



**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, 2011

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, or 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 April 30, 2011 383,446,599

## **TABLE OF CONTENTS**

### PART I — FINANCIAL INFORMATION

ITEM 1 — FINANCIAL STATEMENTS

ITEM 2 — MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

ITEM 3 QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

ITEM 4 CONTROLS AND PROCEDURES

### PART II — OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

ITEM 1A. RISK FACTORS

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

ITEM 4. REMOVED AND RESERVED

ITEM 5. OTHER INFORMATION

ITEM 6. EXHIBITS

### SIGNATURES

EX-10.1

EX-10.2

EX-10.3

EX-10.4

EX-10.5

EX-10.6

EX-14.1

EX-31.1

EX-31.2

EX-32.1

EX-101 INSTANCE DOCUMENT

EX-101 SCHEMA DOCUMENT

EX-101 CALCULATION LINKBASE DOCUMENT

EX-101 LABELS LINKBASE DOCUMENT

EX-101 PRESENTATION LINKBASE DOCUMENT

EX-101 DEFINITION LINKBASE DOCUMENT

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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 March 31,	
	2011	2010
	(In millions, except per common share data)	
<b>REVENUES AND OTHER:</b>		
Oil and gas production revenues	\$ 3,878	\$ 2,693
Other	47	(20)
	<u>3,925</u>	<u>2,673</u>
<b>OPERATING EXPENSES:</b>		
Depreciation, depletion and amortization	936	639
Asset retirement obligation accretion	37	24
Lease operating expenses	623	440
Gathering and transportation	76	40
Taxes other than income	164	177
General and administrative	112	87
Merger, acquisitions & transition	5	—
Financing costs, net	45	59
	<u>1,998</u>	<u>1,466</u>
<b>INCOME BEFORE INCOME TAXES</b>	<u>1,927</u>	<u>1,207</u>
Current income tax provision	643	343
Deferred income tax provision	150	159
<b>NET INCOME</b>	<u>1,134</u>	<u>705</u>
Preferred stock dividends	19	—
<b>INCOME ATTRIBUTABLE TO COMMON STOCK</b>	<u>\$ 1,115</u>	<u>\$ 705</u>
<b>NET INCOME PER COMMON SHARE:</b>		
Basic	<u>\$ 2.91</u>	<u>\$ 2.09</u>
Diluted	<u>\$ 2.86</u>	<u>\$ 2.08</u>

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

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

	<b>For the Quarter Ended March 31,</b>	
	<b>2011</b>	<b>2010</b>
	<b>(In millions)</b>	
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 1,134	\$ 705
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion and amortization	936	639
Asset retirement obligation accretion	37	24
Provision for deferred income taxes	150	159
Other	(14)	42
Changes in operating assets and liabilities:		
Receivables	(357)	(269)
Inventories	(26)	(8)
Drilling advances	(18)	4
Deferred charges and other	104	4
Accounts payable	95	116
Accrued expenses	(65)	(274)
Deferred credits and noncurrent liabilities	3	12
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>1,979</b>	<b>1,154</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Additions to oil and gas property	(1,571)	(959)
Additions to gas gathering, transmission and processing facilities	(125)	(115)
Other	(53)	26
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(1,749)</b>	<b>(1,048)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Commercial paper, credit facility and bank notes, net	19	(3)
Dividends paid	(76)	(50)
Common stock activity	26	11
Treasury stock activity, net	4	1
Other	19	13
<b>NET CASH USED IN FINANCING ACTIVITIES</b>	<b>(8)</b>	<b>(28)</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>222</b>	<b>78</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b>134</b>	<b>2,048</b>
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b>\$ 356</b>	<b>\$ 2,126</b>
<b>SUPPLEMENTARY CASH FLOW DATA:</b>		
Interest paid, net of capitalized interest	\$ 73	\$ 74
Income taxes paid, net of refunds	448	293

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

**APACHE CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEET**  
(Unaudited)

	<u>March 31,</u> <u>2011</u>	<u>December 31,</u> <u>2010</u>
(In millions)		
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 356	\$ 134
Receivables, net of allowance	2,490	2,134
Inventories	593	564
Drilling advances	277	259
Prepaid assets and other	285	389
	<u>4,001</u>	<u>3,480</u>
<b>PROPERTY AND EQUIPMENT:</b>		
Oil and gas, on the basis of full-cost accounting:		
Proved properties	59,397	57,904
Unproved properties and properties under development, not being amortized	5,237	5,048
Gathering, transmission and processing facilities	4,337	4,212
Other	606	582
	<u>69,577</u>	<u>67,746</u>
Less: Accumulated depreciation, depletion and amortization	(30,531)	(29,595)
	<u>39,046</u>	<u>38,151</u>
<b>OTHER ASSETS:</b>		
Goodwill	1,032	1,032
Deferred charges and other	787	762
	<u>\$ 44,866</u>	<u>\$ 43,425</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 906	\$ 779
Accrued operating expense	191	163
Accrued exploration and development	1,399	1,367
Accrued compensation and benefits	131	231
Current debt	30	46
Current asset retirement obligation	373	407
Derivative instruments	491	194
Other	436	337
	<u>3,957</u>	<u>3,524</u>
<b>LONG-TERM DEBT</b>	<u>8,130</u>	<u>8,095</u>
<b>DEFERRED CREDITS AND OTHER NONCURRENT LIABILITIES:</b>		
Income taxes	4,265	4,249
Asset retirement obligation	2,482	2,465
Other	834	715
	<u>7,581</u>	<u>7,429</u>
<b>COMMITMENTS AND CONTINGENCIES (Note 7)</b>		
<b>SHAREHOLDERS' EQUITY:</b>		
Preferred stock, no par value, 5,000,000 shares authorized, 6% Cumulative Mandatory Convertible, Series D, \$1,000 per share liquidation preference, 1,265,000 shares issued and outstanding	1,227	1,227
Common stock, \$0.625 par, 430,000,000 shares authorized, 384,557,618 and 383,668,297 shares issued, respectively	240	240
Paid-in capital	8,928	8,864
Retained earnings	15,281	14,223
Treasury stock, at cost, 1,179,647 and 1,276,555 shares, respectively	(33)	(36)
Accumulated other comprehensive loss	(445)	(141)
	<u>25,198</u>	<u>24,377</u>
	<u>\$ 44,866</u>	<u>\$ 43,425</u>

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

**APACHE CORPORATION AND SUBSIDIARIES**  
**STATEMENT OF CONSOLIDATED SHAREHOLDERS' EQUITY**  
**(Unaudited)**

	<u>Comprehensive Income</u>	<u>Series D Preferred Stock</u>	<u>Common Stock</u>	<u>Paid-In Capital</u>	<u>Retained Earnings</u>	<u>Treasury Stock</u>	<u>Accumulated Other Comprehensive Income (Loss)</u>	<u>Total Shareholders' Equity</u>
	(In millions)							
BALANCE AT DECEMBER 31, 2009	\$ —	\$ 215	\$ 4,634	\$ 11,437	\$ (217)	\$ (290)	\$ 15,779	
Comprehensive income:								
Net income	\$ 705	—	—	705	—	—	705	
Commodity hedges, net of income tax expense of \$111	250	—	—	—	—	250	250	
Comprehensive income	<u>\$ 955</u>							
Common stock dividends (\$.15 per share)		—	—	—	(51)	—	(51)	
Common shares issued		—	—	12	—	—	12	
Treasury shares issued, net		—	—	1	—	1	2	
Compensation expense		—	—	61	—	—	61	
BALANCE AT MARCH 31, 2010	<u>\$ —</u>	<u>\$ 215</u>	<u>\$ 4,708</u>	<u>\$ 12,091</u>	<u>\$ (216)</u>	<u>\$ (40)</u>	<u>\$ 16,758</u>	
BALANCE AT DECEMBER 31, 2010	\$ 1,227	\$ 240	\$ 8,864	\$ 14,223	\$ (36)	\$ (141)	\$ 24,377	
Comprehensive income:								
Net income	\$ 1,134	—	—	1,134	—	—	1,134	
Commodity hedges, net of income tax benefit of \$131	(304)	—	—	—	—	(304)	(304)	
Comprehensive income	<u>\$ 830</u>							
Cash dividends:								
Preferred		—	—	—	(19)	—	(19)	
Common (\$.15 per share)		—	—	—	(58)	—	(58)	
Common shares issued		—	—	16	—	—	16	
Treasury shares issued, net		—	—	3	—	3	6	
Compensation expense		—	—	45	—	—	45	
Other		—	—	—	1	—	1	
BALANCE AT MARCH 31, 2011	<u>\$ 1,227</u>	<u>\$ 240</u>	<u>\$ 8,928</u>	<u>\$ 15,281</u>	<u>\$ (33)</u>	<u>\$ (445)</u>	<u>\$ 25,198</u>	

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

**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). 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 Amended Annual Report on Form 10-K/A for the fiscal year ended December 31, 2010, 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 March 31, 2011, Apache's significant accounting policies are consistent with those discussed in Note 1 of its consolidated financial statements contained in the Amended Annual Report on Form 10-K/A for the fiscal year ended December 31, 2010.

**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 fair value of acquired assets and liabilities, 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.

**2. ACQUISITIONS AND DIVESTITURES**

**2011 Activity**

***Kitimat LNG Project***

In 2010 Apache Canada Ltd. (Apache Canada) and EOG Resources Canada, Inc. (EOG Canada), through their subsidiaries, purchased 51-percent and 49-percent interests, respectively, in a planned liquefied natural gas (LNG) export terminal (Kitimat LNG facility) and 25.5-percent and 24.5-percent interests, respectively, in Pacific Trail Pipelines Limited Partnership (PTP), a partnership that owns a related proposed pipeline. In February 2011, in order to align ownership and interests on the planned facility and pipeline development, Apache Canada and EOG Canada agreed to purchase Pacific Northern Gas Ltd.'s (PNG) remaining interest in PTP for \$50 million. Following the close of the acquisition, Apache and EOG owned 51-percent and 49-percent interests, respectively, in PTP and secured full ownership in the proposed pipeline to transport natural gas from production areas to the Kitimat LNG facility. Under the terms of the agreement, PNG will operate and maintain the pipeline under a seven-year agreement with provisions for five-year renewals.

In March 2011, Apache Canada and EOG Canada announced that Encana Corporation agreed to purchase a 30-percent working interest ownership in both the Kitimat LNG facility and PTP. Under the new ownership agreement, Apache retained a 40-percent interest in both the facility and the related pipeline while EOG retained a 30-percent interest.

**2010 Activity**

During 2010 Apache completed the following material transactions:

***Gulf of Mexico Shelf Acquisition***

In June 2010 Apache completed an acquisition of oil and gas assets on the Gulf of Mexico shelf from Devon Energy Corporation (Devon) for \$1.05 billion, subject to normal post-closing adjustments. The acquisition was effective January 1, 2010 and was funded primarily from existing cash balances.

## [Table of Contents](#)

### **BP Acquisitions**

In July 2010 Apache entered into three definitive purchase and sale agreements to acquire properties from subsidiaries of BP plc (collectively referred to as "BP") for aggregate consideration of \$7.0 billion. The effective date of the transactions was July 1, 2010. The acquisition of BP's oil and gas operations, related infrastructure and acreage in the Permian Basin of west Texas and New Mexico was completed on August 10, 2010, for an agreed-upon purchase price of \$3.1 billion. Apache completed the acquisition of substantially all of BP's Western Canadian upstream natural gas assets on October 8, 2010, for \$3.25 billion. On November 4, 2010, the Company completed the acquisition of BP's interests in four development licenses and one exploration concession in the Western Desert of Egypt for \$650 million. Preferential purchase rights for \$658 million of the value of the Permian Basin properties were exercised, and accordingly, the aggregate purchase price for all three transactions was reduced to approximately \$6.4 billion, subject to normal post-closing adjustments.

The acquisitions were funded by issuing a combination of common stock and mandatory convertible preferred shares, issuing new term debt and commercial paper, and using existing cash balances.

### **Mariner Energy, Inc. Merger**

In November 2010 Apache acquired Mariner Energy, Inc. (Mariner), an independent exploration and production company, in a stock and cash transaction totaling \$2.7 billion. The Company also assumed approximately \$1.7 billion of Mariner's debt with the merger. Mariner's oil and gas properties are primarily located in the Gulf of Mexico deepwater and shelf, the Permian Basin and onshore in the Gulf Coast region. The transaction was accounted for using the acquisition method of accounting, which requires that assets acquired and liabilities assumed be recognized at their fair values as of the acquisition date. Certain assets and liabilities may be adjusted as additional information is obtained, but no later than one year from the acquisition date.

### **Pro Forma Impact of Acquisitions (Unaudited)**

The Devon acquisition, BP acquisitions and Mariner merger were completed subsequent to the first quarter of 2010. The following table presents pro forma information for Apache as if the acquisitions and merger occurred prior to January 1, 2010:

	<b>For the Quarter Ended March 31, 2010 (In millions, except per share amounts)</b>
Revenues and Other	\$ 3,261
Net Income	\$ 792
Preferred Stock Dividends	19
Income Attributable to Common Stock	773
Net Income per Common Share — Basic	\$ 2.03
Net Income per Common Share — Diluted	\$ 2.00

Apache's historical financial information was adjusted to give effect to the pro forma events that were directly attributable to the acquisitions and merger and factually supportable. The unaudited pro forma consolidated results are not necessarily indicative of what the Company's consolidated results of operations actually would have been had the acquisitions and merger been completed prior to January 1, 2010. In addition, the unaudited pro forma consolidated results do not purport to project the future results of operations of the combined company. Adjustments and assumptions made for this pro forma calculation are consistent with those used in the Company's annual pro forma information as more fully described in Note 2 of the financial statements in Apache's Amended Annual Report on Form 10-K/A for its 2010 fiscal year.

### 3. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

#### Objectives and Strategies

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 by entering into derivative instruments on a portion of its crude oil and natural gas production. The Company utilizes various types of derivative financial instruments, including swaps and options, to manage fluctuations in cash flows resulting from changes in commodity prices. Derivatives entered into are typically designated as cash flow hedges.

#### Counterparty Risk

The use of derivative instruments exposes the Company to counterparty credit risk, or the risk that a counterparty will be unable to meet its commitments. To reduce the concentration of exposure to any individual counterparty, Apache utilizes a diversified group of investment-grade rated counterparties, primarily financial institutions, for its derivative transactions. As of March 31, 2011, Apache had derivative positions with 20 counterparties. 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 resulting from 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 in its credit ratings, as defined in the applicable agreement, the other party has the right to demand the posting of collateral, demand a transfer or terminate the arrangement.

#### Derivative Instruments

As of March 31, 2011, Apache had the following open natural gas derivative positions:

Production Period	Fixed-Price Swaps			Collars			
	MMBtu (in 000's)	GJ (in 000's)	Weighted Average Fixed Price(1)	MMBtu (in 000's)	GJ (in 000's)	Weighted Average Floor Price(1)	Weighted Average Ceiling Price(1)
2011	55,699	—	\$5.99	6,875	—	\$5.00	\$8.85
2011	—	38,500	C\$6.26	—	2,750	C\$6.50	C\$7.10
2012	41,554	—	\$6.30	21,960	—	\$5.54	\$7.30
2012	—	43,920	C\$6.61	—	7,320	C\$6.50	C\$7.27
2013	7,665	—	\$6.83	6,825	—	\$5.35	\$6.67
2014	755	—	\$7.23	—	—	\$ —	\$ —

- (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 primarily against NYMEX Henry Hub and various Inside FERC indices. The Canadian gas contracts are entered into on a per gigajoule (GJ) basis and are settled against AECO Index. The Canadian natural gas prices represent a weighted average of AECO Index prices and are shown in Canadian dollars.

As of March 31, 2011, Apache had the following open crude oil derivative positions:

Production Period	Fixed-Price Swaps		Collars		
	Mbbls	Weighted Average Fixed Price(1)	Mbbls	Weighted Average Floor Price(1)	Weighted Average Ceiling Price(1)
2011	4,127	\$73.57	22,595	\$69.15	\$ 96.66
2012	3,786	72.26	9,142	69.30	98.11
2013	1,860	74.38	2,416	78.02	103.06
2014	76	74.50	—	—	—

- (1) Crude oil prices represent a weighted average of several contracts entered into on a per barrel basis. Crude oil contracts are primarily settled against NYMEX WTI Cushing Index. A portion of 2011 contracts are settled against Dated Brent.

Apache North Sea Ltd has entered into a physical sales contract to deliver 20,000 barrels of oil per day in 2011, settled against Dated Brent with a floor price of \$70 per barrel and an average ceiling price of \$98.56 per barrel. These sales are in the normal course of business and are recognized in oil and gas revenues on an accrual basis.

[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 Accounting Standards Codification (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 and their locations on the consolidated balance sheet are as follows:

	March 31, 2011	December 31, 2010
	(In millions)	
Current Assets: Prepaid assets and other	\$ 144	\$ 167
Other Assets: Deferred charges and other	108	139
<b>Total Assets</b>	<b>\$ 252</b>	<b>\$ 306</b>
Current Liabilities: Derivative instruments	\$ 491	\$ 194
Noncurrent Liabilities: Other	217	124
<b>Total Liabilities</b>	<b>\$ 708</b>	<b>\$ 318</b>

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 are more fully discussed in Note 9 — Fair Value Measurements.

**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 Income	For the Quarter Ended March 31,	
		2011	2010
(In millions)			
Gain (loss) reclassified from accumulated other comprehensive income (loss) into operations (effective portion)	Oil and Gas Production Revenues	\$ 6	\$(1)
Gain (loss) on derivatives recognized in operations (ineffective portion and basis)	Revenues and Other: Other	\$(3)	\$(1)

**Derivative Activity in Accumulated Other Comprehensive Income (Loss)**

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:

	For the Quarter Ended March 31,			
	2011		2010	
	Before tax	After tax	Before tax	After tax
(In millions)				
Unrealized gain (loss) on derivatives at beginning of period	\$ (54)	\$ (19)	\$ (267)	\$ (170)
Realized amounts reclassified into earnings	(6)	(4)	1	1
Net change in derivative fair value	(432)	(302)	359	249
Ineffectiveness and basis swaps reclassified into earnings	3	2	1	—
<b>Unrealized gain (loss) on derivatives at end of period</b>	<b>\$ (489)</b>	<b>\$ (323)</b>	<b>\$ 94</b>	<b>\$ 80</b>

Gains and losses on existing hedges will be realized in future earnings through mid-2014, in the same period as the related sales of natural gas and crude oil production occur. Included in accumulated other comprehensive loss as of March 31, 2011, is a net loss of approximately \$360 million (\$248 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](#)

**4. ASSET RETIREMENT OBLIGATION**

The following table describes changes to the Company's asset retirement obligation (ARO) liability for the quarter ended March 31, 2011:

	(In millions)
Asset retirement obligation at December 31, 2010	\$ 2,872
Liabilities incurred	98
Liabilities settled	(152)
Accretion expense	37
Asset retirement obligation at March 31, 2011	2,855
Less current portion	(373)
Asset retirement obligation, long-term	<u>\$ 2,482</u>

**5. DEBT AND FINANCING COSTS**

The following table presents the carrying amounts and estimated fair values of the Company's outstanding debt at March 31, 2011 and December 31, 2010:

	March 31, 2011		December 31, 2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(In millions)			
Money market lines of credit	\$ 30	\$ 30	\$ 46	\$ 46
Commercial paper	947	947	913	913
Notes and debentures	7,183	7,672	7,182	7,870
Total Debt	<u>\$ 8,160</u>	<u>\$ 8,649</u>	<u>\$ 8,141</u>	<u>\$ 8,829</u>

The Company's debt is recorded at the carrying amount on its consolidated balance sheet, net of unamortized discount. The carrying amount of the Company's money market lines of credit and commercial paper approximates fair value because the interest rates are variable and reflective of market rates. Apache uses a market approach to determine the fair value of its notes and debentures using estimates provided by an independent investment financial data services firm (a Level 2 fair value measurement). For further discussion on determining fair value, please see Note 9 — Fair Value Measurements.

As of March 31, 2011, the Company had unsecured committed revolving syndicated bank credit facilities totaling \$3.3 billion, of which \$1.0 billion matures in August 2011 and \$2.3 billion matures in May 2013. The facilities consist of a \$1.0 billion 364-day facility, 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. As of March 31, 2011, available borrowing capacity under the Company's credit facilities was \$2.4 billion. The U.S. credit facilities are used to support Apache's commercial paper program.

The Company has available a \$2.95 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 2011 and 2013. As of March 31, 2011, the Company had \$947 million in commercial paper outstanding, compared with \$913 million outstanding as of December 31, 2010.

As of March 31, 2011, there was \$30 million borrowed on uncommitted overdraft lines in Canada and Argentina. As of December 31, 2010, there was \$46 million drawn on uncommitted overdraft lines in the U.S. and Argentina.

**Financing Costs**

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

	For the Quarter Ended	
	March 31,	
	2011	2010
	(In millions)	
Interest expense	\$ 108	\$ 77
Amortization of deferred loan costs	1	1
Capitalized interest	(60)	(17)
Interest income	(4)	(2)
Financing costs, net	<u>\$ 45</u>	<u>\$ 59</u>

## 6. 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. There were no significant discrete tax events that occurred during the first quarter of 2011 and 2010.

In March 2011 the U.K. government proposed a 12-percent increase to the supplementary tax rate applied to North Sea oil and gas profits. The legislation is expected to be enacted in the third quarter of 2011. Upon enactment, the Company will adjust its outstanding deferred tax liabilities and will record a non-recurring charge to tax expense in that quarter. The enacted tax rate change will also increase the provision for income taxes in the Company's consolidated financial statements for periods the rate is effective. The Company estimates the proposed legislation to result in additional tax expense in 2011 of \$300 to \$350 million based on current forecasts.

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 through 2007 tax years and under audit for the 2008 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.

## 7. COMMITMENTS AND CONTINGENCIES

### Legal Matters

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 \$15 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 effect on the Company's financial position or results of operations.

#### *Argentine Environmental Claims*

As more fully described in Note 8 of the financial statements in our Amended Annual Report on Form 10-K/A for our 2010 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 Superficialarios 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 Amended Annual Report on Form 10-K/A, except as follows:

#### *Louisiana Restoration*

As more fully described in Note 8 of the financial statements in our Amended Annual Report on Form 10-K/A for our 2010 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 Amended Annual Report on Form 10-K/A.

### ***Australia Gas Pipeline Force Majeure***

As more fully described in Note 8 of the financial statements in our Amended Annual Report on Form 10-K/A for our 2010 fiscal year, in 2008 Company subsidiaries reported a pipeline explosion that interrupted deliveries of natural gas in Australia to customers under various long-term contracts. No material change in the status of these matters has occurred since the filing of our most recent Amended Annual Report on Form 10-K/A except as follows:

In the first quarter of 2011, Apache Northwest Pty Ltd and Apache Energy Limited were served with a lawsuit captioned *Alcoa of Australia Limited vs. Apache Energy Limited, Apache Northwest Pty Ltd, Tap (Harriet) Pty Ltd, and Kufpec Australia Pty Ltd*, Civ. 1481 of 2011, in the Supreme Court of Western Australia. The lawsuit concerns the pipeline explosion at Varanus Island in Western Australia on June 3, 2008 that interrupted deliveries of natural gas to Alcoa under two long-term contracts. Alcoa challenges the declaration of force majeure and the validity of the liquidated damages provisions in the contracts. Alcoa asserts claims based on breach of contract, statutory duties, and duty of care. Alcoa seeks approximately \$158 million AUD in general damages or, alternatively, approximately \$5.7 million AUD in liquidated damages. Apache Northwest and Apache Energy do not believe that Alcoa's claims have merit and will vigorously pursue their defenses against such claims.

In reference to the pipeline license described in Note 8 of the financial statements in our Amended Annual Report on Form 10-K/A for our 2010 fiscal year, the application by Apache Northwest Pty Ltd, Kufpec Australia Pty Ltd, and Tap (Harriet) Pty Ltd for renewal and variation of the pipeline license covering the area of the Varanus Island facility was granted on April 19, 2011 by the Government of Western Australia, Department of Mines and Petroleum. The period of the license is 21 years commencing April 20, 2011.

### ***Mariner Stockholder Lawsuits***

As more fully described in Note 8 of the financial statements in our Amended Annual Report on Form 10-K/A for our 2010 fiscal year, in connection with the Mariner merger, two shareholder lawsuits styled as class actions were filed against Mariner and its board of directors. These lawsuits have been settled and will not have a material impact on Apache. On March 14, 2011, the Court of Chancery in the State of Delaware certified the settlement class and approved the parties' settlement. An Order and Final Judgment was entered by such Court on March 15, 2011. The plaintiffs in the related action in the District Court of Harris County, Texas, filed a notice of nonsuit resulting in the Court's dismissal of the case with prejudice, thus concluding the matter.

### ***Escheat Audits***

The State of Delaware, Department of Finance, Division of Revenue (Unclaimed Property), has notified numerous companies, including Apache Corporation, that the State intends to examine its books and records and those of its subsidiaries and related entities to determine compliance with the Delaware Escheat Laws. The review will be conducted by Kelmar Associates on behalf of the State. At least 30 other states have retained their own consultants and have sent similar notifications. The scope of each state's audit varies. The State of Delaware advises, for example, that the scope of its examination will be for the period 1981 through the present. It is possible that one or more of the State audits could extend to all 50 states.

### **Environmental Matters**

As of March 31, 2011, the Company had an undiscounted reserve for environmental remediation of approximately \$135 million. The Company is not aware of any environmental claims existing as of March 31, 2011, 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.

Apache Canada Ltd. has asserted a claim against BP Canada arising out of the acquisition of certain Canadian properties under the parties' Partnership Interest and Share Purchase and Sale Agreement dated July 20, 2010. The dispute centers on Apache Canada Ltd.'s identification of Alleged Adverse Conditions, as that term is defined in the parties' agreement, and more specifically the contention that liabilities associated with such conditions were retained by BP Canada as seller. Apache Canada Ltd. is diligently pursuing this claim.

On March 4, 2011, Mariner Energy, Inc. (MEI) (predecessor in interest to Apache Deepwater LLC) received notice of a civil penalty assessment in the amount of \$460,000 in relation to an Incident of Noncompliance dated August 5, 2010 at High Island Area Block 116, Platform B, Lease No. OCS-G 06156, in Civil Penalty Case G-2010-023. The civil penalty assessment concerned sustained casing pressure and the basis of the assessment was 30 CFR 250.107(a). The March 4, 2011, notice advised MEI of the initiation of administrative civil penalty proceedings. Within 30 days from the date of the notice MEI paid the assessment, thus concluding the matter.

**8. CAPITAL STOCK****Net Income per Common Share**

A reconciliation of the components of basic and diluted net income per common share for the quarters ended March 31, 2011 and 2010 is presented in the table below.

	For the Quarter Ended March 31,					
	2011			2010		
	Income	Shares	Per Share	Income	Shares	Per Share
	(In millions, except per share amounts)					
<b>Basic:</b>						
Income attributable to common stock	\$ 1,115	383	\$ 2.91	\$ 705	337	\$ 2.09
<b>Effect of Dilutive Securities:</b>						
Mandatory Convertible Preferred Stock	19	12	—	—	—	—
Stock options and other	—	2	—	—	2	—
<b>Diluted:</b>						
Income attributable to common stock, including assumed conversions	\$ 1,134	397	\$ 2.86	\$ 705	339	\$ 2.08

The diluted earnings per share calculation excludes options and restricted stock units that were anti-dilutive totaling 1.6 million for each of the quarters ending March 31, 2011 and 2010.

**Issuance of Common and Preferred Shares**

In July 2010, in conjunction with Apache's acquisition of properties from BP, the Company issued 26.45 million shares of common stock, as well as 25.3 million depository shares, each representing a 1/20<sup>th</sup> interest in a share of Apache's 6.00-percent Mandatory Convertible Preferred Stock, Series D, or 1.265 million Preferred Shares. Each outstanding Preferred Share will, on August 1, 2013, automatically convert into a minimum of 9.164 or a maximum of 11.364 shares of Apache common stock depending on an average underlying price of the common stock immediately preceding the conversion.

In November 2010, in connection with the Mariner merger, Apache issued 17.3 million shares of common stock in exchange for Mariner common and restricted stock. For further discussion of the BP acquisitions and Mariner merger, please see Note 2 — Acquisitions and Divestitures.

**Common and Preferred Stock Dividends**

During the first quarters of 2011 and 2010, Apache paid \$57 million and \$50 million, respectively, in dividends on its common stock. In the first quarter of 2011, the Company also paid a total of \$19 million in dividends on its Series D Preferred Stock.

**Conditional Restricted Stock Units**

To provide long-term incentives for Apache employees to deliver competitive returns to the Company's stockholders, in January 2010 the Company's Board of Directors approved the 2010 Performance Program, pursuant to the 2007 Omnibus Equity Compensation Plan (the 2007 Plan). Eligible employees received initial conditional restricted stock unit awards totaling 541,465 units. A total of 503,840 units were outstanding at March 31, 2011, from which a minimum of zero and a maximum of 1,259,600 units could be awarded based upon measurement of total shareholder return of Apache common stock as compared to a designated peer group during a three-year performance period. Should any restricted stock units be awarded at the end of the three-year performance period, 50 percent of restricted stock units awarded will immediately vest, and an additional 25 percent will vest on succeeding anniversaries of the end of the performance period.

In January 2011 the Company's Board of Directors approved the 2011 Performance Program, pursuant to the 2007 Plan, with terms similar to the 2010 Performance Program. Eligible employees received initial conditional restricted stock unit awards totaling 585,811 units. A total of 570,645 units were outstanding at March 31, 2011, with the ultimate number of restricted stock units to be awarded ranging from zero to a maximum of 1,426,613 units.

**9. FAIR VALUE MEASUREMENTS**

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 because of 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 uses a market approach to estimate the fair values of its derivative instruments. A market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities. The Company's derivatives are not actively quoted in the open market but are valued utilizing commodity futures price strips for the underlying commodities, which are provided by a reputable third-party. For further information regarding Apache's derivative instruments and hedging activities, please see Note 3 — Derivative Instruments and Hedging Activities of this Form 10-Q.

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

	Fair Value Measurements Using			Total Fair Value	Netting <sup>(1)</sup>	Carrying Amount
	Quoted Price in Active Markets (Level 1)	Significant Other Inputs (Level 2)	Significant Unobservable Inputs (Level 3)			
(In millions)						
<b>March 31, 2011</b>						
Assets:						
Commodity Derivative Instruments	\$ —	\$ 404	\$ —	\$ 404	\$ (152)	\$ 252
Liabilities:						
Commodity Derivative Instruments	—	860	—	860	(152)	708
<b>December 31, 2010</b>						
Assets:						
Commodity Derivative Instruments	\$ —	\$ 454	\$ —	\$ 454	\$ (148)	\$ 306
Liabilities:						
Commodity Derivative Instruments	—	466	—	466	(148)	318

(1) The derivative fair values above are based on analysis of each contract on a gross basis, even where the legal right of offset exists, as required by ASC Topic 820. The carrying amounts of derivative assets and liabilities reported on the consolidated balance sheet are determined by netting asset and liability positions where counterparty master netting arrangements contain provisions for net settlement. See Note 3 — Derivative Instruments and Hedging Activities of this Form 10-Q for a discussion of amounts recorded on the consolidated balance sheet at March 31, 2011 and December 31, 2010.

**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. At March 31, 2011, the Company had exploration and production interests in seven countries: the United States, Canada, Egypt, Australia, offshore the United Kingdom (U.K.) in the North Sea, Argentina and Chile. Financial information for each country is presented below:

	United States	Canada	Egypt	Australia	U.K. North Sea	Argentina	Other International	Total
(In millions)								
<b>For the Quarter Ended March 31, 2011</b>								
Oil and Gas Production								
Revenues	\$ 1,377	\$ 402	\$ 1,199	\$ 372	\$ 430	\$ 98	\$ —	\$ 3,878
Operating Income (1)	\$ 629	\$ 78	\$ 893	\$ 226	\$ 206	\$ 10	\$ —	\$ 2,042
Other Income (Expense):								
Other								47
General and administrative								(112)
Merger, acquisitions & transition								(5)
Financing costs, net								(45)
Income Before Income Taxes								\$ 1,927
Total Assets	\$ 21,683	\$ 8,635	\$ 6,266	\$ 4,016	\$ 2,609	\$ 1,598	\$ 59	\$ 44,866
<b>For the Quarter Ended March 31, 2010</b>								
Oil and Gas Production								
Revenues	\$ 993	\$ 252	\$ 741	\$ 224	\$ 391	\$ 92	\$ —	\$ 2,693
Operating Income (1)	\$ 511	\$ 95	\$ 493	\$ 100	\$ 149	\$ 25	\$ —	\$ 1,373
Other Income (Expense):								
Other								(20)
General and administrative								(87)
Financing costs, net								(59)
Income Before Income Taxes								\$ 1,207
Total Assets	\$ 11,943	\$ 4,115	\$ 5,809	\$ 3,515	\$ 2,335	\$ 1,459	\$ 52	\$ 29,228

(1) Operating Income consists of oil and gas production revenues less depreciation, depletion and amortization, asset retirement obligation accretion, lease operating expenses, gathering and transportation costs, and taxes other than income.

**11. SUPPLEMENTAL GUARANTOR INFORMATION**

Apache Finance Canada Corporation (Apache Finance Canada) is a wholly-owned subsidiary of Apache and issued approximately \$300 million of publicly-traded notes due in 2029 and an additional \$350 million of publicly-traded notes due in 2015 that are fully and unconditionally guaranteed by Apache. The following condensed consolidating financial statements are provided as an alternative to filing separate financial statements.

Apache Finance Canada has been fully consolidated in Apache's consolidated financial statements. As such, these condensed consolidating financial statements should be read in conjunction with the financial statements of Apache Corporation and subsidiaries and notes thereto, of which this note is an integral part.

**APACHE CORPORATION AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS**  
**For the Quarter Ended March 31, 2011**

	<u>Apache Corporation</u>	<u>Apache Finance Canada</u>	<u>All Other Subsidiaries of Apache Corporation (In millions)</u>	<u>Reclassifications &amp; Eliminations</u>	<u>Consolidated</u>
<b>REVENUES AND OTHER:</b>					
Oil and gas production revenues	\$ 1,006	\$ —	\$ 2,872	\$ —	\$ 3,878
Equity in net income (loss) of affiliates	894	(14)	(28)	(852)	—
Other	1	(20)	67	(1)	47
	<u>1,901</u>	<u>(34)</u>	<u>2,911</u>	<u>(853)</u>	<u>3,925</u>
<b>OPERATING EXPENSES:</b>					
Depreciation, depletion and amortization	300	—	636	—	936
Asset retirement obligation accretion	17	—	20	—	37
Lease operating expenses	191	—	432	—	623
Gathering and transportation	12	—	64	—	76
Taxes other than income	41	—	123	—	164
General and administrative	89	—	24	(1)	112
Merger, acquisitions & transition	5	—	—	—	5
Financing costs, net	37	14	(6)	—	45
	<u>692</u>	<u>14</u>	<u>1,293</u>	<u>(1)</u>	<u>1,998</u>
<b>INCOME (LOSS) BEFORE INCOME TAXES</b>	1,209	(48)	1,618	(852)	1,927
Provision (benefit) for income taxes	75	(6)	724	—	793
<b>NET INCOME (LOSS)</b>	1,134	(42)	894	(852)	1,134
Preferred stock dividends	19	—	—	—	19
<b>INCOME (LOSS) ATTRIBUTABLE TO COMMON STOCK</b>	<u>\$ 1,115</u>	<u>\$ (42)</u>	<u>\$ 894</u>	<u>\$ (852)</u>	<u>\$ 1,115</u>

**APACHE CORPORATION AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS**  
**For the Quarter Ended March 31, 2010**

	<u>Apache Corporation</u>	<u>Apache Finance Canada</u>	<u>All Other Subsidiaries of Apache Corporation (In millions)</u>	<u>Reclassifications &amp; Eliminations</u>	<u>Consolidated</u>
<b>REVENUES AND OTHER:</b>					
Oil and gas production revenues	\$ 898	\$ —	\$ 1,795	\$ —	\$ 2,693
Equity in net income (loss) of affiliates	458	24	(5)	(477)	—
Other	1	14	(34)	(1)	(20)
	<u>1,357</u>	<u>38</u>	<u>1,756</u>	<u>(478)</u>	<u>2,673</u>
<b>OPERATING EXPENSES:</b>					
Depreciation, depletion and amortization	217	—	422	—	639
Asset retirement obligation accretion	12	—	12	—	24
Lease operating expenses	168	—	272	—	440
Gathering and transportation	10	—	30	—	40
Taxes other than income	36	—	141	—	177
General and administrative	72	—	16	(1)	87
Financing costs, net	53	14	(8)	—	59
	<u>568</u>	<u>14</u>	<u>885</u>	<u>(1)</u>	<u>1,466</u>
<b>INCOME BEFORE INCOME TAXES</b>	789	24	871	(477)	1,207
Provision for income taxes	84	6	412	—	502
<b>INCOME ATTRIBUTABLE TO COMMON STOCK</b>	<u>\$ 705</u>	<u>\$ 18</u>	<u>\$ 459</u>	<u>\$ (477)</u>	<u>\$ 705</u>

**APACHE CORPORATION AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS**  
**For the Quarter Ended March 31, 2011**

	<u>Apache Corporation</u>	<u>Apache Finance Canada</u>	<u>All Other Subsidiaries of Apache Corporation (In millions)</u>	<u>Reclassifications &amp; Eliminations</u>	<u>Consolidated</u>
<b>CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>	<b>\$ 392</b>	<b>\$ (5)</b>	<b>\$ 1,592</b>	<b>\$ —</b>	<b>\$ 1,979</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>					
Additions to oil and gas property	(469)	—	(1,102)	—	(1,571)
Additions to gas gathering, transmission and processing facilities	—	—	(125)	—	(125)
Investment in subsidiaries, net	95	—	—	(95)	—
Other	(17)	—	(36)	—	(53)
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(391)</b>	<b>—</b>	<b>(1,263)</b>	<b>(95)</b>	<b>(1,749)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>					
Commercial paper, credit facility and bank notes, net	19	—	—	—	19
Intercompany borrowings	—	1	(96)	95	—
Dividends paid	(76)	—	—	—	(76)
Common stock activity	26	4	(4)	—	26
Treasury stock activity, net	4	—	—	—	4
Other	27	—	(8)	—	19
<b>NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES</b>	<b>—</b>	<b>5</b>	<b>(108)</b>	<b>95</b>	<b>(8)</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>1</b>	<b>—</b>	<b>221</b>	<b>—</b>	<b>222</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b>6</b>	<b>—</b>	<b>128</b>	<b>—</b>	<b>134</b>
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b>\$ 7</b>	<b>\$ —</b>	<b>\$ 349</b>	<b>\$ —</b>	<b>\$ 356</b>

**APACHE CORPORATION AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS**  
**For the Quarter Ended March 31, 2010**

	<u>Apache Corporation</u>	<u>Apache Finance Canada</u>	<u>All Other Subsidiaries of Apache Corporation (In millions)</u>	<u>Reclassifications &amp; Eliminations</u>	<u>Consolidated</u>
<b>CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>	<b>\$ 599</b>	<b>\$ (10)</b>	<b>\$ 565</b>	<b>\$ —</b>	<b>\$ 1,154</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>					
Additions to oil and gas property	(240)	—	(719)	—	(959)
Additions to gas gathering, transmission and processing facilities	—	—	(115)	—	(115)
Investment in subsidiaries, net	(20)	—	—	20	—
Other	(29)	—	55	—	26
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(289)</b>	<b>—</b>	<b>(779)</b>	<b>20</b>	<b>(1,048)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>					
Commercial paper, credit facility and bank notes, net	—	2	13	(18)	(3)
Dividends paid	(50)	—	—	—	(50)
Common stock activity	11	6	(4)	(2)	11
Treasury stock activity, net	1	—	—	—	1
Cost of debt and equity transactions	—	—	—	—	—
Other	13	—	—	—	13
<b>NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES</b>	<b>(25)</b>	<b>8</b>	<b>9</b>	<b>(20)</b>	<b>(28)</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>285</b>	<b>(2)</b>	<b>(205)</b>	<b>—</b>	<b>78</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b>647</b>	<b>2</b>	<b>1,399</b>	<b>—</b>	<b>2,048</b>
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b>\$ 932</b>	<b>\$ —</b>	<b>\$ 1,194</b>	<b>\$ —</b>	<b>\$ 2,126</b>

**APACHE CORPORATION AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATING BALANCE SHEET**  
**March 31, 2011**

	<u>Apache Corporation</u>	<u>Apache Finance Canada</u>	<u>All Other Subsidiaries of Apache Corporation (In millions)</u>	<u>Reclassifications &amp; Eliminations</u>	<u>Consolidated</u>
<b>ASSETS</b>					
<b>CURRENT ASSETS:</b>					
Cash and cash equivalents	\$ 7	\$ —	\$ 349	\$ —	\$ 356
Receivables, net of allowance	746	—	1,744	—	2,490
Inventories	62	—	531	—	593
Drilling advances	14	2	261	—	277
Prepaid assets and other	3,226	—	(2,941)	—	285
	<u>4,055</u>	<u>2</u>	<u>(56)</u>	<u>—</u>	<u>4,001</u>
<b>PROPERTY AND EQUIPMENT, NET</b>	<u>11,598</u>	<u>—</u>	<u>27,448</u>	<u>—</u>	<u>39,046</u>
<b>OTHER ASSETS:</b>					
Intercompany receivable, net	4,601	—	(3,088)	(1,513)	—
Equity in affiliates	17,456	1,295	87	(18,838)	—
Goodwill, net	—	—	1,032	—	1,032
Deferred charges and other	169	1,003	615	(1,000)	787
	<u>\$ 37,879</u>	<u>\$ 2,300</u>	<u>\$ 26,038</u>	<u>\$ (21,351)</u>	<u>\$ 44,866</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>					
<b>CURRENT LIABILITIES:</b>					
Accounts payable	\$ 498	\$ 3	\$ 1,918	\$ (1,513)	\$ 906
Accrued exploration and development	293	—	1,106	—	1,399
Current debt	—	—	30	—	30
Current asset retirement obligation	317	—	56	—	373
Derivative instruments	376	—	115	—	491
Other accrued expenses	307	13	438	—	758
	<u>1,791</u>	<u>16</u>	<u>3,663</u>	<u>(1,513)</u>	<u>3,957</u>
<b>LONG-TERM DEBT</b>	<u>7,482</u>	<u>647</u>	<u>1</u>	<u>—</u>	<u>8,130</u>
<b>DEFERRED CREDITS AND OTHER NONCURRENT LIABILITIES:</b>					
Income taxes	1,659	5	2,601	—	4,265
Asset retirement obligation	1,008	—	1,474	—	2,482
Other	741	250	843	(1,000)	834
	<u>3,408</u>	<u>255</u>	<u>4,918</u>	<u>(1,000)</u>	<u>7,581</u>
<b>COMMITMENTS AND CONTINGENCIES</b>					
<b>SHAREHOLDERS' EQUITY</b>	<u>25,198</u>	<u>1,382</u>	<u>17,456</u>	<u>(18,838)</u>	<u>25,198</u>
	<u>\$ 37,879</u>	<u>\$ 2,300</u>	<u>\$ 26,038</u>	<u>\$ (21,351)</u>	<u>\$ 44,866</u>

**APACHE CORPORATION AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATING BALANCE SHEET**  
**December 31, 2010**

	<u>Apache Corporation</u>	<u>Apache Finance Canada</u>	<u>All Other Subsidiaries of Apache Corporation (In millions)</u>	<u>Reclassifications &amp; Eliminations</u>	<u>Consolidated</u>
<b>ASSETS</b>					
<b>CURRENT ASSETS:</b>					
Cash and cash equivalents	\$ 6	\$ —	\$ 128	\$ —	\$ 134
Receivables, net of allowance	691	—	1,443	—	2,134
Inventories	55	—	509	—	564
Drilling advances	10	2	247	—	259
Prepaid assets and other	3,313	—	(2,924)	—	389
	<u>4,075</u>	<u>2</u>	<u>(597)</u>	<u>—</u>	<u>3,480</u>
<b>PROPERTY AND EQUIPMENT, NET</b>	<u>11,314</u>	<u>—</u>	<u>26,837</u>	<u>—</u>	<u>38,151</u>
<b>OTHER ASSETS:</b>					
Intercompany receivable, net	4,695	—	(3,149)	(1,546)	—
Equity in affiliates	16,649	1,275	98	(18,022)	—
Goodwill, net	—	—	1,032	—	1,032
Deferred charges and other	178	1,003	581	(1,000)	762
	<u>\$ 36,911</u>	<u>\$ 2,280</u>	<u>\$ 24,802</u>	<u>\$ (20,568)</u>	<u>\$ 43,425</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>					
<b>EQUITY</b>					
<b>CURRENT LIABILITIES:</b>					
Accounts payable	\$ 480	\$ 2	\$ 1,843	\$ (1,546)	\$ 779
Accrued exploration and development	274	—	1,093	—	1,367
Current debt	16	—	30	—	46
Current asset retirement obligation	317	—	90	—	407
Derivative instruments	153	—	41	—	194
Other accrued expenses	400	3	328	—	731
	<u>1,640</u>	<u>5</u>	<u>3,425</u>	<u>(1,546)</u>	<u>3,524</u>
<b>LONG-TERM DEBT</b>	<u>7,447</u>	<u>647</u>	<u>1</u>	<u>—</u>	<u>8,095</u>
<b>DEFERRED CREDITS AND OTHER</b>					
<b>NONCURRENT LIABILITIES:</b>					
Income taxes	1,803	5	2,441	—	4,249
Asset retirement obligation	1,001	—	1,464	—	2,465
Other	643	250	822	(1,000)	715
	<u>3,447</u>	<u>255</u>	<u>4,727</u>	<u>(1,000)</u>	<u>7,429</u>
<b>COMMITMENTS AND CONTINGENCIES</b>					
<b>SHAREHOLDERS' EQUITY</b>	<u>24,377</u>	<u>1,373</u>	<u>16,649</u>	<u>(18,022)</u>	<u>24,377</u>
	<u>\$ 36,911</u>	<u>\$ 2,280</u>	<u>\$ 24,802</u>	<u>\$ (20,568)</u>	<u>\$ 43,425</u>

## ITEM 2 — MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Apache Corporation (Apache or the Company), a Delaware corporation formed in 1954, is an independent energy company that explores for, develops and produces natural gas, crude oil and natural gas liquids. We currently have exploration and production interests in seven countries: the U.S., Canada, Egypt, Australia, offshore the United Kingdom in the North Sea (North Sea), Argentina and Chile.

This discussion relates to Apache Corporation and its consolidated subsidiaries and should be read in conjunction with our consolidated financial statements and accompanying notes included under Part I, Item 1, of this Quarterly Report on Form 10-Q, as well as our consolidated financial statements, accompanying notes and Management’s Discussion and Analysis of Financial Condition and Results of Operations included in our most recent Amended Annual Report on Form 10-K/A.

### **Financial Overview**

Apache’s strategy of maintaining a balanced portfolio of assets, a conservative capital structure and a focus on rate of return has served us well for many years. Our business model continued to deliver during the first quarter of 2011 with earnings of \$1.1 billion, or \$2.86 per diluted common share, up from the comparable year-ago earnings of \$705 million, or \$2.08 per diluted common share. The current period reflects the first full quarter of results from our three major acquisitions completed in 2010 and benefited from substantially higher oil price realizations. Complemented with prior-year acquisition activity, average first-quarter 2011 production of 732 thousand barrels of oil equivalent per day (Mboe/d) set a new record for the Company and represents an increase of 25 percent from first quarter 2010.

Our performance during the period highlights the benefit of having geological and geographical diversity as well as maintaining a balanced product mix. Oil and liquids provided 49 percent of our total production and, with oil prices continuing to rise during the quarter, represented 77 percent of our \$3.9 billion in oil and gas revenues. In addition, approximately 60 percent of our first-quarter crude oil sales came from our international regions (outside of North America) where we receive prices indexed to Dated Brent for the majority of our oil sales. Dated Brent premiums were higher during the quarter than they historically have been relative to West Texas Intermediate-based prices (WTI). Similarly, both Heavy and Light Louisiana Sweet (HLS and LLS) crude sold at a higher than historical premium to WTI, positively impacting the majority of our production offshore in the Gulf of Mexico. Higher Dated Brent, HLS and LLS realizations relative to WTI have continued into the second quarter of 2011 and are enhancing our results despite North American natural gas prices that continue to languish.

Key measures of our performance for the first quarter 2011 compared to prior year periods are summarized below:

- Net cash provided by operating activities (operating cash flows or cash flows) totaled \$2.0 billion, up 71 percent from \$1.2 billion in the prior-year period;
- Oil and gas production revenues increased 44 percent to \$3.9 billion from the prior-year quarter;
- Average realized oil prices increased 31 percent to \$97.83 per barrel, heavily influenced by international oil prices, which increased nearly 40 percent to \$103.21 per barrel;
- Pre-tax margin of \$29.25 per boe was up 28 percent from the 2010 period margin, calculated as income before income taxes divided by barrels-equivalent production;
- Oil and gas capital expenditures totaled \$1.8 billion in the first quarter of 2011, up from \$1.1 billion in the first quarter of 2010; and
- Debt-to-capitalization ratio at the end of the first quarter decreased slightly to 24.5 percent from year-end 2010.

## **Operating Highlights**

During the first quarter of 2011, we had broad-based drillbit success with multiple new field discoveries and continued to advance several large projects despite operational challenges that included unexpected political events, mechanical downtime and weather-related interruptions. Notable highlights include:

### ***Egypt***

- Egypt's operations achieved a new quarterly record for gross production of 357 Mboe/d, up two percent from the fourth quarter of 2010 and 18 percent from the first quarter of 2010. Although the Company continues to monitor the recent political unrest and changes in Egypt, our production and drilling activity continued basically uninterrupted.
- Apache operated 22 rigs during the quarter, drilling 33 wells, including the first Paleozoic discovery in the Western Desert at Tayim West, which test-flowed at 3,600 barrels of oil per day (b/d). This Paleozoic discovery opens a new play deeper than previous discoveries in the Western Desert.
- Apache made the first field discovery in the Siwa Concession, our westernmost concession in Egypt, with the Siwa D-1X well flowing 4,490 b/d and 8 million cubic feet of natural gas per day (MMcf/d). We plan to drill two follow-up prospects during 2011.

### ***Australia***

- On April 4, 2011, the Company announced its Zola-1 natural gas discovery offshore Western Australia that is on trend with the Gorgon gas field 16 miles to the north and near both existing and developing gas infrastructure. The well logged 410 feet of net pay, with the quality and thickness of the reservoir being better than anticipated. The Company plans to acquire new seismic and drill appraisal wells to further assess the discovery. Apache owns a 30.25-percent working interest in the well.
- Ongoing exploration activity at Apache's Julimar and Brunello complex resulted in the discovery of a deeper Mungaroo gas pool encountering 362 feet of net pay. The Balnaves Deep well is associated with continuing field development efforts and augments previous discoveries. Apache operates the Julimar and Brunello field with a 65-percent working interest.
- Both the Reindeer and Halyard field developments remain on target for first production in 2011, despite numerous cyclones and tropical storms that curtailed the region's production and slowed operations.

### ***North Sea***

- During the quarter, the Company drilled five successful oil development wells, including the Charlie 2-2 well, which tested at 11,800 b/d. Apache expects to drill a total of 16 wells in the Forties field in 2011.
- Development activity continues on target for first production from the Bacchus field in late third-quarter 2011 and for the Forties Alpha satellite platform installation, which provides 18 new drilling slots, in the third quarter of 2012.

### ***United States***

- During the quarter, the Central region drilled 23 wells, of which 20 were horizontals, and completed the first dual lateral in the Granite Wash. Apache continued to target numerous sands in the Granite Wash, including the Hogshooter segment where six wells have been drilled to date with each testing in excess of 1,000 b/d and 2 MMcf/d.
- Apache operated 24 rigs in the Permian Basin during the quarter and drilled 110 wells, of which 15 were horizontal, as the Company continues to ramp up activity on our BP and Mariner acquired assets.
- In the Gulf of Mexico deepwater, Apache achieved first production from two projects during the first quarter, representing 10 Mboe/d of combined initial gross production. These were tied back into existing facilities and did not require new well drilling permits. Apache has a 50-percent working interest in both projects.
- On March 16, 2011, Apache announced our participation in the Marine Well Containment Company (MWCC), an independent organization committed to responding to well control incidents in the deepwater Gulf of Mexico. MWCC will support equipment mobilization and provide access to a containment system to help facilitate our future deepwater operations. We will be a member of the MWCC Executive Committee.

**Results of Operations**

*Oil and Gas Revenues*

	For the Quarter Ended March 31,			
	2011		2010	
	\$ Value (In millions)	% Contribution	\$ Value (In millions)	% Contribution
<b>Oil Revenues:</b>				
United States	\$ 918	32%	\$ 594	31%
Canada	115	4%	97	5%
North America	1,033	36%	691	36%
Egypt	1,050	36%	625	32%
Australia	331	11%	183	9%
North Sea	426	15%	387	20%
Argentina	52	2%	51	3%
International	1,859	64%	1,246	64%
Total (1)	\$ 2,892	100%	\$ 1,937	100%
<b>Natural Gas Revenues:</b>				
United States	\$ 381	44%	\$ 367	52%
Canada	263	30%	149	21%
North America	644	74%	516	73%
Egypt	148	17%	116	16%
Australia	41	5%	41	6%
North Sea	4	0%	4	1%
Argentina	37	4%	31	4%
International	230	26%	192	27%
Total (2)	\$ 874	100%	\$ 708	100%
<b>Natural Gas Liquids (NGL) Revenues:</b>				
United States	\$ 78	70%	\$ 32	66%
Canada	24	21%	6	14%
North America	102	91%	38	80%
Egypt	1	1%	—	0%
Argentina	9	8%	10	20%
International	10	9%	10	20%
Total	\$ 112	100%	\$ 48	100%
<b>Total Oil and Gas Revenues:</b>				
United States	\$ 1,377	36%	\$ 993	37%
Canada	402	10%	252	9%
North America	1,779	46%	1,245	46%
Egypt	1,199	31%	741	28%
Australia	372	10%	224	8%
North Sea	430	11%	391	15%
Argentina	98	2%	92	3%
International	2,099	54%	1,448	54%
Total	\$ 3,878	100%	\$ 2,693	100%

- (1) Financial derivative hedging activities and the North Sea fixed-price sales contract decreased oil revenues for the quarters ending March 31, 2011 and 2010 by \$71 million and \$14 million, respectively.
- (2) Financial derivative hedging activities increased natural gas revenues for the quarters ending March 31, 2011 and 2010 by \$64 million and \$13 million, respectively.

**Production**

	<b>For the Quarter Ended March 31,</b>		
	<b>2011</b>	<b>Increase (Decrease)</b>	<b>2010</b>
<b>Oil Volume — b/d:</b>			
United States	113,723	+28%	88,755
Canada	14,704	+3%	14,330
North America	<u>128,427</u>	+25%	<u>103,085</u>
Egypt	108,876	+20%	90,746
Australia	34,720	+28%	27,090
North Sea	46,968	-19%	57,847
Argentina	9,617	-3%	9,921
International	<u>200,181</u>	+8%	<u>185,604</u>
Total (1)	<u><u>328,608</u></u>	+14%	<u><u>288,689</u></u>
<b>Natural Gas Volume — Mcf/d:</b>			
United States	858,146	+28%	671,819
Canada	642,729	+105%	313,537
North America	<u>1,500,875</u>	+52%	<u>985,356</u>
Egypt	371,514	+3%	361,986
Australia	182,922	-12%	207,294
North Sea	1,901	-26%	2,563
Argentina	188,092	+22%	154,723
International	<u>744,429</u>	+2%	<u>726,566</u>
Total (2)	<u><u>2,245,304</u></u>	+31%	<u><u>1,711,922</u></u>
<b>NGL Volume — b/d:</b>			
United States	19,252	+181%	6,843
Canada	6,545	+277%	1,734
North America	<u>25,797</u>	+201%	<u>8,577</u>
Egypt	228	N/A	—
Argentina	3,055	-7%	3,291
International	<u>3,283</u>	0%	<u>3,291</u>
Total	<u><u>29,080</u></u>	+145%	<u><u>11,868</u></u>
<b>BOE per day (3)</b>			
United States	275,999	+33%	207,567
Canada	128,370	+88%	68,320
North America	<u>404,369</u>	+47%	<u>275,887</u>
Egypt	171,023	+13%	151,077
Australia	65,207	+6%	61,639
North Sea	47,285	-19%	58,275
Argentina	44,021	+13%	38,999
International	<u>327,536</u>	+6%	<u>309,990</u>
Total	<u><u>731,905</u></u>	+25%	<u><u>585,877</u></u>

- (1) Approximately 30 percent of first-quarter 2011 oil production was subject to financial derivative hedges, compared to 12 percent in 2010.
- (2) Approximately 16 percent of first-quarter 2011 gas production was subject to financial derivative hedges, compared to 25 percent in 2010.
- (3) The table shows reserves on a boe basis in which natural gas is converted to an equivalent barrel of oil based on a 6:1 energy equivalent ratio. This ratio is not reflective of the current price ratio between the two products.

**Pricing**

	For the Quarter Ended March 31,		
	2011	Increase (Decrease)	2010
<b>Average Oil price — Per barrel:</b>			
United States	\$ 89.72	+21%	\$74.33
Canada	87.21	+16%	75.39
North America	89.43	+20%	74.47
Egypt	107.14	+40%	76.49
Australia	105.89	+41%	74.94
North Sea	100.89	+36%	74.34
Argentina	60.36	+4%	57.81
International	103.21	+38%	74.60
Total (1)	97.83	+31%	74.55
<b>Average Natural Gas price — Per Mcf:</b>			
United States	\$ 4.94	-18%	\$ 6.06
Canada	4.54	-14%	5.29
North America	4.77	-18%	5.82
Egypt	4.44	+24%	3.57
Australia	2.50	+13%	2.22
North Sea	20.34	+11%	18.31
Argentina	2.18	0%	2.17
International	3.43	+17%	2.94
Total (2)	4.32	-6%	4.60
<b>Average NGL Price — Per barrel:</b>			
United States	\$ 44.99	-13%	\$51.91
Canada	40.12	-1%	40.54
North America	43.76	-12%	49.61
Egypt	63.35	N/A	—
Argentina	30.51	-12%	34.60
International	32.79	-5%	34.60
Total	42.52	-6%	45.45

(1) Reflects per-barrel decrease of \$2.41 in first-quarter 2011 and \$.56 in 2010 from financial derivative hedging activities and the North Sea fixed-price sales contract.

(2) Reflects per-Mcf increase of \$.32 in first-quarter 2011 and \$.09 in 2010 from financial derivative hedging activities.

**First-Quarter 2011 Compared to First-Quarter 2010**

**Crude Oil Revenues** Crude oil revenues for the first quarter of 2011 totaled \$2.9 billion, nearly \$1 billion higher than the comparative 2010 quarter, the result of a 31-percent increase in average realized prices and a 14-percent increase in worldwide production. Crude oil accounted for 75 percent of oil and gas production revenues and 45 percent of worldwide production in the first quarter of 2011, compared with 72 percent and 49 percent, respectively, in the first quarter of 2010. Higher realized prices added \$605 million to the increase in first-quarter 2011 revenues compared to the prior quarter, while higher production volumes contributed an additional \$351 million.

Crude oil prices realized in the first quarter of 2011 averaged \$97.83 per barrel, compared with \$74.55 in the comparative prior-year quarter. Our international regions' crude oil realizations averaged \$103.21, an increase of 38 percent compared with first-quarter 2010 realizations of \$74.60. Our Egypt, Australia and North Sea regions, which comprise approximately 58 percent of our worldwide oil production, are benefitting from strengthening Dated Brent premiums compared to U.S. WTI-based prices, with first-quarter 2011 oil realizations averaging \$105.37 compared with first-quarter 2010 realizations of \$75.54.

Worldwide production increased 39.9 thousand barrels of oil per day (Mb/d) from the first quarter of 2010 to 328.6 Mb/d in the first quarter of 2011, primarily driven by increased production in the U.S. and Egypt. The 25.0 Mb/d increase in U.S. oil production is primarily a result of 2010 acquisition activity. The Permian region was up 12.4 Mb/d on properties added from the BP acquisition and the Mariner merger, offset by weather-related shut-ins. The Gulf of Mexico (GOM) onshore and offshore regions added 9.9 Mb/d reflecting properties acquired in the Devon acquisition and the Mariner merger; however, natural decline negatively impacted results, as new drilling has been impacted by the moratorium in the GOM and the subsequent slowed pace of permitting. Egypt's gross oil production increased 25 percent, while net production was up 20 percent, as higher oil prices impacted our allocated volumes. The 18.1 Mb/d production increase was a result of additional capacity provided by the Kalabsha oil processing facility, production from properties added in the BP acquisition and an active drilling program. Australia saw production increase 7.6 Mb/d with the continued strong performance of the Pyrenees development that began production during the first quarter of 2010. The gain was tempered by downtime across the region as a result of tropical cyclones and repairs to the Van Gogh facility. Production decreased 10.9 Mb/d in the North Sea on natural decline and downtime related to a shut-in pipeline. An existing pipeline was converted to oil service for temporary use until the permanent replacement line is completed in September 2011.

## Table of Contents

**Natural Gas Revenues** Gas revenues for the first quarter of 2011 totaled \$874 million, up 23 percent from the first quarter of 2010. A 31-percent increase in average production added \$208 million to natural gas revenues as compared to the prior-year quarter, while a six-percent drop in average realized prices reduced revenues \$42 million between the periods. Natural gas accounted for 23 percent of our oil and gas production revenues and 51 percent of our equivalent production during the first quarter of 2011, compared to 26 and 49 percent, respectively, for the first quarter of 2010. All of our international regions, which comprise approximately one-third of total gas production, benefited from higher realized prices.

Worldwide production grew 533 MMcf/d between the periods on production increases in Canada and the U.S. Daily production in Canada more than doubled, rising 329 MMcf/d on an active drilling and completion program in the Horn River basin and additional volumes from properties acquired from BP. U.S. daily production increased 186 MMcf/d, primarily as a result of acquisition activity in 2010. Permian region production rose 58 MMcf/d on incremental volumes from properties added from the BP acquisition and the Mariner merger and on increased drilling activity. Frigid weather during the quarter tempered production gains. The GOM onshore and offshore regions added 103 MMcf/d from properties acquired in the Devon acquisition and the Mariner merger, offset by natural decline, as new drilling has been impacted by the moratorium in the GOM and the subsequent slowed pace of permitting. Argentina's production was up 33 MMcf/d from new drilling and recompletions and higher seasonal demand compared to the prior period. Egypt's net production grew three percent on a successful drilling and completion program and production from properties added in the BP acquisition. Australia's daily gas production fell 24 MMcf/d on downtime from tropical cyclones and lower customer takes under existing contractual arrangements.

### Operating Expenses

The table below presents a comparison of our expenses on an absolute dollar basis and an equivalent unit of production (boe) basis. Our discussion may reference expenses on a boe basis, on an absolute dollar basis or both, depending on relevance.

	For the Quarter Ended March 31,		For the Quarter Ended March 31,	
	2011 (In millions)	2010	2011 (Per boe)	2010
Depreciation, depletion and amortization:				
Oil and gas property and equipment	\$ 869	\$ 587	\$ 13.19	\$ 11.13
Other assets	67	52	1.02	.98
Asset retirement obligation accretion	37	24	.56	.46
Lease operating expenses	623	440	9.46	8.35
Gathering and transportation	76	40	1.16	.77
Taxes other than income	164	177	2.49	3.36
General and administrative expenses	112	87	1.70	1.65
Merger, acquisitions & transition	5	—	.08	—
Financing costs, net	45	59	.68	1.12
<b>Total</b>	<b>\$ 1,998</b>	<b>\$ 1,466</b>	<b>\$ 30.34</b>	<b>\$ 27.82</b>

**Depreciation, depletion and amortization (DD&A)** The following table details the changes in recurring DD&A of oil and gas properties between the first quarter of 2011 and 2010:

	Recurring DD&A (In millions)
First-Quarter 2010 DD&A	\$ 587
Volume change	127
Rate change	155
First-Quarter 2011 DD&A	<u>\$ 869</u>

Full-cost DD&A expense of \$869 million increased \$282 million on an absolute dollar basis: \$155 million on rate and \$127 million from higher volumes. The Company's full-cost DD&A rate increased \$2.06 to \$13.19 per boe, reflecting acquisition, drilling and finding costs that exceed our historical cost basis.

## Table of Contents

*Lease operating expenses (LOE)* Our first quarter 2011 LOE increased \$183 million from first quarter 2010. LOE per boe was up 13 percent: 42 percent on higher cost, offset by a 29 percent decline related to increased production. The rate was impacted between the first quarter of 2011 and 2010 by the items below:

	Per boe
First-Quarter 2010 LOE	\$ 8.35
Acquisitions, net of associated production	(.16)
Repairs and maintenance	.52
FX impact	.28
Chemicals	.17
Materials	.12
Workover costs	.12
Power and fuel	.08
Other	.32
Other increased production	(.34)
First-Quarter 2011 LOE	<u>\$ 9.46</u>

*Gathering and transportation* Gathering and transportation costs totaled \$76 million in the first quarter of 2011, up \$36 million from the first quarter of 2010. On a per-unit basis, gathering and transportation costs of \$1.16 per boe were up 51 percent from the prior-year quarter. The following table presents gathering and transportation costs paid by Apache directly to third-party carriers for each of the periods presented.

	For the Quarter Ended March 31,	
	2011	2010
	(In millions)	
Canada	\$ 45	\$ 16
United States	14	11
Egypt	10	6
North Sea	5	6
Argentina	2	1
Total Gathering and Transportation	<u>\$ 76</u>	<u>\$ 40</u>

The \$29 million increase in Canada resulted from a combination of an increase in gas volumes of over 100 percent, higher average rates and foreign exchange impacts. Average per-unit costs were directly influenced by Apache's increased production in the Horn River basin and properties acquired during 2010, where the associated gathering, processing and transportation contracts had higher average rates than Apache's legacy properties. The U.S. change from the prior year is directly related to increased volumes, while Egypt's rise was attributable to a higher number of oil sales cargos and higher vessel freight costs.

*Taxes other than income* Taxes other than income totaled \$164 million in the first quarter of 2011, a decrease of \$13 million from the prior year period. The following table presents a comparison of these expenses:

	For the Quarter Ended March 31,	
	2011	2010
	(In millions)	
U.K. PRT	\$ 82	\$ 122
Severance taxes	47	32
Ad valorem taxes	27	18
Other	8	5
Total Taxes other than income	<u>\$ 164</u>	<u>\$ 177</u>

The North Sea Petroleum Revenue Tax (PRT) is assessed on net receipts (revenues less qualifying operating costs and capital spending) from the Forties field in the United Kingdom (U.K.) North Sea. U.K. PRT was \$40 million lower than the 2010 period based on a 32 percent decrease in net receipts, primarily driven by capital expenditures that were more than double prior-year levels. Prior-year property acquisitions and higher realized oil and gas prices resulted in an increase of severance and ad valorem tax expense of \$15 million and \$9 million, respectively, when compared to the prior-year period. Severance taxes are incurred primarily on onshore properties in the U.S. and certain properties in Australia and Argentina. Ad valorem taxes are assessed on U.S. and Canadian property values and sales.

## [Table of Contents](#)

*General and administrative expenses* General and administrative expenses (G&A) increased \$25 million over the year-ago period. On a per-unit basis G&A increased only three percent as the impact of increased production mostly offset higher expenses.

*Financing costs, net* Financing costs incurred during the periods noted comprised the following:

	For the Quarter Ended	
	March 31,	
	2011	2010
	(In millions)	
Interest expense	\$ 108	\$ 77
Amortization of deferred loan costs	1	1
Capitalized interest	(60)	(17)
Interest income	(4)	(2)
Financing costs, net	<u>\$ 45</u>	<u>\$ 59</u>

Net financing costs were down \$14 million in first-quarter 2011 compared to first-quarter 2010. The decrease is primarily related to a \$43 million increase in capitalized interest, the result of additional unproved balances from the BP acquisitions and Mariner merger. This decrease is partially offset by a \$31 million increase in interest expense associated with \$2.5 billion of debt issued in the second half of 2010.

*Provision for 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. There were no significant discrete tax events that occurred during the first quarter of 2011 or 2010.

In March 2011 the U.K. government proposed a 12-percent increase to the supplementary tax rate applied to North Sea oil and gas profits. The legislation is expected to be enacted in the third quarter of 2011. Upon enactment, the Company will adjust its outstanding deferred tax liabilities and will record a non-recurring charge to tax expense in that quarter. The enacted tax rate change will also increase the provision for income taxes in the Company's consolidated financial statements for periods the rate is effective. The Company estimates the proposed legislation to result in additional tax expense in 2011 of \$300 to \$350 million based on current forecasts.

The 2011 first-quarter provision for income taxes increased \$291 million to \$793 million on a 60 percent increase in income before income taxes. The effective income tax rate in first-quarter 2011 was 41 percent, consistent with an effective rate of 42 percent in first-quarter 2010.

## [Table of Contents](#)

### **Non-GAAP Measures**

The Company makes reference to some measures in discussion of its financial and operating highlights that are not required by or presented in accordance with GAAP. Management uses these measures in assessing operating results and believes the presentation of these measures provides information useful in assessing the Company's financial condition and results of operations. These non-GAAP measures should not be considered as alternatives to GAAP measures and may be calculated differently from, and therefore may not be comparable to, similarly-titled measures used at other companies.

#### **Adjusted Earnings**

To assess the Company's operating trends and performance, management uses Adjusted Earnings, which is net income excluding certain items that management believes affect the comparability of operating results. Management believes this presentation may be useful to investors who follow the practice of some industry analysts who adjust reported company earnings for items that may obscure underlying fundamentals and trends. The reconciling items below are the types of items management excludes and believes are frequently excluded by analysts when evaluating the operating trends and comparability of the Company's results.

	For the Quarter Ended March 31,	
	2011	2010
	(In millions, except per share data)	
Income Attributable to Common Stock (GAAP)	\$ 1,115	\$ 705
Adjustments:		
Foreign currency fluctuation impact on deferred tax expense	12	7
Merger, acquisitions & transition, net of tax <sup>(1)</sup>	4	—
Adjusted Earnings (Non-GAAP)	<u>\$ 1,131</u>	<u>\$ 712</u>
Net Income per Common Share — Diluted (GAAP)	\$ 2.86	\$ 2.08
Adjustments:		
Foreign currency fluctuation impact on deferred tax expense	.03	.02
Merger, acquisitions & transition, net of tax	.01	—
Adjusted Earnings Per Share — Diluted (Non-GAAP)	<u>\$ 2.90</u>	<u>\$ 2.10</u>

(1) Merger, acquisitions & transition costs recorded in the first quarter of 2011 totaled \$5 million pre-tax, for which a tax benefit of \$1 million was recognized. The tax effect was calculated utilizing the statutory rates in effect in each country where costs were incurred.

### **Capital Resources and Liquidity**

Operating cash flows are the primary source of liquidity. Apache's cash flows, both in the short-term and the long-term, are impacted by highly volatile oil and natural gas prices. Significant deterioration in commodity prices negatively impacts revenues, earnings and cash flows, capital spending and potentially our liquidity if spending does not trend downward as well. Sales volumes and costs also impact cash flows, but these historically have not been as volatile or as impactful as commodity prices in the short-term.

Apache's long-term operating cash flows are dependent on reserve replacement and the level of costs required for ongoing operations. Our business, as with other extractive industries, is a depleting one in which each barrel produced must be replaced or the Company and its reserves, a critical source of future liquidity, will shrink. Cash investments are required continuously to fund exploration and development projects and acquisitions, which are necessary to offset the inherent declines in production and proven reserves. Future success in maintaining and growing reserves and production is highly dependent on the success of our exploration and development activities and our ability to acquire additional reserves at reasonable costs.

We may also elect to utilize available committed borrowing capacity, access to both debt and equity capital markets, or proceeds from the occasional sale of nonstrategic assets for all other liquidity and capital resource needs. We believe the liquidity and capital resource alternatives available to Apache, combined with internally-generated cash flows, will be adequate to fund short-term and long-term operations, including our capital spending program, repayment of debt maturities and any amount that may ultimately be paid in connection with contingencies.

## [Table of Contents](#)

Apache's primary uses of cash are for exploration, development and acquisition of oil and gas properties, costs necessary to maintain ongoing operations, repayment of principal and interest on outstanding debt and payment of dividends. We fund our exploration and development activities primarily through operating cash flows and budget capital expenditures based on projected cash flows.

See Part II, Item 1A, "Risk Factors" of this Form 10-Q and Part I, Items 1 and 2, "Business and Properties," and Item 1A, "Risk Factors Related to Our Business and Operations," in our Amended Annual Report on Form 10-K/A for the fiscal year ended December 31, 2010.

### **Sources and Uses of Cash**

The following table presents the sources and uses of our cash and cash equivalents for the periods presented.

	For the Quarter Ended	
	2011	2010
	(In millions)	
<b>Sources of Cash and Cash Equivalents:</b>		
Net cash provided by operating activities	\$ 1,979	\$ 1,154
Net commercial paper and bank loan borrowings	19	—
Common and treasury stock activity	30	12
Other	19	39
	<u>2,047</u>	<u>1,205</u>
<b>Uses of Cash and Cash Equivalents:</b>		
Capital expenditures (1)	1,696	1,074
Dividends	76	50
Other	53	3
	<u>1,825</u>	<u>1,127</u>
Increase in cash and cash equivalents	<u>\$ 222</u>	<u>\$ 78</u>

(1) The table presents capital expenditures on a cash basis; therefore, the amounts differ from those discussed elsewhere in this document, which include accruals.

*Net Cash Provided by Operating Activities* Operating cash flows are our primary source of capital and liquidity and is impacted, both in the short-term and the long-term, by volatile oil and natural gas prices. The factors in determining operating cash flow are largely the same as those that affect net earnings, with the exception of non-cash expenses such as DD&A, asset retirement obligation (ARO) accretion and deferred income tax expense, which affect earnings but do not affect cash flows.

Net cash provided by operating activities for the first quarter of 2011 totaled \$2.0 billion, up \$825 million from the first quarter of 2010. The increase reflects the impact of higher oil and gas revenues (\$1.2 billion) as a result of a 25-percent increase in daily equivalent production (\$625 million) and higher commodity prices (\$560 million). Also positively impacting operating cash flows was the change in working capital during first-quarter 2011 compared to first-quarter 2010.

For a detailed discussion of commodity prices, production, costs and expenses, refer to the "Results of Operations" of this Item 2. For additional detail of changes in operating assets and liabilities, see the statement of consolidated cash flows in Item 1, Financial Statements of this Quarterly Form 10-Q.

*Capital Expenditures* We fund exploration and development (E&D) activities primarily through operating cash flows and budget capital expenditures based on projected cash flows. We remain determined to not outspend our operating cash flows, and we adjust our capital budget accordingly on a quarterly basis. In response to higher realized commodity prices, subsequent to the first quarter of 2011 we reassessed our capital expenditure budget for 2011 and raised our plan of \$7.5 billion to \$8.1 billion.

## [Table of Contents](#)

The following table details capital expenditures incurred for each country in which we do business.

	For the Quarter Ended March 31,	
	2011	2010
	(In millions)	
<b>Exploration and Development:</b>		
United States	\$ 615	\$ 297
Canada	266	203
North America	881	500
Egypt	193	166
Australia	162	165
North Sea	210	94
Argentina	69	37
Chile	—	10
International	634	472
Worldwide Exploration and Development Costs	1,515	972
<b>Gathering, Transmission and Processing Facilities (GTP):</b>		
Canada	42	33
Egypt	29	24
Australia	51	56
Argentina	—	1
Total GTP Costs	122	114
Asset Retirement Costs	98	22
Capitalized Interest	60	17
Capital Expenditures, excluding Acquisitions	1,795	1,125
Acquisitions, including GTP	11	5
Total Capital Expenditures	\$ 1,806	\$ 1,130

Worldwide E&D expenditures for the first quarter of 2011 totaled \$1.5 billion, 56 percent above first-quarter 2010 levels. E&D spending in North America, which was up 76 percent from the prior-year quarter, totaled 58 percent of worldwide E&D spending. U.S. E&D expenditures more than doubled on activity related to our newly-acquired properties, particularly in the Permian region where we actively pursued opportunities in the Deadwood (Mariner-acquired) area. In addition, the Central region's active horizontal drilling program in the Granite Wash and Cherokee plays also contributed to our period-over-period increase in expenditures. E&D spending in Canada increased 31 percent to \$266 million on an active drilling program in several plays including the Horn River basin and several liquids-rich gas opportunities.

E&D expenditures outside of North America increased 34 percent over first-quarter 2010 levels to \$634 million. E&D spending in the North Sea was up \$116 million over the comparative period on construction of the Bacchus subsea tie-back project and on the Forties Alpha satellite platform and ongoing upgrades to existing platforms. Argentina expenditures were up \$32 million, or 86 percent, on additional drilling and development activity. Egypt was \$27 million higher than first-quarter 2010 levels on continued drilling activity across all its major basins.

We invested \$122 million in GTP in the first quarter of 2011 compared to \$114 million in the prior-year quarter. Expenditures in Australia consisted of construction activity at the Devil Creek Gas Plant and the ongoing front-end engineering and design (FEED) study for the Wheatstone LNG project. Activity in Canada was centered in the Horn River basin, with expenditures for gathering systems and a gas processing plant. GTP expenditures in Egypt primarily comprised final stages of construction on the Kalabsha oil processing facility.

*Dividends* During the first quarters of 2011 and 2010, Apache paid \$57 million and \$50 million, respectively, in dividends on its common stock. In the first quarter of 2011, the Company also paid a total of \$19 million in dividends on its Series D Preferred Stock issued in July 2010.

## [Table of Contents](#)

### *Liquidity*

The following table presents a summary of our key financial indicators for the periods presented:

	<b>March 31, 2011</b>	<b>December 31, 2010</b>
	<b>(In millions, except percentages)</b>	
Cash and cash equivalents	\$ 356	\$ 134
Total debt	8,160	8,141
Shareholders' equity	25,198	24,377
Available committed borrowing capacity	2,353	2,387
Floating-rate debt/total debt	12%	12%
Percent of total debt-to-capitalization	24.5%	25%

*Cash and Cash Equivalents* We had \$356 million in cash and cash equivalents as of March 31, 2011, compared to \$134 million at December 31, 2010. Approximately \$325 million of the cash was held by foreign subsidiaries, and approximately \$31 million was held by Apache Corporation and U.S. subsidiaries. The cash held by foreign subsidiaries is subject to additional U.S. income taxes if repatriated. Almost all of the cash is denominated in U.S. dollars and, at times, is invested in highly liquid, investment grade securities with maturities of three months or less at the time of purchase.

*Debt* As of March 31, 2011, outstanding debt, which consisted of notes, debentures and uncommitted bank lines, totaled \$8.2 billion. Current debt as of March 31, 2011, includes \$30 million borrowed on uncommitted overdraft lines in Canada and Argentina. As of December 31, 2010, there was \$46 million drawn on uncommitted overdraft lines in the U.S. and Argentina.

*Available committed borrowing capacity* As of March 31, 2011, the Company had unsecured committed revolving syndicated bank credit facilities totaling \$3.3 billion, of which \$1.0 billion matures in August 2011 and \$2.3 billion matures in May 2013. The facilities consist of a \$1.0 billion 364-day facility, 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. As of March 31, 2011, available borrowing capacity under the Company's credit facilities was \$2.4 billion. The U.S. credit facilities are used to support Apache's commercial paper program.

The Company has available a \$2.95 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. As of March 31, 2011, the Company had \$947 million in commercial paper outstanding, compared with \$913 million outstanding as of December 31, 2010.

The Company was in compliance with the terms of all credit facilities as of March 31, 2011.

*Percent of total debt to capitalization* The Company's March 31, 2011 debt-to-capitalization ratio was 24.5 percent, down from 25 percent at December 31, 2010.

## ITEM 3 — QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

### **Commodity Risk**

The Company's revenues, earnings, cash flow, capital investments and, ultimately, future rate of growth are highly dependent on the prices we receive for our crude oil, natural gas and NGLs, which have historically been very volatile due to unpredictable events such as economic growth or retraction, weather and climate. Our average monthly crude oil realizations have increased 31 percent to \$97.83 per barrel in the first quarter of 2011 from \$74.55 per barrel in the comparable period of 2010. Our average natural gas price realizations have trended downward, decreasing six percent to \$4.32 per Mcf from \$4.60 per Mcf in the comparable period of 2010.

We periodically enter into hedging activities on a portion of our projected oil and natural gas production through a variety of financial and physical arrangements intended to support oil and natural gas prices at targeted levels and to manage our overall exposure to oil and gas price fluctuations. Approximately 16 percent of our first-quarter 2011 natural gas and 30 percent of our crude oil production was subject to financial derivative hedges.

Apache may use futures contracts, swaps and options to hedge its commodity prices. Realized gains or losses from the Company's price-risk management activities are recognized in oil and gas production revenues when the associated production occurs. Apache does not hold or issue derivative instruments for trading purposes.

On March 31, 2011, the Company had open natural gas derivative hedges in an asset position with a fair value of \$403 million. A 10 percent increase in natural gas prices would reduce the fair value by approximately \$90 million, while a 10 percent decrease in prices would increase the fair value by approximately \$89 million. The Company also had open oil derivatives in a liability position with a fair value of \$859 million. A 10 percent increase in oil prices would increase the liability by approximately \$418 million, while a 10 percent decrease in prices would decrease the liability by approximately \$369 million. These fair value changes assume volatility based on prevailing market parameters at March 31, 2011. See Note 3 — Derivative Instruments and Hedging Activities of the Notes to Consolidated Financial Statements in Item 1 of this quarterly report for notional volumes and terms associated with the Company's derivative contracts.

### **Interest Rate Risk**

On March 31, 2011, the Company's debt with fixed interest rates represented approximately 88 percent of total debt. As a result, the interest expense on approximately 12 percent of Apache's debt will fluctuate based on short-term interest rates. A 10 percent change in floating interest rates on floating debt balances as of March 31, 2011 would change interest expense by approximately \$183,000 per quarter.

### **Foreign Currency Risk**

The Company's cash flow stream relating to certain international operations is based on the U.S. dollar equivalent of cash flows measured in foreign currencies. In Australia, oil production is sold under U.S. dollar contracts, and gas production is sold largely under fixed-price Australian dollar contracts. Approximately half the costs incurred for Australian operations are paid in U.S. dollars. In Canada, the majority of oil and gas production is sold under Canadian dollar contracts. The majority of the costs incurred are paid in Canadian dollars. The North Sea production is sold under U.S. dollar contracts, and the majority of costs incurred are paid in British pounds. In Egypt, all oil and gas production is sold under U.S. dollar contracts, and the majority of the costs incurred are denominated in U.S. dollars. Argentine revenues and expenditures are largely denominated in U.S. dollars but converted into Argentine pesos at the time of payment. Revenue and disbursement transactions denominated in Australian dollars, Canadian dollars, British pounds, Egyptian pounds and Argentine pesos are converted to U.S. dollar equivalents based on average exchange rates during the period.

Foreign currency gains and losses also arise when monetary assets and monetary liabilities denominated in foreign currencies are translated at the end of each month. Currency gains and losses are included as either a component of "Other" under "Revenues and Other" or, as is the case when we re-measure our foreign tax liabilities, as a component of the Company's provision for income tax expense on the Statement of Consolidated Operations. A 10-percent strengthening or weakening of the Australian dollar, Canadian dollar, British pound, Egyptian pound or Argentine peso as of March 31, 2011, would result in a foreign currency net loss or gain, respectively, of approximately \$130 million.

## **Forward-Looking Statements and Risk**

This report includes “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. All statements other than statements of historical facts included or incorporated by reference in this report, including, without limitation, statements regarding our future financial position, business strategy, budgets, projected revenues, projected costs and plans and objectives of management for future operations, are forward-looking statements. Such forward-looking statements are based on our examination of historical operating trends, the information that was used to prepare our estimate of proved reserves as of December 31, 2010, and other data in our possession or available from third parties. In addition, forward-looking statements generally can be identified by the use of forward-looking terminology such as “may,” “will,” “could,” “expect,” “intend,” “project,” “estimate,” “anticipate,” “plan,” “believe,” or “continue” or similar terminology. Although we believe that the expectations reflected in such forward-looking statements are reasonable, we can give no assurance that such expectations will prove to have been correct. Important factors that could cause actual results to differ materially from our expectations include, but are not limited to, our assumptions about:

- the market prices of oil, natural gas, NGLs and other products or services;
- our commodity hedging arrangements;
- the integration of Mariner and the BP properties;
- increased scrutiny from regulatory agencies due to the BP acquisition;
- the supply and demand for oil, natural gas, NGLs and other products or services;
- production and reserve levels;
- drilling risks;
- economic and competitive conditions;
- the availability of capital resources;
- capital expenditure and other contractual obligations;
- the significant transaction and acquisition costs related to the Mariner and BP property acquisitions;
- currency exchange rates;
- weather conditions;
- inflation rates;
- the availability of goods and services;
- legislative or regulatory changes;
- the impact on our operations due to the change in government in Egypt;
- terrorism;
- occurrence of property acquisitions or divestitures;
- the securities or capital markets and related risks such as general credit, liquidity, market and interest-rate risks; and
- other factors disclosed under Items 1 and 2 — Business and Properties — Estimated Proved Reserves and Future Net Cash Flows, Item 1A — Risk Factors, Item 7 — Management’s Discussion and Analysis of Financial Condition and Results of Operations, Item 7A — Quantitative and Qualitative Disclosures About Market Risk and elsewhere in our most recently filed Form 10-K/A, other risks and uncertainties in our first-quarter 2011 earnings release, and other filings that we make with the Securities and Exchange Commission.

All subsequent written and oral forward-looking statements attributable to the Company, or persons acting on its behalf, are expressly qualified in their entirety by the cautionary statements. We assume no duty to update or revise our forward-looking statements based on changes in internal estimates or expectations or otherwise.

## **ITEM 4 — CONTROLS AND PROCEDURES**

### **Disclosure Controls and Procedures**

G. Steven Farris, the Company's Chairman and Chief Executive Officer, in his capacity as principal executive officer, and Thomas P. Chambers, the Company's Executive Vice President and Chief Financial Officer, in his capacity as principal financial officer, evaluated the effectiveness of our disclosure controls and procedures as of March 31, 2011, the end of the period covered by this report. Based on that evaluation and as of the date of that evaluation, these officers concluded that the Company's disclosure controls and procedures were effective, providing effective means to ensure that information we are required to disclose under applicable laws and regulations is recorded, processed, summarized and reported within the time periods specified in the Commission's rules and forms and communicated to our management, including our principal executive officer and principal financial officer, to allow timely decisions regarding required disclosure.

We periodically review the design and effectiveness of our disclosure controls, including compliance with various laws and regulations that apply to our operations both inside and outside the United States. We make modifications to improve the design and effectiveness of our disclosure controls, and may take other corrective action, if our reviews identify deficiencies or weaknesses in our controls.

### **Changes in Internal Control over Financial Reporting**

There was no change in our internal controls over financial reporting during the period covered by this quarterly report on Form 10-Q that materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

## **PART II — OTHER INFORMATION**

### **ITEM 1. LEGAL PROCEEDINGS**

Please refer to both Part I, Item 3 of the Company's Amended Annual Report on Form 10-K/A for the fiscal year ended December 31, 2010 (filed with the SEC on April 7, 2011) and Part I, Item 1 of this Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2011 for a description of material legal proceedings.

### **ITEM 1A. RISK FACTORS**

During the quarter ending March 31, 2011, there were no material changes from the risk factors as previously disclosed in the Company's Amended Annual Report on Form 10-K/A for the year ended December 31, 2010.

### **ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

None

### **ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None

### **ITEM 4. [REMOVED AND RESERVED]**

### **ITEM 5. OTHER INFORMATION**

None

**ITEM 6. EXHIBITS**

- \*10.1 — Apache Corporation 2007 Omnibus Equity Compensation Plan, as amended and restated May 4, 2011.
- \*10.2 — Apache Corporation 1998 Stock Option Plan, as amended and restated May 5, 2011.
- \*10.3 — Apache Corporation 2000 Stock Option Plan, as amended and restated May 5, 2011.
- \*10.4 — Apache Corporation 2005 Stock Option Plan, as amended and restated May 5, 2011.
- \*10.5 — Apache Corporation 2003 Stock Appreciation Rights Plan, as amended and restated May 4, 2011.
- \*10.6 — Apache Corporation Non-Employee Directors' Restricted Stock Units Program Specifications, dated May 5, 2011, pursuant to Apache Corporation 2011 Omnibus Equity Compensation Plan.
- \*14.1 — Code of Business Conduct.
- \*31.1 — Certification (pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Exchange Act) by Principal Executive Officer.
- \*31.2 — Certification (pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Exchange Act) by Principal Financial Officer.
- \*32.1 — Section 1350 Certification (pursuant to Sarbanes-Oxley Section 906) by Principal Executive Officer and Principal Financial Officer.
- \*\*101.INS — XBRL Instance Document.
- \*\*101.SCH — XBRL Taxonomy Schema Document.
- \*\*101.CAL — XBRL Calculation Linkbase Document.
- \*\*101.LAB — XBRL Label Linkbase Document.
- \*\*101.PRE — XBRL Presentation Linkbase Document.
- \*\*101.DEF — XBRL Definition Linkbase Document.

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\* Filed herewith

\*\* Furnished herewith

**SIGNATURES**

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

APACHE CORPORATION

Dated: May 9, 2011

/s/ THOMAS P. CHAMBERS

Thomas P. Chambers  
Executive Vice President and Chief Financial Officer  
(Principal Financial Officer)

Dated: May 9, 2011

/s/ REBECCA A. HOYT

Rebecca A. Hoyt  
Vice President, Chief Accounting Officer and Controller  
(Principal Accounting Officer)

**APACHE CORPORATION**  
**2007 Omnibus Equity Compensation Plan**  
**As amended and restated effective May 4, 2011**

Section 1

Introduction

1.1 Establishment. Apache Corporation, a Delaware corporation (hereinafter referred to, together with its Affiliates (as defined below) as the "Company" except where the context otherwise requires), hereby establishes the Apache Corporation 2007 Omnibus Equity Compensation Plan (the "Plan").

1.2 Purpose. The purpose of the Plan is to provide Eligible Persons designated by the Committee for participation in the Plan with equity-based incentives to: (i) encourage such individuals to continue in the long-term service of the Company and its Affiliates, (ii) create in such individuals a more direct interest in the future success of the operations of the Company, (iii) attract outstanding individuals, and (iv) retain and motivate such individuals. The Plan is intended to provide eligible individuals with the opportunity to invest in the Company, thereby relating incentive compensation to increases in stockholder value and more closely aligning the compensation of such individuals with the interests of the Company's stockholders.

Accordingly, this Plan provides for the granting of Incentive Stock Options, Non-Qualified Stock Options, Performance Awards, Restricted Stock, Restricted Stock Units, Stock Appreciation Rights or any combination of the foregoing, as the Committee determines is best suited to the circumstances of the particular individual as provided herein.

1.3 Effective Date. The Effective Date of the Plan (the "Effective Date") is May 2, 2007. This amendment and restatement is effective as of May 4, 2011.

Section 2

Definitions

2.1 Definitions. The following terms shall have the meanings set forth below:

(a) "Administrative Agent" means any designee or agent that may be appointed by the Committee pursuant to subsections 3.1(h) and 3.4 hereof.

(b) "Affiliate" means any entity other than the Company that is affiliated with the Company through stock or equity ownership or otherwise and is designated as an Affiliate for purposes of the Plan by the Committee; provided, however, that, notwithstanding any other provisions of the Plan to the contrary, for purposes of NQSOs

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and SARs, if an individual who otherwise qualifies as an Eligible Person provides services to such an entity and not to the Company, such entity may only be designated an Affiliate if the Company qualifies as a "service recipient," within the meaning of Internal Revenue Code Section 409A, with respect to such individual; provided further that such definition of "service recipient" shall be determined by (a) applying Internal Revenue Code Section 1563(a)(1), (2), and (3), for purposes of determining a controlled group of corporations under Internal Revenue Code Section 414(b), using the language "at least 50 percent" instead of "at least 80 percent" each place it appears in Internal Revenue Code Section 1563(a)(1), (2), and (3), and by applying Treasury Regulations Section 1.414(c)-2, for purposes of determining trades or businesses (whether or not incorporated) that are under common control for purposes of Internal Revenue Code Section 414(c), using the language "at least 50 percent" instead of "at least 80 percent" each place it appears in Treasury Regulations Section 1.414(c)-2, and (b) where the use of Shares with respect to the grant of an Option or SAR to such an individual is based upon legitimate business criteria, by applying Internal Revenue Code Section 1563(a)(1), (2), and (3), for purposes of determining a controlled group of corporations under Internal Revenue Code Section 414(b), using the language "at least 20 percent" instead of "at least 80 percent" at each place it appears in Internal Revenue Code Section 1563(a)(1), (2), and (3), and by applying Treasury Regulations Section 1.414(c)-2, for purposes of determining trades or businesses (whether or not incorporated) that are under common control for purposes of Internal Revenue Code Section 414(c), using the language "at least 20 percent" instead of "at least 80 percent" at each place it appears in Treasury Regulations Section 1.414(c)-2; provided further that for purposes of ISOs, "Affiliate" shall mean any present or future corporation which is or would be a "subsidiary corporation" of the Company as the term is defined in Section 424(f) of the Internal Revenue Code.

(c) "Award" means any Stock Option, Stock Appreciation Right, Restricted Stock, Restricted Stock Unit, Performance Award, Dividend Equivalent or any other stock-based award granted to a Participant under the Plan.

(d) "Board" means the Board of Directors of the Company.

(e) "Change of Control" shall have the meaning assigned to such term in the Company's Income Continuation Plan as in effect on the Effective Date.

(f) "Committee" means the Stock Option Plan Committee of the Board or such other Committee of the Board that is empowered hereunder to administer the Plan. The Committee shall be constituted at all times so as to permit the Plan to be administered by "non-employee directors" (as defined in Rule 16b-3 of the Exchange Act) and "outside directors" (as defined in Treasury Regulations Section 1.162-27 (e)(3)) and to satisfy such additional regulatory or listing requirements as the Board may determine to be applicable or appropriate.

(g) "Deferred Delivery Plan" means the Company's Deferred Delivery Plan, as it has been or may be amended from time to time, or any successor plan.

- (h) "Dividend Equivalent" means a right, granted to an Eligible Person to receive cash, Stock, other Awards or other property equal in value to dividends paid with respect to a specified number of shares of Stock, or other periodic payments.
- (i) "Eligible Persons" means those employees of the Company or of any Affiliates, members of the Board, and members of the board of directors of any Affiliates who are designated as Eligible Persons by the Committee. Notwithstanding the foregoing, grants of Incentive Stock Options may not be granted to anyone who is not an employee of the Company or an Affiliate.
- (j) "Exchange Act" means the Securities Exchange Act of 1934, as amended.
- (k) "Exercise Date" means the date of exercise determined in accordance with subsection 6.2(g) hereof.
- (l) "Fair Market Value" means the per share closing price of the Stock as reported on The New York Stock Exchange, Inc. Composite Transactions Reporting System for a particular date or, if the Stock is not so listed on such date, as reported on NASDAQ or on such other exchange or electronic trading system which, on the date in question, reports the largest number of traded shares of Stock, provided, however, that if on the date Fair Market Value is to be determined there are no transactions in the Stock, Fair Market Value shall be determined as of the immediately preceding date on which there were transactions in the Stock; provided further, however, that if the foregoing provisions are not applicable, the fair market value of a share of the Stock as determined by the Committee by the reasonable application of such reasonable valuation method, consistently applied, as the Committee deems appropriate; provided further, however, that, with respect to ISOs, such Fair Market Value shall be determined subject to Section 422(c)(7) of the Internal Revenue Code.
- (m) "Incentive Stock Option" or "ISO" means any Option intended to be and designated as an incentive stock option and which satisfies the requirements of Section 422 of the Internal Revenue Code or any successor provision thereto.
- (n) "Internal Revenue Code" means the Internal Revenue Code of 1986, as it may be amended from time to time, and any successor thereto. Any reference to a section of the Internal Revenue Code or Treasury Regulation shall be treated as a reference to any successor section.
- (o) "Non-Qualified Stock Option" or "NQSO" means any Option that is not intended to qualify as an "incentive stock option" under Section 422 of the Internal Revenue Code.
- (p) "Option" means an option to purchase a number of shares of Stock granted pursuant to subsection 6.1.
- (q) "Option Price" means the price at which shares of Stock subject to an option may be purchased, determined in accordance with subsection 6.2(b) hereof.

- (r) "Participant" means an Eligible Person designated by the Committee, from time to time during the term of the Plan to receive one or more Awards under the Plan.
- (s) "Performance Award" is a right to either a number of shares of Stock or SARs ("Performance Shares") determined (in either case) in accordance with subsection 9.1 of this Plan based on the extent to which the applicable Performance Goals are achieved. A Performance Share shall be of no value to a Participant unless and until earned in accordance with subsection 9.2 hereof.
- (t) "Performance Goals" are the performance conditions, if any, established pursuant to subsection 9.1 by the Committee in connection with an Award.
- (u) "Performance Period" with respect to a Performance Award is a period not less than one calendar year or one fiscal year of the Company, beginning not earlier than the year in which such Performance Award is granted, which may be referred to herein and by the Committee by use of the calendar of fiscal year in which a particular Performance Period commences.
- (v) "Prior Plans" means the Company's 2005 Stock Option Plan and the Executive Restricted Stock Plan.
- (w) "Restricted Stock" means Stock granted to an Eligible Person under Section 8 hereof, that is subject to certain restrictions and to a risk of forfeiture.
- (x) "Restricted Stock Unit" means a right, granted to an Eligible Person under Section 8 hereof, to receive Stock, cash or a combination thereof at the end of a specified vesting period.
- (y) "Restriction Period" shall have the meaning assigned to such term in subsection 8.1.
- (z) "Stock" means the \$0.625 par value common stock of the Company and or any security into which such common stock is converted or exchanged upon merger, consolidation, or any capital restructuring (within the meaning of Section 13) of the Company.
- (aa) "Stock Appreciation Right" or "SAR" means a right granted to an Eligible Person to receive an amount in cash, Stock, or other property equal to the excess of the Fair Market Value as of the Exercise Date of one share of Stock over the SAR Price times the number of shares of Stock to which the Stock Appreciation Right relates. Stock Appreciation Rights may be granted in tandem with Options or other Awards or may be freestanding.

(bb) "SAR Price" means the price at which the Stock Appreciation Right was granted, which shall be determined in the same manner as the Option Price of an Option in accordance with subsection 6.2 hereof.

(cc) "Involuntary Termination" means the termination of employment of the Participant by the Company or its successor for any reason on or after a Change of Control; provided, that the termination does not result from an act of the Participant that (i) constitutes common-law fraud, a felony, or a gross malfeasance of duty, or (ii) is materially detrimental to the best interests of the Company or its successor.

(dd) "Voluntary Termination with Cause" occurs upon a Participant's separation from service of his own volition and one or more of the following conditions occurs without the Participant's consent on or after a Change of Control:

(i) There is a material diminution in the Participant's base compensation, compared to his rate of base compensation on the date of the Change of Control.

(ii) There is a material diminution in the Participant's authority, duties or responsibilities.

(iii) There is a material diminution in the authority, duties or responsibilities of the Participant's supervisor, such as a requirement that the Participant (or his supervisor) report to a corporate officer or employee instead of reporting directly to the board of directors.

(iv) There is a material diminution in the budget over which the Participant retains authority.

(v) There is a material change in the geographic location at which the Participant must perform his service, including, for example the assignment of the Participant to a regular workplace that is more than 50 miles from his regular workplace on the date of the Change of Control.

The Participant must notify the Company of the existence of one or more adverse conditions specified in clauses (i) through (v) above within 90 days of the initial existence of the adverse condition. The notice must be provided in writing to Apache Corporation's Senior Vice President, Human Resources or her delegate. The notice may be provided by personal delivery or it may be sent by email, inter-office mail, regular mail (whether or not certified), fax, or any similar method. Apache Corporation's Senior Vice President, Human Resources or her delegate shall acknowledge receipt of the notice within 5 business days; the acknowledgement shall be sent to the Participant by certified mail. Notwithstanding the foregoing provisions of this definition, if the Company remedies the adverse condition within 30 days of being notified of the adverse condition, no Voluntary Termination with Cause shall occur.

2.2 Headings; Gender and Number. The headings contained in the Plan are for reference purposes only and shall not affect in any way the meaning or interpretation of the Plan. Except when otherwise indicated by the context, the masculine gender shall also include the feminine gender, and the definition of any term herein in the singular shall also include the plural.

### Section 3

#### Plan Administration

3.1 Administration by the Committee. The Plan shall be administered by the Committee. In accordance with the provisions of the Plan, the Committee shall, in its sole discretion, adopt rules and regulations for carrying out the purposes of the Plan, including, without limitation, the authority to:

- (a) Grant Awards;
- (b) Select the Eligible Persons and the time or times at which Awards shall be granted;
- (c) Determine the type and number of Awards to be granted, the number of shares of Stock to which an Award may relate and the terms, conditions, restrictions, and Performance Goals relating to any Award;
- (d) Determine whether, to what extent, and under what circumstances an Award may be settled, canceled, forfeited, exchanged, or surrendered;
- (e) Construe and interpret the Plan and any Award;
- (f) Prescribe, amend, and rescind rules and procedures relating to the Plan;
- (g) Determine the terms and provisions of agreements;
- (h) Appoint designees or agents (who need not be members of the Committee or employees of the Company) to assist the Committee with the administration of the Plan; and
- (i) Make all other determinations deemed necessary or advisable for the administration of the Plan.

3.2 The Committee shall, in its absolute discretion, and without amendment to the Plan, have the power to accelerate, waive or modify, at any time, any term or condition of an Award that is not mandatory under this Plan; provided, however, that the Committee shall not have any discretion to accelerate, waive or modify any term or condition of an

Award that is intended to qualify as "performance-based compensation" for purposes of Section 162(m) of the Internal Revenue Code if such discretion would cause the Award to not so qualify. In the event of a Change of Control, the provisions of Section 12 hereof shall be mandatory and shall govern the vesting and exercisability schedule of any Award granted hereunder.

3.3 No member of the Committee shall be liable for any action, omission, or determination made in good faith. The Company shall indemnify (to the extent permitted under Delaware law) and hold harmless each member of the Committee and each other director or employee of the Company to whom any duty or power relating to the administration or interpretation of the Plan has been delegated against any cost or expense (including counsel fees) or liability (including any sum paid in settlement of a claim with the approval of the Committee) arising out of any action, omission or determination relating to the Plan, unless, in either case, such action, omission or determination was taken or made by such member, director or employee in bad faith and without reasonable belief that it was in the best interests of the Company. The determination, interpretations and other actions of the Committee pursuant to the provisions of the Plan shall be binding and conclusive for all purposes and on all persons.

3.4 The Committee may from time to time adopt such rules and regulations for carrying out the purposes of the Plan as it may deem proper and in the best interests of the Company. The Committee may appoint an Administrative Agent, who need not be a member of the Committee or an employee of the Company, to assist the Committee in administration of the Plan and to whom it may delegate such powers as the Committee deems appropriate, except that the Committee shall determine any dispute. The Committee may correct any defect, supply any omission or reconcile any inconsistency in the Plan, or in any agreement entered into hereunder, in the manner and to the extent it shall deem expedient, and it shall be the sole and final judge of such inconsistency.

3.5 Compliance with Section 162(m). Except as expressly otherwise stated in any resolution of the Committee, the Plan is intended to comply with the requirements of Section 162(m) or any successor section(s) of the Internal Revenue Code ("Section 162(m)") as to any "covered employee" as defined in Section 162(m), and shall be administered, interpreted, and construed consistently therewith. The Committee is authorized to take such additional action, if any, that may be required to ensure that the Plan and any Award under the Plan satisfy the requirements of Section 162(m), taking into account any regulations or other guidance issued by the Internal Revenue Service.

## Section 4

### Stock Subject to the Plan

4.1 **Number of Shares.** Subject to adjustments pursuant to Section 4.4 hereof, up to 15,000,000 shares of Stock, plus any shares of Stock available for issuance under the Prior Plans but not underlying outstanding stock options or other awards under the Prior Plans or which shares are allocable to any outstanding stock options or other awards under the Prior Plans to the extent such stock options or other awards expire, are forfeited or otherwise terminate unexercised, are authorized for issuance under the Plan in accordance with the Plan's terms and subject to such restrictions or other provisions as the Committee may from time to time deem necessary. Of such total number of shares of Stock so authorized, not more than 10,000,000 may be designated for Restricted Stock, Restricted Stock Units, and Performance Awards. During the duration of the Plan, no Eligible Person may be granted Options which in the aggregate cover in excess of 10 percent of the total shares of Stock authorized under the Plan. No Award may be granted under the Plan on or after the 10-year anniversary of the Effective Date. The foregoing to the contrary notwithstanding, the total number of shares of Stock that may be issued pursuant to ISOs granted under the Plan shall be equal to 5,000,000, subject to adjustments pursuant to Section 4.4 hereof.

4.2 **Availability of Shares Not Issued under Awards.** If shares of Stock which may be issued pursuant to the terms of the Plan awarded hereunder are forfeited, cancelled, exchanged or surrendered or if an Award otherwise terminates or expires without a distribution of shares to the holder of such Award, the shares of Stock with respect to such Award shall, to the extent of any such forfeiture, cancellation, exchange, surrender, termination or expiration, again be available for Awards under the Plan.

4.3 **Stock Offered.** The Company shall at all times during the term of the Plan retain as authorized and unissued Stock and/or Stock in the Company's treasury, at least the number of shares from time to time required under the provisions of the Plan, or otherwise assure itself of its ability to perform its obligations hereunder.

4.4 **Adjustments for Stock Split, Stock Dividend, Etc.** If the Company shall at any time increase or decrease the number of its outstanding shares of Stock or change in any way the rights and privileges of such shares by means of the payment of a Stock dividend or any other distribution upon such shares payable in Stock or rights to acquire Stock, or through a Stock split, reverse Stock split, subdivision, consolidation, combination, reclassification or recapitalization involving the Stock (any of the foregoing being herein called a "capital restructuring"), then in relation to the Stock that is affected by one or more of the above events, the numbers, rights, and privileges of the following shall be, in each case, equitably and proportionally adjusted to take into account the occurrence of any of the above events, (i) the number and kind of shares of Stock or other property (including cash) that may thereafter be issued pursuant to subsections 4.1 and 4.10, (ii) the number and kind of shares of Stock or other property (including cash) issued or issuable in respect of outstanding Awards; and (iii) the exercise price, grant price, or

purchase price relating to any Award; provided that, with respect to Incentive Stock Options, such adjustment shall be made in accordance with Section 424(h) of the Internal Revenue Code; (iv) the Performance Goals, and (v) the individual limitations applicable to Awards.

4.5 Other Changes in Stock. In the event there shall be any change, other than as specified in subsections 4.4 hereof, in the number or kind of outstanding shares of Stock or of any stock or other securities into which the Stock shall be changed or for which it shall have been exchanged, and if the Committee shall in its discretion determine that such change equitably requires an adjustment in the number or kind of shares subject to outstanding Awards or which have been reserved for issuance pursuant to the Plan but are not then subject to an Award, then such adjustments shall be made by the Committee and shall be effective for all purposes of the Plan and on each outstanding Award that involves the particular type of stock for which a change was effected.

4.6 Rights to Subscribe. If the Company shall at any time grant to the holders of its Stock rights to subscribe pro rata for additional shares thereof or for any other securities of the Company or of any other corporation, there shall be reserved with respect to the shares then under an outstanding Award to any Participant of the particular class of Stock involved the Stock or other securities which the Participant would have been entitled to subscribe for if immediately prior to such grant the Participant had exercised his entire Option. If, upon exercise of any such Option, the Participant subscribes for the additional shares or other securities, the aggregate Option Price shall be increased by the amount of the price that is payable by the Participant for such additional shares or other securities as if the Participant had exercised his entire Option immediately prior to the grant of such additional shares or other securities.

4.7 General Adjustment Rules. No adjustment or substitution provided for in this Section 4 shall require the Company to sell a fractional share of Stock under any Option, or otherwise issue a fractional share of Stock, and the total substitution or adjustment with respect to each Option shall be limited by deleting any fractional share. In the case of any such substitution or adjustment, the aggregate Option Price for the shares of Stock then subject to the Option shall remain unchanged but the Option Price per share under each such Option shall be equitably adjusted by the Committee to reflect the greater or lesser number of shares of Stock or other securities into which the Stock subject to the Option may have been changed.

4.8 Determination by the Committee, Etc. Adjustments under this Section 4 shall be made by the Committee, whose determinations with regard thereto shall be final and binding upon all parties.

4.9 Code Section 409A. For any Award that is not subject to Internal Revenue Code Section 409A before the adjustments identified in the preceding sections of this Section 4, no adjustment shall be made that would cause the Award to become subject to Internal Revenue Code Section 409A. For an Award that is subject to Internal Revenue Code Section 409A before the adjustments identified in the preceding sections of this Section

4, no adjustment shall cause the Award to violate Internal Revenue Code Section 409A, without the prior written consent of both the Participant and the Committee.

4.10 Award Limits. The following limits shall apply to grants of all Awards under the Plan:

(a) Options: The maximum aggregate number of shares of Stock that may be subject to Options granted in any calendar year to any one Participant shall be 250,000 shares.

(b) SARs: The maximum aggregate number of shares that may be subject to Stock Appreciation Rights granted in any calendar year to any one Participant shall be 250,000 shares. Any shares covered by Options which include tandem SARs granted to one Participant in any calendar year shall reduce this limit on the number of shares subject to SARs that can be granted to such Participant in such calendar year.

(c) Restricted Stock or Restricted Stock Units: The maximum aggregate number of shares of Stock that may be subject to Awards of Restricted Stock or Restricted Stock Units granted in any calendar year to any one Participant shall be 250,000 shares.

(d) Performance Awards: The maximum aggregate grant with respect to Performance Awards granted in any calendar year to any one Participant shall be 250,000 shares (or SARs based on the value of such number of shares).

To the extent required by Section 162(m) of the Code, shares subject to Options or SARs which are canceled shall continue to be counted against the limits set forth in paragraphs (a) and (b) immediately preceding.

## Section 5

### Granting of Awards to Participants

5.1 Participation. Participants in the Plan shall be those Eligible Persons who, in the judgment of the Committee, are performing, or during the term of their incentive arrangement will perform, vital services in the management, operation, and development of the Company or an Affiliate, and significantly contribute, or are expected to significantly contribute, to the achievement of the Company's long-term corporate economic objectives. Participants may be granted from time to time one or more Awards; provided, however, that the grant of each such Award shall be separately approved by the Committee, and receipt of one such Award shall not result in automatic receipt of any other Award. Upon determination by the Committee that an Award is to be granted to a Participant, as soon as practicable, written notice shall be given to such person, specifying the terms, conditions, rights and duties related thereto. Each Participant shall, if required by the Committee, enter into an agreement with the

Company, in such form as the Committee shall determine and which is consistent with the provisions of the Plan, specifying such terms, conditions, rights, and duties. Awards shall be deemed to be granted as of the date specified in the grant resolution of the Committee, which date shall be the date of any related agreement with the Participant. In the event of any inconsistency between the provisions of the Plan and any such agreement entered into hereunder, the provisions of the Plan shall govern.

Awards granted to members of the Board shall be recommended to the full Board by the Management Development and Compensation Committee and approved by the full Board.

**5.2 Notification to Participants and Delivery of Documents.** As soon as practicable after such determinations have been made, each Participant shall be notified of (a) his/her designation as a Participant, (b) the date of grant, (c) the number and type of Awards granted to the Participant, (d) in the case of Performance Awards, the Performance Period and Performance Goals, (e) in the case of Restricted Stock or Restricted Stock Units, the Restriction Period (as defined in subsection 8.1), and (f) any other terms or conditions imposed by the Committee with respect to the Award.

**5.3 Delivery of Award Agreement.** This requirement for delivery of a written Award agreement is satisfied by electronic delivery of such agreement provided that evidence of the Participant's receipt of such electronic delivery is available to the Company and such delivery is not prohibited by applicable laws and regulations.

## Section 6

### Stock Options

**6.1 Grant of Stock Options.** Coincident with or following designation for participation in the Plan, an Eligible Person may be granted one or more Options. Grants of Options under the Plan shall be made by the Committee. In no event shall the exercise of one Option affect the right to exercise any other Option or affect the number of shares of Stock for which any other Option may be exercised, except as provided in subsection 6.2(j) hereof.

**6.2 Stock Option Agreements.** Each Option granted under the Plan shall be identified as either an Incentive Stock Option or a Non-Qualified Stock Option (or, if no such identification is made, then it shall be a Non-Qualified Stock Option) and evidenced by a written agreement which shall be entered into by the Company and the Participant to whom the Option is granted, and which shall contain the following terms and conditions set out in this subsection 6.2, as well as such other terms and conditions, not inconsistent therewith, as the Committee may consider appropriate.

(a) Number of Shares. Each Stock Option agreement shall state that it covers a specified number of shares of Stock, as determined by the Committee.

(b) Price. The price at which each share of Stock covered by an Option may be purchased, the Option Price, shall be determined in each case by the Committee and set forth in the Stock Option agreement. The price may vary according to a formula specified in the Stock Option agreement, but in no event shall the Option Price ever be less than the Fair Market Value of the Stock on the date the Option is granted.

(c) No Backdating. There shall be no backdating of Options, and each Option shall be dated the actual date that the Committee adopts the resolution awarding the grant of such Option.

(d) Limitations on Incentive Stock Options. No Incentive Stock Option may be granted to an individual if, at the time of the proposed grant, such individual owns (or is attributed to own by virtue of the Internal Revenue Code) Stock possessing more than 10 percent of the total combined voting power of all classes of stock of the Company or any Affiliate unless (i) the exercise price of such Incentive Stock Option is at least 110 percent of the Fair Market Value of a share of Stock at the time such Incentive Stock Option is granted and (ii) such Incentive Stock Option is not exercisable after the expiration of five years from the date such Incentive Stock Option is granted.

To the extent that the aggregate Fair Market Value of Stock of the Company with respect to which Incentive Stock Options are exercisable for the first time by a Participant during any calendar year under the Plan and any other option plan of the Company (or any Affiliate) shall exceed \$100,000, such Options shall be treated as Non-Qualified Stock Options. Such Fair Market Value shall be determined as of the date on which each such Incentive Stock Option is granted.

(e) Duration of Options. Each Stock Option agreement shall state the period of time, determined by the Committee, within which the Option may be exercised by the Participant (the "Option Period"). The Option Period must end, in all cases, not more than ten years from the date an Option is granted.

(f) Termination of Options. During the lifetime of a Participant to whom a Stock Option is granted, the Stock Option may be exercised only by such Participant or, in the case of disability (as determined pursuant to the Company's Long-Term Disability Plan or any successor plan) by the Participant's designated legal representative, except to the extent such exercise would cause any Award intended to qualify as an ISO not to so qualify. Once a Participant to whom a Stock Option was granted dies, the Stock Option may be exercised only by the personal representative of the Participant's estate or, with respect to Stock Options that are not Incentive Stock Options, as otherwise provided in Section 14.2. Unless the Stock Option agreement shall specify a longer or shorter period, at the discretion of the Committee, then the Participant (or representative, or, if applicable pursuant to Section 14.2, designated beneficiary) may exercise the Stock

Option for a period of up to three months after such Participant terminates employment or ceases to be a member of the Board.

(g) Exercise, Payments, Etc.

(i) Each Stock Option agreement shall provide that the method for exercising the Option granted therein shall be by delivery to the Office of the Secretary of the Company or to the Administrative Agent of written notice specifying the number of shares of Stock with respect to which such Option is exercised and payment to the Company of the aggregate Option Price. Such notice shall be in a form satisfactory to the Committee and shall specify the particular Options (or portions thereof) which are being exercised and the number of shares of Stock with respect to which the Options are being exercised. The Participant's obligation to deliver written notice of exercise is satisfied by electronic delivery of such notice through means satisfactory to the Committee and prescribed by the Company. The exercise of the Option shall be deemed effective on the date such notice is received by the Office of the Secretary or by the Administrative Agent and payment is made to the Company of the aggregate Option Price (the "Exercise Date"); however, if payment of the aggregate Option Price is made pursuant to a sale of shares of Stock as contemplated by subsection 6.2(g)(iv)(E) below, the Exercise Date shall be deemed to be the date of such sale. If requested by the Company, such notice shall contain the Participant's representation that he or she is purchasing the Stock for investment purposes only and his or her agreement not to sell any Stock so purchased in any manner that is in violation of the Exchange Act or any applicable state law, and such restriction, or notice thereof, shall be placed on the certificates representing the Stock so purchased. The purchase of such Stock shall take place upon delivery of such notice to the Office of the Secretary of the Company or to the Administrative Agent, at which time the aggregate Option Price shall be paid in full to the Company by any of the methods or any combination of the methods set forth in subsection 6.2(g)(iv) below.

(ii) The shares of Stock to which the Participant is entitled as a result of the exercise of the Option shall be issued by the Company and either (A) delivered by electronic means to an account designated by the Participant or (B) delivered to the Participant in the form of a properly executed certificate or certificates representing such shares of Stock. If shares of Stock are used to pay all or part of the aggregate Option Price, the Company shall issue and deliver to the Participant the additional shares of Stock, in excess of the aggregate Option Price or portion thereof paid using shares of Stock, to which the Participant is entitled as a result of the Option exercise.

(iii) The Company's obligation to deliver the shares of Stock to which the Participant is entitled as a result of the exercise of the Option shall be subject to the payment in full to the Company of the aggregate Option Price and the required tax withholding.

(iv) The aggregate Option Price shall be paid by any of the following methods or any combination of the following methods:

(A) in cash, including the wire transfer of funds in U.S. dollars to one of the Company's bank accounts located in the United States, with such bank account to be designated from time to time by the Company;

(B) by personal, certified or cashier's check payable in U.S. dollars to the order of the Company;

(C) by delivery to the Company or the Administrative Agent of certificates representing a number of shares of Stock then owned by the Participant, the aggregate Fair Market Value of which (as of the Exercise Date) is equal to the aggregate Option Price of the Option being exercised, properly endorsed for transfer to the Company, provided that the shares of Stock used for this purpose must have been owned by the Participant for a period of at least six months;

D) by certification or attestation to the Company or the Administrative Agent of the Participant's ownership (as of the Exercise Date) of a number of shares of Stock, the aggregate Fair Market Value of which (as of the Exercise Date) is not greater than the aggregate Option Price of the Option being exercised, provided that the shares of Stock used for this purpose have been owned by the Participant for a period of at least six months; or

(E) by delivery to the Company or the Administrative Agent of a properly executed notice of exercise together with irrevocable instructions to a broker to promptly deliver to the Company, by wire transfer or check as noted in subsection 6.2(g)(iv)(A) and (B) above, the amount of the proceeds of the sale of all or a portion of the Stock or of a loan from the broker to the Participant necessary to pay the aggregate Option Price.

(h) Tax Withholding. Each Stock Option agreement shall provide that, upon exercise of the Option, the Participant shall make appropriate arrangements with the Company to provide for not less than the minimum amount of tax withholding required by law, including without limitation Sections 3102 and 3402 or any successor section(s) of the Internal Revenue Code and applicable state and local income and other tax laws, by payment of such taxes in cash (including wire transfer), by check, or as provided in Section 11 hereof.

(i) Repricing Prohibited. Subject to Sections 4, 6, 12, 13, and 16, outstanding Stock Options granted under this Plan shall not be repriced without approval by the Company's stockholders. In particular, neither the Board nor the Committee may take any action: (1) to amend the terms of an outstanding Option or SAR to reduce the Option Price or grant price thereof, cancel an Option or SAR and replace it with a new Option or SAR with a lower Option Price or grant price, or that has an economic effect that is the same as any such reduction or cancellation or (2) to cancel an outstanding Option or SAR having an Option Price or grant price above the then-current Fair Market Value of the Stock in exchange for the grant of another type of Award, without, in each such case, first obtaining approval of the stockholders of the Company of such action.

(j) Stockholder Privileges. No Participant shall have any rights as a stockholder with respect to any shares of Stock covered by an Option until the Participant becomes the holder of record of such Stock. Except as provided in Section 4 hereof, no adjustments shall be made for dividends or other distributions or other rights as to which there is a record date preceding the date on which such Participant becomes the holder of record of such Stock.

(k) Section 409A Avoidance. Once granted, no Stock Option shall be modified, extended, or renewed in any way that would cause the Stock Option to be subject to Internal Revenue Code Section 409A. The Option Period shall not be extended to any date that would cause the Stock Option to become subject to Internal Revenue Code Section 409A. The Option Price shall not be adjusted to reflect any dividends declared and paid on the Stock between the date of grant and the date the Stock Option is exercised; however, the right to one or more dividends declared and paid on the Stock between the date of grant and the date the Option is exercised may be set forth in a separate arrangement.

#### Section 7

7.1 Stock Appreciation Rights. The Committee is authorized to grant SARs to Participants either alone (“freestanding”) or in tandem with other Awards, including Performance Awards, Options, and Restricted Stock. Stock Appreciation Rights granted in tandem with any Award must be granted at the same time as the Award is granted. Stock Appreciation Rights granted in tandem with Options shall terminate and no longer be exercisable upon the termination or exercise of the related Stock Options. Options granted in tandem with Stock Appreciation Rights shall terminate and no longer be exercisable upon the termination or exercise of the related Stock Appreciation Rights. The Committee shall establish the terms and conditions applicable to any Stock Appreciation Rights, which terms and conditions need not be uniform but may not be inconsistent with the terms of the Plan. Freestanding Stock Appreciation Rights shall generally be subject to terms and conditions substantially similar to those described in Section 4 and subsection 6.2 for Options, including, but not limited to, the requirements of subsections 6.2(b), (d), and (i) and subsection 4.7 regarding general adjustment rules, minimum price, duration, and prohibition on repricing.

7.2 Section 409A Avoidance. The SAR Price may be fixed on the date it is granted or the SAR Price may vary according to an objective formula specified by the Committee at the time of grant. However, the SAR Price can never be less than the Fair Market Value of the Stock on the date of grant. The SAR grant must specify the number of shares to which it applies, which must be fixed at the date of grant (subject to adjustment pursuant to Sections 4, 6, and 11). Once granted, no SAR shall be modified, extended, or renewed in any way that would cause the SAR to be subject to Internal Revenue Code Section 409A. The period during which the SAR may be exercised shall not be extended to any date that would cause the SAR to become subject to Internal Revenue Code Section 409A. The value of the SAR shall not be adjusted to reflect any dividends

declared and paid on the Stock between the date of grant and the date the SAR is exercised; however, the right to one or more dividends declared and paid on the Stock between the date of grant and the date the SAR is exercised may be set forth in a separate arrangement.

## Section 8

### Restricted Stock and Restricted Stock Units

8.1 Restriction Period. At the time an Award of Restricted Stock or Restricted Stock Units is made, the Committee shall establish the terms and conditions applicable to such Award, including the period of time (the "Restriction Period") and attainment of performance goals during which certain restrictions established by the Committee shall apply to the Award. Each such Award, and designated portions of the same Award, may have a different Restriction Period, at the discretion of the Committee. Except as permitted or pursuant to Sections 12 and 13 hereof, the Restriction Period applicable to a particular Award shall not be changed. Restricted Stock or Restricted Stock Units may or may not be subject to Internal Revenue Code Section 409A. If they are subject to Internal Revenue Code Section 409A, the grant of the Restricted Stock or Restricted Stock Units must contain the provisions needed to comply with the requirements of Internal Revenue Code Section 409A, including but not limited to (i) the timing of any election to defer receipt of the Restricted Stock or Restricted Stock Units beyond the date of vesting, (ii) the timing of any payout election, and (iii) the timing of the settlement of Restricted Stock or a Restricted Stock Unit. Restricted Stock or Restricted Stock Units that are subject to Internal Revenue Code Section 409A may be adjusted to reflect any dividends declared and paid on the Stock between the date of grant and the date the Restricted Stock or Restricted Stock Unit vests, but only to the extent permitted in IRS guidance of general applicability.

8.2 Certificates for Stock. Restricted Stock shall be evidenced in such manner as the Committee shall determine. If certificates representing Restricted Stock are registered in the name of the Participant, the Committee may require that such certificates bear an appropriate legend referring to the terms, conditions, and restrictions applicable to such Restricted Stock, that the Company retain physical possession of the certificates, and that the Participant deliver a stock power to the Company, endorsed in blank, relating to the Restricted Stock represented by a stock certificate registered in the name of the Participant.

8.3 Restricted Stock Terms and Conditions. Participants shall have the right to enjoy all shareholder rights during the Restriction Period except that:

- (a) The Participant shall not be entitled to delivery of the Stock certificate until the Restriction Period shall have expired.
- (b) The Participant may not sell, transfer, pledge, exchange, hypothecate, or otherwise dispose of the Stock during the Restriction Period.

- (c) A breach of the terms and conditions established by the Committee with respect to the Restricted Stock shall cause a forfeiture of the Restricted Stock and any dividends withheld thereon.
- (d) Dividends and Splits. As a condition to the grant of an Award of Restricted Stock, the Committee may specify whether any cash dividends paid on a share of Restricted Stock be automatically reinvested in additional shares of Restricted Stock or applied to the purchase of additional Awards under this Plan. Unless otherwise determined by the Committee, Stock distributed in connection with a Stock split or Stock dividend, and other property distributed as a dividend, shall be subject to restrictions and a risk of forfeiture to the same extent as the Restricted Stock with respect to which such Stock or other property has been distributed.

8.4 Restricted Stock Units. The Committee is authorized to grant Restricted Stock Units to Participants, which are rights to receive Stock at the end of a specified deferral period, subject to the following terms and conditions:

Award and Restrictions. Settlement of an Award of Restricted Stock Units shall occur upon expiration of the deferral period specified for such Restricted Stock Unit by the Committee (or, if permitted by the Committee, as elected by the Participant). In addition, Restricted Stock Units shall be subject to such restrictions (which may include a risk of forfeiture) as the Committee may impose, if any, which restrictions may lapse at the expiration of the deferral period or at earlier specified times (including based on achievement of performance goals and/or future service requirements), separately or in combination, in installments or otherwise, as the Committee may determine. Restricted Stock Units shall be satisfied by the delivery of cash or Stock in the amount equal to the Fair Market Value of the specified number of shares of Stock covered by the Restricted Stock Units, or a combination thereof, as determined by the Committee at the date of grant or thereafter.

8.5 Deferral of Receipt of Restricted Stock Units. With the consent of the Committee, a Participant who has been granted a Restricted Stock Unit may by compliance with the then applicable procedures under the Plan irrevocably elect in writing to defer receipt of all or any part of any distribution associated with that Restricted Stock Unit Award in accordance with either the terms and conditions of the Deferred Delivery Plan or the terms and conditions specified under the grant agreement and related documents. The terms and conditions of any such deferral, including, but not limited to, the period of time for, and form of, election; the manner and method of payout; and the use and form of Dividend Equivalents in respect of stock-based units resulting from such deferral, shall be as determined by the Committee. The Committee may, at any time and from time to time, but prospectively only except as hereinafter provided, amend, modify, change, suspend, or cancel any and all of the rights, procedures, mechanics, and timing parameters relating to such deferrals. In addition, the Committee may, in its sole discretion, accelerate the pay out of such deferrals (and any earnings thereon), or any portion thereof, either in a lump sum or in a series of payments,

but only to the extent that the payment or the change in timing of the payment will not cause a violation of Internal Revenue Code Section 409A.

8.6 Bonus Stock and Awards in Lieu of Obligations. The Committee is authorized to grant Stock as a bonus, or to grant Stock or other Awards in lieu of obligations to pay cash or deliver other property under this Plan or under plans or compensatory arrangements, provided that, in the case of Participants subject to Section 16 of the Exchange Act, the amount of such grants remains within the discretion of the Committee to the extent necessary to ensure that acquisitions of Stock or other Awards are exempt from liability under Section 16(b) of the Exchange Act. Stock or Awards granted hereunder shall be subject to such other terms as shall be determined by the Committee. In the case of any grant of Stock to an officer of the Company or an Affiliate in lieu of salary or other cash compensation, the number of shares granted in place of such compensation shall be reasonable, as determined by the Committee.

8.7 Dividend Equivalents. The Committee is authorized to grant Dividend Equivalents to a Participant, entitling the Participant to receive cash, Stock, other Awards, or other property equal in value to dividends paid with respect to a specified number of shares of Stock, or other periodic payments. Dividend Equivalents may be awarded on a free-standing basis or in connection with another Award. The Committee may provide that Dividend Equivalents shall be paid or distributed when accrued or shall be deemed to have been reinvested in additional Stock, Awards, or other investment vehicles, and subject to risk of forfeiture, as the Committee may specify.

## Section 9

### Performance Awards

9.1 Establishment of Performance Goals for Company. Performance Goals applicable to a Performance Award shall be established by the Committee in its absolute discretion on or before the date of grant and within the time period prescribed by, and shall otherwise comply with the requirements of, Code Section 162(m)(4)(C), or any successor provision thereto, and the regulations thereunder, for performance-based compensation. Such Performance Goals may include or be based upon any of the following criteria, either in absolute amount, per share, or per barrel of oil equivalent (boe): pretax income or after tax income, operating profit, return on equity, capital or investment, earnings, book value, increase in cash flow return, sales or revenues, operating expenses (including, but not limited to, lease operating expenses, severance taxes and other production taxes, gathering and transportation, general and administrative costs, and other components of operating expenses), stock price appreciation, implementation or completion of critical projects or processes, production growth, reserve growth, and/or corporate acquisition goals based on value of assets acquired or similar objective measures.

Where applicable, the Performance Goals may be expressed in terms of attaining a specified level of a particular criteria or attaining a percentage increase or decrease in a particular criteria, and may be applied relative to internal goals or levels attained in prior years or related to other companies or indices or as ratios expressing relationship between Performance Goals, or any combination thereof, as determined by the Committee.

The Performance Goals may include a threshold level of performance below which no vesting will occur, levels of performance at which specified vesting will occur, and a maximum level of performance at which full vesting will occur.

The Committee may in its discretion classify Participants into as many groups as it determines, and as to any Participant relate his/her Performance Goals partially, or entirely, to the measured performance, either absolutely or relatively, of an identified subsidiary, division, operating company, test strategy, or new venture of the Company and/or its Affiliates.

Notwithstanding any other provision of the Plan, payment or vesting of any Performance Award shall not be made until the applicable Performance Goals have been satisfied and any other material terms of such Award were in fact satisfied. The Committee shall certify in writing the attainment of each Performance Goal. Notwithstanding any provision of the Plan to the contrary, with respect to any Performance Award, (a) the Committee may not adjust, downwards or upwards, any amount payable, or other benefits granted, issued, retained, and/or vested pursuant to such an Award on account of satisfaction of the applicable Performance Goals and (b) the Committee may not waive the achievement of the applicable Performance Goals, except in the case of the Participant's death or disability, or a Change of Control.

**9.2 Levels of Performance Required to Earn Performance Awards.** At or about the same time that Performance Goals are established for a specific period, the Committee shall in its absolute discretion establish the percentage of the Performance Awards granted for such Performance Period which shall be earned by the Participant for various levels of performance measured in relation to achievement of Performance Goals for such Performance Period.

**9.3 Other Restrictions.** The Committee shall determine the terms and conditions applicable to any Performance Award, which may include restrictions on the delivery of Stock payable in connection with the Performance Award and restrictions that could result in the future forfeiture of all or part of any Stock earned. The Committee may provide that shares of Stock issued in connection with a Performance Award be held in escrow and/or legended. Performance Awards may or may not be subject to Internal Revenue Code Section 409A. If a Performance Award is subject to Internal Revenue Code Section 409A, the Performance Award grant agreement shall contain the terms and conditions needed to comply with the requirements of Internal Revenue Code Section 409A, including but not limited to (i) the timing of any election to defer receipt of the Performance Award, (ii) the timing of any payout election, and (iii) the timing of the actual payment of the Performance Award. Performance Awards that are subject to

Internal Revenue Code Section 409A may be adjusted to reflect any dividends declared and paid on the Stock between the date of grant and the date the Performance Award is paid, but only to the extent permitted in IRS guidance of general applicability.

9.4 Notification to Participants. Promptly after the Committee has established the Performance Goals with respect to a Performance Award, the Participant shall be provided with written notice of the Performance Goals so established.

9.5 Measurement of Performance against Performance Goals. The Committee shall, as soon as practicable after the close of a Performance Period, determine (a) the extent to which the Performance Goals for such Performance Period have been achieved and (b) the percentage of the Performance Awards earned as a result.

These determinations shall be absolute and final as to the facts and conclusions therein made and be binding on all parties. Promptly after the Committee has made the foregoing determination, each Participant who has earned Performance Awards shall be notified. For all purposes of this Plan, notice shall be deemed to have been given the date action is taken by the Committee making the determination. Participants may not sell, transfer, pledge, exchange, hypothecate, or otherwise dispose of all or any portion of their Performance Awards during the Performance Period.

9.6 Treatment of Performance Awards Earned. Upon the Committee's determination that a percentage of any Performance Award has been earned for a Performance Period, Participants to whom such earned Performance Awards have been granted and who have been in the employ of the Company or Affiliates continuously from the date of grant until the end of the Performance Period, subject to the exceptions set forth in the Performance Award agreement and in Sections 10 and 12 hereof, shall be entitled, subject to the other conditions of this Plan, to payment in accordance with the terms and conditions of the Performance Awards. Performance Awards shall under no circumstances become earned or have any value whatsoever for any Participant who is not in the employ of the Company or its Affiliates continuously during the entire Performance Period for which such Performance Award was granted, except as provided in Sections 10 and 12.

9.7 Subsequent Performance Award Grants. Following the grant of Performance Awards with respect to a Performance Period, additional Participants may be designated by the Committee for grant of Performance Awards for such Performance Period subject to the same terms and conditions set forth for the initial grants, except that the Committee, in its sole discretion, may reduce the value of the amounts to which subsequent Participants may become entitled, prorated according to reduced time spent during the Performance Period, and the applicable Performance Award agreement shall be modified to reflect such reduction.

9.8 Stockholder Privileges. No Participant shall have any rights as a stockholder with respect to any shares of Stock covered by a Performance Award until the Participant becomes the holder of record of such Stock.

## Section 10

### Termination of Employment, Death, Disability, etc.

10.1 Termination of Employment. Except as provided herein, the treatment of an Award upon a termination of employment or any other service relationship by and between a Participant and the Company or an Affiliate shall be specified in the agreement controlling such Award.

10.2 Termination for Cause. If the employment of the Participant by the Company is terminated for cause, as determined by the Committee, all Awards to such Participant shall thereafter be void for all purposes. As used in subsections 9.1, 10.2, and 10.3 hereof, "cause" shall mean a gross violation, as determined by the Committee, of the Company's established policies and procedures, provided that the effect of this subsection 10.2 shall be limited to determining the consequences of a termination and that nothing in this subsection 10.2 shall restrict or otherwise interfere with the Company's discretion with respect to the termination of any employee.

10.3 Performance Awards. Except as set forth below, each Performance Award shall state that each such Award shall be subject to the condition that the Participant has remained an Eligible Person from the date of grant until the applicable vesting date as follows:

(a) If the Participant voluntarily leaves the employment of the Company or an Affiliates, or if the employment of the Participant is terminated by the Company for cause or otherwise, any Performance Award to such Participant not previously vested shall thereafter be void and forfeited for all purposes.

(b) A Participant shall become vested in all Performance Awards that have met the Performance Goals within the Performance Period on the date the Participant retires from employment with the Company on or after attaining retirement age (which for all purposes of this Plan is determined to be age 65, unless otherwise designated by the Committee at the time the Award is granted), on the date the Participant dies while employed by the Company, or on the date the Participant terminates service with the Company and the Affiliates due to permanent disability (as determined pursuant to the Company's Long-Term Disability Plan or any successor plan, unless the Performance award is subject to Internal Revenue Code Section 409A, in which case "permanent disability" must also fall within the meaning specified in Internal Revenue Code Section 409A(a)(2)(C) or a more restrictive meaning established by the Committee) while employed by the Company. Such Participant shall not become entitled to any payment which may arise due to the occurrence of a Performance Goal after the Participant dies, terminates service due to permanent disability, or retires. Payment shall occur as soon as administratively convenient following the date the Participant dies, terminates service due to permanent disability, or retires, but in no event shall the payment occur later than March 15 in the calendar year immediately following the calendar year in which the

Participant died, so terminates service, or retired. If the Participant dies before receiving payment, the payment shall be made to those entitled pursuant to Section 14.2 of this Plan.

10.4 Forfeiture Provisions. Subject to Sections 12 and 14, in the event a Participant terminates employment during a Restriction Period for the Participant's Restricted Stock or Restricted Stock Units, such Awards will be forfeited; provided, however, that the Committee may provide for proration or full payout in the event of (a) death, (b) permanent disability, or (c) any other circumstances the Committee may determine.

## Section 11

### Tax Withholding

11.1 Withholding Requirement. The Company and any Affiliate is authorized to withhold from any Award granted, or any payment relating to an Award under this Plan, including from a distribution of Stock, amounts of withholding and other taxes or social security payments due or potentially payable in connection with any transaction involving an Award, and to take such other action as the Committee may deem advisable to enable the Company and Participants to satisfy obligations for the payment of withholding taxes and other tax or social security obligations relating to any Award. This authority shall include authority to withhold or receive Stock or other property and to make cash payments in respect thereof, in satisfaction of a Participant's tax obligations, either on a mandatory or elective basis at the discretion of the Committee.

11.2 Withholding Requirement – Stock Options and SARs. The Company's obligations to deliver shares of Stock upon the exercise of an Option or SAR shall be subject to the Participant's satisfaction of all applicable federal, state, and local income and other tax and social security withholding requirements.

At the time the Committee grants an Option, it may, in its sole discretion, grant the Participant an election to pay all such amounts of required tax withholding, or any part thereof:

(a) by the delivery to the Company or the Administrative Agent of a number of shares of Stock then owned by the Participant, the aggregate Fair Market Value of which (as of the Exercise Date) is not greater than the amount required to be withheld, provided that such shares have been held by the Participant for a period of at least six months;

(b) by certification or attestation to the Company or the Administrative Agent of the Participant's ownership (as of the Exercise Date) of a number of shares of Stock, the aggregate Fair Market Value of which (as of the Exercise Date) is not greater than the amount required to be withheld, provided that such shares of Stock have been owned by the Participant for a period of at least six months; or

(c) by the Company or the Administrative Agent withholding from the shares of Stock otherwise issuable to the Participant upon exercise of the Option, a number of shares of Stock, the aggregate Fair Market Value of which (as of the Exercise Date) is not greater than the amount required to be withheld. Any such elections by Participants to have shares of Stock withheld for this purpose will be subject to the following restrictions:

- (i) all elections shall be made on or prior to the Exercise Date; and
- (ii) all elections shall be irrevocable.

**11.3 Section 16 Requirements.** If the Participant is an officer or director of the Company within the meaning of Section 16 or any successor section(s) of the Exchange Act ("Section 16"), the Participant must satisfy the requirements of Section 16 and any applicable rules and regulations thereunder with respect to the use of shares of Stock to satisfy such tax withholding obligation.

**11.4 Restricted Stock and Performance Award Payment and Tax Withholding.** Each Restricted Stock and Performance Award agreement shall provide that, upon payment of any entitlement under such an Award, the Participant shall make appropriate arrangements with the Company to provide for the amount of minimum tax and social security withholding required by law, including without limitation Sections 3102 and 3402 or any successor section(s) of the Internal Revenue Code and applicable state and local income and other tax and social security laws. The withholding may be deducted from the Award. Any payment under such an Award shall be made in a proportion of cash and shares of Stock, determined by the Committee, such that the cash portion shall be sufficient to cover the withholding amount required by this Section. The cash portion of any payment shall be based on the Fair Market Value of the shares of Stock on the applicable date of vesting to which such tax withholding relates. Such cash portion shall be withheld by the Company to satisfy applicable tax and social security withholding requirements.

## Section 12

### Change of Control

**12.1 In General.** In the event of the occurrence of a Change of Control of the Company:

- (a) Without further action by the Committee or the Board,
  - (i) all outstanding Options granted on or prior to December 31, 2009 shall automatically vest so as to make all such Options fully vested and exercisable as of the date of such Change of Control;

(ii) all outstanding Options granted on or after January 1, 2010 shall fully vest upon the Participant's Involuntary Termination or Voluntary Termination with Cause occurring on or after a Change of Control. Such newly vested Options shall be fully exercisable as of the date of the Involuntary Termination or Voluntary Termination with Cause on or after a Change of Control occurs.

(b) Without further action by the Committee or the Board,

(i) all unvested Restricted Stock Awards and Restricted Stock Units granted on or prior to December 31, 2009 shall automatically vest. Such newly vested Restricted Stock Units shall be converted to Stock and the Participant shall be issued the requisite number of shares, after any withholding under Section 11, as soon as administratively practicable after the Change of Control occurs, unless the Participant had elected to defer Restricted Stock Units to the Deferred Delivery Plan in which case the Participant's account in the Deferred Delivery Plan shall be credited with deferred Restricted Stock Units as of the date of the Change of Control;

(ii) all unvested Restricted Stock Awards and Restricted Stock Units granted on or after January 1, 2010 shall fully vest upon the Participant's Involuntary Termination or Voluntary Termination with Cause occurring on or after a Change of Control. Such newly vested Restricted Stock Units shall be converted to Stock and the Participant shall be issued the requisite number of shares, after any withholding under Section 11, as soon as administratively practicable after the Involuntary Termination or Voluntary Termination with Cause on or after a Change of Control occurs, unless the Participant had elected to defer Restricted Stock Units to the Deferred Delivery Plan in which case the Participant's account in the Deferred Delivery Plan shall be credited with deferred Restricted Stock Units as of the date of the Involuntary Termination or Voluntary Termination with Cause on or after the Change of Control occurs.

(c) Assuming the achievement of a Performance Goal, the entitlement to receive cash and Stock under any outstanding Performance Award grants shall vest automatically, without further action by the Committee or the Board, and shall become payable as follows:

(i) For Performance Awards granted on or prior to December 31, 2009, if such Change of Control occurs subsequent to the achievement of a Performance Goal, any remainder of such payout amount shall vest as of the date of such Change of Control and shall be paid by the Company to the Participant within thirty (30) days of the date of such Change of Control in the manner set out in subsection 12.1 hereof.

(ii) For Performance Awards granted on or prior to December 31, 2009, if the achievement of a Performance Goal occurs subsequent to the date of a Change of Control, the applicable payout amount shall vest in full for which the Performance Period has not yet ended and shall be paid by the Company to the Participant within thirty (30) days after the Performance Goal is reached. The payment will occur only if the Participant is employed at the time that the Performance Goal is reached or if the Performance Goal is reached after the Participant was terminated for any reason (or without reason) after the Change of Control.

(iii) For Performance Awards granted on or after January 1, 2010, if such Change of Control occurs subsequent to the achievement of a Performance Goal, any remainder of such payout amount shall vest as of the date of the Participant's Involuntary Termination or Voluntary Termination with Cause occurring on or after the date of such Change of Control and shall be paid by the Company to the Participant within thirty (30) days of the date of such Involuntary Termination or Voluntary Termination with Cause which occurs on or after the date of the Change of Control in the manner set out in subsection 12.1 hereof.

(iv) For Performance Awards granted on or after January 1, 2010, if the achievement of a Performance Goal occurs subsequent to the date of a Change of Control, the applicable payout amount shall vest in full for which the Performance Period has not yet ended as of the date of the Participant's Involuntary Termination or Voluntary Termination with Cause occurring on or after such Change of Control and shall be paid by the Company to the Participant within thirty (30) days after the later of (1) the date of the Participant's Involuntary Termination or Voluntary Termination with Cause or (2) the date that the Performance Goal is reached. The payment will occur only if the Participant is employed at the time that the Performance Goal is reached or if the Performance Goal is reached after the Participant's Involuntary Termination or Voluntary Termination with Cause occurring on or after the Change of Control.

(d) To the extent that any Award is subject to Internal Revenue Code Section 409A, the Award shall contain appropriate provisions to comply with Internal Revenue Code Section 409A, which shall supersede the provisions of subsections (a), (b), and (c).

### Section 13

#### Reorganization or Liquidation

In the event that the Company is merged or consolidated with another corporation and the Company is not the surviving corporation, or if all or substantially all of the assets or more than 20 percent of the outstanding voting stock of the Company is acquired by any

other corporation, business entity or person, or in case of a reorganization (other than a reorganization under the United States Bankruptcy Code) or liquidation of the Company, then the Committee, or the board of directors of any corporation assuming the obligations of the Company, shall, as to the Plan and outstanding Awards make appropriate provision for the adoption and continuation of the Plan by the acquiring or successor corporation and for the protection of any holders of such outstanding Awards by the substitution on an equitable basis of appropriate stock of the Company or of the merged, consolidated, or otherwise reorganized corporation which will be issuable with respect to the Stock. Additionally, upon the occurrence of such an event and provided that a Performance Goal has occurred, upon written notice to the Participants, the Committee may accelerate the vesting and payment dates of the entitlement to receive cash and Stock under outstanding Awards so that all such existing entitlements are paid prior to any such event. If a Performance Goal has not yet been attained, the Committee in its discretion may make equitable payment or adjustment.

In its discretion, and on such terms and conditions as it deems appropriate, the Committee may provide, either by the terms of an agreement applicable to any Award or by resolution adopted prior to the occurrence of a Change of Control or an event described in this Section 13, that any outstanding Award (or portion thereof) shall be converted into a right to receive cash, on or as soon as practicable following the closing date or expiration date of the transaction resulting in the Change of Control or such event in an amount equal to the highest value of the consideration to be received in connection with such transaction for one share of Stock, or, if higher, the highest Fair Market Value of a share of Stock during the thirty (30) consecutive business days immediately prior to the closing date or expiration date of such transaction, less the per-share Option Price or grant price of SARs, as applicable to the Award, multiplied by the number of shares subject to such Award, or the applicable portion thereof.

## Section 14

### Rights of Employees and Participants

14.1 Employment. Neither anything contained in the Plan or any agreement nor the granting of any Award under the Plan shall confer upon any Participant any right with respect to the continuation of his or her employment by the Company or any Affiliate, or interfere in any way with the right of the Company or any Affiliate, at any time, to terminate such employment or to increase or decrease the level of the Participant's compensation from the level in existence at the time of the Award.

An Eligible Person who has been granted an Award in one year shall not necessarily be entitled to be granted Awards in subsequent years.

14.2 Non-transferability. Except as otherwise determined at any time by the Committee as to any Awards other than ISOs, no right or interest of any Participant in an Award granted pursuant to the Plan shall be assignable or transferable during the lifetime

of the Participant, either voluntarily or involuntarily, or subjected to any lien, directly or indirectly, by operation of law, or otherwise, including execution, levy, garnishment, attachment, pledge, bankruptcy, or court order; provided that the Committee may permit further transferability of Awards other than ISOs, on a general or a specific basis, and may impose conditions and limitations on any permitted transferability, subject to any applicable Restriction Period; provided further, however, that no Award may be transferred for value or other consideration without first obtaining approval thereof by the stockholders of the Company. In the event of a Participant's death, a Participant's rights and interests in any Award as set forth in an Award agreement, shall be transferable by testamentary will or the laws of descent and distribution, or with respect to Awards other than Incentive Stock Options, a beneficiary designation that is in a form approved by the Committee and in compliance with the provisions of this Plan, applicable law, and the applicable Award agreement, and payment of any entitlements due under the Plan shall be made to the Participant's designated beneficiary, legal representatives, heirs, or legatees, as applicable. If in the opinion of the Committee a person entitled to payments or to exercise rights with respect to the Plan is disabled from caring for his or her affairs because of mental condition, physical condition, or age, payment due such person may be made to, and such rights shall be exercised by, such person's guardian, conservator, or other legal personal representative upon furnishing the Committee with evidence satisfactory to the Committee of such status. If any individual entitled to payment or to exercise rights with respect to the Plan is a minor, the Committee shall cause the payment to be made to (or the right to be exercised by) the custodian or representative who, under the state law of the minor's domicile, is authorized to act on behalf of the minor or is authorized to receive funds on behalf of the minor. With respect to those Awards, if any, that are permitted to be transferred to another individual, references in the Plan to exercise or payment related to such Awards by or to the Participant shall be deemed to include, as determined by the Committee, the Participant's permitted transferee. A Participant's unexercised Option or SAR, or amounts due but remaining unpaid to such Participant, at the Participant's death, shall be exercised or paid as designated by the Participant by will or by the laws of descent and distribution, or, with respect to any unexercised Option or SAR other than an Incentive Stock Option, in accordance with the Participant's beneficiary designation in a form approved by the Committee and in compliance with the provisions of this Plan, applicable law and the applicable Award agreement. In the event any Award is exercised by or otherwise paid to the executors, administrators, heirs or distributees of the estate of a deceased Participant, or the transferee of an Award, in any such case, pursuant to the terms and conditions of the Plan and the applicable Award agreement and in accordance with such terms and conditions as may be specified from time to time by the Committee, the Company shall be under no obligation to issue shares of Stock thereunder unless and until the Company is satisfied, as determined in the discretion of the Committee, that the person or persons exercising such Award, or to receive such payment, are the duly appointed legal representative of the deceased Participant's estate or the proper legatees or distributees thereof, or the valid transferee or designated beneficiary of such Award, as applicable. Any purported assignment, transfer or encumbrance of an Award that does not comply with this Section 14.2 shall be void and unenforceable against the Company.

14.3 Noncompliance with Internal Revenue Code Section 409A. If an Award is subject to the requirements of Internal Revenue Code Section 409A, to the extent that the Company or an Affiliate takes any action that causes a violation of Internal Revenue Code Section 409A or fails to take reasonable actions required to comply with Internal Revenue Code Section 409A, in each case as determined by the Committee, the Company shall pay an additional amount to the Participant (or beneficiary) equal to the additional income tax imposed pursuant to Internal Revenue Code Section 409A on the Participant as a result of such violation, plus any taxes imposed on this additional payment.

#### Section 15

##### Other Employee Benefits

The amount of any income deemed to be received by a Participant as a result of the payment under an Award or exercise shall not constitute "earnings" or "compensation" with respect to which any other employee benefits of such Participant are determined, including without limitation benefits under any pension, profit sharing, life insurance, or salary continuation plan.

#### Section 16

##### Amendment, Modification, and Termination

The Committee or the Board may at any time terminate, and from time to time may amend or modify the Plan, and the Committee or the Board may, to the extent permitted by the Plan, from time to time amend or modify the terms of any Award theretofore granted, including any Award agreement, in each case, retroactively or prospectively; provided, however, that no amendment or modification of the Plan may become effective without approval of the amendment or modification by the Company's stockholders if stockholder approval is required to enable the Plan to satisfy an applicable statutory or regulatory requirements, unless the Company, on the advice of outside counsel, determines that stockholder approval is not necessary.

Notwithstanding any other provision of this Plan, no amendment, modification, or termination of the Plan or any Award shall adversely affect the previously accrued material rights or benefits of a Participant under any outstanding Award theretofore awarded under the Plan, without the consent of such Participant holding such Award, except to the extent necessary to avoid a violation of Internal Revenue Code Section 409A or the Board or the Committee determines, on advice of outside counsel or the Company's independent accountants, that such amendment or modification is required for the Company, the Plan, or the Award to satisfy, comply with, or meet the requirements of any law, regulation, listing rule, or accounting standard applicable to the Company.

The Committee shall have the authority to adopt (without the necessity for further stockholder approval) such modifications, procedures, and subplans as may be necessary or desirable to comply with the provisions of the laws (including, but not limited to, tax laws and regulations) of countries other than the United States in which the Company may operate, so as to assure the viability of the benefits of the Plan to Participants employed in such countries.

## Section 17

### Requirements of Law

17.1 Requirements of Law. The issuance of Stock and the payment of cash pursuant to the Plan shall be subject to all applicable laws, rules, and regulations, including applicable federal and state securities laws. The Company may require a Participant, as a condition of receiving payment under an Award, to give written assurances in substance and form satisfactory to the Company and its counsel to such effect as the Company deems necessary or appropriate in order to comply with federal and applicable state securities laws.

17.2 Section 16 Requirements. If a Participant is an officer or director of the Company within the meaning of Section 16 of the Exchange Act, Awards granted hereunder shall be subject to all conditions required under Rule 16b-3, or any successor rule(s) promulgated under the Exchange Act, to qualify the Award for any exemption from the provisions of Section 16 available under such Rule. Such conditions are hereby incorporated herein by reference and shall be set forth in the agreement with the Participant, which describes the Award.

17.3 Governing Law. The Plan and all agreements hereunder shall be construed in accordance with and governed by the laws of the State of Texas.

Section 18

Duration of the Plan

The Plan shall terminate on the ten year anniversary of the Effective Date. No grants shall be awarded after such termination; however, the terms of the Plan shall continue to apply to all Awards outstanding when the Plan terminates.

Dated: May 4, 2011.

APACHE CORPORATION

ATTEST:

/s/ Cheri L. Peper  
Cheri L. Peper  
Corporate Secretary

By: /s/ Margery M. Harris  
Margery M. Harris  
Senior Vice President,  
Human Resources

**APACHE CORPORATION  
1998 STOCK OPTION PLAN**

**(Amended and Restated effective May 5, 2011)**

**Section 1**

**Introduction**

1.1 **Establishment.** Apache Corporation, a Delaware corporation (hereinafter referred to, together with its Affiliated Corporations (as defined in Section 2.1 hereof) as the "Company" except where the context otherwise requires), hereby establishes the Apache Corporation 1998 Stock Option Plan (the "Plan") for Eligible Employees (as defined in Section 2.1 hereof). The Plan permits the grant of stock options to Eligible Employees selected by the Committee (as defined in Section 2.1 hereof).

1.2 **Purposes.** The purposes of the Plan are to provide the Eligible Employees designated by the Committee for participation in the Plan with added incentives to continue in the long-term service of the Company and to create in such employees a more direct interest in the future success of the operations of the Company by relating incentive compensation to increases in stockholder value, so that the income of those employees is more closely aligned with the interests of the Company's stockholders. The Plan is also designed to attract outstanding individuals and to retain and motivate Eligible Employees by providing an opportunity for investment in the Company.

1.3 **Effective Date.** The Effective Date of the Plan (the "Effective Date") is February 6, 1998. This Plan and each option granted hereunder is conditioned on and shall be of no force or effect until approval of the Plan by the holders of the shares of voting stock of the Company unless the Company, on the advice of counsel, determines that stockholder approval is not necessary. The Committee may grant options the exercise of which shall be expressly subject to the condition that the Plan shall have been approved by the stockholders of the Company.

**Section 2**

**Definitions**

2.1 **Definitions.** The following terms shall have the meanings set forth below:

(a) "**Administrative Agent**" means any designee or agent that may be appointed by the Committee pursuant to Section 3.1(b) hereof.

(b) "Affiliated Corporation" means any corporation or other entity (including but not limited to a partnership) which is affiliated with Apache Corporation through stock ownership or otherwise and is treated as a common employer under the provisions of Sections 414(b) and (c) or any successor section(s) of the Internal Revenue Code.

(c) "Board" means the Board of Directors of the Company.

(d) "Committee" means the Stock Option Plan Committee of the Board, which is empowered hereunder to take actions in the administration of the Plan. The Committee shall be constituted at all times as to permit the Plan to comply with: (i) Rule 16b-3 or any successor rule(s) promulgated under the Securities Exchange Act of 1934, as amended (the "1934 Act"), and (ii) Section 162(m) or any successor sections(s) of the Internal Revenue Code and the regulations promulgated thereunder.

(e) "Deferred Delivery Plan" means the Company's Deferred Delivery Plan, effective as of February 10, 2000 and as it may be amended from time to time, or any successor plan.

(f) "Depository Shares" means the Depository shares representing the Company's preferred stock convertible into Stock.

(g) "Eligible Employees" means full-time employees (including, without limitation, officers and directors who are also employees), and certain part-time employees, of the Company or any division thereof.

(h) "Fair Market Value" means the per share closing price of the Stock as reported on The New York Stock Exchange, Inc. Composite Transactions Reporting System for a particular date or, if the Stock is not so listed on such date, as reported on NASDAQ or on such other exchange or electronic trading system which, on the date in question, reports the largest number of traded shares of Stock, provided, however, that if on the date Fair Market Value is to be determined there are no transactions in the Stock, Fair Market Value shall be determined as of the immediately preceding date on which there were transactions in the Stock; provided further, however, that if the foregoing provisions are not applicable, the fair market value of a share of the Stock as determined by the Committee by the reasonable application of such reasonable valuation method, consistently applied, as the Committee deems appropriate.

(i) "Internal Revenue Code" means the Internal Revenue Code of 1986, as it may be amended from time to time.

(j) "Option" means a right to purchase shares of Stock at a stated price for a specified period of time. All Options granted under the Plan shall be Options which are not "incentive stock options" as described in Section 422 or any successor section(s) of the Internal Revenue Code.

(k) "Option Price" means the price at which shares of Stock subject to an Option may be purchased, determined in accordance with subsection 7.2(b) hereof.

(l) "Participant" means an Eligible Employee designated by the Committee from time to time during the term of the Plan to receive one or more Options under the Plan.

(m) "Stock" means the \$0.625 par value Common Stock of the Company.

(n) "Stock Units" means investment units under the Deferred Delivery Plan, each of which is deemed to be equivalent to one share of Stock.

2.2 Headings; Gender and Number. The headings contained in the Plan are for reference purposes only and shall not affect in any way the meaning or interpretation of the Plan. Except when otherwise indicated by the context, the masculine gender shall also include the feminine gender, and the definition of any term herein in the singular shall also include the plural.

### **Section 3**

#### **Plan Administration**

##### **3.1 Administration by the Committee.**

(a) The Plan shall be administered by the Committee. In accordance with the provisions of the Plan, the Committee shall, in its sole discretion, select the Participants from among the Eligible Employees, determine the Options to be granted pursuant to the Plan, the number of shares of Stock to be issued thereunder, the time at which such Options are to be granted, fix the Option Price, and establish such other terms and requirements as the Committee may deem necessary or desirable and consistent with the terms of the Plan. The Committee shall determine the form or forms of the agreements with Participants which shall evidence the particular provisions, terms, conditions, rights and duties of the Company and the Participants with respect to Options granted pursuant to the Plan, which provisions need not be identical except as may be provided herein.

(b) The Committee may from time to time adopt such rules and regulations for carrying out the purposes of the Plan as it may deem proper and in the best interests of the Company. The Committee may appoint an Administrative Agent, who need not be a member of the Committee or an employee of the Company, to assist the Committee in administration of the Plan and to whom it may delegate such powers as the Committee deems appropriate, except that the Committee shall determine any dispute. The Committee may correct any defect, supply any omission or reconcile any inconsistency in the Plan, or in any agreement entered into hereunder, in the manner and to the extent it shall deem expedient and it shall be the sole and final judge of such expediency. No member of the Committee shall be liable for any action or determination made in good faith. The determination, interpretations and other actions of the Committee pursuant to the provisions of the Plan shall be binding and conclusive for all purposes and on all persons.

### 3.2 Compliance with Section 162(m).

The Plan is intended to comply with the requirements of Section 162(m) or any successor section(s) of the Internal Revenue Code ("Section 162(m)") as to any "covered employee" as defined in Section 162(m), and shall be administered, interpreted and construed consistently therewith. In accordance with this intent, the amount of income a Participant may receive from Options granted under the Plan shall be based solely on an increase in the value of the Stock after the date of the grant of the Option, or such other bases as may be permitted by applicable law. The Committee is authorized to take such additional action, if any, that may be required to ensure that the Plan satisfies the requirements of Section 162(m) and the regulations promulgated or revenue rulings published thereunder.

## **Section 4**

### **Stock Subject to the Plan**

4.1 Number of Shares. Subject to Section 7.1 and to adjustment pursuant to Section 4.3 hereof, 2,500,000 shares of Stock (adjusted to 5,775,000 shares of Stock for (i) the Company's ten-percent stock dividend, record date December 31, 2001, paid January 21, 2002, (ii) the Company's five-percent stock dividend, record date March 12, 2003, paid April 2, 2003, and (iii) the Company's two-for-one stock split, record date December 31, 2003, distributed January 14, 2004) are authorized for issuance under the Plan in accordance with the provisions of the Plan and subject to such restrictions or other provisions as the Committee may from time to time deem necessary. This authorization may be increased from time to time by approval of the Board and the stockholders of the Company if, on the advice of counsel for the Company, such stockholder approval is required. Shares of Stock which may be issued upon exercise of Options shall be applied to reduce the maximum number of shares of Stock remaining available for use under the Plan. The Company shall at all times

during the term of the Plan and while any Options are outstanding retain as authorized and unissued Stock, or as Stock in the Company's treasury, at least the number of shares from time to time required under the provisions of the Plan, or otherwise assure itself of its ability to perform its obligations hereunder.

4.2 Other Shares of Stock. Any shares of Stock that are subject to an Option which expires, is forfeited, is cancelled, or for any reason is terminated unexercised, and any shares of Stock that for any other reason are not issued to a Participant or are forfeited shall automatically become available for use under the Plan.

4.3 Adjustments for Stock Split, Stock Dividend, etc. If the Company shall at any time increase or decrease the number of its outstanding shares of Stock or change in any way the rights and privileges of such shares by means of the payment of a Stock dividend or any other distribution upon such shares payable in Stock, or through a Stock split, subdivision, consolidation, combination, reclassification or recapitalization involving the Stock then in relation to the Stock that is affected by one or more of the above events, the numbers, rights and privileges of the following shall be, in each case, equitably and proportionally adjusted to take into account the occurrence of any of the above events, (i) the shares of Stock as to which Options may be granted under the Plan; (ii) the shares of Stock then included in each outstanding Option granted hereunder; and (iii) the Option Price for each outstanding Option granted hereunder.

4.4 Dividend Payable in Stock of Another Corporation, Etc. If the Company shall at any time pay or make any dividend or other distribution upon the Stock payable in securities or other property (except money or Stock), a proportionate part of such securities or other property shall be set aside and delivered to any Participant then holding an Option for the particular type of Stock for which the dividend or other distribution was made, upon exercise thereof. Prior to the time that any such securities or other property are delivered to a Participant in accordance with the foregoing, the Company shall be the owner of such securities or other property and shall have the right to vote the securities, receive any dividends payable on such securities, and in all other respects shall be treated as the owner. If securities or other property which have been set aside by the Company in accordance with this Section are not delivered to a Participant because an Option is not exercised, then such securities or other property shall remain the property of the Company and shall be dealt with by the Company as it shall determine in its sole discretion.

4.5 Other Changes in Stock. In the event there shall be any change, other than as specified in Sections 4.3 and 4.4 hereof, in the number or kind of outstanding shares of Stock or of any stock or other securities into which the Stock shall be changed or for which it shall have been exchanged, and if the Committee shall in its discretion determine that such change equitably requires an adjustment in the number or kind of shares subject to outstanding Options or

which have been reserved for issuance pursuant to the Plan but are not then subject to an Option, then such adjustments shall be made by the Committee and shall be effective for all purposes of the Plan and on each outstanding Option that involves the particular type of stock for which a change was effected.

4.6 Rights to Subscribe. If the Company shall at any time grant to the holders of its Stock rights to subscribe pro rata for additional shares thereof or for any other securities of the Company or of any other corporation, there shall be reserved with respect to the shares then under Option to any Participant of the particular class of Stock involved the Stock or other securities which the Participant would have been entitled to subscribe for if immediately prior to such grant the Participant had exercised his entire Option. If, upon exercise of any such Option, the Participant subscribes for the additional shares or other securities, the aggregate Option Price shall be increased by the amount of the price that is payable by the Participant for such additional shares or other securities.

4.7 General Adjustment Rules. No adjustment or substitution provided for in this Section 4 shall require the Company to sell a fractional share of Stock under any Option, or otherwise issue a fractional share of Stock, and the total substitution or adjustment with respect to each Option shall be limited by deleting any fractional share. In the case of any such substitution or adjustment, the aggregate Option Price for the shares of Stock then subject to the Option shall remain unchanged but the Option Price per share under each such Option shall be equitably adjusted by the Committee to reflect the greater or lesser number of shares of Stock or other securities into which the Stock subject to the Option may have been changed.

4.8 Determination by the Committee, Etc. Adjustments under this Section 4 shall be made by the Committee, whose determinations with regard thereto shall be final and binding upon all parties.

## **Section 5**

### **Reorganization or Liquidation**

In the event that the Company is merged or consolidated with another corporation and the Company is not the surviving corporation, or if all or substantially all of the assets or more than 20 percent of the outstanding voting stock of the Company is acquired by any other corporation, business entity or person, or in case of a reorganization (other than a reorganization under the United States Bankruptcy Code) or liquidation of the Company, and if the provisions of Section 8 hereof do not apply, the Committee, or the board of directors of any corporation assuming the obligations of the Company, shall, as to the Plan and outstanding Options either (i) make appropriate provision for the

adoption and continuation of the Plan by the acquiring or successor corporation and for the protection of any such outstanding Options by the substitution on an equitable basis of appropriate stock of the Company or of the merged, consolidated or otherwise reorganized corporation which will be issuable with respect to the Stock, provided that no additional benefits shall be conferred upon the Participants holding such Options as a result of such substitution, and the excess of the aggregate Fair Market Value of the shares subject to the Options immediately after such substitution over the aggregate Option Price thereof is not more than the excess of the aggregate Fair Market Value of the shares subject to such Options immediately before such substitution over the aggregate Option Price thereof, or (ii) upon written notice to the Participants, provide that all unexercised Options shall be exercised within a specified number of days of the date of such notice or such Options will be terminated. In the latter event, the Committee shall accelerate the vesting dates of outstanding Options so that all Options become fully vested and exercisable prior to any such event.

## **Section 6**

### **Participation**

Participants in the Plan shall be those Eligible Employees who, in the judgment of the Committee, are performing, or during the term of their incentive arrangement will perform, vital services in the management, operation and development of the Company or an Affiliated Corporation, and significantly contribute, or are expected to significantly contribute, to the achievement of the Company's long-term corporate economic objectives. Participants may be granted from time to time one or more Options; provided, however, that the grant of each such Option shall be separately approved by the Committee, and receipt of one such Option shall not result in automatic receipt of any other Option. Upon determination by the Committee that an Option is to be granted to a Participant, written notice shall be given to such person, specifying the terms, conditions, rights and duties related thereto. Each Participant shall, if required by the Committee, enter into an agreement with the Company, in such form as the Committee shall determine and which is consistent with the provisions of the Plan, specifying such terms, conditions, rights and duties. Options shall be deemed to be granted as of the date specified in the grant resolution of the Committee, which date shall be the date of any related agreement with the Participant. In the event of any inconsistency between the provisions of the Plan and any such agreement entered into hereunder, the provisions of the Plan shall govern.

**Section 7**  
**Stock Options**

7.1 Grant of Stock Options. Coincident with or following designation for participation in the Plan, an Eligible Employee may be granted one or more Options. Grants of Options under the Plan shall be made by the Committee. In no event shall the exercise of one Option affect the right to exercise any other Option or affect the number of shares of Stock for which any other Option may be exercised, except as provided in subsection 7.2(j) hereof. During the life of the Plan, no Eligible Employee may be granted Options which in the aggregate pertain to in excess of 25 percent of the total shares of Stock authorized under the Plan.

7.2 Stock Option Agreements. Each Option granted under the Plan shall be evidenced by a written stock option agreement which shall be entered into by the Company and the Participant to whom the Option is granted (the "Stock Option Agreement"), and which shall contain the following terms and conditions, as well as such other terms and conditions, not inconsistent therewith, as the Committee may consider appropriate in each case.

(a) Number of Shares. Each Stock Option Agreement shall state that it covers a specified number of shares of Stock, as determined by the Committee.

(b) Price. The price at which each share of Stock covered by an Option may be purchased shall be determined in each case by the Committee and set forth in the Stock Option Agreement, but in no event shall the price be less than the Fair Market Value of the Stock on the date the Option is granted.

(c) Duration of Options; Employment Required For Exercise. Each Stock Option Agreement shall state the period of time, determined by the Committee, within which the Option may be exercised by the Participant (the "Option Period"). The Option Period must end, in all cases, not more than ten years from the date an Option is granted. Except as otherwise provided in Sections 5 and 8 and subsection 7.2(d)(iv) hereof, each Option granted under the Plan shall become exercisable in increments such that 25 percent of the Option will become exercisable on each of the four subsequent one-year anniversaries of the date the Option is granted, but each such additional 25-percent increment shall become exercisable only if the Participant has been continuously employed by the Company from the date the Option is granted through the date on which each such additional 25-percent increment becomes exercisable.

(d) Termination of Employment, Death, Disability, Etc. Each Stock Option Agreement shall provide as follows with respect to the exercise of the Option upon termination of the employment or the death of the Participant:

(i) If the employment of the Participant by the Company is terminated within the Option Period for cause, as determined by the Company, the Option shall thereafter be void for all purposes. As used in this subsection 7.2(d), "cause" shall mean a gross violation, as determined by the Company, of the Company's established policies and procedures, provided that the effect of this subsection 7.2(d) shall be limited to determining the consequences of a termination and that nothing in this subsection 7.2(d) shall restrict or otherwise interfere with the Company's discretion with respect to the termination of any employee.

(ii) If the Participant retires from employment by the Company on or after attaining age 60, the Option may be exercised by the Participant within 36 months following his or her retirement (provided that such exercise must occur within the Option Period), but not thereafter. In the event of the Participant's death during such 36-month period, each Option may be exercised by those entitled to do so in the manner referred to in (iv) below. In any such case, the Option may be exercised only as to the shares as to which the Option had become exercisable on or before the date of the Participant's retirement.

(iii) If the Participant becomes disabled (as determined pursuant to the Company's Long-Term Disability Plan or any successor plan), during the Option Period while still employed, or within the three-month period referred to in (v) below, or within the 36-month period referred to in (ii) above, the Option may be exercised by the Participant or by his or her guardian or legal representative, within twelve months following the Participant's disability, or within the 36-month period referred to in (ii) above if applicable and if longer (provided that such exercise must occur within the Option Period), but not thereafter. In the event of the Participant's death during such twelve-month period, each Option may be exercised by those entitled to do so in the manner referred to in (iv) below. In any such case, the Option may be exercised only as to the shares of Stock as to which the Option had become exercisable on or before the date of the Participant's disability.

(iv) In the event of the Participant's death while still employed by the Company, each Option of the deceased Participant may be exercised by those entitled to do so under the Participant's will or under the laws of descent and distribution or as otherwise provided in Section 9.2 within twelve months following the Participant's death (provided that in any event such exercise must occur within the Option Period), but not thereafter, as to all shares of Stock which are subject to such Option, including each 25-percent increment of the Option, if any, which has not yet become exercisable at the time of the Participant's death.

In the event of the Participant's death within the 36-month period referred to in (ii) above or within the twelve-month period referred to in (iii) above, each Option of the deceased Participant that is exercisable at the time of death may be exercised by those entitled to do so under the Participant's will or under the laws of descent and distribution or as otherwise provided in Section 9.2 within twelve months following the Participant's death or within the 36-month period referred to in (ii) above, if applicable and if longer (provided that in any event such exercise must occur within the Option Period). The provisions of this paragraph (iv) of subsection 7.2(d) shall be applicable to each Stock Option Agreement as if set forth therein word for word. Each Stock Option Agreement executed by the Company prior to the adoption of this provision shall be deemed amended to include the provisions of this paragraph and all Options granted pursuant to such Stock Option Agreements shall be exercisable as provided herein.

(v) If the employment of the Participant by the Company is terminated (which for this purpose means that the Participant is no longer employed by the Company or by an Affiliated Corporation) within the Option Period for any reason other than cause, the Participant's retirement on or after attaining age 60, or the Participant's disability or death, the Option may be exercised by the Participant within three months following the date of such termination (provided that such exercise must occur within the Option Period), but not thereafter. In any such case, the Option may be exercised only as to the shares as to which the Option had become exercisable on or before the date of termination of the Participant's employment.

(e) Transferability. Each Stock Option Agreement shall provide that the Option granted therein is not transferable by the Participant except by will or pursuant to the laws of descent and distribution or as otherwise provided in Section 9.2, and that such Option is exercisable during the Participant's lifetime only by him or her, or in the event of the Participant's disability or incapacity, by his or her guardian or legal representative.

(f) Agreement to Continue in Employment. Each Stock Option Agreement shall contain the Participant's agreement to remain in the employment of the Company, at the pleasure of the Company, for a continuous period of at least one year after the date of such Stock Option Agreement, at the salary rate in effect on the date of such agreement or at such changed rate as may be fixed, from time to time, by the Company.

(g) Exercise, Payments, Etc.

(i) Each Stock Option Agreement shall provide that the method for exercising the Option granted therein shall be by delivery to the Office of the Secretary of the Company or to the Administrative Agent of written notice specifying the number of shares of Stock with respect to which such Option is

exercised and payment to the Company of the aggregate Option Price. Such notice shall be in a form satisfactory to the Committee and shall specify the particular Options (or portions thereof) which are being exercised and the number of shares of Stock with respect to which the Options are being exercised. The exercise of the Option shall be deemed effective on the date such notice is received by the Office of the Secretary or by the Administrative Agent and payment is made to the Company of the aggregate Option Price (the "Exercise Date"); however, if payment of the aggregate Option Price is made pursuant to a sale of shares of Stock as contemplated by subsection 7.2(g)(iii)(F) below, the Exercise Date shall be deemed to be the date of such sale. If requested by the Company, such notice shall contain the Participant's representation that he or she is purchasing the Stock for investment purposes only and his or her agreement not to sell any Stock so purchased in any manner that is in violation of the Securities Act of 1933, as amended, or any applicable state law, and such restriction, or notice thereof, shall be placed on the certificates representing the Stock so purchased. The purchase of such Stock shall take place upon delivery of such notice to the Office of the Secretary or to the Administrative Agent, at which time the aggregate Option Price shall be paid in full to the Company by any of the methods or any combination of the methods set forth in 7.2(g)(iii) below.

(ii) Except as referenced below in connection with the Deferred Delivery Plan, the shares of Stock to which the Participant is entitled as a result of the exercise of the Option shall be issued by the Company and (A) delivered by electronic means to an account designated by the Participant, or (B) delivered to the Participant in the form of a properly executed certificate or certificates representing such shares of Stock. If shares of Stock and/or Depositary Shares are used to pay all or part of the aggregate Option Price, the Company shall issue and deliver to the Participant the additional shares of Stock, in excess of the aggregate Option Price or portion thereof paid using shares of Stock or Depositary Shares, to which the Participant is entitled as a result of the Option exercise. If the Participant exercising an Option (x) is eligible for participation in the Deferred Delivery Plan, (y) pays the aggregate Option Price pursuant to 7.2(g)(iii)(A), (B), (C), (D) or (E) below, and (z) has made an irrevocable election at least six months prior to the Exercise Date as required under the Deferred Delivery Plan, the income resulting from the Option exercise shall be deferred into the Participant's Deferred Delivery Plan account and no additional shares of Stock shall be delivered to the Participant. The income resulting from the Option exercise may not be deferred into the Participant's Deferred Delivery Plan account except to the extent that the Option was vested by December 31, 2004, the deferral election was made by December 31, 2004, and the deferral into the Deferred Delivery Plan occurs before January 1, 2006.

(iii) the aggregate Option Price shall be paid by any of the following methods or any combination of the following methods:

(A) in cash, including the wire transfer of funds in U.S. dollars to one of the Company's bank accounts located in the United States, with such bank account to be designated from time to time by the Company;

(B) by personal, certified or cashier's check payable in U.S. dollars to the order of the Company;

(C) by delivery to the Company or the Administrative Agent of certificates representing a number of shares of Stock then owned by the Participant, the aggregate Fair Market Value of which (as of the Exercise Date) is not greater than the aggregate Option Price of the Option being exercised, properly endorsed for transfer to the Company; provided that the shares of Stock used for this purpose must have been owned by the Participant for a period of at least six months;

(D) by certification or attestation to the Company or the Administrative Agent of the Participant's ownership (as of the Exercise Date) of a number of shares of Stock and/or Depository Shares, the aggregate Fair Market Value of which (as of the Exercise Date) is not greater than the aggregate Option Price of the Option being exercised, provided that the shares of Stock and/or Depository Shares used for this purpose have been owned by the Participant for a period of at least six months;

(E) if the income resulting from the Option Exercise is to be deferred into the Participant's Deferred Delivery Plan account, by certification or attestation to the Company or the Administrative Agent of the Participant's ownership (as of the Exercise Date) of a number of vested Stock Units held in the Participant's Deferred Delivery Plan account, the equivalent aggregate Fair Market Value of which (as of the Exercise Date) is not greater than the aggregate Option Price of the Option being exercised, provided that the Stock Units used for this purpose were vested as of the Exercise Date; or

(F) by delivery to the Company or the Administrative Agent of a properly executed notice of exercise together with irrevocable instructions to a broker to promptly deliver to the Company, by wire transfer or check as noted in (A) and (B) above, the amount of the proceeds of the sale of all or a portion of the Stock or of a loan from the broker to the Participant necessary to pay the aggregate Option Price.

(iv) For purposes of the Plan, the income resulting from an Option exercise shall be based on the Fair Market Value of the Stock for the Exercise Date; however, if payment of the aggregate Option Price is made pursuant to a sale of shares of Stock as contemplated by subsection 7.2(g)(iii)(F) hereof, the

Fair Market Value shall be deemed to be the per share sale price and the Exercise Date shall be deemed to be the date of such sale.

(h) Date of Grant. An Option shall be considered as having been granted on the date specified in the grant resolution of the Committee.

(i) Tax Withholding. Each Stock Option Agreement shall provide that, upon exercise of the Option, the Participant shall make appropriate arrangements with the Company to provide for the amount of tax withholding required by Sections 3102 and 3402 or any successor section(s) of the Internal Revenue Code and applicable state and local income tax laws, including payment of such taxes in cash, by check, or as provided in Section 13.2 hereof.

(j) Adjustment of Options. Subject to the provisions of Sections 4, 5, 7, 8 and 12 hereof, the Committee may make any adjustment in the number of shares of Stock covered by, or the terms of an outstanding Option and a subsequent granting of an Option, by amendment or by substitution for an outstanding Option; however, except as provided in Sections 4, 5, 8 and 12 hereof, the Committee may not adjust the Option Price of any outstanding Option. Such amendment or substitution may result in terms and conditions (including the number of shares of Stock covered, vesting schedule or Option Period) that differ from the terms and conditions of the original Option. The Committee may not, however, adversely affect the rights of any Participant to previously granted Options without the consent of such Participant. If such action is effected by amendment, the effective date of such amendment will be the date of grant of the original Option.

7.3 Stockholder Privileges. No Participant shall have any rights as a stockholder with respect to any shares of Stock covered by an Option until the Participant becomes the holder of record of such Stock. Except as provided in Section 4 hereof, no adjustments shall be made for dividends or other distributions or other rights as to which there is a record date preceding the date on which such Participant becomes the holder of record of such Stock.

## **Section 8**

### **Change of Control**

8.1 In General. In the event of the occurrence of a change of control of the Company as defined in Section 8.3 hereof, all outstanding Options shall become automatically vested, without further action by the Committee or the Board, so as to make all such Options fully vested and exercisable as of the date of such change of control.

8.2 Limitation on Payments. If the provisions of this Section 8 would result in the receipt by any Participant of a payment within the meaning of Section 280G

or any successor section(s) of the Internal Revenue Code, and the regulations promulgated thereunder, and if the receipt of such payment by any Participant would, in the opinion of independent tax counsel of recognized standing selected by the Company, result in the payment by such Participant of any excise tax provided for in Sections 280G and 4999 or any successor section(s) of the Internal Revenue Code, then the amount of such payment shall be reduced to the extent required, in the opinion of independent tax counsel, to prevent the imposition of such excise tax; provided, however, that the Committee, in its sole discretion, may authorize the payment of all or any portion of the amount of such reduction to the Participant.

8.3 Definition. For purposes of the Plan, a “change of control” shall mean any of the events specified in the Company’s Income Continuance Plan or any successor plan which constitute a change of control within the meaning of such plan.

## **Section 9**

### **Rights of Employees, Participants**

9.1 Employment. Nothing contained in the Plan or in any Option granted under the Plan shall confer upon any Participant any right with respect to the continuation of his or her employment by the Company or any Affiliated Corporation, or interfere in any way with the right of the Company or any Affiliated Corporation, subject to the terms of any separate employment agreement to the contrary, at any time to terminate such employment or to increase or decrease the level of the Participant’s compensation from the level in existence at the time of the grant of an Option. Whether an authorized leave of absence, or absence in military or government service, shall constitute a termination of employment shall be determined by the Committee at the time.

9.2 Nontransferability. No right or interest of any Participant in an Option granted pursuant to the Plan shall be assignable or transferable during the lifetime of the Participant, either voluntarily or involuntarily, or subjected to any lien, directly or indirectly, by operation of law, or otherwise, including execution, levy, garnishment, attachment, pledge or bankruptcy. In the event of a Participant’s death, a Participant’s rights and interests in Options shall, to the extent provided in Section 7 hereof, be transferable by testamentary will or the laws of descent and distribution, or a beneficiary designation that is in a form approved by the Committee and in compliance with the provisions of this Plan, applicable law, and the applicable Option, and payment of any amounts due under the Plan shall be made to, and exercise of any Options may be made by, the Participant’s designated beneficiary, legal representatives, heirs or legatees, as applicable. If, in the opinion of the Committee, a person entitled to payments or to exercise rights with respect to the Plan is disabled from caring for his or her

affairs because of mental condition, physical condition or age, payment due such person may be made to, and such rights shall be exercised by, such person's guardian, conservator or other legal personal representative upon furnishing the Committee with evidence of such status satisfactory to the Committee.

## **Section 10**

### **General Restrictions**

10.1 Investment Representations. The Company may require a Participant, as a condition of exercising an Option, to give written assurances in substance and form satisfactory to the Company and its counsel to the effect that such person is acquiring the Stock subject to the Option for his own account for investment and not with any present intention of selling or otherwise distributing the same, and to such other effects as the Company deems necessary or appropriate in order to comply with federal and applicable state securities laws.

10.2 Compliance with Securities Laws. Each Option shall be subject to the requirement that, if at any time counsel to the Company shall determine that the listing, registration or qualification of the shares of Stock subject to such Option upon any securities exchange or under any state or federal law, or the consent or approval of any governmental or regulatory body, is necessary as a condition of, or in connection with, the issuance or purchase of shares of Stock thereunder, such Option may not be accepted or exercised in whole or in part unless such listing, registration, qualification, consent or approval shall have been effected or obtained on conditions acceptable to the Committee. Nothing herein shall be deemed to require the Company to apply for or to obtain such listing, registration, qualification, consent or approval.

## **Section 11**

### **Other Employee Benefits**

The amount of any income deemed to be received by a Participant as a result of an Option exercise shall not constitute "earnings" or "compensation" with respect to which any other employee benefits of such Participant are determined including, without limitation benefits under any pension, profit sharing, life insurance or salary continuation plan.

## **Section 12**

### **Plan Amendment, Modification and Termination**

The Board may at any time terminate, and from time to time may amend or modify the Plan provided, however, that no amendment or modification may become effective without approval of the amendment or modification by the Company's stockholders if stockholder approval is required to enable the Plan to satisfy any applicable statutory or regulatory requirements unless the Company, on the advice of counsel, determines that stockholder approval is otherwise necessary or desirable.

No amendment, modification or termination of the Plan shall in any manner adversely affect any Option theretofore granted under the Plan, without the consent of the Participant holding such Option.

The Committee shall have the authority to adopt such modifications, procedures and subplans as may be necessary or desirable to comply with the provisions of the laws (including, but not limited to, tax laws and regulations) of countries other than the United States in which the Company may operate, so as to assure the viability of the benefits of the Plan to Participants employed in such countries.

## **Section 13**

### **Withholding**

13.1 Withholding Requirement. The Company's obligations to deliver shares of Stock upon the exercise of an Option, or to defer income resulting from an Option exercise into the Deferred Delivery Plan, shall be subject to the Participant's satisfaction of all applicable federal, state and local income and other tax withholding requirements.

13.2 Satisfaction of Required Withholding. At the time the Committee grants an Option, it may, in its sole discretion, grant the Participant an election to pay all such amounts of required tax withholding, or any part thereof:

(a) by the delivery to the Company or the Administrative Agent of a number of shares of Stock then owned by the Participant, the aggregate Fair Market Value of which (as of the Exercise Date) is not greater than the amount required to be withheld, provided that such shares have been held by the Participant for a period of at least six months;

(b) by certification or attestation to the Company or the Administrative Agent of the Participant's ownership (as of the Exercise Date) of a number of shares of Stock and/or Depositary Shares, the aggregate Fair Market Value of

which (as of the Exercise Date) is not greater than the amount required to be withheld, provided that such shares of Stock and/or Depositary Shares have been owned by the Participant for a period of at least six months;

(c) if the income resulting from the Option exercise is to be deferred into the Participant's Deferred Delivery Plan account, by certification or attestation to the Company or the Administrative Agent of the Participant's ownership (as of the Exercise Date) of a number of vested Stock Units held in the Participant's Deferred Delivery Plan account, the equivalent aggregate Fair Market Value of which (as of the Exercise Date) is not greater than the amount required to be withheld, provided that such Stock Units were vested as of the Exercise Date; or

(d) by the Company or the Administrative Agent withholding from the shares of Stock otherwise issuable to the Participant upon exercise of the Option, a number of shares of Stock, the aggregate Fair Market Value of which (as of the Exercise Date) is not greater than the amount required to be withheld. Any such elections by Participants to have shares of Stock withheld for this purpose will be subject to the following restrictions:

(i) all elections shall be made on or prior to the Exercise Date; and

(ii) all elections shall be irrevocable.

**13.3 Excess Withholding.** At the time the Committee grants an Option, it may, in its sole discretion, grant the Participant an election to pay additional or excess amounts of tax withholding, beyond the required amounts and up to the Participant's marginal tax rate:

(a) by delivery to the Company or the Administrative Agent of a number of Shares of Stock then owned by the Participant, the aggregate Fair Market Value of which (as of the Exercise Date) is not greater than such excess withholding amount, provided that such shares of Stock have been owned by the Participant for a period of at least six months; or

(b) by certification or attestation to the Company or the Administrative Agent of the Participant's ownership (as of the Exercise Date) of a number of shares of Stock and/or Depositary Shares, the aggregate Fair Market Value of which (as of the Exercise Date) is not greater than such excess withholding amount, provided that such shares of Stock and/or Depositary Shares have been owned by the Participant for a period of at least six months.

**13.4 Section 16 Requirements.** If the Participant is an officer or director of the Company within the meaning of Section 16 or any successor section(s) of the 1934 Act ("Section 16"), the Participant must satisfy the requirements of such Section 16 and any applicable rules and regulations thereunder with respect to

the use of shares of Stock, Depositary Shares and/or Stock Units to satisfy such tax withholding obligation.

#### **Section 14**

##### **Requirements of Law**

14.1 Requirements of Law. The issuance of Stock and the payment of cash pursuant to the Plan shall be subject to all applicable laws, rules and regulations.

14.2 Federal Securities Laws Requirements. If a Participant is an officer or director of the Company within the meaning of Section 16, Options granted hereunder shall be subject to all conditions required under Rule 16b-3, or any successor rule(s) promulgated under the 1934 Act, to qualify the Option for any exception from the provisions of Section 16 available under such Rule. Such conditions are hereby incorporated herein by reference and shall be set forth in the Stock Option Agreement with the Participant which describes the Option.

14.3 Governing Law. The Plan and all Stock Option Agreements hereunder shall be construed in accordance with and governed by the laws of the State of Texas.

#### **Section 15**

##### **Duration of the Plan**

The Plan shall terminate at such time as may be determined by the Board, and no Option shall be granted after such termination. If not sooner terminated under the preceding sentence, the Plan shall fully cease and expire at midnight on February 6, 2003. Options outstanding at the time of the Plan termination shall continue to be exercisable in accordance with the Stock Option Agreement pertaining to each such Option, as such Stock Option Agreement may be modified pursuant to Section 12.

Dated: May 5, 2011

APACHE CORPORATION

ATTEST:

/s/ Cheri L. Peper  
Cheri L. Peper  
Corporate Secretary

By: /s/ Margery M. Harris  
Margery M. Harris  
Senior Vice President,  
Human Resources

**APACHE CORPORATION**  
**2000 STOCK OPTION PLAN**  
**(Amended and Restated effective May 5, 2011)**

**Section 1**

**Introduction**

1.1 **Establishment**. Apache Corporation, a Delaware corporation (hereinafter referred to, together with its Affiliated Corporations (as defined in Section 2.1 hereof) as the "Company" except where the context otherwise requires), hereby establishes the Apache Corporation 2000 Stock Option Plan (the "Plan") for Eligible Employees (as defined in Section 2.1 hereof). The Plan permits the grant of stock options to Eligible Employees selected by the Committee (as defined in Section 2.1 hereof).

1.2 **Purposes**. The purposes of the Plan are to provide the Eligible Employees designated by the Committee for participation in the Plan with added incentives to continue in the long-term service of the Company and to create in such employees a more direct interest in the future success of the operations of the Company by relating incentive compensation to increases in stockholder value, so that the income of those employees is more closely aligned with the interests of the Company's stockholders. The Plan is also designed to attract outstanding individuals and to retain and motivate Eligible Employees by providing an opportunity for investment in the Company.

1.3 **Effective Date**. The Effective Date of the Plan (the "Effective Date") is February 10, 2000.

**Section 2**

**Definitions**

2.1 **Definitions**. The following terms shall have the meanings set forth below:

(a) "**Administrative Agent**" means any designee or agent that may be appointed by the Committee pursuant to Section 3.1(b) hereof.

(b) "**Affiliated Corporation**" means any corporation or other entity (including but not limited to a partnership) which is affiliated with Apache Corporation through stock ownership or otherwise and is treated as a common employer under the provisions of Sections 414(b) and (c) or any successor section(s) of the Internal Revenue Code.

(c) "Board" means the Board of Directors of the Company.

(d) "Committee" means the Stock Option Plan Committee of the Board, which is empowered hereunder to take actions in the administration of the Plan. The Committee shall be constituted at all times as to permit the Plan to comply with Rule 16b-3 or any successor rule(s) promulgated under the Securities Exchange Act of 1934, as amended (the "1934 Act").

(e) "Deferred Delivery Plan" means the Company's Deferred Delivery Plan, effective as of February 10, 2000, as it may be amended from time to time, or any successor plan.

(f) "Depository Shares" means the Depository shares representing the Company's preferred stock convertible into Stock.

(g) "Eligible Employees" means full-time employees (including, without limitation, officers and directors who are also employees), and certain part-time employees, of the Company or any division thereof.

(h) "Expiration Date" means the date on which the Option Period (as defined in subsection 7.2(c) hereof) ends.

(i) "Fair Market Value" means the per share closing price of the Stock as reported on The New York Stock Exchange, Inc. Composite Transactions Reporting System for a particular date or, if the Stock is not so listed on such date, as reported on NASDAQ or on such other exchange or electronic trading system which, on the date in question, reports the largest number of traded shares of Stock, provided, however, that if on the date Fair Market Value is to be determined there are no transactions in the Stock, Fair Market Value shall be determined as of the immediately preceding date on which there were transactions in the Stock; provided further, however, that if the foregoing provisions are not applicable, the fair market value of a share of the Stock as determined by the Committee by the reasonable application of such reasonable valuation method, consistently applied, as the Committee deems appropriate.

(j) "Internal Revenue Code" means the Internal Revenue Code of 1986, as it may be amended from time to time.

(k) "Option" means a right to purchase shares of Stock at a stated price for a specified period of time. All Options granted under the Plan shall be Options which are not "incentive stock options" as described in Section 422 or any successor section(s) of the Internal Revenue Code.

(l) "Option Price" means the price at which shares of Stock subject to an Option may be purchased, determined in accordance with subsection 7.2(b) hereof.

(m) "Participant" means an Eligible Employee designated by the Committee from time to time during the term of the Plan to receive one or more Options under the Plan.

(n) "Reload Option" has the meaning set forth in subsection 7.4 hereof.

(o) "Stock" means the U.S. \$0.625 par value Common Stock of the Company.

(p) "Stock Units" means investment units under the Deferred Delivery Plan, each of which is deemed to be equivalent to one share of Stock.

2.2 Headings; Gender and Number. The headings contained in the Plan are for reference purposes only and shall not affect in any way the meaning or interpretation of the Plan. Except when otherwise indicated by the context, the masculine gender shall also include the feminine gender, and the definition of any term herein in the singular shall also include the plural.

### **Section 3**

#### **Plan Administration**

##### **3.1 Administration by the Committee**

(a) The Plan shall be administered by the Committee. In accordance with the provisions of the Plan, the Committee shall, in its sole discretion, select the Participants from among the Eligible Employees, determine the Options to be granted pursuant to the Plan, the number of shares of Stock to be issued thereunder, the time at which such Options are to be granted, fix the Option Price, and establish such other terms and requirements as the Committee may deem necessary or desirable and consistent with the terms of the Plan. The Committee shall determine the form or forms of the agreements with Participants which shall evidence the particular provisions, terms, conditions, rights and duties of the Company and the Participants with respect to Options granted pursuant to the Plan, which provisions need not be identical except as may be provided herein.

(b) The Committee may from time to time adopt such rules and regulations for carrying out the purposes of the Plan as it may deem proper and

in the best interests of the Company. The Committee may appoint an Administrative Agent, who need not be a member of the Committee or an employee of the Company, to assist the Committee in administration of the Plan and to whom it may delegate such powers as the Committee deems appropriate, except that the Committee shall determine any dispute. The Committee may correct any defect, supply any omission or reconcile any inconsistency in the Plan, or in any agreement entered into hereunder, in the manner and to the extent it shall deem expedient and it shall be the sole and final judge of such expediency. No member of the Committee shall be liable for any action or determination made in good faith. The determination, interpretations and other actions of the Committee pursuant to the provisions of the Plan shall be binding and conclusive for all purposes and on all persons.

#### **Section 4**

##### **Stock Subject to the Plan**

4.1 Number of Shares. Subject to Sections 7.1 and 7.4 hereof and to adjustment pursuant to Section 4.3 hereof, 3,000,000 shares of Stock (adjusted to 6,300,000 shares of Stock for (i) the Company's ten-percent stock dividend, record date December 31, 2001, paid January 21, 2002, (ii) the Company's five-percent stock dividend, record date March 12, 2003, paid April 2, 2003, and (iii) the Company's two-for-one stock split, record date December 31, 2003, distributed January 14, 2004) are authorized for issuance under the Plan in accordance with the provisions of the Plan and subject to such restrictions or other provisions as the Committee may from time to time deem necessary. This authorization may be increased from time to time by approval of the Board and the stockholders of the Company if, on the advice of counsel for the Company, such stockholder approval is required. Shares of Stock which may be issued upon exercise of Options shall be applied to reduce the maximum number of shares of Stock remaining available for use under the Plan. The Company shall at all times during the term of the Plan and while any Options are outstanding retain as authorized and unissued Stock, or as Stock in the Company's treasury, at least the number of shares from time to time required under the provisions of the Plan, or otherwise assure itself of its ability to perform its obligations hereunder.

4.2 Other Shares of Stock. Any shares of Stock that are subject to an Option which expires, is forfeited, is cancelled, or for any reason is terminated unexercised, and any shares of Stock that for any other reason are not issued to a Participant or are forfeited shall automatically become available for use under the Plan.

4.3 Adjustments for Stock Split, Stock Dividend, etc. If the Company shall at any time increase or decrease the number of its outstanding shares of Stock or change in any way the rights and privileges of such shares by means of the payment of a Stock dividend or any other distribution upon such shares payable in Stock, or through a Stock split, subdivision, consolidation, combination, reclassification or recapitalization involving the Stock then in relation to the Stock that is affected by one or more of the above events, the numbers, rights and privileges of the following shall be, in each case, equitably and proportionally adjusted to take into account the occurrence of any of the above events, (i) the shares of Stock as to which Options may be granted under the Plan; (ii) the shares of Stock then included in each outstanding Option granted hereunder; and (iii) the Option Price for each outstanding Option granted hereunder.

4.4 Dividend Payable in Stock of Another Corporation, Etc. If the Company shall at any time pay or make any dividend or other distribution upon the Stock payable in securities or other property (except money or Stock), a proportionate part of such securities or other property shall be set aside and delivered to any Participant then holding an Option for the particular type of Stock for which the dividend or other distribution was made, upon exercise thereof. Prior to the time that any such securities or other property are delivered to a Participant in accordance with the foregoing, the Company shall be the owner of such securities or other property and shall have the right to vote the securities, receive any dividends payable on such securities, and in all other respects shall be treated as the owner. If securities or other property which have been set aside by the Company in accordance with this Section are not delivered to a Participant because an Option is not exercised, then such securities or other property shall remain the property of the Company and shall be dealt with by the Company as it shall determine in its sole discretion.

4.5 Other Changes in Stock. In the event there shall be any change, other than as specified in Sections 4.3 and 4.4 hereof, in the number or kind of outstanding shares of Stock or of any stock or other securities into which the Stock shall be changed or for which it shall have been exchanged, and if the Committee shall in its discretion determine that such change equitably requires an adjustment in the number or kind of shares subject to outstanding Options or which have been reserved for issuance pursuant to the Plan but are not then subject to an Option, then such adjustments shall be made by the Committee and shall be effective for all purposes of the Plan and on each outstanding Option that involves the particular type of stock for which a change was effected.

4.6 Rights to Subscribe. If the Company shall at any time grant to the holders of its Stock rights to subscribe pro rata for additional shares thereof or for any other securities of the Company or of any other corporation, there shall be reserved with respect to the shares then under Option to any Participant of the particular class of Stock involved the Stock or other securities which the Participant would have been entitled to subscribe for if immediately prior to such grant the Participant had exercised his entire Option. If, upon exercise of any such Option, the Participant subscribes for the additional shares or other securities, the aggregate Option Price shall be increased by the amount of the price that is payable by the Participant for such additional shares or other securities.

4.7 General Adjustment Rules. No adjustment or substitution provided for in this Section 4 shall require the Company to sell a fractional share of Stock under any Option, or otherwise issue a fractional share of Stock, and the total substitution or adjustment with respect to each Option shall be limited by deleting any fractional share. In the case of any such substitution or adjustment, the aggregate Option Price for the shares of Stock then subject to the Option shall remain unchanged but the Option Price per share under each such Option shall be equitably adjusted by the Committee to reflect the greater or lesser number of shares of Stock or other securities into which the Stock subject to the Option may have been changed.

4.8 Determination by the Committee, Etc. Adjustments under this Section 4 shall be made by the Committee, whose determinations with regard thereto shall be final and binding upon all parties.

## **Section 5**

### **Reorganization or Liquidation**

In the event that the Company is merged or consolidated with another corporation and the Company is not the surviving corporation, or if all or substantially all of the assets or more than 20 percent of the outstanding voting stock of the Company is acquired by any other corporation, business entity or person, or in case of a reorganization (other than a reorganization under the United States Bankruptcy Code) or liquidation of the Company, and if the provisions of Section 8 hereof do not apply, the Committee, or the board of directors of any corporation assuming the obligations of the Company, shall, as to the Plan and outstanding Options either (i) make appropriate provision for the adoption and continuation of the Plan by the acquiring or successor corporation and for the protection of any such outstanding Options by the substitution on an equitable basis of appropriate stock of the Company or of the merged, consolidated or otherwise reorganized corporation which will be issuable with

respect to the Stock, provided that no additional benefits shall be conferred upon the Participants holding such Options as a result of such substitution, and the excess of the aggregate Fair Market Value of the shares subject to the Options immediately after such substitution over the aggregate Option Price thereof is not more than the excess of the aggregate Fair Market Value of the shares subject to such Options immediately before such substitution over the aggregate Option Price thereof, or (ii) upon written notice to the Participants, provide that all unexercised Options shall be exercised within a specified number of days of the date of such notice or such Options will be terminated. In the latter event, the Committee shall accelerate the vesting dates of outstanding Options so that all Options become fully vested and exercisable prior to any such event.

## **Section 6**

### **Participation**

Participants in the Plan shall be those Eligible Employees who, in the judgment of the Committee, are performing, or during the term of their incentive arrangement will perform, vital services in the management, operation and development of the Company or an Affiliated Corporation, and significantly contribute, or are expected to significantly contribute, to the achievement of the Company's long-term corporate economic objectives. Participants may be granted from time to time one or more Options; provided, however, that the grant of each such Option shall be separately approved by the Committee, and receipt of one such Option shall not result in automatic receipt of any other Option. Upon determination by the Committee that an Option is to be granted to a Participant, written notice shall be given to such person, specifying the terms, conditions, rights and duties related thereto. Each Participant shall, if required by the Committee, enter into an agreement with the Company, in such form as the Committee shall determine and which is consistent with the provisions of the Plan, specifying such terms, conditions, rights and duties. Options shall be deemed to be granted as of the date specified in the grant resolution of the Committee, which date shall be the date of any related agreement with the Participant. In the event of any inconsistency between the provisions of the Plan and any such agreement entered into hereunder, the provisions of the Plan shall govern.

**Section 7**  
**Stock Options**

7.1 Grant of Stock Options. Coincident with or following designation for participation in the Plan, an Eligible Employee may be granted one or more Options. Grants of Options under the Plan shall be made by the Committee. In no event shall the exercise of one Option affect the right to exercise any other Option or affect the number of shares of Stock for which any other Option may be exercised, except as provided in subsection 7.2(j) hereof. During the duration of the Plan, no Eligible Employee may be granted Options which in the aggregate cover in excess of 25 percent of the total shares of Stock authorized under the Plan.

7.2 Stock Option Agreements. Each Option granted under the Plan shall be evidenced by a written stock option agreement which shall be entered into by the Company and the Participant to whom the Option is granted (the "Stock Option Agreement"), and which shall contain the following terms and conditions, as well as such other terms and conditions, not inconsistent therewith, as the Committee may consider appropriate in each case:

(a) Number of Shares. Each Stock Option Agreement shall state that it covers a specified number of shares of Stock, as determined by the Committee.

(b) Price. The price at which each share of Stock covered by an Option may be purchased shall be determined in each case by the Committee and set forth in the Stock Option Agreement, but in no event shall the price be less than the Fair Market Value of the Stock on the date the Option is granted.

(c) Duration of Options; Employment Required For Exercise. Each Stock Option Agreement shall state the period of time, determined by the Committee, within which the Option may be exercised by the Participant (the "Option Period"). The Option Period must end, in all cases, not more than ten years from the date an Option is granted. Except as otherwise provided in Sections 5 and 8 and subsections 7.2(d)(iv) and 7.4(a) hereof, each Option granted under the Plan shall become exercisable in increments such that 25 percent of the Option becomes exercisable on each of the four subsequent one-year anniversaries of the date the Option is granted, provided that each such additional 25-percent increment shall become exercisable only if the Participant has been continuously employed by the Company from the date the Option is granted through the date on which each such additional 25-percent increment becomes exercisable.

(d) Termination of Employment, Death, Disability, Etc. Each Stock Option Agreement shall provide as follows with respect to the exercise of the Option upon termination of the employment or the death of the Participant:

(i) If the employment of the Participant by the Company is terminated within the Option Period for cause, as determined by the Company, the Option shall thereafter be void for all purposes. As used in this subsection 7.2(d), "cause" shall mean a gross violation, as determined by the Company, of the Company's established policies and procedures, provided that the effect of this subsection 7.2(d) shall be limited to determining the consequences of a termination and that nothing in this subsection 7.2(d) shall restrict or otherwise interfere with the Company's discretion with respect to the termination of any employee.

(ii) If the Participant retires from employment by the Company on or after attaining age 60, the Option may be exercised by the Participant within 36 months following his or her retirement (provided that such exercise must occur within the Option Period), but not thereafter. In the event of the Participant's death during such 36-month period, each Option may be exercised by those entitled to do so in the manner referred to in (iv) below. In any such case, the Option may be exercised only as to the shares as to which the Option had become exercisable on or before the date of the Participant's retirement.

(iii) If the Participant becomes disabled (as determined pursuant to the Company's Long-Term Disability Plan or any successor plan), during the Option Period while still employed, or within the three-month period referred to in subsection 7.2(d)(v) below, or within the 36-month period referred to in subsection 7.2(d)(ii) above, the Option may be exercised by the Participant or by his or her guardian or legal representative, within twelve months following the Participant's disability, or within the 36-month period referred to in subsection 7.2(d)(ii) above if applicable and if longer (provided that such exercise must occur within the Option Period), but not thereafter. In the event of the Participant's death during such twelve-month period, each Option may be exercised by those entitled to do so in the manner referred to in subsection 7.2(d)(iv) below. In any such case, the Option may be exercised only as to the shares of Stock as to which the Option had become exercisable on or before the date of the Participant's disability.

(iv) In the event of the Participant's death while still employed by the Company, each Option of the deceased Participant may be exercised by those entitled to do so under the Participant's will or under the laws of descent and distribution or as otherwise provided in Section 9.2 within twelve months following the Participant's death (provided that in any event such exercise must occur within the Option Period), but not thereafter, as to all shares of Stock which are subject to such Option, including each 25-percent increment of the Option, if

any, which has not yet become exercisable at the time of the Participant's death. In the event of the Participant's death within the 36-month period referred to in subsection 7.2(d)(ii) above or within the twelve-month period referred to in subsection 7.2(d)(iii) above, each Option of the deceased Participant that is exercisable at the time of death may be exercised by those entitled to do so under the Participant's will or under the laws of descent and distribution or as otherwise provided in Section 9.2 within twelve months following the Participant's death or within the 36-month period referred to in subsection 7.2(d)(ii) above, if applicable and if longer (provided that in any event such exercise must occur within the Option Period). The provisions of this paragraph (iv) of subsection 7.2(d) shall be applicable to each Stock Option Agreement as if set forth therein word for word. Each Stock Option Agreement executed by the Company prior to the adoption of this provision shall be deemed amended to include the provisions of this paragraph and all Options granted pursuant to such Stock Option Agreements shall be exercisable as provided herein.

(v) If the employment of the Participant by the Company is terminated (which for this purpose means that the Participant is no longer employed by the Company or by an Affiliated Corporation) within the Option Period for any reason other than cause, the Participant's retirement on or after attaining age 60, or the Participant's disability or death, the Option may be exercised by the Participant within three months following the date of such termination (provided that such exercise must occur within the Option Period), but not thereafter. In any such case, the Option may be exercised only as to the shares as to which the Option had become exercisable on or before the date of termination of the Participant's employment.

(e) Transferability. Each Stock Option Agreement shall provide that the Option granted therein is not transferable by the Participant except by will or pursuant to the laws of descent and distribution or as otherwise provided in Section 9.2, and that such Option is exercisable during the Participant's lifetime only by him or her, or in the event of the Participant's disability or incapacity, by his or her guardian or legal representative.

(f) Agreement to Continue in Employment. Each Stock Option Agreement shall contain the Participant's agreement to remain in the employment of the Company, at the pleasure of the Company, for a continuous period of at least one year after the date of such Stock Option Agreement, at the salary rate in effect on the date of such agreement or at such changed rate as may be fixed, from time to time, by the Company.

(g) Exercise, Payments, Etc.

(i) Each Stock Option Agreement shall provide that the method for exercising the Option granted therein shall be by delivery to the Office of the Secretary of the Company or to the Administrative Agent of written notice specifying the number of shares of Stock with respect to which such Option is exercised and payment to the Company of the aggregate Option Price. Such notice shall be in a form satisfactory to the Committee and shall specify the particular Options (or portions thereof) which are being exercised and the number of shares of Stock with respect to which the Options are being exercised. The exercise of the Option shall be deemed effective on the date such notice is received by the Office of the Secretary or by the Administrative Agent and payment is made to the Company of the aggregate Option Price (the "Exercise Date"); however, if payment of the aggregate Option Price is made pursuant to a sale of shares of Stock as contemplated by subsection 7.2(g)(iii)(F) below, the Exercise Date shall be deemed to be the date of such sale. If requested by the Company, such notice shall contain the Participant's representation that he or she is purchasing the Stock for investment purposes only and his or her agreement not to sell any Stock so purchased in any manner that is in violation of the Securities Act of 1933, as amended, or any applicable state law, and such restriction, or notice thereof, shall be placed on the certificates representing the Stock so purchased. The purchase of such Stock shall take place upon delivery of such notice to the Office of the Secretary of the Company or to the Administrative Agent, at which time the aggregate Option Price shall be paid in full to the Company by any of the methods or any combination of the methods set forth in subsection 7.2(g)(iii) below.

(ii) Except as referenced below in connection with the Deferred Delivery Plan, the shares of Stock to which the Participant is entitled as a result of the exercise of the Option shall be issued by the Company and (A) delivered by electronic means to an account designated by the Participant, or (B) delivered to the Participant in the form of a properly executed certificate or certificates representing such shares of Stock. If shares of Stock and/or Depositary Shares are used to pay all or part of the aggregate Option Price, the Company shall issue and deliver to the Participant the additional shares of Stock, in excess of the aggregate Option Price or portion thereof paid using shares of Stock or Depositary Shares, to which the Participant is entitled as a result of the Option exercise. If the Participant exercising an Option (x) is eligible for participation in the Deferred Delivery Plan, (y) pays the aggregate Option Price pursuant to subsection 7.2(g)(iii)(A), (B), (C), (D) or (E) below, and (z) has made an irrevocable election at least six months prior to the Exercise Date as required under the Deferred Delivery Plan, the income resulting from the Option exercise shall be deferred into the Participant's Deferred Delivery Plan account and no additional shares of Stock shall be delivered to the Participant. The income resulting from the Option exercise may not be deferred into the Participant's

Deferred Delivery Plan account except to the extent that the Option was vested by December 31, 2004, the deferral election was made by December 31, 2004, and the deferral into the Deferred Delivery Plan occurs before January 1, 2006.

(iii) the aggregate Option Price shall be paid by any of the following methods or any combination of the following methods:

(A) in cash, including the wire transfer of funds in U.S. dollars to one of the Company's bank accounts located in the United States, with such bank account to be designated from time to time by the Company;

(B) by personal, certified or cashier's check payable in U.S. dollars to the order of the Company;

(C) by delivery to the Company or the Administrative Agent of certificates representing a number of shares of Stock then owned by the Participant, the aggregate Fair Market Value of which (as of the Exercise Date) is not greater than the aggregate Option Price of the Option being exercised, properly endorsed for transfer to the Company, provided that the shares of Stock used for this purpose must have been owned by the Participant for a period of at least six months;

(D) by certification or attestation to the Company or the Administrative Agent of the Participant's ownership (as of the Exercise Date) of a number of shares of Stock and/or Depository Shares, the aggregate Fair Market Value of which (as of the Exercise Date) is not greater than the aggregate Option Price of the Option being exercised, provided that the shares of Stock and/or Depository Shares used for this purpose have been owned by the Participant for a period of at least six months;

(E) if the income resulting from the Option exercise is to be deferred into the Participant's Deferred Delivery Plan account, by certification or attestation to the Company or the Administrative Agent of the Participant's ownership (as of the Exercise Date) of a number of vested Stock Units held in the Participant's Deferred Delivery Plan account, the equivalent aggregate Fair Market Value of which (as of the Exercise Date) is not greater than the aggregate Option Price of the Option being exercised, provided that the Stock Units used for this purpose were vested as of the Exercise Date; or

(F) by delivery to the Company or the Administrative Agent of a properly executed notice of exercise together with irrevocable instructions to a broker to promptly deliver to the Company, by wire transfer or check as noted in subsection 7.2(g)(iii)(A) and (B) above, the amount of the proceeds of the sale of all or a portion of the Stock or of a loan from the broker to the Participant necessary to pay the aggregate Option Price.

(iv) For purposes of the Plan, the income resulting from an Option exercise shall be based on the Fair Market Value of the Stock for the Exercise Date; however, if payment of the aggregate Option Price is made pursuant to a sale of shares of Stock as contemplated by subsection 7.2(g)(iii)(F) hereof, the Fair Market Value shall be deemed to be the per share sale price and the Exercise Date shall be deemed to be the date of such sale.

(h) Date of Grant. An Option shall be considered as having been granted on the date specified in the grant resolution of the Committee.

(i) Tax Withholding. Each Stock Option Agreement shall provide that, upon exercise of the Option, the Participant shall make appropriate arrangements with the Company to provide for the amount of tax withholding required by Sections 3102 and 3402 or any successor section(s) of the Internal Revenue Code and applicable state and local income and other tax laws, including payment of such taxes in cash, by check, or as provided in Section 13.2 hereof.

(j) Adjustment of Options. Subject to the provisions of Sections 4, 5, 7, 8 and 12 hereof, the Committee may make any adjustment in the number of shares of Stock covered by, or the terms of an outstanding Option and a subsequent granting of an Option, by amendment or by substitution for an outstanding Option; however, except as provided in Sections 4, 5, 8 and 12 hereof, the Committee may not adjust the Option Price of any outstanding Option. Such amendment or substitution may result in terms and conditions (including the number of shares of Stock covered, vesting schedule or Option Period) that differ from the terms and conditions of the original Option. The Committee may not, however, adversely affect the rights of any Participant to previously granted Options without the consent of such Participant. If such action is effected by amendment, the effective date of such amendment will be the date of grant of the original Option.

7.3 Stockholder Privileges. No Participant shall have any rights as a stockholder with respect to any shares of Stock covered by an Option until the Participant becomes the holder of record of such Stock. Except as provided in Section 4 hereof, no adjustments shall be made for dividends or other distributions or other rights as to which there is a record date preceding the date on which such Participant becomes the holder of record of such Stock.

#### 7.4 Reload Provisions.

(a) The Committee shall have the authority, but not an obligation, to include as a part of any Stock Option Agreement provisions under which the Participant shall be granted a further option (a "Reload Option") when the

Participant exercises all or part of the Option represented by such Stock Option Agreement on or before February 10, 2005, and pays all or part of the aggregate Option Price and/or required or excess tax withholding pursuant to subsections 7.2(g)(iii)(C) (D) or (E), and/or subsections 13.2(a), (b) or (c), and/or subsections 13.3(a) or (b) hereof. Any Option including such reload provisions shall become exercisable in increments such that 25 percent of the Option becomes exercisable on the dates six months, 12 months, 18 months and 24 months following the date the Option is granted, provided that each such additional 25-percent increment shall become exercisable only if the Participant has been continuously employed by the Company from the date the Option is granted through the date on which such additional 25-percent increment becomes exercisable.

(b) Any shares of Stock issued to a Participant as a result of an Option exercise which resulted in the grant of a Reload Option, may not be sold or otherwise disposed of until the term of the original Option has expired or the Participant is no longer employed by the Company or by an Affiliated Corporation. Any Stock Units acquired by a Participant as a result of the deferral of income (pursuant to subsection 7.2(g)(ii) hereof) in connection with an Option exercise which resulted in the grant of a Reload Option, may not be sold or otherwise disposed of until the shares of Stock relating to such Stock Units are distributed under the terms of the Deferred Delivery Plan.

(c) A Reload Option shall be granted, without further action of the Committee or the Participant, if one or more of the payment provisions referenced in subsection 7.4(a) above are used and if all of the following are satisfied as of the date of exercise of the underlying Option:

- (i) the Participant has not previously been granted a Reload Option or there has been a period of more than six months since the Participant was last granted a Reload Option;
- (ii) no shares of Stock have been sold or otherwise disposed of in breach of the provisions of subsection 7.4(b) above;
- (iii) the Fair Market Value of the shares of Stock covered by the original Option being exercised is at least ten percent greater than the Option Price for such shares;
- (iv) the underlying Option is exercised on or before February 10, 2005; and
- (v) there is a period of more than six months remaining in the term of the original Option.

(d) Each Reload Option:

(i) shall cover that certain number of shares of Stock equal to the shares or equivalent shares of Stock actually or constructively delivered to the Company as referenced in subsection 7.4(a) above;

(ii) shall be deemed to be granted as of the date on which the original Option is exercised and shall have an Option Price of 100 percent of Fair Market Value on such date;

(iii) shall become exercisable six months after the date of grant and shall have the same Expiration Date as the original Option; and

(iv) except as set forth in subsections 7.4(d)(i), (ii) and (iii) above, and 7.4(e) below, shall have the same terms and conditions as those of the original Option.

(e) The Participant may not defer the income from the exercise of a Reload Option into the Participant's Deferred Delivery Plan account except to the extent that (i) the Reload Option was vested by December 31, 2004; (ii) the deferral election was made by December 31, 2004; and (iii) the deferral into the Deferred Delivery Plan occurs before January 1, 2006.

## **Section 8**

### **Change of Control**

8.1 In General. In the event of the occurrence of a change of control of the Company, as defined in Section 8.3 hereof, all outstanding Options shall become automatically vested, without further action by the Committee or the Board, so as to make all such Options fully vested and exercisable as of the date of such change of control.

8.2 Limitation on Payments. If the provisions of this Section 8 would result in the receipt by any Participant of a payment within the meaning of Section 280G or any successor section(s) of the Internal Revenue Code, and the regulations promulgated thereunder, and if the receipt of such payment by any Participant would, in the opinion of independent tax counsel of recognized standing selected by the Company, result in the payment by such Participant of any excise tax provided for in Sections 280G and 4999 or any successor section(s) of the Internal Revenue Code, then the amount of such payment shall be reduced to the extent required, in the opinion of independent tax counsel, to prevent the

imposition of such excise tax; provided, however, that the Committee, in its sole discretion, may authorize the payment of all or any portion of the amount of such reduction to the Participant.

8.3 Definition. For purposes of the Plan, a “change of control” shall mean any of the events specified in the Company’s Income Continuance Plan or any successor plan which constitute a change of control within the meaning of such plan.

## **Section 9**

### **Rights of Employees, Participants**

9.1 Employment. Nothing contained in the Plan or in any Option granted under the Plan shall confer upon any Participant any right with respect to the continuation of his or her employment by the Company or any Affiliated Corporation, or interfere in any way with the right of the Company or any Affiliated Corporation, subject to the terms of any separate employment agreement to the contrary, at any time to terminate such employment or to increase or decrease the level of the Participant’s compensation from the level in existence at the time of the grant of an Option. Whether an authorized leave of absence, or absence in military or government service, shall constitute a termination of employment shall be determined by the Committee at the time.

9.2 Nontransferability. No right or interest of any Participant in an Option granted pursuant to the Plan shall be assignable or transferable during the lifetime of the Participant, either voluntarily or involuntarily, or subjected to any lien, directly or indirectly, by operation of law, or otherwise, including execution, levy, garnishment, attachment, pledge or bankruptcy. In the event of a Participant’s death, a Participant’s rights and interests in Options shall, to the extent provided in Section 7 hereof, be transferable by testamentary will or the laws of descent and distribution, or a beneficiary designation that is in a form approved by the Committee and in compliance with the provisions of this Plan, applicable law, and the applicable Option, and payment of any amounts due under the Plan shall be made to, and exercise of any Options may be made by, the Participant’s designated beneficiary, legal representatives, heirs or legatees, as applicable. If, in the opinion of the Committee, a person entitled to payments or to exercise rights with respect to the Plan is disabled from caring for his or her affairs because of mental condition, physical condition or age, payment due such person may be made to, and such rights shall be exercised by, such person’s guardian, conservator or other legal personal representative upon furnishing the Committee with evidence of such status satisfactory to the Committee.

## **Section 10**

### **General Restrictions**

10.1 Investment Representations. The Company may require a Participant, as a condition of exercising an Option, to give written assurances in substance and form satisfactory to the Company and its counsel to the effect that such person is acquiring the Stock subject to the Option for his own account for investment and not with any present intention of selling or otherwise distributing the same, and to such other effects as the Company deems necessary or appropriate in order to comply with federal and applicable state securities laws.

10.2 Compliance with Securities Laws. Each Option shall be subject to the requirement that, if at any time counsel to the Company shall determine that the listing, registration or qualification of the shares of Stock subject to such Option upon any securities exchange or under any state or federal law, or the consent or approval of any governmental or regulatory body, is necessary as a condition of, or in connection with, the issuance or purchase of shares of Stock thereunder, such Option may not be accepted or exercised in whole or in part unless such listing, registration, qualification, consent or approval shall have been effected or obtained on conditions acceptable to the Committee. Nothing herein shall be deemed to require the Company to apply for or to obtain such listing, registration, qualification, consent or approval.

## **Section 11**

### **Other Employee Benefits**

The amount of any income deemed to be received by a Participant as a result of an Option exercise shall not constitute "earnings" or "compensation" with respect to which any other employee benefits of such Participant are determined including, without limitation, benefits under any pension, profit sharing, life insurance or salary continuation plan.

## **Section 12**

### **Plan Amendment, Modification and Termination**

The Board may at any time terminate, and from time to time may amend or modify the Plan provided, however, that no amendment or modification may become effective without approval of the amendment or modification by the Company's stockholders if stockholder approval is required to enable the Plan to satisfy any applicable statutory or regulatory requirements unless the Company,

on the advice of counsel, determines that stockholder approval is otherwise necessary or desirable.

No amendment, modification or termination of the Plan shall in any manner adversely affect any Option theretofore granted under the Plan, without the consent of the Participant holding such Option.

The Committee shall have the authority to adopt such modifications, procedures and subplans as may be necessary or desirable to comply with the provisions of the laws (including, but not limited to, tax laws and regulations) of countries other than the United States in which the Company may operate, so as to assure the viability of the benefits of the Plan to Participants employed in such countries.

### **Section 13**

#### **Withholding**

13.1 Withholding Requirement. The Company's obligations to deliver shares of Stock upon the exercise of an Option, or to defer income resulting from an Option exercise into the Deferred Delivery Plan, shall be subject to the Participant's satisfaction of all applicable federal, state and local income and other tax withholding requirements.

13.2 Satisfaction of Required Withholding. At the time the Committee grants an Option, it may, in its sole discretion, grant the Participant an election to pay all such amounts of required tax withholding, or any part thereof:

(a) by the delivery to the Company or the Administrative Agent of a number of shares of Stock then owned by the Participant, the aggregate Fair Market Value of which (as of the Exercise Date) is not greater than the amount required to be withheld, provided that such shares have been held by the Participant for a period of at least six months;

(b) by certification or attestation to the Company or the Administrative Agent of the Participant's ownership (as of the Exercise Date) of a number of shares of Stock and/or Depositary Shares, the aggregate Fair Market Value of which (as of the Exercise Date) is not greater than the amount required to be withheld, provided that such shares of Stock and/or Depositary Shares have been owned by the Participant for a period of at least six months;

(c) if the income resulting from the Option exercise is to be deferred into the Participant's Deferred Delivery Plan account, by certification or attestation to the Company or the Administrative Agent of the Participant's ownership (as of the Exercise Date) of a number of vested Stock Units held in the Participant's

Deferred Delivery Plan account, the equivalent aggregate Fair Market Value of which (as of the Exercise Date) is not greater than the amount required to be withheld, provided that such Stock Units were vested as of the Exercise Date; or

(d) by the Company or the Administrative Agent withholding from the shares of Stock otherwise issuable to the Participant upon exercise of the Option, a number of shares of Stock, the aggregate Fair Market Value of which (as of the Exercise Date) is not greater than the amount required to be withheld. Any such elections by Participants to have shares of Stock withheld for this purpose will be subject to the following restrictions:

- (i) all elections shall be made on or prior to the Exercise Date; and
- (ii) all elections shall be irrevocable.

13.3 Excess Withholding. At the time the Committee grants an Option, it may, in its sole discretion, grant the Participant an election to pay additional or excess amounts of tax withholding, beyond the required amounts and up to the Participant's marginal tax rate:

(a) by delivery to the Company or the Administrative Agent of a number of Shares of Stock then owned by the Participant, the aggregate Fair Market Value of which (as of the Exercise Date) is not greater than such excess withholding amount, provided that such shares of Stock have been owned by the Participant for a period of at least six months; or

(b) by certification or attestation to the Company or the Administrative Agent of the Participant's ownership (as of the Exercise Date) of a number of shares of Stock and/or Depositary Shares, the aggregate Fair Market Value of which (as of the Exercise Date) is not greater than such excess withholding amount, provided that such shares of Stock and/or Depositary Shares have been owned by the Participant for a period of at least six months.

13.4 Section 16 Requirements. If the Participant is an officer or director of the Company within the meaning of Section 16 or any successor section(s) of the 1934 Act ("Section 16"), the Participant must satisfy the requirements of such Section 16 and any applicable rules and regulations thereunder with respect to the use of shares of Stock, Depositary Shares and/or Stock Units to satisfy such tax withholding obligation.

**Section 14**

**Requirements of Law**

14.1 Requirements of Law. The issuance of Stock and the payment of cash pursuant to the Plan shall be subject to all applicable laws, rules and regulations.

14.2 Federal Securities Laws Requirements. If a Participant is an officer or director of the Company within the meaning of Section 16, Options granted hereunder shall be subject to all conditions required under Rule 16b-3, or any successor rule(s) promulgated under the 1934 Act, to qualify the Option for any exception from the provisions of Section 16 available under such Rule. Such conditions are hereby incorporated herein by reference and shall be set forth in the Stock Option Agreement with the Participant which describes the Option.

14.3 Governing Law. The Plan and all Stock Option Agreements hereunder shall be construed in accordance with and governed by the laws of the State of Texas.

**Section 15**

**Duration of the Plan**

The Plan shall terminate at such time as may be determined by the Board, and no Option shall be granted after such termination. If not sooner terminated under the preceding sentence, the Plan shall fully cease and expire at midnight on February 10, 2005. Any Options outstanding at the time of the Plan termination shall continue to be exercisable in accordance with the Stock Option Agreement pertaining to each such Option, as such Stock Option Agreement may be modified pursuant to Section 12.

Dated: May 5, 2011

APACHE CORPORATION

ATTEST:

/s/ Cheri L. Peper  
Cheri L. Peper  
Corporate Secretary

By: /s/ Margery M. Harris  
Margery M. Harris  
Senior Vice President,  
Human Resources

**APACHE CORPORATION**  
**2005 STOCK OPTION PLAN**  
**(Amended and Restated effective May 5, 2011)**

**Section 1**

**Introduction**

1.1 Establishment. Apache Corporation, a Delaware corporation (hereinafter referred to, together with its Affiliated Corporations (as defined in Section 2.1 hereof) as the "Company" except where the context otherwise requires), hereby establishes the Apache Corporation 2005 Stock Option Plan (the "Plan") for Eligible Employees (as defined in Section 2.1 hereof). The Plan permits the grant of stock options to Eligible Employees selected by the Committee (as defined in Section 2.1 hereof).

1.2 Purposes. The purposes of the Plan are to provide the Eligible Employees designated by the Committee for participation in the Plan with added incentives to continue in the long-term service of the Company and to create in such employees a more direct interest in the future success of the operations of the Company by relating incentive compensation to increases in stockholder value, so that the income of those employees is more closely aligned with the interests of the Company's stockholders. The Plan is also designed to attract outstanding individuals and to retain and motivate Eligible Employees by providing an opportunity for investment in the Company.

1.3 Effective Date. The Effective Date of the Plan (the "Effective Date") is February 3, 2005. This Plan and each Option (as defined in Section 2.1 hereof) granted hereunder is conditioned on and shall be of no force or effect until the Plan is approved by the stockholders of the Company. The Committee may grant Options, the exercise of which shall be expressly subject to the condition that the Plan shall have been approved by the stockholders of the Company.

**Section 2**

**Definitions**

2.1 Definitions. The following terms shall have the meanings set forth below:

(a) "Administrative Agent" means any designee or agent that may be appointed by the Committee pursuant to Section 3.1(b) hereof.

(b) "Affiliated Corporation" means any corporation or other entity (including but not limited to a partnership) which is affiliated with Apache Corporation through stock ownership or otherwise and is treated as a common employer under the provisions of Sections 414(b) and (c) or any successor section(s) of the Internal Revenue Code.

(c) "Board" means the Board of Directors of the Company.

(d) "Committee" means the Stock Option Plan Committee of the Board, which is empowered hereunder to take actions in the administration of the Plan. The Committee shall be constituted at all times as to permit the Plan to comply with Rule 16b-3 or any successor rule(s) promulgated under the Securities Exchange Act of 1934, as amended (the "1934 Act").

(e) "Eligible Employees" means full-time employees (including, without limitation, officers and directors who are also employees), and certain part-time employees, of the Company or any division thereof.

(f) "Expiration Date" means the date on which the Option Period (as defined in subsection 7.2(c) hereof) ends.

(g) "Fair Market Value" means the per share closing price of the Stock as reported on The New York Stock Exchange, Inc. Composite Transactions Reporting System for a particular date or, if the Stock is not so listed on such date, as reported on NASDAQ or on such other exchange or electronic trading system which, on the date in question, reports the largest number of traded shares of Stock, provided, however, that if on the date Fair Market Value is to be determined there are no transactions in the Stock, Fair Market Value shall be determined as of the immediately preceding date on which there were transactions in the Stock; provided further, however, that if the foregoing provisions are not applicable, the fair market value of a share of the Stock as determined by the Committee by the reasonable application of such reasonable valuation method, consistently applied, as the Committee deems appropriate.

(h) "Internal Revenue Code" means the Internal Revenue Code of 1986, as it may be amended from time to time, and any successor thereto.

(i) "Option" means a right to purchase shares of Stock at a stated price for a specified period of time. All Options granted under the Plan shall be Options which are not "incentive stock options" as described in Section 422 or any successor section(s) of the Internal Revenue Code.

(j) "Option Price" means the price at which shares of Stock subject to an Option may be purchased, determined in accordance with subsection 7.2(b) hereof.

(k) "Participant" means an Eligible Employee designated by the Committee from time to time during the term of the Plan to receive one or more Options under the Plan.

(l) "Stock" means the U.S. \$0.625 par value Common Stock of the Company or any security into which such Common Stock is converted or exchanged upon merger, consolidation, or any capital restructuring (within the meaning of Section 4.3) of the Company.

2.2 Headings; Gender and Number. The headings contained in the Plan are for reference purposes only and shall not affect in any way the meaning or interpretation of the Plan. Except when otherwise indicated by the context, the masculine gender shall also include the feminine gender, and the definition of any term herein in the singular shall also include the plural.

### **Section 3**

#### **Plan Administration**

##### **3.1 Administration by the Committee.**

(a) The Plan shall be administered by the Committee. In accordance with the provisions of the Plan, the Committee shall, in its sole discretion, select the Participants from among the Eligible Employees, determine the Options to be granted pursuant to the Plan, the number of shares of Stock to be issued thereunder, the time at which such Options are to be granted, fix the Option Price, and establish such other terms and requirements as the Committee may deem necessary or desirable and consistent with the terms of the Plan. The Committee shall determine the form or forms of the agreements with Participants which shall evidence the particular provisions, terms, conditions, rights and duties of the Company and the Participants with respect to Options granted pursuant to the Plan, which provisions need not be identical except as may be provided herein.

(b) The Committee may from time to time adopt such rules and regulations for carrying out the purposes of the Plan as it may deem proper and in the best interests of the Company. The Committee may appoint an Administrative Agent, who need not be a member of the Committee or an employee of the Company, to assist the Committee in administration of the Plan and to whom it may delegate such powers as the Committee deems appropriate, except that the Committee shall determine any dispute. The Committee may correct any defect, supply any omission or reconcile any inconsistency in the Plan, or in any agreement entered into hereunder, in the manner and to the extent it shall deem expedient and it shall be the sole and final judge of such expediency. No member of the Committee shall be liable for any action or determination made in good faith. The determination, interpretations and other

actions of the Committee pursuant to the provisions of the Plan shall be binding and conclusive for all purposes and on all persons.

3.2 Compliance with Section 162(m). The Plan is intended to comply with the requirements of Section 162(m) or any successor section(s) of the Internal Revenue Code ("Section 162(m)") as to any "covered employee" as defined in Section 162(m), and shall be administered, interpreted and construed consistently therewith. In accordance with this intent, the amount of income a Participant may receive from Options granted under the Plan shall be based solely on an increase in the value of the Stock after the date of the grant of the Option, or such other bases as may be permitted by applicable law. The Committee is authorized to take such additional action, if any, that may be required to ensure that the Plan and any Option granted under the Plan satisfy the requirements of Section 162(m), taking into account any regulations or other guidance issued by the Internal Revenue Service.

#### **Section 4**

##### **Stock Subject to the Plan**

4.1 Number of Shares. Subject to Section 7.1 hereof and to adjustment pursuant to Section 4.3 hereof, five million (5,000,000) shares of Stock are authorized for issuance under the Plan in accordance with the provisions of the Plan and subject to such restrictions or other provisions as the Committee may from time to time deem necessary. This authorization may be increased from time to time by approval of the Board and the stockholders of the Company if, on the advice of counsel for the Company, such stockholder approval is required. Shares of Stock which may be issued upon exercise of Options shall be applied to reduce the maximum number of shares of Stock remaining available for use under the Plan. The Company shall at all times during the term of the Plan and while any Options are outstanding retain as authorized and unissued Stock, or as Stock in the Company's treasury, at least the number of shares from time to time required under the provisions of the Plan, or otherwise assure itself of its ability to perform its obligations hereunder.

4.2 Other Shares of Stock. Any shares of Stock that are subject to an Option which expires, is forfeited, is cancelled, or for any reason is terminated unexercised, and any shares of Stock that for any other reason are not issued to a Participant or are forfeited shall automatically become available for use under the Plan.

4.3 Adjustments for Stock Split, Stock Dividend, Etc. If the Company shall at any time increase or decrease the number of its outstanding shares of Stock or change in any way the rights and privileges of such shares by means of the payment of a Stock dividend or any other distribution upon such shares payable in Stock, or through a Stock split, subdivision, consolidation, combination, reclassification or recapitalization involving the Stock (any of the foregoing being herein called a "capital restructuring"), then in relation to the Stock that is affected by one or more of the above events, the numbers, rights and privileges of the following shall be, in each case, equitably and proportionally adjusted to take into account the occurrence of any of the above events, (i) the shares of Stock as to which Options may be granted under the Plan; (ii) the shares of Stock then included in each outstanding Option granted hereunder; and (iii) the Option Price for each outstanding Option granted hereunder.

4.4 Dividend Payable in Stock of Another Corporation, Etc. If the Company shall at any time pay or make any dividend or other distribution upon the Stock payable in securities or other property (except money or Stock), a proportionate part of such securities or other property shall be set aside and delivered to any Participant then holding an Option for the particular type of Stock for which the dividend or other distribution was made, upon exercise thereof. Prior to the time that any such securities or other property are delivered to a Participant in accordance with the foregoing, the Company shall be the owner of such securities or other property and shall have the right to vote the securities, receive any dividends payable on such securities, and in all other respects shall be treated as the owner. If securities or other property which have been set aside by the Company in accordance with this Section are not delivered to a Participant because an Option is not exercised, then such securities or other property shall remain the property of the Company and shall be dealt with by the Company as it shall determine in its sole discretion.

4.5 Other Changes in Stock. In the event there shall be any change, other than as specified in Sections 4.3 and 4.4 hereof, in the number or kind of outstanding shares of Stock or of any stock or other securities into which the Stock shall be changed or for which it shall have been exchanged, and if the Committee shall in its discretion determine that such change equitably requires an adjustment in the number or kind of shares subject to outstanding Options or which have been reserved for issuance pursuant to the Plan but are not then subject to an Option, then such adjustments shall be made by the Committee and shall be effective for all purposes of the Plan and on each outstanding Option that involves the particular type of stock for which a change was effected.

4.6 Rights to Subscribe. If the Company shall at any time grant to the holders of its Stock rights to subscribe pro rata for additional shares thereof or for any other securities of the Company or of any other corporation, there shall be reserved with respect to the shares then under Option to any Participant of the particular class of Stock involved the Stock or other securities which the Participant would have been entitled to subscribe for if immediately prior to such grant the Participant had exercised his entire Option. If, upon exercise of any such Option, the Participant subscribes for the additional shares or other securities, the aggregate Option Price shall be increased by the amount of the price that is payable by the Participant for such additional shares or other securities.

4.7 General Adjustment Rules. No adjustment or substitution provided for in this Section 4 shall require the Company to sell a fractional share of Stock under any Option, or otherwise issue a fractional share of Stock, and the total substitution or adjustment with respect to each Option shall be limited by deleting any fractional share. In the case of any such substitution or adjustment, the aggregate Option Price for the shares of Stock then subject to the Option shall remain unchanged but the Option Price per share under each such Option shall be equitably adjusted by the Committee to reflect the greater or lesser number of shares of Stock or other securities into which the Stock subject to the Option may have been changed.

4.8 Determination by the Committee, Etc. Adjustments under this Section 4 shall be made by the Committee, whose determinations with regard thereto shall be final and binding upon all parties.

## **Section 5**

### **Reorganization or Liquidation**

In the event that the Company is merged or consolidated with another corporation and the Company is not the surviving corporation, or if all or substantially all of the assets or more than 20 percent of the outstanding voting stock of the Company is acquired by any other corporation, business entity or person, or in case of a reorganization (other than a reorganization under the United States Bankruptcy Code) or liquidation of the Company, and if the provisions of Section 8 hereof do not apply, the Committee, or the board of directors of any corporation assuming the obligations of the Company, shall, as to the Plan and outstanding Options make appropriate provision for the adoption and continuation of the Plan by the acquiring or successor corporation and for the protection of any such outstanding Options by the substitution on an equitable basis of appropriate stock of the Company or of the merged, consolidated or otherwise reorganized corporation which will be issuable with

respect to the Stock, provided that no additional benefits shall be conferred upon the Participants holding such Options as a result of such substitution, and the excess of the aggregate Fair Market Value of the shares subject to the Options immediately after such substitution over the aggregate Option Price thereof is not more than the excess of the aggregate Fair Market Value of the shares subject to such Options immediately before such substitution over the aggregate Option Price thereof. Additionally, upon the occurrence of such an event and upon written notice to the Participants, the Committee may provide that all unexercised Options shall be exercised within a specified number of days of the date of such notice or such Options will be terminated. In the latter event, the Committee shall accelerate the vesting dates of outstanding Options so that all Options become fully vested and exercisable prior to any such event.

## **Section 6**

### **Participation**

Participants in the Plan shall be those Eligible Employees who, in the judgment of the Committee, are performing, or during the term of their incentive arrangement will perform, vital services in the management, operation and development of the Company or an Affiliated Corporation, and significantly contribute, or are expected to significantly contribute, to the achievement of the Company's long-term corporate economic objectives. Participants may be granted from time to time one or more Options; provided, however, that the grant of each such Option shall be separately approved by the Committee, and receipt of one such Option shall not result in automatic receipt of any other Option. Upon determination by the Committee that an Option is to be granted to a Participant, written notice shall be given to such person, specifying the terms, conditions, rights and duties related thereto. Each Participant shall, if required by the Committee, enter into an agreement with the Company, in such form as the Committee shall determine and which is consistent with the provisions of the Plan, specifying such terms, conditions, rights and duties. Options shall be deemed to be granted as of the date specified in the grant resolution of the Committee, which date shall be the date of any related agreement with the Participant. In the event of any inconsistency between the provisions of the Plan and any such agreement entered into hereunder, the provisions of the Plan shall govern.

## Section 7

### Stock Options

7.1 Grant of Stock Options. Coincident with or following designation for participation in the Plan, an Eligible Employee may be granted one or more Options. Grants of Options under the Plan shall be made by the Committee. In no event shall the exercise of one Option affect the right to exercise any other Option or affect the number of shares of Stock for which any other Option may be exercised, except as provided in subsection 7.2(j) hereof. During the duration of the Plan, no Eligible Employee may be granted Options which in the aggregate cover in excess of 25 percent of the total shares of Stock authorized under the Plan.

7.2 Stock Option Agreements. Each Option granted under the Plan shall be evidenced by a written stock option agreement which shall be entered into by the Company and the Participant to whom the Option is granted (the "Stock Option Agreement"), and which shall contain the following terms and conditions set out in this Section 7.2, as well as such other terms and conditions, not inconsistent therewith, as the Committee may consider appropriate. This requirement for delivery of a written Stock Option Agreement is satisfied by electronic delivery of such agreement provided that evidence of the Participant's receipt of such electronic delivery is available to the Company and all applicable laws and regulations permit such delivery.

(a) Number of Shares. Each Stock Option Agreement shall state that it covers a specified number of shares of Stock, as determined by the Committee.

(b) Price. The price at which each share of Stock covered by an Option may be purchased shall be determined in each case by the Committee and set forth in the Stock Option Agreement, but in no event shall the price be less than the Fair Market Value of the Stock on the date the Option is granted.

(c) Duration of Options; Employment Required For Exercise. Each Stock Option Agreement shall state the period of time, determined by the Committee, within which the Option may be exercised by the Participant (the "Option Period"). The Option Period must end, in all cases, not more than ten years from the date an Option is granted. Except as otherwise provided in Sections 5 and 8 and subsection 7.2(d)(iv) hereof, each Option granted under the Plan shall become exercisable in increments such that 25 percent of the Option becomes exercisable on each of the four subsequent one-year anniversaries of the date the Option is granted, provided that each such additional 25-percent increment shall become exercisable only if the Participant has been continuously employed by the Company from the date the Option is granted through the date on which each such additional 25-percent increment becomes exercisable.

(d) Termination of Employment, Death, Disability, Etc. Each Stock Option Agreement shall provide as follows with respect to the exercise of the Option upon termination of the employment or the death or disability of the Participant:

(i) If the employment of the Participant by the Company is terminated within the Option Period for cause, as determined by the Company, the Option shall thereafter be void for all purposes. As used in this subsection 7.2(d), "cause" shall mean a gross violation, as determined by the Company, of the Company's established policies and procedures, provided that the effect of this subsection 7.2(d) shall be limited to determining the consequences of a termination and that nothing in this subsection 7.2(d) shall restrict or otherwise interfere with the Company's discretion with respect to the termination of any employee.

(ii) If the Participant retires from employment by the Company on or after attaining age 60, the Option may be exercised by the Participant within 36 months following his or her retirement (provided that such exercise must occur within the Option Period), but not thereafter. In the event of the Participant's death during such 36-month period, each Option may be exercised by those entitled to do so in the manner referred to in (iv) below. In any such case, the Option may be exercised only as to the shares as to which the Option had become exercisable on or before the date of the Participant's retirement.

(iii) If the Participant becomes disabled (as determined pursuant to the Company's Long-Term Disability Plan or any successor plan), during the Option Period while still employed, or within the three-month period referred to in subsection 7.2(d)(v) below, or within the 36-month period referred to in subsection 7.2(d)(ii) above, the Option may be exercised by the Participant or by his or her guardian or legal representative, within twelve months following the Participant's disability, or within the 36-month period referred to in subsection 7.2(d)(ii) above if applicable and if longer (provided that such exercise must occur within the Option Period), but not thereafter. In the event of the Participant's death during such twelve-month period, each Option may be exercised by those entitled to do so in the manner referred to in subsection 7.2(d)(iv) below. In any such case, the Option may be exercised only as to the shares of Stock as to which the Option had become exercisable on or before the date of the Participant's disability.

(iv) In the event of the Participant's death while still employed by the Company, each Option of the deceased Participant may be exercised by those entitled to do so under the Participant's will or under the laws of descent and distribution or as otherwise provided in Section 9.2 within twelve months following the Participant's death (provided that in any event such exercise must occur within the Option Period), but not thereafter, as to all shares of Stock which are subject to such Option, including each 25-percent increment of the Option, if any, which has not yet become exercisable at the time of the Participant's death. In the event of the Participant's death within the 36-month period referred to in subsection 7.2(d)(ii) above or within the twelve-month period referred to in subsection 7.2(d)(iii) above, each Option of the deceased Participant that is exercisable at the time of death may be exercised by those entitled to do so under the Participant's will or under the laws of descent and distribution or as otherwise provided in Section 9.2 within twelve months following the Participant's death or within the 36-month period referred to in subsection 7.2(d)(ii) above, if applicable and if longer (provided that in any event such exercise must occur within the Option Period). The provisions of this paragraph (iv) of subsection 7.2(d) shall be applicable to each Stock Option Agreement as if set forth therein word for word. Each Stock Option Agreement executed by the Company prior to the adoption of this provision shall be deemed amended to include the provisions of this paragraph and all Options granted pursuant to such Stock Option Agreements shall be exercisable as provided herein.

(v) If the employment of the Participant by the Company is terminated (which for this purpose means that the Participant is no longer employed by the Company or by an Affiliated Corporation) within the Option Period for any reason other than cause, the Participant's retirement on or after attaining age 60, or the Participant's disability or death, the Option may be exercised by the Participant within three months following the date of such termination (provided that such exercise must occur within the Option Period), but not thereafter. In any such case, the Option may be exercised only as to the shares as to which the Option had become exercisable on or before the date of termination of the Participant's employment.

(e) Transferability. Each Stock Option Agreement shall provide that the Option granted therein is not transferable by the Participant except by will or pursuant to the laws of descent and distribution or as otherwise provided in Section 9.2, and that such Option is exercisable during the Participant's lifetime only by him or her, or in the event of the Participant's disability or incapacity, by his or her guardian or legal representative.

(f) Agreement to Continue in Employment. Each Stock Option Agreement shall contain the Participant's agreement to remain in the employment of the Company, at the pleasure of the Company, for a continuous period of at least one year after the date of such Stock Option Agreement, at the salary rate in effect on the date of such agreement or at such changed rate as may be fixed, from time to time, by the Company. Termination of the Stock Option Agreement and all unvested Options granted under such Stock Option Agreement shall be the Company's sole and exclusive remedy for an employee's breach of this Section 7.2(f).

(g) Exercise, Payments, Etc.

(i) Each Stock Option Agreement shall provide that the method for exercising the Option granted therein shall be by delivery to the Office of the Secretary of the Company or to the Administrative Agent of written notice specifying the number of shares of Stock with respect to which such Option is exercised and payment to the Company of the aggregate Option Price. Such notice shall be in a form satisfactory to the Committee and shall specify the particular Options (or portions thereof) which are being exercised and the number of shares of Stock with respect to which the Options are being exercised. The Participant's obligation to deliver written notice of exercise is satisfied by electronic delivery of such notice through means satisfactory to the Committee and prescribed by the Company. The exercise of the Option shall be deemed effective on the date such notice is received by the Office of the Secretary or by the Administrative Agent and payment is made to the Company of the aggregate Option Price (the "Exercise Date"); however, if payment of the aggregate Option Price is made pursuant to a sale of shares of Stock as contemplated by subsection 7.2(g)(iii)(E) below, the Exercise Date shall be deemed to be the date of such sale. If requested by the Company, such notice shall contain the Participant's representation that he or she is purchasing the Stock for investment purposes only and his or her agreement not to sell any Stock so purchased in any manner that is in violation of the Securities Act of 1933, as amended, or any applicable state law, and such restriction, or notice thereof, shall be placed on the certificates representing the Stock so purchased. The purchase of such Stock shall take place upon delivery of such notice to the Office of the Secretary of the Company or to the Administrative Agent, at which time the aggregate Option Price shall be paid in full to the Company by any of the methods or any combination of the methods set forth in subsection 7.2(g)(iii) below.

(ii) The shares of Stock to which the Participant is entitled as a result of the exercise of the Option shall be issued by the Company and (A) delivered by electronic means to an account designated by the Participant, or (B) delivered to the Participant in the form of a properly executed certificate or certificates representing such shares of Stock. If shares of Stock are used to pay all or part of the aggregate Option Price, the Company shall issue and deliver to the Participant the additional shares of Stock, in excess of the aggregate Option

Price or portion thereof paid using shares of Stock, to which the Participant is entitled as a result of the Option exercise. The Company's obligation to deliver the shares of Stock to which the Participant is entitled as a result of the exercise of the Option shall be subject to the payment in full to the Company of the aggregate Option Price and the required tax withholding.

(iii) The aggregate Option Price shall be paid by any of the following methods or any combination of the following methods:

(A) in cash, including the wire transfer of funds in U.S. dollars to one of the Company's bank accounts located in the United States, with such bank account to be designated from time to time by the Company;

(B) by personal, certified or cashier's check payable in U.S. dollars to the order of the Company;

(C) by delivery to the Company or the Administrative Agent of certificates representing a number of shares of Stock then owned by the Participant, the aggregate Fair Market Value of which (as of the Exercise Date) is not greater than the aggregate Option Price of the Option being exercised, properly endorsed for transfer to the Company, provided that the shares of Stock used for this purpose must have been owned by the Participant for a period of at least six months;

(D) by certification or attestation to the Company or the Administrative Agent of the Participant's ownership (as of the Exercise Date) of a number of shares of Stock, the aggregate Fair Market Value of which (as of the Exercise Date) is not greater than the aggregate Option Price of the Option being exercised, provided that the shares of Stock used for this purpose have been owned by the Participant for a period of at least six months; or

(E) by delivery to the Company or the Administrative Agent of a properly executed notice of exercise together with irrevocable instructions to a broker to promptly deliver to the Company, by wire transfer or check as noted in subsection 7.2(g)(iii)(A) and (B) above, the amount of the proceeds of the sale of all or a portion of the Stock or of a loan from the broker to the Participant necessary to pay the aggregate Option Price.

(iv) For purposes of the Plan, the income resulting from an Option exercise shall be based on the Fair Market Value of the Stock for the Exercise Date; however, if payment of the aggregate Option Price is made pursuant to a sale of shares of Stock as contemplated by subsection 7.2(g)(iii)(E) hereof, the Fair Market Value shall be deemed to be the per share sale price and the Exercise Date shall be deemed to be the date of such sale.

(h) Date of Grant. An Option shall be considered as having been granted on the date specified in the grant resolution of the Committee.

(i) Tax Withholding. Each Stock Option Agreement shall provide that, upon exercise of the Option, the Participant shall make appropriate arrangements with the Company to provide for the minimum amount of tax withholding required by law, including without limitation Sections 3102 and 3402 or any successor section(s) of the Internal Revenue Code and applicable state and local income and other tax laws, by payment of such taxes in cash (including wire transfer), by check, or as provided in Section 13.2 hereof.

(j) Adjustment of Options. Subject to the provisions of Sections 4, 5, 7, 8 and 12 hereof, the Committee may make any adjustment in the number of shares of Stock covered by, or the terms of an outstanding Option and a subsequent granting of an Option, by amendment or by substitution for an outstanding Option; however, except as provided in Sections 4, 5, 8 and 12 hereof, the Committee may not adjust the Option Price of any outstanding Option. Such amendment or substitution may result in terms and conditions (including the number of shares of Stock covered, vesting schedule or Option Period) that differ from the terms and conditions of the original Option. The Committee may not, however, adversely affect the rights of any Participant to previously granted Options without the consent of such Participant. If such action is effected by amendment, the effective date of such amendment will be the date of grant of the original Option.

7.3 Stockholder Privileges. No Participant shall have any rights as a stockholder with respect to any shares of Stock covered by an Option until the Participant becomes the holder of record of such Stock. Except as provided in Section 4 hereof, no adjustments shall be made for dividends or other distributions or other rights as to which there is a record date preceding the date on which such Participant becomes the holder of record of such Stock.

## **Section 8**

### **Change of Control**

8.1 In General. In the event of the occurrence of a change of control of the Company, as defined in Section 8.3 hereof, all outstanding Options shall become automatically vested, without further action by the Committee or the Board, so as to make all such Options fully vested and exercisable as of the date of such change of control.

8.2 Limitation on Payments. If the provisions of this Section 8 would result in the receipt by any Participant of a payment within the meaning of Section 280G or any successor section(s) of the Internal Revenue Code, and the regulations promulgated thereunder, and if the receipt of such accelerated vesting or

payment by any Participant would, in the opinion of independent tax counsel of recognized standing selected by the Company, result in the payment by such Participant of any excise tax provided for in Sections 280G and 4999 or any successor section(s) of the Internal Revenue Code, then the amount of such accelerated vesting or payment shall be reduced to the extent required, in the opinion of independent tax counsel, to prevent the imposition of such excise tax; provided, however, that any payment or vesting of any Options shall occur as otherwise provided herein to the fullest extent possible without triggering such excise tax.

8.3 Definition. For purposes of the Plan, a “change of control” shall mean any of the events specified in the Company’s Income Continuance Plan or any successor plan which constitute a change of control within the meaning of such plan.

## **Section 9**

### **Rights of Employees, Participants**

9.1 Employment. Nothing contained in the Plan or in any Option granted under the Plan shall confer upon any Participant any right with respect to the continuation of his or her employment by the Company or any Affiliated Corporation, or interfere in any way with the right of the Company or any Affiliated Corporation, subject to the terms of any separate employment agreement to the contrary, at any time, to terminate such employment or to increase or decrease the level of the Participant’s compensation from the level in existence at the time of the grant of an Option. Whether an authorized leave of absence, or absence in military or government service, shall constitute a termination of employment shall be determined by the Committee at the time.

9.2 Nontransferability. No right or interest of any Participant in an Option granted pursuant to the Plan shall be assignable or transferable during the lifetime of the Participant, either voluntarily or involuntarily, or subjected to any lien, directly or indirectly, by operation of law, or otherwise, including execution, levy, garnishment, attachment, pledge or bankruptcy. In the event of a Participant’s death, a Participant’s rights and interests in Options shall, to the extent provided in Section 7 hereof, be transferable by testamentary will or the laws of descent and distribution, or a beneficiary designation that is in a form approved by the Committee and in compliance with the provisions of the Plan, applicable law, and the applicable Option, and payment of any amounts due under the Plan shall be made to, and exercise of any Options may be made by, the Participant’s designated beneficiary, legal representatives, heirs or legatees, as applicable. If, in the opinion of the Committee, a person entitled to payments or to exercise rights with respect to the Plan is disabled from caring for his or her

affairs because of mental condition, physical condition or age, payment due such person may be made to, and such rights shall be exercised by, such person's guardian, conservator or other legal personal representative upon furnishing the Committee with evidence of such status satisfactory to the Committee.

## **Section 10**

### **General Restrictions**

10.1 Investment Representations. The Company may require a Participant, as a condition of exercising an Option, to give written assurances in substance and form satisfactory to the Company and its counsel to the effect that such person is acquiring the Stock subject to the Option for his own account for investment and not with any present intention of selling or otherwise distributing the same, and to such other effects as the Company deems necessary or appropriate in order to comply with federal and applicable state securities laws.

10.2 Compliance with Securities Laws. Each Option shall be subject to the requirement that, if at any time counsel to the Company shall determine that the listing, registration or qualification of the shares of Stock subject to such Option upon any securities exchange or under any state or federal law, or the consent or approval of any governmental or regulatory body, is necessary as a condition of, or in connection with, the issuance or purchase of shares of Stock thereunder, such Option may not be accepted or exercised in whole or in part unless such listing, registration, qualification, consent or approval shall have been effected or obtained on conditions acceptable to the Committee. Nothing herein shall be deemed to require the Company to apply for or to obtain such listing, registration, qualification, consent or approval.

## **Section 11**

### **Other Employee Benefits**

The amount of any income deemed to be received by a Participant as a result of an Option exercise shall not constitute "earnings" or "compensation" with respect to which any other employee benefits of such Participant are determined including, without limitation, benefits under any pension, profit sharing, life insurance or salary continuation plan.

## **Section 12**

### **Plan Amendment, Modification and Termination**

The Board may at any time terminate, and from time to time may amend or

modify the Plan provided, however, that no amendment or modification may become effective without approval of the amendment or modification by the Company's stockholders if stockholder approval is required to enable the Plan to satisfy any applicable statutory or regulatory requirements unless the Company, on the advice of counsel, determines that stockholder approval is otherwise necessary or desirable.

No amendment, modification or termination of the Plan shall in any manner adversely affect any Option theretofore granted under the Plan, without the consent of the Participant holding such Option.

The Committee shall have the authority to adopt such modifications, procedures and subplans as may be necessary or desirable to comply with the provisions of the laws (including, but not limited to, tax laws and regulations) of countries other than the United States in which the Company may operate, so as to assure the viability of the benefits of the Plan to Participants employed in such countries.

### **Section 13**

#### **Withholding**

13.1 Withholding Requirement. The Company's obligations to deliver shares of Stock upon the exercise of an Option shall be subject to the Participant's satisfaction of all applicable federal, state and local income and other tax withholding requirements.

13.2 Satisfaction of Required Withholding. At the time the Committee grants an Option, it may, in its sole discretion, grant the Participant an election to pay all such amounts of required tax withholding, or any part thereof:

(a) by the delivery to the Company or the Administrative Agent of a number of shares of Stock then owned by the Participant, the aggregate Fair Market Value of which (as of the Exercise Date) is not greater than the amount required to be withheld, provided that such shares have been held by the Participant for a period of at least six months;

(b) by certification or attestation to the Company or the Administrative Agent of the Participant's ownership (as of the Exercise Date) of a number of shares of Stock, the aggregate Fair Market Value of which (as of the Exercise Date) is not greater than the amount required to be withheld, provided that such shares of Stock have been owned by the Participant for a period of at least six months; or

(c) by the Company or the Administrative Agent withholding from the shares of Stock otherwise issuable to the Participant upon exercise of the Option, a number of shares of Stock, the aggregate Fair Market Value of which (as of the Exercise Date) is not greater than the amount required to be withheld. Any such elections by Participants to have shares of Stock withheld for this purpose will be subject to the following restrictions:

- (i) all elections shall be made on or prior to the Exercise Date; and
- (ii) all elections shall be irrevocable.

**13.3 Section 16 Requirements.** If the Participant is an officer or director of the Company within the meaning of Section 16 or any successor section(s) of the 1934 Act ("Section 16"), the Participant must satisfy the requirements of such Section 16 and any applicable rules and regulations thereunder with respect to the use of shares of Stock to satisfy such tax withholding obligation.

#### **Section 14**

##### **Requirements of Law**

**14.1 Requirements of Law.** The issuance of Stock and the payment of cash pursuant to the Plan shall be subject to all applicable laws, rules and regulations.

**14.2 Federal Securities Laws Requirements.** If a Participant is an officer or director of the Company within the meaning of Section 16, Options granted hereunder shall be subject to all conditions required under Rule 16b-3, or any successor rule(s) promulgated under the 1934 Act, to qualify the Option for any exception from the provisions of Section 16 available under such Rule. Such conditions are hereby incorporated herein by reference and shall be set forth in the Stock Option Agreement with the Participant which describes the Option.

**14.3 Governing Law.** The Plan and all Stock Option Agreements hereunder shall be construed in accordance with and governed by the laws of the State of Texas.

**Section 15**

**Duration of the Plan**

The Plan shall terminate effective as of May 2, 2007, and no Option shall be granted on or after termination date. Any Options outstanding at the time of the Plan termination shall continue to be exercisable in accordance with the Stock Option Agreement pertaining to each such Option.

Dated: May 5, 2011

APACHE CORPORATION

ATTEST:

/s/ Cheri L. Peper  
Cheri L. Peper  
Corporate Secretary

By: /s/ Margery M. Harris  
Margery M. Harris  
Senior Vice President,  
Human Resources

**APACHE CORPORATION**  
**2003 Stock Appreciation Rights Plan**  
**(Amended and Restated effective May 4, 2011)**

**Section 1**

**Introduction**

1.1 **Establishment**. Apache Corporation, a Delaware corporation (hereinafter referred to, together with its Affiliated Corporations (as defined in Section 2.1 hereof) as the "Company" except where the context otherwise requires), hereby establishes the Apache Corporation 2003 Stock Appreciation Rights Plan (the "Plan") for Eligible Employees (as defined in Section 2.1 hereof). The Plan permits the grant of stock appreciation rights to Eligible Employees selected by the Committee (as defined in Section 2.1 hereof).

1.2 **Purposes**. The purposes of the Plan are to provide the Eligible Employees designated by the Committee for participation in the Plan with added incentives to continue in the long-term service of the Company and to create in such employees a more direct interest in the future success of the operations of the Company by relating incentive compensation to increases in stockholder value, so that the income of those employees is more closely aligned with the interests of the Company's stockholders. The Plan is also designed to retain and motivate Eligible Employees and attract talented personnel in a competitive environment.

1.3 **Effective Date**. The effective date of the Plan (the "Effective Date") is May 1, 2003.

**Section 2**

**Definitions**

2.1 **Definitions**. The following terms shall have the meanings set forth below:

(a) "**Administrative Agent**" means any designee or agent that may be appointed by the Committee pursuant to Section 3.1(b) hereof.

(b) "**Affiliated Corporation**" means any corporation or other entity (including but not limited to a partnership) which is affiliated with Apache Corporation through stock ownership or otherwise and is treated as a common employer under the provisions of Sections 414(b) and (c) or any successor section(s) of the Internal Revenue Code.

(c) "**Board**" means the Board of Directors of the Company.

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(d) "Committee" means the Stock Option Plan Committee of the Board, which is empowered hereunder to take actions in the administration of the Plan. The Committee shall be constituted at all times as to permit the Plan to comply with Rule 16b-3 or any successor rule(s) promulgated under the Securities Exchange Act of 1934, as amended (the "1934 Act").

(e) "Eligible Employees" means full-time employees (including, without limitation, officers and directors who are also employees), and certain part-time employees, of the Company or any division thereof.

(f) "Exercise Date" means the date of exercise determined in accordance with subsection 7.2(g) hereof.

(g) "Expiration Date" means the date on which the Stock Appreciation Right Period (as defined in subsection 7.2(c) hereof) ends.

(h) "Fair Market Value" means the per share closing price of the Stock as reported on The New York Stock Exchange, Inc. Composite Transactions Reporting System for a particular date or, if the Stock is not so listed on such date, as reported on NASDAQ or on such other exchange or electronic trading system which, on the date in question, reports the largest number of traded shares of Stock, provided, however, that if on the date Fair Market Value is to be determined there are no transactions in the Stock, Fair Market Value shall be determined as of the immediately preceding date on which there were transactions in the Stock; provided further, however, that if the foregoing provisions are not applicable, the fair market value of a share of the Stock as determined by the Committee by the reasonable application of such reasonable valuation method, consistently applied, as the Committee deems appropriate.

(i) "Grant Date" means the date of grant determined in accordance with subsection 7.2(h) hereof.

(j) "Internal Revenue Code" means the Internal Revenue Code of 1986, as it may be amended from time to time.

(k) "Participant" means an Eligible Employee designated by the Committee from time to time during the term of the Plan to receive one or more Stock Appreciation Rights under the Plan.

(l) "Stock Appreciation Right" means to receive an amount equal to the excess of the Fair Market Value as of the Exercise Date of one share of Stock over the SAR Price times the number of shares of Stock to which the Stock Appreciation Right relates.

(m) "SAR Price" means the price at which the Stock Appreciation Right was granted determined in accordance with subsection 7.2(b) hereof.

(n) "Stock" means the U.S. \$0.625 par value Common Stock of the Company.

2.2 Headings; Gender and Number. The headings contained in the Plan are for reference purposes only and shall not affect in any way the meaning or interpretation of the Plan. Except when otherwise indicated by the context, the masculine gender shall also include the feminine gender, and the definition of any term herein in the singular shall also include the plural.

**Section 3**  
**Plan Administration**

3.1 Administration by the Committee.

(a) The Plan shall be administered by the Committee. In accordance with the provisions of the Plan, the Committee shall, in its sole discretion, select the Participants from among the Eligible Employees, determine the Stock Appreciation Rights to be granted pursuant to the Plan, the number of shares of Stock to which each Stock Appreciation Right relates, the time at which such Stock Appreciation Rights are to be granted, fix the SAR Price, and establish such other terms and requirements as the Committee may deem necessary or desirable and consistent with the terms of the Plan. The Committee shall determine the form or forms of the agreements with Participants which shall evidence the particular provisions, terms, conditions, rights and duties of the Company and the Participants with respect to Stock Appreciation Rights granted pursuant to the Plan, which provisions need not be identical except as may be provided herein.

(b) The Committee may from time to time adopt such rules and regulations for carrying out the purposes of the Plan as it may deem proper and in the best interests of the Company. The Committee may appoint an Administrative Agent, who need not be a member of the Committee or an employee of the Company, to assist the Committee in administration of the Plan and to whom it may delegate such powers as the Committee deems appropriate, except that the Committee shall determine any dispute. The Committee may correct any defect, supply any omission or reconcile any inconsistency in the Plan, or in any agreement entered into hereunder, in the manner and to the extent it shall deem expedient and it shall be the sole and final judge of such expediency. No member of the Committee shall be liable for any action or determination made in good faith. The determination, interpretations and other actions of the Committee pursuant to the provisions of the Plan shall be binding and conclusive for all purposes and on all persons.

## Section 4

### Adjustments to or Other Changes in Stock

4.1 Adjustments for Stock Split, Stock Dividend, etc. If the Company shall at any time increase or decrease the number of its outstanding shares of Stock or change in any way the rights and privileges of such shares by means of the payment of a Stock dividend or any other distribution upon such shares payable in Stock, or through a Stock split, subdivision, consolidation, combination, reclassification or recapitalization involving the Stock then in relation to the Stock that is affected by one or more of the above events, the numbers, rights and privileges of the following shall be, in each case, equitably and proportionally adjusted to take into account the occurrence of any of the above events, (i) the shares of Stock to which each outstanding Stock Appreciation Right relates; and (ii) the SAR Price for each outstanding Stock Appreciation Right granted hereunder.

4.2 Other Changes in Stock. In the event there shall be any change, other than as specified in Section 4.1 hereof, in the number or kind of outstanding shares of Stock or of any stock or other securities into which the Stock shall be changed or for which it shall have been exchanged, and if the Committee shall in its discretion determine that such change equitably requires an adjustment in the number or kind of shares to which outstanding Stock Appreciation Rights relate, then such adjustments shall be made by the Committee and shall be effective for all purposes of the Plan and for each outstanding Stock Appreciation Right that involves the particular type of stock for which a change was effected.

4.3 Determination by the Committee, Etc. Adjustments under this Section 4 shall be made by the Committee, whose determinations with regard thereto shall be final and binding upon all parties.

## Section 5

### Reorganization or Liquidation

In the event that the Company is merged or consolidated with another corporation and the Company is not the surviving corporation, or if all or substantially all of the assets or more than 20 percent of the outstanding voting stock of the Company is acquired by any other corporation, business entity or person, or in case of a reorganization (other than a reorganization under the United States Bankruptcy Code) or liquidation of the Company, and if the provisions of Section 8 hereof do not apply, the Committee, or the board of directors of any corporation assuming the obligations of the Company, shall, as to the Plan and outstanding Stock Appreciation Rights either (i) make appropriate provision for the adoption and continuation of the Plan by the acquiring or successor corporation and for the protection of any such outstanding Stock Appreciation Rights by the substitution on an equitable basis of appropriate stock of the Company or of the merged, consolidated or otherwise reorganized corporation which will be issuable with respect to

the Stock, provided that no additional benefits shall be conferred upon the Participants holding such Stock Appreciation Rights as a result of such substitution, and the excess of the aggregate Fair Market Value of the shares of Stock to which the Stock Appreciation Rights relate immediately after such substitution over the aggregate SAR Price thereof is not more than the excess of the aggregate Fair Market Value of the shares of Stock to which such Stock Appreciation Rights relate immediately before such substitution over the aggregate Unit Price thereof, or (ii) upon written notice to the Participants, provide that all unexercised Stock Appreciation Rights shall be exercised within a specified number of days of the date of such notice or such Stock Appreciation Rights will be terminated. In the latter event, the Committee shall accelerate the vesting dates of outstanding Stock Appreciation Rights so that all Stock Appreciation Rights become fully vested and exercisable prior to any such event.

## **Section 6**

### **Participation**

Participants in the Plan shall be those Eligible Employees who, in the judgment of the Committee, are performing, or during the term of their incentive arrangement will perform, vital services in the management, operation and development of the Company or an Affiliated Corporation, and significantly contribute, or are expected to significantly contribute, to the achievement of the Company's long-term corporate economic objectives. Participants may be granted from time to time one or more Stock Appreciation Rights; provided, however, that the grant of each such Stock Appreciation Right shall be separately approved by the Committee, and receipt of one such Stock Appreciation Right shall not result in automatic receipt of any other Stock Appreciation Right. Upon determination by the Committee that a Stock Appreciation Right is to be granted to a Participant, written notice shall be given to such person, specifying the terms, conditions, rights and duties related thereto. Each Participant shall, if required by the Committee, enter into an agreement with the Company, in such form as the Committee shall determine and which is consistent with the provisions of the Plan, specifying such terms, conditions, rights and duties. Stock Appreciation Rights shall be deemed to be granted as of the date specified in the grant resolution of the Committee, which date shall be the date of any related agreement with the Participant. In the event of any inconsistency between the provisions of the Plan and any such agreement entered into hereunder, the provisions of the Plan shall govern.

## **Section 7**

### **Stock Appreciation Rights**

7.1 Grant of Stock Appreciation Rights. Coincident with or following designation for participation in the Plan, an Eligible Employee may be granted one or more Stock Appreciation Rights. Grants of Stock Appreciation Rights under the Plan shall be made by the Committee. In no event shall the exercise of one Stock Appreciation Right affect the right to exercise any other Stock Appreciation Right or affect the number of shares

of Stock to which any other Share Appreciation Right relates, except as provided in subsection 7.2(j) hereof.

7.2 Stock Appreciation Right Agreements. Each Stock Appreciation Right granted under the Plan shall be evidenced by a written agreement which shall be entered into by the Company and the Participant to whom the Stock Appreciation Right is granted (the "Stock Appreciation Right Agreement"), and which shall contain the following terms and conditions, as well as such other terms and conditions, not inconsistent therewith, as the Committee may consider appropriate in each case:

(a) Number of Shares. Each Stock Appreciation Right Agreement shall state that it relates to a specified number of shares of Stock, as determined by the Committee.

(b) SAR Price. The price shall be determined in each case by the Committee at the time of grant and set forth in the Stock Appreciation Right Agreement, but in no event shall the SAR Price be less than the Fair Market Value of the Stock on the Grant Date.

(c) Duration of Stock Appreciation Rights; Employment Required For Exercise. Each Stock Appreciation Right Agreement shall state the period of time, determined by the Committee, within which the Stock Appreciation Right may be exercised by the Participant (the "Stock Appreciation Right Period"). The Stock Appreciation Right Period must end, in all cases, not more than ten years from the Grant Date. Except as otherwise provided in Sections 5 and 8 and subsection 7.2(d)(iv) hereof, each Stock Appreciation Right granted under the Plan shall become exercisable in increments such that 25 percent of the Share Appreciation Right becomes exercisable on each of the four subsequent one-year anniversaries of the date the Stock Appreciation Right is granted, provided that each such additional 25-percent increment shall become exercisable only if the Participant has been continuously employed by the Company from the date the Stock Appreciation Right is granted through the date on which each such additional 25-percent increment becomes exercisable.

(d) Termination of Employment, Death, Disability, Etc. Each Stock Appreciation Right Agreement shall provide as follows with respect to the exercise of the Stock Appreciation Right upon termination of the employment or the death of the Participant:

(i) If the employment of the Participant by the Company is terminated within the Stock Appreciation Right Period for cause, as determined by the Company, the Stock Appreciation Right shall thereafter be void for all purposes. As used in this subsection 7.2(d), "cause" shall mean a gross violation, as determined by the Company, of the Company's established policies and procedures, provided that the effect of this subsection 7.2(d) shall be limited to determining the consequences of a termination and that nothing in this subsection 7.2(d) shall restrict or otherwise interfere with the Company's discretion with respect to the termination of any employee.

(ii) If the Participant retires from employment by the Company on or after attaining age 60, the Stock Appreciation Right may be exercised by the Participant

within 36 months following his or her retirement (provided that such exercise must occur within the Stock Appreciation Right Period), but not thereafter. In the event of the Participant's death during such 36-month period, each Stock Appreciation Right may be exercised by those entitled to do so in the manner referred to in (iv) below. In any such case, the Stock Appreciation Right may be exercised only as to the increment(s) of the Stock Appreciation Right that have become exercisable on or before the date of the Participant's retirement.

(iii) If the Participant becomes disabled (as determined pursuant to the Company's Long-Term Disability Plan or any successor plan), during the Stock Appreciation Right Period while still employed, or within the three-month period referred to in subsection 7.2(d)(v) below, or within the 36-month period referred to in subsection 7.2(d)(ii) above, the Stock Appreciation Right may be exercised by the Participant or by his or her guardian or legal representative, within twelve months following the Participant's disability, or within the 36-month period referred to in subsection 7.2(d)(ii) above if applicable and if longer (provided that such exercise must occur within the Stock Appreciation Right Period), but not thereafter. In the event of the Participant's death during such twelve-month period, each Stock Appreciation Right may be exercised by those entitled to do so in the manner referred to in subsection 7.2(d)(iv) below. In any such case, the Stock Appreciation Right may be exercised only as to the increment(s) of the Stock Appreciation Right that have become exercisable on or before the date of the Participant's disability.

(iv) In the event of the Participant's death while still employed by the Company, each Stock Appreciation Right of the deceased Participant may be exercised by those entitled to do so under the Participant's will or under the laws of descent and distribution or as otherwise provided in Section 9.2 within twelve months following the Participant's death (provided that in any event such exercise must occur within the Stock Appreciation Right Period), but not thereafter, as to all increments of each Stock Appreciation Right, including each 25-percent increment of the Stock Appreciation Right, if any, which has not yet become exercisable at the time of the Participant's death. In the event of the Participant's death within the 36-month period referred to in subsection 7.2(d)(ii) above, the increment(s) of or within the twelve-month period referred to in subsection 7.2(d)(iii) above, the increment(s) of each Stock Appreciation Right of the deceased Participant that are exercisable at the time of death may be exercised by those entitled to do so under the Participant's will or under the laws of descent and distribution or as otherwise provided in Section 9.2 within twelve months following the Participant's death or within the 36-month period referred to in subsection 7.2(d)(ii) above, if applicable and if longer (provided that in any event such exercise must occur within the Stock Appreciation Right Period).

(v) If the employment of the Participant by the Company is terminated (which for this purpose means that the Participant is no longer employed by the Company or by an Affiliated Corporation) within the Stock Appreciation Right Period for any reason other than cause, the Participant's retirement on or after attaining age 60, or the Participant's disability or death, the Stock Appreciation Right may be exercised by the Participant within three months following the date of such termination (provided that such exercise must occur within the Stock Appreciation Right Period), but not thereafter. In any such case, the Stock Appreciation Right may be exercised only as to the

increment(s) of the Stock Appreciation Right that have become exercisable on or before the date of termination of the Participant's employment.

(e) Transferability. Each Stock Appreciation Right Agreement shall provide that the Stock Appreciation Right granted therein is not transferable by the Participant except by will or pursuant to the laws of descent and distribution or as otherwise provided in Section 9.2, and that such Stock Appreciation Right is exercisable during the Participant's lifetime only by him or her, or in the event of the Participant's disability or incapacity, by his or her guardian or legal representative.

(f) Agreement to Continue in Employment. Each Stock Appreciation Right Agreement shall contain the Participant's agreement to remain in the employment of the Company, at the pleasure of the Company, for a continuous period of at least one year after the date of such Stock Appreciation Right Agreement, at the salary rate in effect on the date of such agreement or at such changed rate as may be fixed, from time to time, by the Company.

(g) Exercise, Payments, Etc.

(i) Each Stock Appreciation Right Agreement shall provide that the method for exercising the Stock Appreciation Right granted therein shall be by delivery to the Administrative Agent or to the Office of the Secretary of the Company of written notice specifying the number of shares of Stock that relate to the Stock Appreciation Right being exercised. Such notice shall be in a form satisfactory to the Committee and shall specify the particular Stock Appreciation Rights (or portions thereof) which are being exercised and the number of shares of Stock that relate to the Stock Appreciation Rights being exercised. The exercise of the Stock Appreciation Right shall be deemed effective on the date such notice is received by the Administrative Agent or by the Office of the Secretary (the "Exercise Date").

(ii) Subject to subsection 7.2(i) and Section 12.1 hereof, the amount to which the Participant is entitled as a result of the exercise of the Stock Appreciation Right shall be paid through the Company's payroll system, as part of the payroll cycle next following the Exercise Date, or through the Administrative Agent.

(iii) For purposes of the Plan, the income resulting from a Stock Appreciation Right exercise shall be based on the Fair Market Value of the Stock for the Exercise Date.

(h) Grant Date. A Stock Appreciation Right shall be considered as having been granted on the date specified in the grant resolution of the Committee.

(i) Tax Withholding. Each Stock Appreciation Right Agreement shall provide that, upon exercise of a Stock Appreciation Right, minimum tax withholding required by Sections 3102 and 3402 or any successor section(s) of the Internal Revenue Code and applicable state and local income and other tax laws shall be deducted from the amount payable to the Participant.

(j) Adjustment of Stock Appreciation Rights. Subject to the provisions of Sections 4, 5, 7, 8 and 11 hereof, the Committee may make any adjustment in the number of shares of Stock to which an outstanding Stock Appreciation Right relates, or the terms of an outstanding Stock Appreciation Right and a subsequent granting of a Stock Appreciation Right, by amendment or by substitution for an outstanding Stock Appreciation Right; however, except as provided in Sections 4, 5, 8 and 11 hereof, the Committee may not adjust the SAR Price of any outstanding Stock Appreciation Right. Such amendment or substitution may result in terms and conditions (including the number of shares of Stock to which the Stock Appreciation Right relates, vesting schedule or Stock Appreciation Right Period) that differ from the terms and conditions of the original Stock Appreciation Right. The Committee may not, however, adversely affect the rights of any Participant to previously granted Stock Appreciation Rights without the consent of such Participant. If such action is effected by amendment, the effective date of such amendment will be the date of grant of the original Stock Appreciation Right.

7.3 Stockholder Privileges. No Participant shall have any rights as a stockholder with respect to any shares of Stock to which a Stock Appreciation Right relates.

## **Section 8**

### **Change of Control**

8.1 In General. In the event of the occurrence of a change of control of the Company, as defined in Section 8.3 hereof, all outstanding Stock Appreciation Rights shall become automatically vested, without further action by the Committee or the Board, so as to make all such Stock Appreciation Rights fully vested and exercisable as of the date of such change of control.

8.2 Limitation on Payments. If the provisions of this Section 8 would result in the receipt by any Participant of a payment within the meaning of Section 280G or any successor section(s) of the Internal Revenue Code, and the regulations promulgated thereunder, and if the receipt of such payment by any Participant would, in the opinion of independent tax counsel of recognized standing selected by the Company, result in the payment by such Participant of any excise tax provided for in Sections 280G and 4999 or any successor section(s) of the Internal Revenue Code, then the amount of such payment shall be reduced to the extent required, in the opinion of independent tax counsel, to prevent the imposition of such excise tax; provided, however, that the Committee, in its sole discretion, may authorize the payment of all or any portion of the amount of such reduction to the Participant.

8.3 Definition. For purposes of the Plan, a "change of control" shall mean any of the events specified in the Company's Income Continuance Plan or any successor plan which constitute a change of control within the meaning of such plan.

## **Section 9**

### **Rights of Employees, Participants**

9.1 **Employment.** Nothing contained in the Plan or in any Stock Appreciation Right granted under the Plan shall confer upon any Participant any right with respect to the continuation of his or her employment by the Company or any Affiliated Corporation, or interfere in any way with the right of the Company or any Affiliated Corporation, subject to the terms of any separate employment agreement to the contrary, at any time to terminate such employment or to increase or decrease the level of the Participant's compensation from the level in existence at the time of the grant of a Stock Appreciation Right. Whether an authorized leave of absence, or absence in military or government service, shall constitute a termination of employment shall be determined by the Committee at the time.

9.2 **Nontransferability.** No right or interest of any Participant in any Stock Appreciation Right granted pursuant to the Plan shall be assignable or transferable during the lifetime of the Participant, either voluntarily or involuntarily, or subjected to any lien, directly or indirectly, by operation of law, or otherwise, including execution, levy, garnishment, attachment, pledge or bankruptcy. In the event of a Participant's death, a Participant's rights and interests in any Stock Appreciation Right shall, to the extent provided in Section 7 hereof, be transferable by testamentary will or the laws of descent and distribution, or a beneficiary designation that is in a form approved by the Committee and in compliance with the provisions of this Plan, applicable law, and the applicable Stock Appreciation Right, and payment of any amounts due under the Plan shall be made to, and exercise of any Stock Appreciation Right may be made by, the Participant's designated beneficiary, legal representatives, heirs or legatees, as applicable. If, in the opinion of the Committee, a person entitled to payments or to exercise rights with respect to the Plan is disabled from caring for his or her affairs because of mental condition, physical condition or age, payment due such person may be made to, and such rights shall be exercised by, such person's guardian, conservator or other legal personal representative upon furnishing the Committee with evidence of such status satisfactory to the Committee.

## **Section 10**

### **Other Employee Benefits**

The amount of any income deemed to be received by a Participant as a result of a Stock Appreciation Right exercise shall not constitute "earnings" or "compensation" with respect to which any other employee benefits of such Participant are determined including, without limitation, benefits under any pension, profit sharing, life insurance or salary continuation plan.

## **Section 11**

### **Plan Amendment, Modification and Termination**

The Committee or the Board may at any time terminate, and from time to time may amend or modify the Plan provided, however, that no amendment or modification may become effective without approval of the amendment or modification by the Company's stockholders if stockholder approval is required to enable the Plan to satisfy any applicable statutory or regulatory requirements unless the Company, on the advice of counsel, determines that stockholder approval is otherwise necessary or desirable.

No amendment, modification or termination of the Plan shall in any manner adversely affect any Stock Appreciation Right theretofore granted under the Plan, without the consent of the Participant holding such Stock Appreciation Right.

The Committee shall have the authority to adopt such modifications, procedures and subplans as may be necessary or desirable to comply with the provisions of the laws (including, but not limited to, tax laws and regulations) of countries other than the United States in which the Company may operate, so as to assure the viability of the benefits of the Plan to Participants employed in such countries.

## **Section 12**

### **Withholding**

12.1 Withholding Requirement. The Company's obligations to deliver the amounts payable to the Participant for the exercise of a Stock Appreciation Right, shall be subject to the Participant's satisfaction of all applicable federal, state and local income and other tax withholding requirements.

12.2 Excess Withholding. At the time the Committee grants a Stock Appreciation Right, it may, in its sole discretion, grant the Participant an election to pay additional or excess amounts of tax withholding, beyond the required amounts and up to the Participant's marginal tax rate. Such election must be specified in the written notice of exercise given in accordance with subsection 7.2(g) hereof.

## **Section 13**

### **Requirements of Law**

13.1 Requirements of Law. The payment of amounts pursuant to the Plan shall be subject to all applicable laws, rules and regulations.

13.2 Federal Securities Laws Requirements. If a Participant is an officer or director of the Company within the meaning of Section 16 of the 1934 Act, Stock Appreciation Rights granted hereunder shall be subject to all conditions required under Rule 16b-3,

or any successor rule(s) promulgated under the 1934 Act, to qualify the Stock Appreciation Right for any exception from the provisions of Section 16 available under such rule. Such conditions are hereby incorporated herein by reference and shall be set forth in the Stock Appreciation Right Agreement with the Participant which describes the Stock Appreciation Right.

13.3 Governing Law. The Plan and all Stock Appreciation Right Agreements hereunder shall be construed in accordance with and governed by the laws of the State of Texas.

**Section 14**

**Duration of the Plan**

The Plan shall terminate effective as of May 2, 2007, and no Stock Appreciation Right shall be granted on or after such termination date. Any Stock Appreciation Rights outstanding at the time of the Plan termination shall continue to be exercisable in accordance with the Stock Appreciation Right Agreement pertaining to each such Stock Appreciation Right.

Dated: May 4, 2011

APACHE CORPORATION

ATTEST:

/s/ Cheri L. Peper  
Cheri L. Peper  
Corporate Secretary

By: /s/ Margery M. Harris  
Margery M. Harris  
Senior Vice President,  
Human Resources

**Apache Corporation**  
**Non-Employee Directors' Restricted Stock Units Program Specifications**  
 As Amended and Restated May 5, 2011

Share Plan:	2011 Omnibus Equity Compensation Plan (the "Omnibus Plan"), the terms of which are incorporated herein by reference.
Administration:	This Program will be administered by the Stock Option Plan Committee of the Company's Board of Directors.
Eligible Participants:	Members of the Company's Board of Directors who are neither officers nor employees of the Company.
Objective:	The program is designed to be administered in conjunction with the provisions of the current Non-Employee Directors' Compensation Plan as a means to recognize the non-employee directors for services rendered through the awarding of equity compensation.
Grant Date:	August 15, 2011, and annually thereafter
Grant*:	Restricted Stock Units ("RSUs") the number of which is calculated by dividing \$200,000 by the Fair Market Value (as defined in the Omnibus Plan) of a share of Apache Common Stock on the date of grant. If the calculated number of RSUs includes a fraction, the number shall be rounded down to the nearest whole number.
Program Term:	Until termination of the Omnibus Plan
Vesting:	50% — 30 days after grant 50% — 12 months after grant
Payment:	Payment upon vesting shall be made, at the election of the director, either (i) 100 percent in shares of Apache Common Stock or (ii) 40 percent in cash and 60 percent in shares of Apache Common Stock. Election must be made at time of grant and will be applicable to both vestings.
Dividend Equivalents	On the unvested portion of the grant, the director receives amount equal to dividends on Apache Common Stock. Dividend equivalents are paid in cash (by check).
Other Events:	Accelerated vesting upon death or termination without cause, including retirement.

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\* These grants do not result in any change to the cash retainers for board and committee service paid under the provisions of the Non-Employee Directors' Compensation Plan.

**From the Office of the Chief Executive**

Since 1954, Apache employees have pursued our mission to grow a profitable global exploration and production company in a safe and environmentally responsible manner for the long term benefit of our stockholders. The pursuit of our mission is guided by our values: conducting our business with honesty and integrity, investing in our people, expecting top performance, and treating people with respect and dignity.

We take on each new challenge with a sense of urgency, acting decisively, involving the right people, and overcoming obstacles. We identify issues and problems quickly and deal with them, without compromise, and make certain that we do the right thing for Apache and our stockholders.

Apache's Code of Business Conduct sets out the ethical standards that we have set for ourselves. While no single document can address every circumstance that we may face in our jobs, this code provides a framework for our decisions: We are going to conduct our business fairly, with the highest ethical standards and in a way that complies with laws, regulations and government requirements. We will avoid both misconduct and the appearance of misconduct.

To do our jobs properly, we all need to understand these standards and the requirements of our jobs, be accountable for our actions, and to report any violations of Apache's Code of Business Conduct expeditiously. To do any less would be a disservice to ourselves and to our fellow Apaches. If you have any questions, please discuss them with your supervisor or one of Apache's executives.

When confronted with a difficult situation, we all want to make the right decision. We trust that Apache's values and culture along with this code will continue to serve as guides to the right course of action.

Sincerely,

A handwritten signature in black ink, appearing to read "G. Steven Farris".

G. Steven Farris  
Chairman and Chief Executive Officer

A handwritten signature in black ink, appearing to read "Roger B. Plank".

Roger B. Plank  
President and Chief Corporate Officer

A handwritten signature in black ink, appearing to read "Rodney J. Eichler".

Rodney J. Eichler  
President and Chief Operating Officer

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**Our Policy**

***Apache will conduct its business fairly and ethically, and will comply with applicable laws, regulations, and government requirements. All conduct inconsistent with this policy is prohibited.***

Apache Corporation is committed to conducting our business in accordance with the highest ethical standards. It is the policy of Apache Corporation and each of its subsidiaries (collectively and severally, herein referred to as “Apache” or “the Company”) to conduct its business fairly, ethically, and in compliance with applicable laws, regulations, and government requirements. All conduct inconsistent with this policy is prohibited.

This Code of Business Conduct requires not only the avoidance of misconduct, but also the avoidance of acts or omissions that give the appearance of misconduct. Apache directors, officers, employees, and representatives shall not enter into any activity or incur any expense or liability which would compromise our commitment to these high standards. Failure to comply with this Code of Business Conduct by an officer or employee will subject the officer or employee to disciplinary action, up to and including termination of employment. Any failure by a director to comply with this Code of Business Conduct shall be reported to the Corporate Governance and Nominating (“CG&N”) Committee of the board of directors for review, and the committee shall make a recommendation to the board of directors on appropriate action, which may include removal from the board of directors.

This Code of Business Conduct is designed to deter wrong-doing and to promote:

1. honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships;
2. fair, full, accurate, timely and understandable disclosure in reports and documents that the Company (a “registrant”) files with, or submits to, the Securities and Exchange Commission (“SEC”) and in other public communications made by the Company;
3. compliance with applicable governmental laws, rules and regulations;
4. prompt internal reporting of violations of the Code to an appropriate person or persons identified in the Code; and
5. accountability for adherence to the Code.

It is not possible to enumerate all of the situations which could result in an actual or apparent violation of this policy. However, the following areas are of particular concern to Apache with respect to the ethical conduct of the Company’s business. These principles must be interpreted using good judgment and common sense. Employees and officers are encouraged to discuss questions or concerns relating to this Code of Business Conduct with their supervisors or other members of management, while directors should direct their questions and concerns to the CG&N Committee.



### No Conflicts of Interest

*All business decisions for Apache should be based upon what a director, officer, or employee honestly believes to be in the best interests of the Company and in the long term interest of our stockholders.*

Any direct or indirect conflict of interest between a director, officer, or employee and the Company is prohibited, unless the Company specifically grants its consent. A director, officer, or employee has a conflict of interest if, in the course of his or her duties for the Company, his or her judgment and discretion is or may be influenced by considerations of personal gain or benefit, or gain or benefit to a third party other than the Company.

All business decisions for Apache should be based upon what a director, officer, or employee honestly believes to be in the best interests of the Company and in the long term interest of its stockholders. Potential conflicts of interest should be immediately reported by directors notifying the CG&N Committee and by officers and employees notifying their supervisors of the potential conflict so that an appropriate determination can be made as to whether or not a conflict exists and what remedial action, if any, should be taken.

### Protecting Corporate Opportunities

*Apache officers and employees are prohibited from using corporate property, information, or position for personal gain.*

Directors, officers, and employees are prohibited from:

1. taking for themselves or associates opportunities that are discovered through the use of corporate property, information, or position;
2. using corporate property, information, or position for personal gain; and
3. competing with the Company.

### Receiving or Providing Gifts and Entertainment in Furtherance of Legitimate Company Interests

*No Apache employee may accept or provide a gift or entertainment that is excessive in value or frequency considering the circumstances.*

The Company recognizes that customary business practices on occasion may include the provision of travel, meals, token gifts and/or entertainment by or to current or prospective customers, vendors and business partners in the course of pursuing the legitimate business interests of the Company. This policy is not intended to prohibit such legitimate customary business practices that are meant to create goodwill and enhance business relationships. No employee may accept or provide a gift or entertainment that:



1. is not consistent with customary business practices;
2. is excessive in value or frequency considering the circumstances;
3. could be construed as a bribe or a payoff; or
4. violates any laws or regulations.

Employees must not accept or give gifts, travel or entertainment that violate legal standards or suggest any appearance of impropriety.

Gifts of cash or cash equivalent, including gift cards (except gift cards that are redeemed for the designated merchandise and not for cash and that do not exceed \$100 from one vendor, or more than \$250 in the aggregate from all vendors, per calendar year), are strictly prohibited. Employees must inform their supervisor in writing (or by email) before extending or accepting an invitation to golfing, hunting, fishing or other trips and outings.

Special rules, such as the Foreign Corrupt Practices Act (FCPA) in the U.S. and similar laws of other nations, apply to those dealing with domestic and foreign government agencies and companies owned by foreign governments and agencies, and the legal rules may differ in various countries. Partners and customers may have policies of their own with which Apache employees are expected to comply in our business relationships. Gifts to government employees and officials, generally, are not permitted under U.S. law or laws in the countries in which we do business and any gift to a government employee, official or their family members must be nominal in amount, must not violate local or U.S. law, and must be approved by the Regional vice president for the relevant area before such gift is made.

Remember to exercise caution by **asking** questions first and **accepting or giving** gifts later. Questions to ask yourself that can assist you in making this determination include:

- Is it legal?
- Is it ethical?
- Does it feel right?
- Have I discussed it with my supervisor?
- Am I trying to hide this from anyone?
- Am I trying to fool anyone, including myself?
- Would it embarrass Apache, myself or my family if it were discovered?

Lastly, there is another tool that you can use to help you in deciding whether to accept a gift; it is called “the Newspaper Test.” Think to yourself, “Before I accept (or give) this gift, I should consider how it would look in a newspaper story.” If you are uncomfortable with the answer, then don’t accept (or give) the gift. If you are uncomfortable disclosing the gift to senior management, then don’t accept (or give) the gift.

**Proper Handling of Confidential Information**

*Employees shall not divulge to third parties any confidential information obtained during employment or service for Apache.*

During and after employment by or service with Apache, directors, officers, and employees shall not divulge to third parties, or appropriate to their own use, or to the use of others, any confidential information obtained during employment or service for Apache. The term “confidential information” as used in this policy includes but is not limited to:

1. trade secrets;
2. technical materials and information;
3. geological and geophysical information, reserve data, prospect data, maps and logs;
4. bid data and transaction information;
5. processes and technology;
6. compilations of information, engineering information, financial information, or specifications that are used in the operation of Apache’s business or that may eventually be used in the operation of Apache’s business, and
7. other information relating to the Company’s business that is not public knowledge.

**Fair Dealing**

*No officer, director or employee is authorized to use unfair techniques, misrepresentation, bribes or kickbacks to gain a business advantage.*

Apache is committed to conducting its business fairly and in accordance with the highest ethical standards. No director, officer, or employee is authorized to use unfair techniques, such as misrepresentation of material facts or improper concealment of business information to gain a business advantage. Additionally, no director, officer, or employee or representative of the Company shall offer or accept a bribe, kickback, or improper favor in order to secure a business advantage.

**Ensuring the Protection and Proper Use of Apache Assets**

*Use or access to Company property for any unlawful or improper purpose is strictly prohibited.*

This prohibition includes any use that is unlawful or improper under applicable law or ethical standards, regardless of the practices of other companies or individuals. As part of this obligation, officers and employees shall follow Company procedures to ensure that business transactions are consistently executed, recorded, and reported in such a manner as to allow the Company to accurately compile and report its financial statements. Additionally, all transaction records shall be preserved for the appropriate amount of time in accordance with Company policy.

**Complying with Laws, Rules and Regulations**

*It is Apache's policy to conduct its business in accordance with all applicable laws, rules, regulations, and government requirements.*

Each director, officer, and employee of the Company is responsible for familiarizing himself or herself with the laws, rules, regulations, and government requirements applicable to his responsibilities within the Company.

**Reporting Illegal or Unethical Behavior**

*Each officer or employee of the Company is directly responsible for promptly reporting to the Company any actual, attempted, or apparent violation of laws, rules, regulations, or this Code of Business Conduct.*

In the event that a violation is observed by, responsibly reported to, or is indicated by records or other information of which the officer or employee becomes aware, the person should report the event to his immediate supervisor, the Human Resources Department, Internal Audit, or any member of management with whom the person is comfortable discussing the matter. Any concerns regarding accounting, internal accounting controls, or auditing matters should be reported to the Audit Committee of the board of directors through the Company's procedures for such reporting set forth in "Procedures for the submission of complaints and concerns regarding accounting, internal accounting controls, or auditing matters" available on Apache's website at [www.apachecorp.com](http://www.apachecorp.com). Officers and employees should always keep in mind that the Company supports the good faith reporting and investigation of potential violations of this Code of Business Conduct. In no event will the Company take or threaten any action against an officer or employee for making a complaint or disclosing information in good faith. Retaliation or retribution against any officer or employee who in good faith reports a violation pursuant to this Code of Business Conduct is cause for disciplinary action, up to and including termination of employment.

**Enforcement**

*Each officer and employee of the company will be responsible for enforcement of the Code of Business Conduct in his or her activity and in the activities of his or her direct reports, in consultation with the Company's General Counsel and Human Resources Department.*

Disciplinary actions with regard to officers and employees of the Company will be implemented by the Human Resources Department in accordance with the Company's disciplinary procedures. Under certain circumstances, violation of this Code of Business Conduct may also result in referral for civil action or criminal prosecution.



**Waivers**

*The Company does not approve of the types of conduct prohibited by this Code of Business Conduct and would grant exceptions very rarely.*

In the rare circumstance where a waiver of the Code of Business Conduct would be appropriate, such a waiver for an employee who is not an executive officer must be approved by the Chief Executive Officer (CEO), his designee, or pursuant to policies and procedures approved by the CEO. Any waiver of the code for a director or executive officer of the Company must be approved by the CG&N Committee and the full board, with a majority of the members of the CG&N Committee voting to approve the waiver being directors who are disinterested, as defined by applicable law, with respect to the matter giving rise to the need for a waiver. Any waiver of the Code of Business Conduct approved for a director or executive officer will be promptly disclosed to the extent required by law, regulations, or listing standards.

## CERTIFICATIONS

I, G. Steven Farris, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Apache Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ G. Steven Farris

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G. Steven Farris  
Chairman and Chief Executive Officer  
(principal executive officer)

Date: May 9, 2011

## CERTIFICATIONS

I, Thomas P. Chambers, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Apache Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Thomas P. Chambers

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Thomas P. Chambers

Executive Vice President and Chief Financial Officer  
(principal financial officer)

Date: May 9, 2011

## APACHE CORPORATION

**Certification of Principal Executive Officer  
and Principal Financial Officer**

I, G. Steven Farris, certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge, the quarterly report on Form 10-Q of Apache Corporation for the quarterly period ending March 31, 2011, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. §78m or §78o (d)) and that information contained in such report fairly represents, in all material respects, the financial condition and results of operations of Apache Corporation.

/s/ G. Steven Farris

By: G. Steven Farris

Title: Chairman and Chief Executive Officer (principal executive officer)

Date: May 9, 2011

I, Thomas P. Chambers, certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge, the quarterly report on Form 10-Q of Apache Corporation for the quarterly period ending March 31, 2011, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. §78m or §78o (d)) and that information contained in such report fairly represents, in all material respects, the financial condition and results of operations of Apache Corporation.

/s/ Thomas P. Chambers

By: Thomas P. Chambers

Title: Executive Vice President and Chief Financial Officer  
(principal financial officer)

Date: May 9, 2011