------------|------|------------|------|
| Pakistan | 5 | 6 | 4 | 6 |
| Natural Gas (MMCF) | | | | |
| Pakistan | 80 | 72 | 77 | 75 |
| Barrels of Oil Equivalent (MBOE) | | | | |
| Subtotal consolidated | | | | |
| subsidiaries | 586 | 491 | 576 | 492 |
| Colombia-minority interest | (5) | (5) | (5) | (4) |
| Russia-Occidental net interest | 27 | 28 | 28 | 29 |
| Yemen-Occidental net interest | 1 | 2 | 2 | 2 |
| Total Worldwide Production (MBOE) | 609 | 516 | 601 | 519 |

Occidental has classified its Ecuador Block 15 operations as discontinued operations on a retrospective application basis.

SIGNIFICANT TRANSACTIONS AND EVENTS AFFECTING EARNINGS

Occidental's results of operations often include the effects of significant transactions and events affecting earnings that vary widely and unpredictably in nature, timing and amount. Therefore, management uses a measure called "core earnings," which excludes those items. This non-GAAP measure is not meant to disassociate those items from management's performance, but rather is meant to provide useful information to investors interested in comparing Occidental's earnings performance between periods. Reported earnings are considered representative of management's performance over the long term. Core earnings is not considered to be an alternative to operating income in accordance with generally accepted accounting principles.

The following table sets forth the core earnings and significant items affecting earnings for each operating segment and corporate:

| (\$ millions, except per-share amounts) | Second Quarter | | 2005 | Diluted EPS |
|---|-----------------|----------------|----------|----------------|
| | 2006 | Diluted EPS | | |
| TOTAL REPORTED EARNINGS | \$ 857 | \$ 1.97 | \$ 1,536 | \$ 3.77 |
| Oil and Gas | | | | |
| Segment Earnings | \$ 1,953 | | \$ 1,255 | |
| Less: Contract settlement | | | (26) | |
| Segment Core Earnings | 1,953 | | 1,281 | |
| Chemicals | | | | |
| Segment Earnings | 250 | | 225 | |
| No significant items affecting earnings | | | | |
| Segment Core Earnings | 250 | | 225 | |
| Total Segment Core Earnings | 2,203 | | 1,506 | |
| Corporate | | | | |
| Corporate Results | | | | |
| Non Segment* | (1,346) | | 56 | |
| Less: | | | | |
| Gain on sale of Lyondell shares | | | 140 | |
| Settlement of federal tax issue | | | 619 | |
| Debt purchase expense | | | (1) | |
| Tax effect of pre-tax adjustments | | | (51) | |
| Discontinued operations, net** | (347) | | 56 | |
| Corporate Core Results | | | | |
| Non Segment | (999) | | (707) | |

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TOTAL CORE EARNINGS **\$ 1,204** **\$ 2.77** \$ 799 \$ 1.96

* Interest expense, income taxes, G&A expense and other, and non-core items.

** Amount shown after tax.

SIGNIFICANT TRANSACTIONS AND EVENTS AFFECTING EARNINGS (continued)

| (\$ millions, except per-share amounts) | Six Months | | 2005 | Diluted EPS |
|---|-----------------|----------------|----------|----------------|
| | 2006 | Diluted EPS | | |
| TOTAL REPORTED EARNINGS | \$ 2,086 | \$ 4.83 | \$ 2,382 | \$ 5.86 |
| Oil and Gas | | | | |
| Segment Earnings | \$ 3,863 | | \$ 2,534 | |
| Less: Contract settlement | | | (26) | |
| Segment Core Earnings | 3,863 | | 2,560 | |
| Chemicals | | | | |
| Segment Earnings | 498 | | 439 | |
| No significant items affecting earnings | | | | |
| Segment Core Earnings | 498 | | 439 | |
| Total Segment Core Earnings | 4,361 | | 2,999 | |
| Corporate | | | | |
| Corporate Results | | | | |
| Non Segment* | (2,275) | | (591) | |
| Less: | | | | |
| Debt purchase expense | | | (11) | |
| Gain on sale of Lyondell shares | | | 140 | |
| State tax issue charge | | | (10) | |
| Settlement of federal tax issue | | | 619 | |
| Tax effect of pre-tax adjustments | | | (47) | |
| Discontinued operations, net** | (269) | | 105 | |
| Corporate Core Results | | | | |
| Non Segment | (2,006) | | (1,387) | |
| TOTAL CORE EARNINGS | \$ 2,355 | \$ 5.45 | \$ 1,612 | \$ 3.96 |

* Interest expense, income taxes, G&A expense and other, and non-core items.

** Amount shown after tax.

SIGNATURE

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

OCCIDENTAL PETROLEUM CORPORATION
(Registrant)

DATE: August 4, 2006

/s/ Jim A. Leonard
Jim A. Leonard, Vice President and Controller

(Principal Accounting and Duly Authorized Officer)

EXHIBIT INDEX

- 99.1 Press release dated August 4, 2006.
- 99.2 Full text of speeches given by Dr. Ray R. Irani and Stephen I. Chazen.
- 99.3 Investor Relations Supplemental Schedules.