

EOG RESOURCES INC  
Form 10-Q  
April 30, 2007

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D. C. 20549

FORM  
10-Q

(Mark One)

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

For the quarterly period ended March 31, 2007

or

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

Commission File Number: 1-9743

EOG RESOURCES, INC.

(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction  
of incorporation or organization)

47-0684736  
(I.R.S. Employer  
Identification No.)

333 Clay Street, Suite 4200, Houston, Texas 77002-7361

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(Address of principal executive offices, including zip code)

713-651-7000

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one): Large accelerated filer x Accelerated filer o Non-accelerated filer o

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of April 23, 2007.

| <u>Title of each class</u>               | <u>Number of shares</u> |
|--|-------------------------|
| Common Stock, par value \$0.01 per share | 244,596,040             |

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EOG RESOURCES, INC.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS  
EOG RESOURCES, INC.  
CONSOLIDATED STATEMENTS OF INCOME  
*(In Thousands, Except Per Share Data)*  
*(Unaudited)*

Three Months Ended

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|   | March 31,  |            |
|---|------------|------------|
|   | 2007       | 2006       |
| Net Operating Revenues  |            |            |
| Wellhead Natural Gas  | \$ 735,642 | \$ 789,061 |
| Wellhead Crude Oil, Condensate and Natural Gas Liquids          | 174,864    | 184,718    |
| (Losses) Gains on Mark-to-Market Commodity Derivative Contracts | (39,801)   | 107,024    |
| Other, Net  | 4,508      | 3,733      |
| Total   | 875,213    | 1,084,536  |
| Operating Expenses  |            |            |
| Lease and Well  | 104,325    | 87,484     |
| Transportation Costs  | 37,748     | 28,096     |
| Exploration Costs   | 26,384     | 39,392     |
| Dry Hole Costs  | 16,810     | 10,726     |
| Impairments   | 24,042     | 22,773     |
| Depreciation, Depletion and Amortization                        | 244,342    | 177,652    |
| General and Administrative                                      | 43,879     | 36,291     |
| Taxes Other Than Income   | 40,648     | 53,694     |
| Total   | 538,178    | 456,108    |
| Operating Income  | 337,035    | 628,428    |
| Other Income, Net   | 5,924      | 14,556     |
| Income Before Interest Expense and Income Taxes                 | 342,959    | 642,984    |
| Interest Expense, Net   | 7,638      | 13,153     |
| Income Before Income Taxes                                      | 335,321    | 629,831    |
| Income Tax Provision  | 117,654    | 203,124    |
| Net Income  | 217,667    | 426,707    |
| Preferred Stock Dividends                                       | 875        | 1,858      |
| Net Income Available to Common                                  | \$ 216,792 | \$ 424,849 |
| Net Income Per Share Available to Common                        |            |            |
| Basic   | \$ 0.89    | \$ 1.76    |
| Diluted   | \$ 0.88    | \$ 1.73    |
| Average Number of Common Shares                                 |            |            |
| Basic   | 242,763    | 241,118    |
| Diluted   | 246,677    | 245,923    |

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

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

March 31,

|  | 2007         | December<br>31,<br>2006 |
|--|--------------|-------------------------|
| <b>ASSETS</b>  |              |                         |
| <b>Current Assets</b>                                      |              |                         |
| Cash and Cash Equivalents                                  | \$ 141,700   | \$ 218,255              |
| Accounts Receivable, Net                                   | 734,231      | 754,134                 |
| Inventories  | 122,461      | 113,591                 |
| Assets from Price Risk Management Activities               | 41,330       | 130,612                 |
| Income Taxes Receivable                                    | 42,202       | 94,311                  |
| Deferred Income Taxes                                      | 9,767        | -                       |
| Other  | 36,415       | 39,177                  |
| Total  | 1,128,106    | 1,350,080               |
| Oil and Gas Properties (Successful Efforts Method)         | 14,793,485   | 13,893,851              |
| Less: Accumulated Depreciation, Depletion and Amortization | (6,212,647)  | (5,949,804)             |
| Net Oil and Gas Properties                                 | 8,580,838    | 7,944,047               |
| Other Assets   | 117,910      | 108,033                 |
| Total Assets   | \$ 9,826,854 | \$ 9,402,160            |

#### LIABILITIES AND SHAREHOLDERS' EQUITY

|                            |            |            |
|----------------------------|------------|------------|
| <b>Current Liabilities</b> |            |            |
| Accounts Payable           | \$ 924,644 | \$ 896,572 |
| Accrued Taxes Payable      | 80,194     | 130,984    |
| Dividends Payable          | 22,030     | 14,718     |
| Deferred Income Taxes      | 21,071     | 144,615    |
| Other                      | 50,607     | 68,123     |
| Total                      | 1,098,546  | 1,255,012  |
| Long-Term Debt             | 820,042    | 733,442    |
| Other Liabilities          | 315,102    | 300,907    |
| Deferred Income Taxes      | 1,747,500  | 1,513,128  |

#### Shareholders' Equity

Preferred Stock, \$0.01 Par, 10,000,000 Shares Authorized:  
Series B, Cumulative, \$1,000 Liquidation Preference  
per Share,  
53,260 Shares Outstanding at March 31, 2007 and  
December 31, 2006

52,919

52,887

Common Stock, \$0.01 Par, 640,000,000 Shares Authorized and

|  |           |
|--|-----------|
| 249,460,000 Shares Issued  | 202,495   |
|  | 202,495   |
| Additional Paid in Capital   | 140,642   |
|  | 129,986   |
| Accumulated Other Comprehensive Income   | 194,628   |
|  | 176,704   |
| Retained Earnings  | 5,356,647 |
|  | 5,151,034 |
| Common Stock Held in Treasury, 4,979,921 Shares at<br>March 31, 2007 and 5,724,959 Shares at December 31, 2006 | (101,667) |

|  |           |
|--|-----------|
|  | (113,435) |
| Total Shareholders' Equity                 |           |
|  | 5,845,664 |
|  | 5,599,671 |
| Total Liabilities and Shareholders' Equity |           |
|  | \$        |
|  | 9,826,854 |
|  | \$        |
|  | 9,402,160 |

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

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

|                | Three Months Ended |            |
|----------------|--------------------|------------|
|                | March 31,          |            |
|                | 2007               | 2006       |
| Cash Flows     |                    |            |
| From Operating |                    |            |
| Activities     |                    |            |
| Reconciliation |                    |            |
| of Net Income  |                    |            |
| to Net Cash    |                    |            |
| Provided by    |                    |            |
| Operating      |                    |            |
| Activities:    |                    |            |
| Net Income     | \$ 217,667         | \$ 426,707 |
| Items Not      |                    |            |
| Requiring Cash |                    |            |
|                | 244,342            | 177,652    |

|   |           |           |
|---|-----------|-----------|
| Depreciation,<br>Depletion and<br>Amortization  |           |           |
| Impairments   | 24,042    | 22,773    |
| Stock-Based<br>Compensation<br>Expenses   | 14,211    | 9,003     |
| D e f e r r e d<br>Income Taxes   | 96,999    | 106,326   |
| Other, Net  | (1,695)   | (4,444)   |
| Dry Hole Costs  | 16,810    | 10,726    |
| Mark-to-Market<br>C o m m o d i t y<br>D e r i v a t i v e<br>Contracts   |           |           |
| Total Losses<br>(Gains)   | 39,801    | (107,024) |
| Realized Gains  | 47,268    | 30,054    |
| Other, Net  | 10,219    | 4,299     |
| C h a n g e s i n<br>Components of<br>W o r k i n g<br>C a p i t a l a n d<br>O t h e r A s s e t s<br>and Liabilities                      |           |           |
| Accounts<br>Receivable  | 22,935    | 135,150   |
| Inventories   | (8,844)   | (13,370)  |
| A c c o u n t s<br>Payable  | 23,431    | (9,535)   |
| Accrued Taxes<br>Payable  | 1,967     | 29,298    |
| Other Assets  | (3,623)   | 7,385     |
| O t h e r<br>Liabilities  | (14,356)  | (5,046)   |
| C h a n g e s i n<br>Components of<br>W o r k i n g<br>C a p i t a l<br>Associated with<br>Investing and<br>F i n a n c i n g<br>Activities | (32,694)  | (33,187)  |
| N e t C a s h<br>Provided by<br>O p e r a t i n g<br>Activities   | 698,480   | 786,767   |
| Investing Cash<br>Flows   | (867,936) | (589,048) |



|   |           |           |
|---|-----------|-----------|
| Additions to Oil and Gas Properties   |           |           |
| Proceeds from Sales of Assets   | 2,939     | 2,741     |
| Changes in Components of Working Capital Associated with Investing Activities | 32,959    | 33,288    |
| Other, Net  | (26,173)  | (5,253)   |
| Net Cash Used in Investing Activities   | (858,211) | (558,272) |
| Financing Cash Flows  |           |           |
| Net Commercial Paper and Revolving Credit Facility Borrowings                 | 116,600   | -         |
| Long-Term Debt Repayments   | (30,000)  | (52,325)  |
| Dividends Paid  | (15,522)  | (11,432)  |
| Excess Tax Benefits from Stock-Based Compensation Expenses                    | 7,409     | 7,177     |
| Proceeds from Stock Options Exercised and Employee Stock Purchase Plan        | 5,276     | 6,129     |
| Other, Net  | (265)     | (101)     |
| Net Cash Provided by (Used in) Financing Activities                           | 83,498    | (50,552)  |
| Effect of Exchange Rate Changes on Cash                                       | (322)     | (427)     |

|   |            |            |
|---|------------|------------|
| (Decrease)  | (76,555)   | 177,516    |
| Increase in Cash<br>and Cash<br>Equivalents               |            |            |
| Cash and Cash<br>Equivalents at<br>Beginning of<br>Period | 218,255    | 643,811    |
| Cash and Cash<br>Equivalents at<br>End of Period          | \$ 141,700 | \$ 821,327 |

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

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

1.

**Summary of Significant Accounting Policies**

**General.** The consolidated financial statements of EOG Resources, Inc. and subsidiaries (EOG) included herein have been prepared by management without audit pursuant to the rules and regulations of the Securities and Exchange Commission. Accordingly, they reflect all normal recurring adjustments which are, in the opinion of management, necessary for a fair presentation of the financial results for the interim periods. Certain information and notes normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted pursuant to such rules and regulations. However, management believes that the disclosures are adequate to make the information presented not misleading. These consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto included in EOG's Annual Report on Form 10-K for the year ended December 31, 2006 (EOG's 2006 Annual Report).

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

On January 31, 2007, the Board of Directors of EOG (Board) increased the quarterly cash dividend on the common stock from the previous \$0.06 per share to \$0.09 per share effective with the dividend payable on April 30, 2007 to record holders as of April 16, 2007.

Certain reclassifications have been made to prior period financial statements to conform with the current presentation.

**Derivative Instruments.** As more fully discussed in Note 11 to Consolidated Financial Statements included in EOG's 2006 Annual Report, EOG engages in price risk management activities from time to time. These

activities are intended to manage EOG's exposure to fluctuations in commodity prices for natural gas and crude oil. EOG utilizes financial commodity derivative instruments, primarily collar and price swap contracts, as the means to manage this price risk. EOG accounts for financial commodity derivative contracts using the mark-to-market accounting method. In addition to financial transactions, EOG is a party to various physical commodity contracts for the sale of hydrocarbons that cover varying periods of time and have varying pricing provisions. The financial impact of physical commodity contracts is included in revenues at the time of settlement, which in turn affects average realized hydrocarbon prices.

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**Recently Issued Accounting Standards and Developments.** During February 2007, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities - including an amendment of FASB Statement No. 115." The new standard permits an entity to make an irrevocable election to measure most financial assets and financial liabilities at fair value. The fair value option may be elected on an instrument-by-instrument basis, with a few exceptions, as long as it is applied to the instrument in its entirety. Changes in fair value would be recorded in income. SFAS No. 159 established presentation and disclosure requirements intended to help financial statement users understand the effect of the entity's election on earnings. SFAS No. 159 is effective as of the beginning of the first fiscal year beginning after November 15, 2007. Early adoption is permitted. EOG is currently analyzing SFAS No. 159.

In September 2006, the FASB issued SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Post Retirement Plans - an amendment of FASB Statements No. 87, 88, 106, and 132(R)." SFAS No. 158 requires an employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan as an asset or liability in its balance sheet. The funded status is defined as the difference between the fair value of plan assets and the projected benefit obligation (for pension plans) or the accumulated postretirement benefit obligation (for other postretirement benefit plans). SFAS No. 158 also requires that actuarial gains and losses and changes in prior service costs not included in net periodic pension costs be included, net of tax, as a component of other comprehensive income. The statement does not affect the determination of net periodic benefit costs included in the income statement. SFAS No. 158 also requires that an employer measure defined benefit plan assets and benefit obligations as of the date of the employer's fiscal year-end statement of financial position. As of year-end 2006, EOG adopted the recognition and disclosure requirements of SFAS No. 158. The impact of the adoption was immaterial. The requirement to measure plan assets and benefit obligations as of the date of the employer's fiscal year-end is effective for fiscal years ending after December 15, 2008, and will not have a material impact on EOG's financial statements since plan assets and benefit obligations are currently measured as of the date of EOG's fiscal year-end.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements." SFAS No. 157 provides a definition of fair value and provides a framework for measuring fair value. The standard also requires additional disclosures on the use of fair value in measuring assets and liabilities. SFAS No. 157 establishes a fair value hierarchy and requires disclosure of fair value measurements within that hierarchy. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007 and interim periods within those years. EOG is assessing the impact, if any, that the adoption of SFAS No. 157 will have on its financial statements.

During July 2006, the FASB issued FASB Interpretation (FIN) No. 48, "Accounting for Uncertainty in Income Taxes - an Interpretation of FASB Statement No. 109." FIN No. 48 addresses the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS No. 109, "Accounting for Income Taxes." FIN No. 48 prescribes specific criteria for the financial statement recognition and measurement of the tax effects of a position taken or expected to be taken in a tax return. This interpretation also provides guidance on derecognition of previously recognized tax benefits, classification of tax liabilities on the balance sheet, recording interest and penalties on tax underpayments, accounting in interim periods and disclosure requirements. FIN No. 48 is effective for fiscal periods beginning after December 15, 2006.

EOG adopted FIN No. 48 as of January 1, 2007. The cumulative effect of applying the provisions of FIN No. 48 has been reported as an increase to the opening balance of retained earnings for 2007 in the amount of \$10.8 million, representing a reduction in the liability for unrecognized tax benefits. After adoption of FIN No. 48, the balance of unrecognized tax benefits was zero. EOG does not expect a significant increase in unrecognized tax benefits to occur during 2007. EOG or its subsidiaries file income tax returns in the U.S. federal jurisdiction and various state, local and foreign jurisdictions. EOG is generally no longer subject to income tax examinations by tax authorities in the United States (Federal), Canada and Trinidad before 2002, 2001 and 1999, respectively. EOG records interest and penalties related to unrecognized tax benefits to the income tax provision. EOG has no such accrued interest and penalties as of the date of adoption of FIN No. 48.

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## 2. Stock-Based Compensation

At March 31, 2007, EOG maintained various stock-based compensation plans as discussed below. For the three months ended March 31, 2007 and 2006, EOG recognized \$14.2 million and \$9.0 million, respectively, of compensation expense related to its stock-based compensation plans. Such expense is included in the Consolidated Statements of Income based upon job functions of the employees receiving the grants as follows (in millions):

|                               | Three<br>Months<br>Ended<br>March 31,<br>2007 2006 |     |
|-------------------------------|--|-----|
| Lease and Well \$             | 3.0\$  | 1.6 |
| Exploration<br>Costs          | 3.0  | 1.7 |
| General and<br>Administrative | 8.2  | 5.7 |
| Total                         | \$ 14.2\$  | 9.0 |

EOG has various stock plans (Plans) under which employees and non-employee members of the Board have been or may be granted certain equity compensation. At March 31, 2007, approximately 2.7 million common shares remained available for grant under the Plans. EOG's policy is to issue shares related to the Plans from treasury stock. At March 31, 2007, EOG held 5.0 million shares of treasury stock.

**Stock Options and Stock Appreciation Rights.** Under the Plans, participants have been or may be granted options to purchase shares of common stock of EOG at a price not less than the market price of the stock at the date of grant. In addition, participants have been or may be granted Stock-Settled Stock Appreciation Rights (SARs), representing the right to receive shares of EOG common stock based on the appreciation in the stock price from the date of grant on the number of shares granted. Stock options and SARs granted under the Plans vest on a graded vesting schedule up to four years from the date of grant based on the nature of the grants and as defined in individual grant agreements. Terms for stock options and SARs granted under the Plans have not exceeded a maximum term of 10 years. For all grants made prior to August 2004 and all employee stock purchase plan (ESPP) grants, the fair value of each grant is estimated using the Black-Scholes-Merton model. Certain of EOG's stock options granted in 2005 and 2004 contain a feature that limits the potential gain that can be realized by requiring vested options to be exercised if the market price reaches 200% of the grant price for five consecutive trading days (Capped Option). EOG may or may not issue Capped Options in the future. The fair value of each Capped Option grant was estimated using a Monte Carlo simulation. Effective May 2005, the fair value of stock option grants not containing the Capped Option feature and SARs was estimated using the Hull-White II binomial option pricing model.

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Stock-based compensation expenses related to stock options, SARs and ESPP grants totaled \$8.5 million and \$6.6 million, respectively, during the first quarters of 2007 and 2006.

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Weighted average fair values and valuation assumptions used to value stock options, SARs and ESPP grants during the first quarters of 2007 and 2006 are as follows:

|                                       | Stock Options/SARs<br>Three Months Ended<br>March 31, |          | ESPP<br>Three Months Ended<br>March 31, |          |
|---------------------------------------|---|----------|---|----------|
|                                       | 2007  | 2006     | 2007                                    | 2006     |
| Weighted Average Fair Value of Grants | \$ 21.16  | \$ 26.85 | \$ 15.07                                | \$ 21.14 |
| Expected Volatility                   | 30.97%  | 35.82%   | 32.47%                                  | 39.66%   |
| Risk-Free Interest Rate               | 4.93%   | 4.56%    | 5.07%                                   | 4.47%    |
| Dividend Yield                        | 0.3%  | 0.3%     | 0.3%                                    | 0.3%     |
| Expected Life                         | 4.8 yrs.  | 4.5 yrs. | 0.5 yrs.                                | 0.5 yrs. |

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

The following table sets forth stock option and SARs transactions for the three-month periods ended March 31, 2007 and 2006 (stock options/SARs and dollars in thousands, except per share data):

|                                      | Three Months Ended<br>March 31, 2007 |                                       | Three Months Ended<br>March 31, 2006 |                                       |
|--------------------------------------|--------------------------------------|---------------------------------------|--------------------------------------|---------------------------------------|
|                                      | Number of<br>Options/SARs            | Weighted<br>Average<br>Grant<br>Price | Number of<br>Options                 | Weighted<br>Average<br>Grant<br>Price |
| Outstanding at January 1             | 10,150                               | \$ 35.29                              | 9,698                                | \$ 28.26                              |
| Granted                              | 72                                   | 65.69                                 | 39                                   | 79.14                                 |
| Exercised<br>(1)                     | (273)                                | 19.36                                 | (387)                                | 15.84                                 |
| Forfeited                            | (47)                                 | 51.37                                 | (17)                                 | 39.99                                 |
| Outstanding at March 31<br>(2)       | 9,902                                | \$ 35.87                              | 9,333                                | \$ 28.97                              |
| Vested or<br>Expected to<br>Vest (3) | 9,378                                | \$ 35.75                              | 8,838                                | \$ 28.90                              |

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|                                   |       |    |       |       |    |       |
|-----------------------------------|-------|----|-------|-------|----|-------|
| Exercisable<br>at March 31<br>(4) | 5,135 | \$ | 21.39 | 4,210 | \$ | 16.88 |
|-----------------------------------|-------|----|-------|-------|----|-------|

(1) The total intrinsic value of stock options exercised for the three-month periods ended March 31, 2007 and 2006 was \$13.4 million and \$24.9 million, respectively.

The intrinsic value is based upon the difference between the market price of EOG's common stock on the date of exercise and the grant price of the options.

(2) The total intrinsic value of stock options/SARs outstanding at March 31, 2007 and 2006 was \$351.7 million and \$403.4 million, respectively. At March 31, 2007 and

2006, the weighted average remaining contractual life was 5.5 years and 6.5 years, respectively.

(3) The total intrinsic value of stock options/SARs vested or expected to vest at March 31, 2007 and 2006 was \$334.2 million and \$382.6 million, respectively. At March

31, 2007 and 2006, the weighted average remaining contractual life was 5.5 years and 6.5 years, respectively.

(4) The total intrinsic value of stock options/SARs exercisable at March 31, 2007 and 2006 was \$256.6 million and \$232.6 million, respectively. At March 31, 2007 and

2006, the weighted average remaining contractual life was 4.7 years and 5.4 years, respectively.

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At March 31, 2007, unrecognized compensation expense related to non-vested stock options, SARs and ESPP grants totaled \$71.8 million. This unrecognized expense will be amortized on a straight-line basis over a weighted average period of 1.9 years.

**Restricted Stock and Units.** Under the Plans, employees may be granted restricted (non-vested) stock and/or units without cost to them. The restricted stock and units generally vest five years after the date of grant, except for certain bonus grants, and as defined in individual grant agreements. Upon vesting, restricted stock is released to the employee and restricted units are converted into common stock and released to the employee. Stock-based compensation expense related to restricted stock and units totaled \$5.7 million and \$2.4 million for the quarters ended March 31, 2007 and 2006, respectively.

The following table sets forth the restricted stock and units transactions for the three-month periods ended March 31, 2007 and 2006 (shares and units and dollars in thousands, except per share data):

|                             | Three Months<br>Ended<br>March 31, 2007 |   | Three Months<br>Ended<br>March 31, 2006 |   |
|-----------------------------|---|---|---|---|
|                             | Number<br>of<br>Shares<br>and<br>Units  | Weighted<br>Average<br>Grant<br>Date<br>Fair<br>Value | Number<br>of<br>Shares<br>and<br>Units  | Weighted<br>Average<br>Grant<br>Date<br>Fair<br>Value |
| Outstanding<br>at January 1 | 2,301                                   | \$ 36.13  | 2,544                                   | \$ 26.04  |
| Granted                     | 496                                     | 67.66   | 252                                     | 67.16   |
| Released <sup>(1)</sup>     | (245)                                   | 18.36   | (240)                                   | 22.95   |
| Forfeited                   | (24)                                    | 51.84   | (1)                                     | 39.75   |
|                             | 2,528                                   | \$ 43.87  | 2,555                                   | \$ 30.39  |

Outstanding  
at March 31  
(2)

(1) The total intrinsic value of restricted stock and units released for the three-month periods ended March 31, 2007 and 2006 was \$15.9 million and \$16.5 million,

respectively. The intrinsic value is based upon the closing price of EOG's common stock on the date restricted stock and units are released.

(2) The aggregate intrinsic value of restricted stock and units outstanding at March 31, 2007 was approximately \$180.4 million.

At March 31, 2007, unrecognized compensation expense related to restricted stock and units totaled \$82.0 million. Such unrecognized expense will be recognized on a straight-line basis over a weighted average period of 2.9 years.

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### 3. Earnings Per Share

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

|  | Three Months<br>Ended<br>March 31,<br>2007    2006 |           |
|--|--|-----------|
| Numerator for<br>B a s i c a n d<br>D i l u t e d<br>Earnings Per<br>Share - |  |           |
| Net Income   | \$217,667  | \$426,707 |
| Less: Preferred<br>S t o c k<br>Dividends                                    | 875  | 1,858     |
| Net Income<br>Available to<br>Common   | \$216,792  | \$424,849 |
| Denominator<br>f o r B a s i c<br>Earnings Per<br>Share -                    |  |           |
| W e i g h t e d<br>A v e r a g e<br>Shares                                   | 242,763  | 241,118   |
| P o t e n t i a l<br>D i l u t i v e<br>C o m m o n<br>Shares -              | 2,949  | 3,537     |

|                 |         |         |  |
|-----------------|---------|---------|--|
| S t o c k       |         |         |  |
| Options/SARs    |         |         |  |
| Restricted      | 965     | 1,268   |  |
| Stock and       |         |         |  |
| Units           |         |         |  |
| Denominator     |         |         |  |
| for Diluted     |         |         |  |
| Earnings Per    |         |         |  |
| Share -         |         |         |  |
| A d j u s t e d | 246,677 | 245,923 |  |
| W e i g h t e d |         |         |  |
| A v e r a g e   |         |         |  |
| Shares          |         |         |  |
| Net Income Per  |         |         |  |
| Share Available |         |         |  |
| to Common       |         |         |  |
| Basic           | \$ 0.89 | \$ 1.76 |  |
| Diluted         | \$ 0.88 | \$ 1.73 |  |

The diluted earnings per share calculation excludes 3.6 million and 1.7 million of SARs and stock options that were anti-dilutive for the three months ended March 31, 2007 and 2006, respectively.

#### 4. Supplemental Cash Flow Information

Cash paid for interest and income taxes (net of receipts) for the three-month periods ended March 31 was as follows (in thousands):

|              | Three Months Ended<br>March 31, |           |
|--------------|---------------------------------|-----------|
|              | 2007                            | 2006      |
| Interest     | \$ 2,328                        | \$ 3,523  |
| Income Taxes | \$ 910                          | \$ 33,123 |

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#### 5. Comprehensive Income

The following table presents the components of EOG's comprehensive income for the three-month periods ended March 31 (in thousands):

|                                   | Three Months Ended<br>March 31, |            |
|-----------------------------------|---------------------------------|------------|
|                                   | 2007                            | 2006       |
| Comprehensive Income              |                                 |            |
| Net Income                        | \$ 217,667                      | \$ 426,707 |
| Other Comprehensive Income (Loss) |                                 |            |
| Foreign Currency Translation      | 16,352                          | (1,757)    |
| Adjustment                        |                                 |            |



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|   |            |            |
|---|------------|------------|
| Foreign Currency Swap Transaction                                 | 2,150      | 546        |
| Income Tax Provision Related to Foreign Currency Swap Transaction | (615)      | (183)      |
| Deferred Postretirement Benefit Costs                             | 37         | -          |
| Total   | \$ 235,591 | \$ 425,313 |

6. Segment Information

Selected financial information by reportable segment is presented below for the three-month periods ended March 31 (in thousands):

|                            | Three Months Ended |              |
|----------------------------|--------------------|--------------|
|                            | March 31,          |              |
|                            | 2007               | 2006         |
| Net Operating Revenues     |                    |              |
| United States              | \$ 629,159         | \$ 778,402   |
| Canada                     | 143,467            | 176,979      |
| Trinidad                   | 87,108             | 92,589       |
| United Kingdom             | 15,479             | 36,566       |
| Total                      | \$ 875,213         | \$ 1,084,536 |
| Operating Income (Loss)    |                    |              |
| United States              | \$ 211,744         | \$ 433,756   |
| Canada                     | 58,797             | 96,774       |
| Trinidad                   | 63,590             | 70,449       |
| United Kingdom             | 2,966              | 27,449       |
| Other                      | (62)               | -            |
| Total                      | 337,035            | 628,428      |
| Reconciling Items          |                    |              |
| Other Income, Net          | 5,924              | 14,556       |
| Interest Expense, Net      | 7,638              | 13,153       |
| Income Before Income Taxes | \$ 335,321         | \$ 629,831   |

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7. Asset Retirement Obligations

The following table presents the reconciliation of the beginning and ending aggregate carrying amount of short-term and long-term legal obligations associated with the retirement of oil and gas properties pursuant to SFAS No. 143, "Accounting for Asset Retirement Obligations," for the three-month periods ended March 31 (in thousands):

|  | Three Months Ended |      |
|--|--------------------|------|
|  | March 31,          |      |
|  | 2007               | 2006 |

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|  |            |            |
|--|------------|------------|
| Carrying Amount at Beginning of Period | \$ 182,407 | \$ 161,488 |
| Liabilities Incurred                   | 7,548      | 3,717      |
| Liabilities Settled                    | (929)      | (1,774)    |
| Accretion                              | 2,663      | 2,055      |
| Revisions                              | (126)      | (52)       |
| Foreign Currency Translations          | (859)      | 61         |
| Carrying Amount at End of Period       | \$ 190,704 | \$ 165,495 |
| Current Portion                        | \$ 8,602   | \$ 5,977   |
| Noncurrent Portion                     | \$ 182,102 | \$ 159,518 |

8. Suspended Well Costs

EOG's net changes in suspended well costs for the three-month period ended March 31, 2007 in accordance with FASB Staff Position No. 19-1, "Accounting for Suspended Well Costs," are presented below (in thousands):

|  | Three<br>Months<br>Ended<br>March 31,<br>2007 |
|--|---|
| Balance at December 31, 2006                           | \$ 77,365                                     |
| Additions Pending the Determination of Proved Reserves | 39,088  |
| Reclassifications to Proved Properties                 | (11,826)                                      |
| Charged to Dry Hole Costs                              | (118)   |
| Foreign Currency Translation                           | 697   |
| Balance at March 31, 2007                              | \$ 105,206                                    |

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The following table provides an aging of suspended well costs as of March 31, 2007 (in thousands, except well count):

As of  
March  
31,  
2007

|   |            |
|---|------------|
| Capitalized<br>exploratory<br>well costs<br>that have<br>been<br>capitalized                        | \$ 82,310  |
| for a<br>period less<br>than one<br>year  |            |
| Capitalized<br>exploratory<br>well costs<br>that have<br>been<br>capitalized                        | 22,896 (1) |
| for a<br>period<br>greater<br>than one<br>year  |            |
| Total   | \$105,206  |
| Number of<br>projects<br>that have<br>exploratory<br>well costs<br>that have<br>been<br>capitalized | 1          |
| for a<br>period<br>greater<br>than one<br>year  |            |

(1) Amount represents an outside operated, winter access only, project in Northwest Territories, Canada. In the first quarter of 2007, the operator was successful in obtaining a significant discovery license for one of the two areas of the project. The operator plans on submitting a significant discovery application for the other area of the project in the second half of 2007. A significant discovery license holds the lease indefinitely for the licensee. In addition, EOG is currently evaluating a proposal to test a different formation of a previously drilled well and to gather additional seismic data during the summer months.

#### 9. Commitments and Contingencies

There are various suits and claims against EOG that have arisen in the ordinary course of business. Management believes that the chance that these suits and claims will individually, or in the aggregate, have a material adverse effect

on the financial condition or results of operations of EOG is remote. When necessary, EOG has made accruals in accordance with SFAS No. 5, "Accounting for Contingencies," in order to provide for these matters.

## 10. Pension and Postretirement Benefits

### Pension Plans.

EOG has a non-contributory defined contribution pension plan and a matched defined contribution savings plan in place for most of its employees in the United States. For the three-month periods ended March 31, 2007 and 2006, EOG's total costs recognized for these pension plans were \$4.2 million and \$3.7 million, respectively.

In addition, as more fully discussed in Note 6 to Consolidated Financial Statements in EOG's 2006 Annual Report, EOG's Canadian, Trinidadian and United Kingdom subsidiaries maintain various pension and savings plans for most of their employees. In the three-month periods ended March 31, 2007 and 2006, combined contributions to these pension plans were \$0.5 million and \$1.1 million, respectively.

### Postretirement Plan.

EOG has postretirement medical and dental benefits in place for eligible United States and Trinidad employees and their eligible dependents. For the three-month period ended March 31, 2007, EOG's total contributions to these plans amounted to approximately \$27,000. The net periodic benefit costs recognized for the postretirement medical and dental plans were approximately \$179,000 and \$167,000, respectively, for the three-month periods ended March 31, 2007 and 2006.

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## 11. Long-Term Debt

At March 31, 2007, the \$98 million principal amount of the 6.50% Notes due 2007 was classified as long-term debt based upon EOG's intent and ability to ultimately replace such amount with other long-term debt.

On March 16, 2007, EOGI International Company, a wholly-owned foreign subsidiary of EOG, repaid \$30 million of the \$60 million outstanding balance of its \$600 million, 3-year unsecured Senior Term Loan Agreement (Term Loan Agreement). Borrowings under the Term Loan Agreement accrue interest based, at EOG's option, on either a London InterBank Offering Rate (LIBOR) plus an applicable margin or the base rate of the Term Loan Agreement's administrative agent. The applicable interest rate for the \$30 million outstanding at March 31, 2007 was 5.72%. The weighted average interest rate for the amounts outstanding during the first quarter of 2007 was 5.73%.

On May 12, 2006, EOG Resources Trinidad Limited, a wholly-owned foreign subsidiary of EOG, entered into a 3-year \$75 million Revolving Credit Agreement (Credit Agreement). Borrowings under the Credit Agreement accrue interest based, at EOG's option, on either LIBOR plus an applicable margin or the base rate of the Credit Agreement's administrative agent. At March 31, 2007, EOG had \$75 million outstanding under the Credit Agreement. The applicable interest rate at March 31, 2007 was 5.76%. The weighted average interest rate for the amounts outstanding during the first quarter of 2007 was 5.75%.

EOG currently has a \$600 million unsecured Revolving Credit Agreement (Agreement) with domestic and foreign lenders. The Agreement matures on June 28, 2011. Interest accrues on advances based, at EOG's option, on either LIBOR plus an applicable margin (Eurodollar rate) or the base rate of the Agreement's administrative agent. There are no amounts currently outstanding under the Agreement. At March 31, 2007, the applicable base rate and Eurodollar rate, had there been an amount borrowed under the Agreement, would have been 8.25% and 5.51%, respectively.

PART I. FINANCIAL INFORMATION

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS  
EOG RESOURCES, INC.

Overview

EOG Resources, Inc. (EOG) is one of the largest independent (non-integrated) oil and natural gas companies in the United States with proved reserves in the United States, Canada, offshore Trinidad and the United Kingdom North Sea. EOG operates under a consistent business and operational strategy that focuses predominantly on achieving a strong reinvestment rate of return, drilling internally generated prospects, delivering long-term production growth and maintaining a strong balance sheet.

**Operations.** EOG's effort to identify plays with larger reserve potential has proven a successful supplement to its base development and exploitation program in the United States and Canada. EOG plans to continue to drill numerous wells in large acreage plays, which in the aggregate are expected to contribute substantially to EOG's crude oil and natural gas production. Production in the United States and Canada accounted for approximately 81% of total company production in the first three months of 2007. Based on current trends, EOG expects its full year 2007 production profile to be similar. EOG's major producing areas are in Louisiana, New Mexico, Oklahoma, Texas, Utah, Wyoming and western Canada.

Although EOG continues to focus on United States and Canada natural gas, EOG sees an increasing linkage between United States and Canada natural gas demand and Trinidad natural gas supply. For example, liquefied natural gas (LNG) imports from existing and planned facilities in Trinidad are contenders to meet increasing United States natural gas demand. In addition, ammonia, methanol and chemical production has been relocating from the United States and Canada to Trinidad, driven by attractive natural gas feedstock prices in the island nation. EOG believes that its existing position with the supply contracts to two ammonia plants, a methanol plant and the Atlantic LNG Train 4 (ALNG) plant will continue to give its portfolio an even broader exposure to United States and Canada natural gas fundamentals.

Beginning December 2005, ALNG began taking start-up gas and remained in the start-up phase through March 2007. ALNG is expected to commence commercial operations by the second half of 2007.

In addition to EOG's ongoing production from the Valkyrie and Arthur Fields in the United Kingdom North Sea, EOG participated in the drilling and successful testing of the Columbus prospect in the Central North Sea Block 23/16f. The Columbus well was a farm-in opportunity and a rig has been contracted to drill an appraisal well in the third quarter of 2007.

EOG continues to evaluate other select natural gas and crude oil opportunities outside the United States and Canada primarily by pursuing exploitation opportunities in countries where indigenous natural gas and crude oil reserves have been identified.

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One of management's key strategies is to keep a strong balance sheet with a consistently below average debt-to-total capitalization ratio as compared to those in EOG's peer group. EOG's debt-to-total capitalization ratio was 12% at both March 31, 2007 and December 31, 2006. During the first three months of 2007, EOG funded its capital programs primarily by utilizing cash provided from its operating activities. As management continues to assess price forecast and demand trends for 2007, EOG believes that operations and capital expenditure activity can be funded largely by cash from operations.

For 2007, EOG's estimated exploration and development expenditure budget is approximately \$3.4 billion, excluding acquisitions. United States and Canada natural gas drilling activity continues to be a key component of this effort. When it fits EOG's strategy, EOG will make acquisitions that bolster existing drilling programs or offer EOG incremental exploration and/or production opportunities. Management continues to believe EOG has one of the strongest prospect inventories in EOG's history.

At March 31, 2007, EOG maintained various stock-based compensation plans. See Note 2 to Consolidated Financial Statements. For the three months ended March 31, 2007 and 2006, EOG recognized \$14.2 million and \$9.0 million, respectively, of compensation expense related to its stock-based compensation plans. Such expense is included in the Consolidated Statements of Income based upon job functions of the employees receiving the grants as follows (in millions):

|                               | Three Months Ended<br>March 31, |        |
|-------------------------------|---------------------------------|--------|
|                               | 2007                            | 2006   |
| Lease and Well                | \$ 3.0                          | \$ 1.6 |
| Exploration Costs             | 3.0                             | 1.7    |
| General and<br>Administrative | 8.2                             | 5.7    |
| Total                         | \$ 14.2                         | \$ 9.0 |

### Results of Operations

The following review of operations for the three-month periods ended March 31, 2007 and 2006 should be read in conjunction with the consolidated financial statements of EOG and notes thereto included with this Quarterly Report on Form 10-Q.

#### *Net Operating Revenues.*

During the first quarter of 2007, net operating revenues decreased \$210 million to \$875 million from \$1,085 million for the same period of 2006. Total wellhead revenues, which are revenues generated from sales of natural gas, crude oil, condensate and natural gas liquids, decreased \$63 million, or 6%, to \$911 million as compared to \$974 million for the first quarter of 2006. Natural gas, crude oil, condensate and natural gas liquids revenues solely represent wellhead revenues for these products.

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Wellhead volume and price statistics for the three-month periods ended March 31 were as follows:

|                  | Three<br>Months<br>Ended<br>March 31, |      |
|------------------|---------------------------------------|------|
|                  | 2007                                  | 2006 |
| Natural<br>G a s |                                       |      |

Volumes  
(MMcfd)

(1)

|                          |       |       |
|--------------------------|-------|-------|
| United States            | 915   | 758   |
| Canada                   | 222   | 229   |
| United States and Canada | 1,137 | 987   |
| Trinidad                 | 253   | 283   |
| United Kingdom           | 30    | 34    |
| Total                    | 1,420 | 1,304 |

Average  
Natural  
Gas  
Prices  
(\$/Mcf)

(2)

|                          |         |         |
|--------------------------|---------|---------|
| United States            | \$ 6.42 | \$ 7.77 |
| Canada                   | 6.43    | 7.87    |
| United States and Canada | 6.42    | 7.79    |
| Trinidad                 | 2.81    | 2.44    |
| United Kingdom           | 5.55    | 11.56   |
| Composite                | 5.76    | 6.72    |

Crude Oil  
and  
Condensate  
Volumes  
(MBbld)

(1)

|                          |      |      |
|--------------------------|------|------|
| United States            | 21.9 | 21.0 |
| Canada                   | 2.5  | 2.6  |
| United States and Canada | 24.4 | 23.6 |
| Trinidad                 | 4.3  | 5.4  |
| United Kingdom           | 0.1  | 0.2  |
| Total                    | 28.8 | 29.2 |

Average  
Crude Oil  
a n d  
Condensate  
P r i c e s  
(\$/Bbl) <sup>(2)</sup>

|                |         |         |
|----------------|---------|---------|
| United States  | \$53.76 | \$60.42 |
| Canada         | 51.76   | 51.95   |
| United States  | 53.55   | 59.48   |
| a n d          |         |         |
| Canada         |         |         |
| Trinidad       | 59.91   | 61.79   |
| United Kingdom | 52.87   | 57.86   |
| Composites     | 54.51   | 59.90   |

Natural  
G a s  
Liquids  
Volumes  
(MBbld)  
<sup>(1)</sup>

|               |      |     |
|---------------|------|-----|
| United States | 9.5  | 7.3 |
| Canada        | 1.1  | 0.7 |
| Total         | 10.6 | 8.0 |

Average  
Natural  
G a s  
Liquids  
P r i c e s  
(\$/Bbl) <sup>(2)</sup>

|               |         |         |
|---------------|---------|---------|
| United States | \$37.07 | \$37.19 |
| Canada        | 36.37   | 42.77   |
| Composites    | 37.00   | 37.69   |

Natural  
G a s  
Equivalent  
Volumes  
(MMcfd)  
<sup>(3)</sup>

|               |       |       |
|---------------|-------|-------|
| United States | 1,104 | 927   |
| Canada        | 243   | 249   |
| United States | 1,347 | 1,176 |



|  |                        |       |       |
|--|------------------------|-------|-------|
|  | a                      | n     | d     |
|  | Canada                 |       |       |
|  | Trinidad               | 279   | 316   |
|  | United Kingdom         | 31    | 35    |
|  | Total                  | 1,657 | 1,527 |
|  | T o t a l              | 149.1 | 137.5 |
|  | B c f e <sup>(3)</sup> |       |       |
|  | Deliveries             |       |       |

(1) Million cubic feet per day or thousand barrels per day, as applicable.

(2) Dollars per thousand cubic feet or per barrel, as applicable.

(3) Million cubic feet equivalent per day or billion cubic feet equivalent, as applicable; includes natural gas, crude oil, condensate and natural gas liquids. Natural gas

equivalents are determined using the ratio of 6.0 thousand cubic feet of natural gas to 1.0 barrel of crude oil, condensate or natural gas liquids.

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Wellhead natural gas revenues for the first quarter of 2007 decreased \$53 million, or 7%, to \$736 million from \$789 million for the same period of 2006. The decrease was due to a lower composite average wellhead natural gas price (\$123 million), partially offset by increased natural gas deliveries (\$70 million). The composite average wellhead price for natural gas decreased 14% to \$5.76 per Mcf for the first quarter of 2007 from \$6.72 per Mcf for the same period of 2006.

Natural gas deliveries increased 116 MMcfd, or 9%, to 1,420 MMcfd for the first quarter of 2007 from 1,304 MMcfd for the same period of 2006. The increase was primarily due to higher production in the United States (157 MMcfd), partially offset by a decreased production in Trinidad (30 MMcfd). The increase in the United States was primarily attributable to increased production in Texas (122 MMcfd), the Rocky Mountain Area (23 MMcfd) and Kansas (16 MMcfd). The decrease in Trinidad was primarily due to ALNG taking EOG gas in the start-up phase in the first quarter of 2006. During the first quarter of 2007, the plant remained in the start-up phase and did not take any gas from EOG.

Wellhead crude oil and condensate revenues for the first quarter of 2007 decreased \$18 million, or 11%, to \$140 million from \$158 million for the same period of 2006. The decrease was primarily due to a lower composite average wellhead crude oil and condensate price. The composite average wellhead price for crude oil and condensate decreased 9% to \$54.51 per barrel for the first quarter of 2007 from \$59.90 per barrel for the same period of 2006.

Natural gas liquids revenues for the first quarter of 2007 increased \$8 million, or 30%, to \$35 million from \$27 million for the same period of 2006 as a result of increased deliveries.

During the first quarter of 2007, EOG recognized a loss on mark-to-market financial commodity derivative contracts of \$40 million compared to a gain of \$107 million for the same period of 2006. During the first quarter of 2007, the net cash inflow related to settled natural gas and crude oil price swap contracts was \$47 million compared to a net cash inflow related to settled natural gas financial collar and price swap contracts of \$30 million for the comparable period of 2006.

#### Operating and Other Expenses.

For the first quarter of 2007, operating expenses of \$538 million were \$82 million higher than the \$456 million incurred in the first quarter of 2006. The following table presents the costs per Mcfe for the three-month periods ended March 31:

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|  | Three<br>Months<br>Ended<br>March 31,<br>2007 2006 |         |
|--|--|---------|
| Lease and Well                                     | \$ 0.70  | \$ 0.64 |
| Transportation Costs                               | 0.25   | 0.20    |
| Depreciation and Depletion and Amortization (DD&A) | 1.64   | 1.29    |
| General and Administrative (G&A)                   | 0.30   | 0.26    |
| Taxes Other Than Income                            | 0.27   | 0.39    |
| Interest Expense, Net                              | 0.05   | 0.10    |
| Total Per-Unit Costs*                              | \$ 3.21  | \$ 2.88 |

\* Total per-unit costs do not include exploration costs, dry hole costs and impairments.

The changes in per-unit rates of lease and well, transportation costs, DD&A, G&A, taxes other than income and interest expense, net for the three-month period ended March 31, 2007 compared to the same period of 2006 were due primarily to the reasons set forth below.

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Lease and well expenses include expenses for EOG operated properties, as well as expenses billed to EOG from other operators where EOG is not the operator of a property. Lease and well expense can be divided into the following categories: costs to operate and maintain EOG's oil and natural gas wells, the cost of workovers and lease and well administrative expenses. Operating and maintenance expenses include, among other things, pumping services, salt water disposal, equipment repair and maintenance, compression expense, lease upkeep and fuel and power. Workovers are costs of operations to restore or maintain production from existing wells.

Each of these categories of costs individually fluctuates from time to time as EOG attempts to maintain and increase production while maintaining efficient, safe and environmentally responsible operations. EOG continues to increase its operating activities by drilling new wells in existing and new areas. Operating costs within these existing and new areas, as well as the costs of services charged to EOG by vendors, fluctuate over time.

Lease and well expenses of \$104 million for the first quarter of 2007 increased \$17 million from \$87 million for the same prior year period primarily due to higher operating and maintenance expenses in the United States (\$13 million) and higher lease and well administrative expenses (\$4 million).

Transportation costs represent costs incurred directly by EOG from third party carriers associated with the delivery of hydrocarbon products from the lease to a down-stream point of sale. Transportation costs include the cost of compression (the cost of compressing natural gas to meet pipeline pressure requirements), dehydration (the cost associated with removing water from natural gas to meet pipeline requirements), gathering fees, fuel costs and transportation fees.

Transportation costs of \$38 million for the first quarter of 2007 increased \$10 million from \$28 million for the same prior year period primarily due to increased production in the Fort Worth Basin Barnett Shale play.

DD&A of the cost of proved oil and gas properties is calculated using the unit-of-production method. EOG's DD&A rate and expense are the composite of numerous individual field calculations. There are several factors that can impact EOG's composite DD&A rate and expense, such as field production profiles; drilling or acquisition of new wells; disposition of existing wells; reserve revisions (upward or downward) primarily related to well performance; and impairments. Changes to these factors may cause EOG's composite DD&A rate and expense to fluctuate from quarter to quarter.

DD&A expenses of \$244 million for the first quarter of 2007 increased \$67 million from the same prior year period primarily due to increased DD&A rates in the United States (\$35 million), Canada (\$7 million) and the United Kingdom (\$2 million); and increased production in the United States (\$24 million).

G&A expenses of \$44 million for the first quarter of 2007 increased \$8 million from the same prior year period primarily due to higher employee related costs (\$6 million) and higher office rent (\$1 million).

Interest expense, net of \$8 million for the first quarter of 2007 decreased \$6 million compared to the same prior year period primarily due to higher capitalized interest (\$2 million), interest associated with risk assessed tax liability in 2006 (\$2 million) and lower average debt balance (\$2 million).

Taxes other than income include severance/production taxes, ad valorem/property taxes, payroll taxes, franchise taxes and other miscellaneous taxes. Taxes other than income of \$41 million for the first quarter of 2007 decreased \$13 million from the same prior year period.

Severance/production taxes in the United States decreased primarily due to increased credits taken for Texas high cost gas severance tax rate reductions (\$17 million); partially offset by an increase in Trinidad due to changes to the tax legislation governing the Supplemental Petroleum Tax which resulted in an adjustment that decreased production tax expense in the first quarter of 2006 (\$3 million).

Exploration costs of \$26 million for the first quarter of 2007 are \$13 million lower than the \$39 million for the same prior year period primarily due to decreased geological and geophysical expenditures in the Fort Worth Basin Barnett Shale play.

Impairments include amortization of unproved leases, as well as impairments under SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," which requires an entity to compute impairments to the carrying value of long-lived assets based on future cash flow analysis. Impairments of \$24 million for the first quarter of 2007

were \$1 million higher than the same prior year period. Under SFAS No. 144, EOG recorded impairments of \$10 million for each of the first quarters of 2007 and 2006.

Other income, net was \$6 million for the first quarter of 2007 compared to \$15 million for the same prior year period. The decrease of \$9 million was primarily due to lower interest income (\$5 million) and a decrease in equity income from investment in the Nitrogen (2000) Unlimited ammonia plant (\$2 million).

Income tax provision of \$118 million for the first quarter of 2007 decreased \$85 million compared to the same prior year period primarily due to lower pre-tax income (\$103 million), partially offset by an increase in foreign income taxes (\$17 million). The net effective tax rate for the first quarter of 2007 increased to 35% from 32% for the same prior year period.

## Capital Resources and Liquidity

### *Cash Flow.*

The primary sources of cash for EOG during the three months ended March 31, 2007 were funds generated from operations and net borrowings. The primary uses of cash were funds used in operations, exploration and development expenditures, and dividend payments to shareholders. During the first three months of 2007, EOG's cash balance decreased \$76 million to \$142 million from \$218 million at December 31, 2006.

### Net cash provided by operating activities of \$698

million for the first three months of 2007 decreased \$88 million compared to the same period of 2006 primarily reflecting unfavorable changes in working capital and other assets and liabilities (\$95 million), a decrease in wellhead revenues (\$63 million), and an increase in cash operating expenses (\$8 million), partially offset by a decrease in cash paid for income taxes and interest expense (\$33 million) and a favorable change in the net cash flows from settlement of financial commodity derivative contracts (\$17 million).

Net cash used in investing activities of \$858 million for the first three months of 2007 increased by \$300 million compared to the same period of 2006 due primarily to increased additions to oil and gas properties.

Net cash provided by financing activities was \$83 million for the first three months of 2007 compared to net cash used in financing activities of \$51 million for the same period of 2006. Cash provided by financing activities for 2007 included net commercial paper and Trinidad revolving credit facility borrowings (\$117 million), excess tax benefits from stock-based compensation expenses (\$7 million) and proceeds from sales of treasury stock attributable to employee stock option exercises (\$5 million). Cash used by financing activities for 2007 included repayments of long-term debt borrowings (\$30 million) and cash dividend payments (\$16 million).

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### *Total Exploration and Development Expenditures.*

The table below presents total exploration and development expenditures for the three-month periods ended March 31 (in millions):

|                          | Three Months Ended<br>March 31, |        |
|--------------------------|---------------------------------|--------|
|                          | 2007                            | 2006   |
| United States            | \$ 720                          | \$ 492 |
| Canada                   | 123                             | 87     |
| United States and Canada | 843                             | 579    |
| Trinidad                 | 48                              | 44     |
| United Kingdom           | 3                               | 5      |

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|  |        |        |
|--|--------|--------|
| Exploration and Development Expenditures       | 894    | 628    |
| Asset Retirement Costs                         | 8      | 4      |
| Total Exploration and Development Expenditures | \$ 902 | \$ 632 |

Total exploration and development expenditures of \$902 million for the first three months of 2007 were \$270 million higher than the same period of 2006. The 2007 exploration and development expenditures of \$894 million included \$726 million in development, \$161 million in exploration, \$6 million in capitalized interest and \$1 million in property acquisitions. The 2006 exploration and development expenditures of \$628 million included \$457 million in development, \$167 million in exploration and \$4 million in capitalized interest.

Higher development expenditures of \$269 million for the first three months of 2007 were due primarily to increased development drilling expenditures in the United States (\$184

million), Canada (\$20 million) and Trinidad (\$13 million) and increased expenditures related to infrastructure facilities in the United States (\$37 million) and Canada (\$3 million).

Lower exploration expenditures of \$6 million for the first three months of 2007 were due primarily to decreased exploratory expenditures in Trinidad (\$11 million), the United States (\$4 million) and the United Kingdom (\$2 million), partially offset by increased exploratory expenditures in Canada (\$11 million).

The level of exploration and development expenditures, including acquisitions, will vary in future periods depending on energy market conditions and other related economic factors. EOG has significant flexibility with respect to financing alternatives and the ability to adjust its exploration and development expenditure budget as circumstances warrant. While EOG has certain continuing commitments associated with expenditure plans related to operations in the United States, Canada, Trinidad and the United Kingdom, such commitments are not expected to be material when considered in relation to the total financial capacity of EOG.

*Commodity Derivative Transactions.*

As more fully discussed in Note 11 to Consolidated Financial Statements included in EOG's Annual Report on Form 10-K for the year ended December 31, 2006, EOG engages in price risk management activities from time to time. These activities are intended to manage EOG's exposure to fluctuations in commodity prices for natural gas and crude oil. EOG utilizes financial commodity derivative instruments, primarily collar and price swap contracts, as the means to manage this price risk. EOG accounts for financial commodity derivative contracts using the mark-to-market accounting method. In addition to financial transactions, EOG is a party to various physical commodity contracts for the sale of hydrocarbons that cover varying periods of time and have varying pricing provisions. The financial impact of physical commodity contracts is included in revenues at the time of settlement, which in turn affects average realized hydrocarbon prices.

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Presented below is a comprehensive summary of EOG's 2007 natural gas and crude oil financial price swap contracts at April 30, 2007, with notional volumes expressed in million British thermal units per day (MMBtud) and in barrels per day (Bbld), as applicable, and prices expressed in dollars per million British thermal units (\$/MMBtu) and in dollars per barrel (\$/Bbl), as applicable. Currently, EOG is not a party to any financial collar contracts. EOG accounts for these price swap contracts using the mark-to-market accounting method.

| Financial Price Swap Contracts |                 |                              |               |                              |
|--------------------------------|-----------------|------------------------------|---------------|------------------------------|
| Natural Gas                    |                 |                              | Crude Oil     |                              |
|                                | Volume          | Weighted<br>Average<br>Price | Volume        | Weighted<br>Average<br>Price |
| <u>Month</u>                   | <u>(MMBtud)</u> | <u>(\$/MMBtu)</u>            | <u>(Bbld)</u> | <u>(\$/Bbl)</u>              |

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|                    |         |         |       |          |
|--------------------|---------|---------|-------|----------|
| April (closed)     | 120,000 | \$ 8.81 | 4,000 | \$ 78.57 |
| May <sup>(1)</sup> | 120,000 | 8.65    | 4,000 | 78.50    |
| June               | 120,000 | 8.74    | 4,000 | 78.40    |
| July               | 120,000 | 8.84    | 4,000 | 78.28    |
| August             | 120,000 | 8.92    | 4,000 | 78.16    |
| September          | 120,000 | 9.00    | 4,000 | 78.03    |
| October            | 120,000 | 9.14    | 4,000 | 77.91    |
| November           | 120,000 | 9.94    | 4,000 | 77.75    |
| December           | 120,000 | 10.70   | 4,000 | 77.57    |

- (1) The natural gas contracts for May 2007 are closed. The crude oil contracts for May 2007 will close on May 31, 2007.

### Information Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. All statements other than statements of historical facts, including, among others, statements regarding EOG's future financial position, business strategy, budgets, reserve information, projected levels of production, projected costs and plans and objectives of management for future operations, are forward-looking statements. EOG typically uses words such as "expect," "anticipate," "estimate," "strategy," "intend," "plan," "target" and "believe" or the negative of those terms or other variations of them or by comparable terminology to identify its forward-looking statements. In particular, statements, express or implied, concerning future operating results, the ability to replace or increase reserves or to increase production, or the ability to generate income or cash flows are forward-looking statements. Forward-looking statements are not guarantees of performance. Although EOG believes its expectations reflected in forward-looking statements are based on reasonable assumptions, no assurance can be given that these expectations will be achieved. Important factors that could cause actual results to differ materially from the expectations reflected in the forward-looking statements include, among others: the timing and extent of changes in commodity prices for crude oil, natural gas and related products, foreign currency exchange rates and interest rates; the timing and impact of liquefied natural gas imports and changes in demand or prices for ammonia or methanol; the extent and effect of any hedging activities engaged in by EOG; the extent of EOG's success in discovering, developing, marketing and producing reserves and in acquiring oil and gas properties; the accuracy of reserve estimates, which by their nature involve the exercise of professional judgment and may therefore be imprecise; the availability and cost of drilling rigs, experienced drilling crews, materials and equipment used in well completions, and tubular steel; the availability, terms and timing of governmental and other permits and rights of way; the availability of pipeline transportation capacity; the availability of compression uplift capacity; the extent to which EOG can economically develop its Barnett Shale acreage outside of Johnson County, Texas; whether EOG is successful in its efforts to more densely develop its acreage in the Barnett Shale and other production areas; political developments around the world; acts of war and terrorism and responses to these acts; weather; and financial market conditions. In light of these risks, uncertainties and assumptions, the events anticipated by EOG's forward-looking statements might not occur. Forward-looking statements speak only as of the date made and EOG undertakes no obligation to update or revise its forward-looking statements, whether as a result of new information, future events or otherwise.

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## PART I. FINANCIAL INFORMATION

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

EOG RESOURCES, INC.

EOG's exposure to commodity price risk, interest rate risk and foreign currency exchange rate risk is discussed in the Derivative Transactions, Financing, Foreign Currency Exchange Rate Risk and Outlook sections of "Management's Discussion and Analysis of Financial Condition and Results of Operations - Capital Resources and Liquidity," on pages 29 through 32 of EOG's Annual Report on Form 10-K for the year ended December 31, 2006, filed on February 28, 2007.

ITEM 4. CONTROLS AND PROCEDURES  
EOG RESOURCES, INC.

*Disclosure Controls and Procedures.*

EOG's management, with the participation of EOG's principal executive officer and principal financial officer, evaluated the effectiveness of EOG's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended (Exchange Act)) as of the end of the period covered by this Quarterly Report on Form 10-Q (Evaluation Date). Based on this evaluation, the principal executive officer and principal financial officer have concluded that EOG's disclosure controls and procedures were effective as of the Evaluation Date to ensure that information that is required to be disclosed by EOG in the reports it files or submits under the Exchange Act is (i) recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms and (ii) accumulated and communicated to EOG's management as appropriate to allow timely decisions regarding required disclosure.

*Internal Control Over Financial Reporting.*

There were no changes in EOG's internal control over financial reporting that occurred during the period covered by this Quarterly Report on Form 10-Q that have materially affected, or are reasonably likely to materially affect, EOG's internal control over financial reporting.

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PART II. OTHER INFORMATION

EOG RESOURCES, INC.

ITEM 1. LEGAL PROCEEDINGS

See Part I, Item 1, Note 9 to Consolidated Financial Statements, which is incorporated herein by reference.

ITEM 1A. RISK FACTORS

There have been no material changes from the risk factors previously disclosed in Item 1A, "Risk Factors" of EOG's Annual Report on Form 10-K for the year ended December 31, 2006.

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

Issuer Purchases of Equity Securities

(c)

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| Period                               | (a)  | (b)      | Total<br>Number of<br>Shares<br>Purchased<br>as<br>Part of<br>Publicly<br>Announced<br>Plans or<br>Programs | (d)       |
|--------------------------------------|--|----------|---|-----------|
|                                      | Total<br>Number of<br>Shares<br>Purchased <sup>(1)</sup> |          |   |           |
| January 1, 2007 - January 31, 2007   | 5,056  | \$ 62.28 | -   | 6,386,200 |
| February 1, 2007 - February 28, 2007 | 70,379   | 65.17    | -   | 6,386,200 |
| March 1, 2007 - March 31, 2007       | 204  | 66.20    | -   | 6,386,200 |
| Total                                | 75,639   | \$ 64.98 | -   |           |

(1) Represents 75,639 shares that were withheld by or returned to EOG to satisfy tax withholding obligations that arose upon the exercise of employee stock options or the vesting of restricted stock or units.

(2) In September 2001, EOG announced that its Board of Directors authorized the repurchase of up to 10,000,000 shares of EOG's common stock.

ITEM 6. EXHIBITS

- \*10.1 - Executive Employment Agreement between EOG and Frederick J. Plaeger, II, effective as of April 23, 2007.
- \*10.2 - Change of Control Agreement between EOG and Frederick J. Plaeger, II, effective as of April 23, 2007.
- \*31.1 - Section 302 Certification of Periodic Report of Chief Executive Officer.
- \*31.2 - Section 302 Certification of Periodic Report of Principal Financial Officer.
- \*32.1 - Section 906 Certification of Periodic Report of Chief Executive Officer.
- \*32.2 - Section 906 Certification of Periodic Report of Principal Financial Officer.



\*Exhibits filed herewith

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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 thereunto duly authorized.

EOG RESOURCES, INC.  
(Registrant)

Date: April 30, 2007

By: /s/ TIMOTHY K. DRIGGERS

Timothy K. Driggers  
Vice President and Chief Accounting Officer  
(Principal Accounting Officer)

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EXHIBIT INDEX

| <u>Exhibit No.</u> | <u>Description</u>   |
|--------------------|--|
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