

OCCIDENTAL PETROLEUM CORP /DE/  
Form 10-Q  
November 04, 2010

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549  
FORM 10-Q

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

For the quarterly period ended September 30, 2010  
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 1-9210

OCCIDENTAL PETROLEUM CORPORATION

(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

95-4035997  
(I.R.S. Employer  
Identification No.)

10889 Wilshire Boulevard  
Los Angeles, California  
(Address of principal executive offices)

90024  
(Zip Code)

(310) 208-8800

(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. R Yes £ No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). R Yes £ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. (See definition of "accelerated filer", "large 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

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

Edgar Filing: OCCIDENTAL PETROLEUM CORP /DE/ - Form 10-Q

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

Class	Outstanding at September 30, 2010
Common stock \$.20 par value	812,585,808 shares

OCCIDENTAL PETROLEUM CORPORATION AND SUBSIDIARIES

TABLE OF CONTENTS

	PAGE	
Part I	Financial Information	
Item 1.	Financial Statements (unaudited)	
	Consolidated Condensed Balance Sheets — September 30, 2010 and December 31, 2009	2
	Consolidated Condensed Statements of Income — Three and nine months ended September 30, 2010 and 2009	4
	Consolidated Condensed Statements of Cash Flows — Nine months ended September 30, 2010 and 2009	5
	Notes to Consolidated Condensed Financial Statements	6
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	19
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	29
Item 4.	Controls and Procedures	29
Part II	Other Information	
Item 1.	Legal Proceedings	30
Item 2.	Share Repurchase Activities	30
Item 6.	Exhibits	31

## PART I FINANCIAL INFORMATION

## Item 1. Financial Statements (unaudited)

OCCIDENTAL PETROLEUM CORPORATION AND SUBSIDIARIES  
CONSOLIDATED CONDENSED BALANCE SHEETS  
SEPTEMBER 30, 2010 AND DECEMBER 31, 2009  
(Amounts in millions)

	2010	2009
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 2,109	\$ 1,230
Trade receivables, net	4,367	4,142
Marketing and trading assets and other	899	1,203
Inventories	1,127	1,081
Prepaid expenses and other	420	430
Total current assets	8,922	8,086
INVESTMENTS IN UNCONSOLIDATED ENTITIES	1,777	1,732
PROPERTY, PLANT AND EQUIPMENT, net of accumulated depreciation, depletion and amortization of \$22,046 at September 30, 2010 and \$19,486 at December 31, 2009	35,974	33,645
LONG-TERM RECEIVABLES AND OTHER ASSETS, NET	830	766
<b>TOTAL ASSETS</b>	<b>\$ 47,503</b>	<b>\$ 44,229</b>
The accompanying notes are an integral part of these consolidated financial statements.		

OCCIDENTAL PETROLEUM CORPORATION AND SUBSIDIARIES  
CONSOLIDATED CONDENSED BALANCE SHEETS  
SEPTEMBER 30, 2010 AND DECEMBER 31, 2009  
(Amounts in millions)

	2010	2009
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Current maturities of long-term debt	\$ 3,832	\$ 3,379
Accounts payable	2,162	2,341
Accrued liabilities	203	28
Domestic and foreign income taxes	101	105
Liabilities of discontinued operations		
Total current liabilities	6,298	6,092
LONG-TERM DEBT, NET	2,512	2,557
<b>DEFERRED CREDITS AND OTHER LIABILITIES</b>		
Deferred and other domestic and foreign income taxes	3,450	3,125
Long-term liabilities of discontinued operations	120	136
Other	3,279	3,160
	6,849	6,421
<b>STOCKHOLDERS' EQUITY</b>		
Common stock, at par value	177	177
Treasury stock	(4,172)	(4,161 )
Additional paid-in capital	7,182	7,127
Retained earnings	28,964	26,534
Accumulated other comprehensive loss	(443)	(596 )
Total equity attributable to common stock	31,708	29,081
Noncontrolling interest	136	78
Total equity	31,844	29,159
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 47,503</b>	<b>\$ 44,229</b>

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

OCCIDENTAL PETROLEUM CORPORATION AND SUBSIDIARIES  
CONSOLIDATED CONDENSED STATEMENTS OF INCOME  
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2010 AND 2009  
(Amounts in millions, except per-share amounts)

	Three months ended September 30		Nine months ended September 30	
	2010	2009	2010	2009
<b>REVENUES AND OTHER INCOME</b>				
Net sales	\$ 4,896	\$ 4,104	\$ 14,428	\$ 10,864
Interest, dividends and other income	27	22	88	80
Gains on disposition of assets, net	6		1	7
	4,929	4,126	14,517	10,951
<b>COSTS AND OTHER DEDUCTIONS</b>				
Cost of sales	2,444	2,130	7,318	6,253
Selling, general and administrative and other operating expenses	288	359	972	991
Taxes other than on income	117	105	367	320
Environmental remediation	6	10	6	10
Exploration expense	83	56	212	168
Interest and debt expense, net	26	40	96	99
	2,964	2,700	8,971	7,841
Income before income taxes and other items	1,965	1,426	5,546	3,110
Provision for domestic and foreign income taxes	816	549	2,345	1,245
(Income) from equity investments	(69)	(66)	(193)	(154)
Income from continuing operations	1,218	943	3,394	2,019
Discontinued operations, net	(5)	(2)	(18)	(7)
Net income	1,213	941	3,376	2,012
Less: Net income attributable to noncontrolling interest	(22)	(14)	(58)	(35)
<b>NET INCOME ATTRIBUTABLE TO COMMON STOCK</b>	<b>\$ 1,191</b>	<b>\$ 927</b>	<b>\$ 3,318</b>	<b>\$ 1,977</b>
<b>BASIC EARNINGS PER COMMON SHARE (attributable to common stock)</b>				
Income from continuing operations	\$ 1.47	\$ 1.14	\$ 4.10	\$ 2.44
Discontinued operations, net	(0.01)		(0.02)	(0.01)
<b>BASIC EARNINGS PER COMMON SHARE</b>	<b>\$ 1.46</b>	<b>\$ 1.14</b>	<b>\$ 4.08</b>	<b>\$ 2.43</b>
<b>DILUTED EARNINGS PER COMMON SHARE (attributable to common stock)</b>				
Income from continuing operations	\$ 1.47	\$ 1.14	\$ 4.09	\$ 2.44
Discontinued operations, net	(0.01)		(0.02)	(0.01)
<b>DILUTED EARNINGS PER COMMON SHARE</b>	<b>\$ 1.46</b>	<b>\$ 1.14</b>	<b>\$ 4.07</b>	<b>\$ 2.43</b>

DIVIDENDS PER COMMON SHARE      \$      0.38      \$      0.33      \$      1.09      \$      0.98

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

OCCIDENTAL PETROLEUM CORPORATION AND SUBSIDIARIES  
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS  
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2010 AND 2009  
(Amounts in millions)

	2010	2009
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
Net income	\$ 3,376	\$ 2,012
Adjustments to reconcile net income to net cash provided by operating activities		
Discontinued operations, net	18	7
Depreciation, depletion and amortization of assets	2,608	2,297
Deferred income tax provision	236	247
Other noncash charges to income	345	333
Gains on disposition of assets, net	(1)	(7)
Income from equity investments	(193)	(154)
Dry hole and impairment expense	124	130
Changes in operating assets and liabilities, net	348	(826)
Other operating, net	(181)	(165)
Operating cash flow from continuing operations	6,680	3,874
Operating cash flow from discontinued operations	(73)	(31)
Net cash provided by operating activities	6,607	3,843
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		
Capital expenditures	(2,816)	(2,649)
Payments for purchases of assets and businesses	(1,892)	(582)
Sale of assets	18	47
Equity investments and other, net	116	(64)
Net cash used by investing activities	(4,574)	(3,248)
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>		
Proceeds from long-term debt		740
Payments of long-term debt	(311)	(699)
Proceeds from issuance of common stock	7	16
Purchases of treasury stock	(11)	(29)
Excess share-based tax benefits and other	9	17
Distributions to noncontrolling interest		(15)
Cash dividends paid	(848)	(794)
Net cash used by financing activities	(1,154)	(764)
Increase (decrease) in cash and cash equivalents	879	(169)
Cash and cash equivalents—beginning of period	1,230	1,777
Cash and cash equivalents—end of period	\$ 2,109	\$ 1,608
The accompanying notes are an integral part of these consolidated financial statements.		



OCCIDENTAL PETROLEUM CORPORATION AND SUBSIDIARIES  
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

September 30, 2010

1. General

In these unaudited consolidated condensed financial statements, "Occidental" means Occidental Petroleum Corporation, a Delaware corporation (OPC), and/or one or more entities in which it owns a majority voting interest (subsidiaries). Occidental has made its disclosures in accordance with accounting principles generally accepted in the United States of America as they apply to interim reporting, and condensed or omitted, as permitted by the Securities and Exchange Commission's rules and regulations, certain information and disclosures normally included in consolidated financial statements and the notes. The consolidated condensed financial statements should be read in conjunction with the consolidated financial statements and the notes thereto in Occidental's Annual Report on Form 10-K for the year ended December 31, 2009.

In the opinion of Occidental's management, the accompanying consolidated condensed financial statements contain all adjustments (consisting of normal recurring adjustments) necessary to fairly present Occidental's consolidated financial position as of September 30, 2010, and the consolidated statements of income and cash flows for the three and nine months ended September 30, 2010 and 2009, as applicable. The income and cash flows for the periods ended September 30, 2010 and 2009 are not necessarily indicative of the income or cash flows to be expected for the full year.

Certain financial statements and notes for the prior year have been reclassified to conform to the 2010 presentation.

2. Asset Acquisitions, Dispositions and Other Transactions

In January 2010, Occidental and its partners signed a technical service contract with the government of Iraq to develop the Zubair Field in Iraq.

During the nine months ended September 30, 2010, Occidental agreed to acquire various interests, mostly in operated, producing properties in the Permian and midcontinent regions, for approximately \$2.1 billion. Occidental also obtained a ten-year extension for its hydrocarbon concessions in the Santa Cruz province of Argentina.

3. Accounting and Disclosure Changes

Fair Value Measurements – Beginning in the quarter ended March 31, 2010, Occidental enhanced its fair value measurement disclosures as a result of adopting new disclosure requirements issued by the Financial Accounting Standards Board (FASB) in January 2010. The new rules require interim and year-end disclosures of: (i) fair value measurements by classes of assets and

liabilities; (ii) valuation techniques and inputs used for Level 2 or 3 fair value measurements; and (iii) significant transfers into and out of Level 1 and 2 measurements and the reasons for the transfers.

Variable Interest Entities – Beginning January 1, 2010, Occidental modified its method of assessing the consolidation of variable interest entities as a result of adopting new accounting requirements issued by the FASB in June 2009. This new rule had no impact on Occidental’s financial statements upon adoption and will require assessment on an ongoing basis.

## 4. Comprehensive Income

The following table presents Occidental's comprehensive income (loss) for the three and nine months ended September 30, 2010 and 2009 (in millions):

	Three months		Periods ended September 30	
	2010	2009	2010	2009
Net income attributable to common stock	\$ 1,191	\$ 927	\$ 3,318	\$ 1,977
Other comprehensive income (loss) items				
Foreign currency translation adjustments	8	10	4	28
Pension and post-retirement adjustments	7	7	20	19
Unrealized gains (losses) on derivatives	7	(8)	67	(54)
Reclassification of realized losses (gains) on derivatives and other	18	16	62	(6)
Other comprehensive income (loss), net of tax	40	25	153	(13)
Comprehensive income attributable to common stock	\$ 1,231	\$ 952	\$ 3,471	\$ 1,964

Other than net income related to noncontrolling interest, there were no "other comprehensive income (loss) items" or changes to equity related to noncontrolling interests for the three and nine months ended September 30, 2010 and 2009.

## 5. Supplemental Cash Flow Information

Occidental paid U.S. federal, state and foreign income taxes of approximately \$1.9 billion and \$915 million during the nine months ended September 30, 2010 and 2009, respectively. Additionally, net payments for taxes related to discontinued operations were \$44 million and \$8 million for the nine months ended September 30, 2010 and 2009, respectively. Interest paid totaled approximately \$108 million and \$116 million for the nine months ended September 30, 2010 and 2009, respectively.

## 6. Inventories

A portion of inventories is valued under the LIFO method. The valuation of LIFO inventory for interim periods is based on Occidental's estimates of year-end inventory levels and costs. Inventories as of September 30, 2010 and December 31, 2009 consisted of the following (in millions):

	2010	2009
Raw materials	\$ 59	\$ 63
Materials and supplies	488	515
Finished goods	661	584
	1,208	1,162
LIFO reserve	(81)	(81)
Total	\$ 1,127	\$ 1,081

## 7. Environmental Liabilities and Expenditures

Occidental's operations are subject to stringent federal, state, local and foreign laws and regulations relating to improving or maintaining environmental quality. Occidental's environmental compliance costs have generally increased over time and could continue to rise in the future. Occidental factors environmental expenditures for its operations into its business planning process as an integral part of producing quality products responsive to market demand.

The laws that require or address environmental remediation, including the Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA) and similar federal, state, local and foreign laws, may apply retroactively and regardless of fault, the legality of the original activities or the current ownership or control of sites. OPC or certain of its subsidiaries participate in or actively monitor a range of remedial activities and government or private proceedings under these laws with respect to alleged past practices at operating, closed and third-party sites. Remedial activities may include one or more of the following: investigation involving sampling, modeling, risk assessment or monitoring; cleanup measures including removal, treatment or disposal; or operation and maintenance of remedial systems. The environmental proceedings seek funding or performance of remediation and, in some cases, compensation for alleged property damage, punitive damages, civil penalties, injunctive relief and government oversight costs.

As of September 30, 2010, Occidental participated in or monitored remedial activities or proceedings at 169 sites. The following table presents Occidental's environmental remediation reserves as of September 30, 2010, the current portion of which is included in accrued liabilities (\$82 million) and the remainder in deferred credits and other liabilities – other (\$286 million). The reserves are grouped as environmental remediation sites listed or proposed for listing by the U.S. Environmental Protection Agency on the CERCLA National Priorities List (NPL sites) and three categories of non-NPL sites — third-party sites, Occidental-operated sites and closed or non-operated Occidental sites.

	Number of Sites	Reserve Balance (in millions)
NPL sites	39	\$ 56
Third-party sites	82	94
Occidental-operated sites	19	115
Closed or non-operated Occidental sites	29	103
Total	169	\$ 368

As of September 30, 2010, Occidental's environmental reserves exceeded \$10 million at 13 of the 169 sites described above, and 121 of the sites had reserves from \$0 to \$1 million each. Occidental expects to expend funds corresponding to about half of the current environmental reserves over the next four years and the balance over the subsequent ten or more years. Occidental believes its range of reasonably possible additional loss beyond those liabilities recorded for environmental remediation at the sites described above could be up to \$375 million. The status of Occidental's involvement with the sites and related significant assumptions have not changed materially since December 31, 2009. For management's opinion with respect to environmental matters, refer to Note 8.

8. Lawsuits, Claims, Commitments, Contingencies and Related Matters

OPC or certain of its subsidiaries are named, in the normal course of business, in lawsuits, claims and other legal proceedings that seek, among other things, compensation for alleged personal injury, breach of contract, property damage, punitive damages, civil penalties or other losses, or injunctive or declaratory relief. OPC or certain of its subsidiaries also have been named in proceedings under CERCLA and similar federal, state, local and foreign environmental laws. These environmental proceedings seek funding or performance of remediation and, in some cases, compensation for alleged property damage, punitive damages, civil penalties and injunctive relief; however, Occidental is usually one of many companies in these proceedings and has to date been successful in sharing response costs with other financially sound companies. With respect to all such lawsuits, claims and proceedings, including environmental proceedings, Occidental accrues reserves when it is probable a liability has been incurred and the amount of loss can be reasonably estimated.

During the course of its operations, Occidental is subject to audit by tax authorities for varying periods in various federal, state, local and foreign tax jurisdictions. While the audits of corporate tax returns for taxable years through 2008 have concluded for U.S. federal income tax purposes, the 2009 and 2010 taxable years are currently under review by the U.S. Internal Revenue Service pursuant to its Compliance Assurance Program. Taxable years from 2000 through 2009 remain subject to examination by foreign and state government tax authorities in certain jurisdictions. In certain of these locations, tax authorities are in various stages of auditing Occidental's income taxes. During the course of tax audits, disputes have arisen and other disputes may arise as to facts and matters of law.

Occidental has indemnified various parties against specified liabilities that those parties might incur in the future in connection with purchases and other transactions that they have entered into with Occidental. These indemnities usually are contingent upon the other party incurring liabilities that reach specified thresholds. As of September 30, 2010, Occidental is not aware of circumstances that it believes would reasonably be expected to lead to future indemnity claims against it in connection with these transactions that would result in payments materially in excess of reserves.

The ultimate amount of losses and the timing of any such losses that OPC and its subsidiaries may incur resulting from currently outstanding lawsuits, claims and proceedings, audits, commitments, contingencies and related matters cannot be determined reliably at this time. If these matters were ultimately resolved unfavorably at amounts substantially exceeding Occidental's reserves, an outcome not currently expected, it is possible that such outcome could have a material adverse effect upon Occidental's consolidated financial position or results of operations. However, after taking into account reserves, management does not expect the ultimate resolution of any of these matters to have a material adverse effect upon Occidental's consolidated financial position or results of operations.

## 9. Retirement Plans and Postretirement Benefits

The following table sets forth the components of the net periodic benefit costs for Occidental's defined benefit pension and postretirement benefit plans for the three and nine months ended September 30, 2010 and 2009 (in millions):

Three months ended September 30	2010		2009	
	Pension Benefit	Postretirement Benefit	Pension Benefit	Postretirement Benefit
Net Periodic Benefit Costs				
Service cost	\$ 4	\$ 5	\$ 4	\$ 4
Interest cost	8	11	7	10
Expected return on plan assets	(8)		(6)	
Amortization of prior service cost			1	
Recognized actuarial loss	3	6	4	5
Total	\$ 7	\$ 22	\$ 10	\$ 19

  

Nine months ended September 30	2010		2009	
	Pension Benefit	Postretirement Benefit	Pension Benefit	Postretirement Benefit
Net Periodic Benefit Costs				
Service cost	\$ 13	\$ 14	\$ 12	\$ 12
Interest cost	23	33	21	30
Expected return on plan assets	(24)		(19)	
Amortization of prior service cost	1		1	
Recognized actuarial loss	9	19	12	16
Total	\$ 22	\$ 66	\$ 27	\$ 58

Occidental contributed \$3 million and \$2 million in the three month periods ended September 30, 2010 and 2009, respectively, and \$8 million and \$7 million in the nine month periods ended September 30, 2010 and 2009, respectively, to its defined benefit pension plans.

## 10. Fair Value Measurements

Occidental has categorized its assets and liabilities that are measured at fair value, based on the priority of the inputs to the valuation techniques, in a three-level fair value hierarchy: Level 1 – using quoted prices in active markets for identical assets or liabilities; Level 2 – using observable inputs other than quoted prices; and Level 3 – using unobservable inputs.

## Fair Values – Recurring

Occidental primarily applies the market approach for recurring fair value measurements, maximizes its use of observable inputs and minimizes its use of unobservable inputs. Occidental utilizes the mid-point price between bid and ask prices for valuing the majority of its assets and liabilities measured and reported at fair value. In addition to using market data, Occidental makes assumptions in valuing its assets and liabilities, including assumptions about the risks inherent in the inputs to the valuation technique. For assets and liabilities carried at fair value, Occidental measures fair value using the following methods:

Trading equity securities – Quoted prices in active markets exist and are used to provide fair values for these instruments. These securities are

classified as Level 1.

Commodity derivatives – Occidental values exchange-cleared commodity derivatives using closing prices provided by the exchange as of the balance sheet date. These derivatives are classified as Level 1. Over-the-Counter (OTC) financial commodity contracts, options and physical commodity forward purchase and sale contracts are generally valued using quotations provided by brokers or industry-standard models that consider various inputs, including quoted forward prices for commodities, time value, volatility factors, credit risk and current market and contractual prices for the underlying instruments, as well as other relevant economic measures. Substantially all of these inputs are observable in the marketplace throughout the full term of the instrument, can be derived from observable data or are supported by observable prices at which transactions are executed in the marketplace. Occidental classifies these measurements as Level 2.

The following tables provide fair value measurement information for such assets and liabilities that are measured on a recurring basis as of September 30, 2010 and December 31, 2009 (in millions):

Description	Fair Value Measurements at September 30, 2010 Using			Netting and Collateral(a)	Total Fair Value
	Level 1	Level 2	Level 3		
Assets:					
Trading equity securities – natural resources industry	\$ 114	\$	\$	\$	\$ 114
Commodity derivatives	289	822		(807)	304
Total assets	\$ 403	\$ 822	\$	\$ (807)	\$ 418
Liabilities:					
Commodity derivatives	\$ 268	\$ 950	\$	\$ (863)	\$ 355
Total liabilities	\$ 268	\$ 950	\$	\$ (863)	\$ 355

Description	Fair Value Measurements at December 31, 2009 Using			Netting and Collateral(a)	Total Fair Value
	Level 1	Level 2	Level 3		
Assets:					
Trading equity securities – natural resources industry	\$ 230	\$	\$	\$	\$ 230
Commodity derivatives	243	612		(645)	210
Total assets	\$ 473	\$ 612	\$	\$ (645)	\$ 440
Liabilities:					
Commodity derivatives	\$ 280	\$ 920	\$	\$ (665)	\$ 535
Total liabilities	\$ 280	\$ 920	\$	\$ (665)	\$ 535

(a) Represents the impact of netting assets, liabilities and collateral when a legal right of offset exists.

#### Fair Values - Nonrecurring

During the three and nine months ended September 30, 2010 and 2009, Occidental did not have any assets or liabilities measured at fair value on a non-recurring basis.





### Other Financial Instruments

The carrying amounts of cash and cash equivalents and other on-balance-sheet financial instruments, other than fixed-rate debt, approximate fair value. The cost, if any, to terminate off-balance-sheet financial instruments is not significant. Occidental estimates the fair value of fixed-rate debt based on the quoted market prices for those instruments or on quoted market yields for similarly rated debt instruments, taking into account such similar instruments' maturities. The estimated fair values of Occidental's debt, as of September 30, 2010 and December 31, 2009, were approximately \$2.9 billion and \$3.1 billion, respectively, compared to carrying values of \$2.5 billion and \$2.8 billion, respectively.

## 11. Derivatives

Derivatives are carried at fair value and on a net basis when a legal right of offset exists with the same counterparty. Occidental applies hedge accounting when transactions meet specified criteria for such treatment. If a derivative does not qualify or is not designated and documented as a hedge, any fair value gains or losses are recognized in earnings in the current period.

Occidental has used derivatives to reduce its long-term exposure to price volatility on a small portion of its oil and gas production. Through its low-risk marketing and trading activities and within its established policy controls and procedures, Occidental has also used derivative instruments, including a combination of short-term futures, forwards, options and swaps, to improve realized prices for its oil and gas. Additionally, Occidental, through its Phibro trading unit, engages in trading activities using derivatives for the purpose of generating profits mainly from market price changes of commodities.

### Cash-Flow Hedges

As of September 30, 2010 and December 31, 2009, Occidental held a series of collar agreements that qualify as cash-flow hedges for the sale of approximately 2 percent of its crude oil production. These agreements continue to the end of 2011. The following table presents the daily quantities and weighted-average strike prices of Occidental's collar positions as of September 30, 2010 and December 31, 2009:

Crude Oil – Collars	Daily Volume (barrels)	Average Floor	Average Cap
October 2010			
December 2010 (a)	12,000	\$33.00	\$46.35
January 2011 – December 2011 (a)	12,000	\$32.92	\$46.27

In 2009, Occidental entered into financial swap agreements related to the sale of a portion of its natural gas production from the Rocky Mountain region of the United States that qualify as cash-flow hedges. The following table presents the daily quantities and weighted-average prices that will be received by Occidental as of September 30, 2010 and December 31, 2009:

Natural Gas – Swaps	Daily Volume (cubic feet)	Average Price
October 2010 – December 2010 (a)	40 million	\$5.03
December 2010 – March 2012 (a)	50 million	\$6.07

(a) At December 31, 2009, these contracts were outstanding with the same daily volumes and terms indicated and also covered the period from January 1, 2010 to September 30, 2010.

Occidental's marketing and trading operations store natural gas purchased from third parties at Occidental's leased storage facilities. Derivative instruments are used to fix margins on the future sales of the stored volumes. These derivative agreements continue through April 2011. As of September 30, 2010 and December 31, 2009, Occidental had approximately 27 billion cubic feet and 28 billion cubic feet of natural gas held in storage, respectively. As of September 30, 2010 and December 31, 2009, Occidental had designated the forecasted sale of approximately 20 billion cubic feet and 24 billion cubic feet of natural gas from storage as cash-flow hedges, respectively.

The following table presents the pre-tax gains and losses recognized in, and reclassified from, Accumulated Other Comprehensive Income (AOCI) and recognized in income (net sales), including any hedge ineffectiveness, for derivative instruments classified as cash-flow hedges for the three and nine months ended September 30, 2010 and 2009 (in millions):

Commodity Contracts	Three Months		Periods ended September 30	
	2010	2009	2010	2009
Unrealized gains (losses) recognized in AOCI – effective portion	\$ 10	\$ (13)	\$ 105	\$ (85)
Amount of (gains) losses reclassified from AOCI into income – effective portion	\$ 28	\$ 26	\$ 91	\$ (10)
(Losses) gains recognized in income – ineffective portion	\$ (1)	\$ 1	\$	\$ 10

The following table summarizes net after-tax derivative activity recorded in AOCI for the three and nine months ended September 30, 2010 and 2009 (in millions):

	Three Months		Periods ended September 30	
	2010	2009	2010	2009
Beginning balance	\$ (127)	\$ (218)	\$ (227)	\$ (150)
Unrealized gains (losses) from changes in cash-flow hedges	7	(8)	67	(54)
Losses (gains) reclassified to income	18	16	58	(6)
Ending balance	\$ (102)	\$ (210)	\$ (102)	\$ (210)

During the next twelve months, Occidental expects that approximately \$72 million of net after-tax derivative losses included in AOCI, based on their valuation as of September 30, 2010, will be reclassified into income.

#### Derivatives Not Designated as Hedging Instruments

Occidental's third-party marketing and trading activities focus on purchasing crude oil and natural gas for resale from partners, producers and third parties whose oil and gas supply is located near midstream and marketing assets, such as pipelines, processing plants and storage facilities, that are owned or leased by Occidental. These purchases allow Occidental to aggregate volumes to maximize prices received for Occidental's production. The aggregate volumes and durations of these third-party marketing and trading purchase and sales contracts generally approximate each other. In addition, Occidental's Phibro trading unit uses derivative instruments, including forward purchases and sales for physical delivery, futures, swaps and options, in its strategy to profit from market price changes.

The following table presents gross volumes of Occidental's commodity derivatives not designated as hedging instruments as of September 30, 2010 and December 31, 2009:

Commodity	2010	Volumes	2009
Occidental's production sales contracts			
Crude oil (million barrels)	12		9
Third-party marketing and trading activities			
Purchase contracts			
Crude oil (million barrels)	156		161
Natural gas (billion cubic feet)	1,176		1,391
Sales contracts			
Crude oil (million barrels)	157		182
Natural gas (billion cubic feet)	1,454		1,561

In addition, Occidental has certain other commodity trading contracts, including agricultural products, metals, precious metals, electricity and foreign exchange contracts, which were not material to Occidental as of September 30, 2010 and December 31, 2009.

Approximately \$88 million and \$76 million of net gains from derivatives not designated as hedging instruments were recognized in net sales for the three months ended September 30, 2010 and 2009, respectively. Approximately \$141 million and \$37 million of net gains from derivatives not designated as hedging instruments were recognized in net sales for the nine months ended September 30, 2010 and 2009, respectively.

## Fair Value of Derivatives

The following table presents the gross fair value of Occidental's outstanding derivatives as of September 30, 2010 and December 31, 2009 (in millions):

September 30, 2010 Cash-flow hedges (a)	Asset Derivatives		Liability Derivatives	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Commodity contracts	Marketing and trading assets and other	\$ 58	Accrued liabilities	\$ 165
	Long-term receivables and other assets, net	18	Deferred credits and other liabilities	44
		76		209
Derivatives not designated as hedging instruments (a)				
Commodity contracts	Marketing and trading assets and other	954	Accrued liabilities	928
	Long-term receivables and other assets, net	81	Deferred credits and other liabilities	81
		1,035		1,009
Total gross fair value		1,111		1,218
Less: counterparty netting and cash collateral (b)		(807)		(863)
Total net fair value		\$ 304		\$ 355
December 31, 2009 Cash-flow hedges (a)	Asset Derivatives		Liability Derivatives	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Commodity contracts	Marketing and trading assets and other	\$ 2	Accrued liabilities	\$ 168
	Long-term receivables and other assets, net	5	Deferred credits and other liabilities	174
		7		342
Derivatives not designated as hedging instruments (a)				
Commodity contracts	Marketing and trading assets and other	776	Accrued liabilities	789
	Long-term receivables and other assets, net	72	Deferred credits and other liabilities	69

	848	858
Total gross fair value	855	1,200
Less: counterparty netting and cash collateral (c)	(645)	(665)
Total net fair value	\$ 210	\$ 535

- (a) The above fair values are presented at gross amounts, including when the derivatives are subject to master netting arrangements and qualify for net presentation in the consolidated balance sheet.
- (b) As of September 30, 2010, collateral received of \$49 million has been netted against derivative assets and collateral paid of \$105 million has been netted against derivative liabilities.
- (c) As of December 31, 2009, collateral received of \$23 million has been netted against derivative assets and collateral paid of \$43 million has been netted against derivative liabilities.

See Note 10 for fair value measurement disclosures on derivatives.

#### Credit Risk

A majority of Occidental's derivative transactions are exchange-traded contracts, which are subject to nominal credit risk as a significant portion of these transactions are executed on a daily margin basis. Collateral of \$158 million and \$222 million deposited by Occidental for such contracts with clearing houses and brokers, which has not been reflected in the derivative fair value tables, is included in the marketing and trading assets and other balance as of September 30, 2010 and December 31, 2009, respectively.

In addition, Occidental executes a portion of its derivative transactions in the OTC market. Occidental is subject to counterparty credit risk to the extent the counterparty to the derivatives is unable to meet its settlement commitments. Occidental manages this credit risk by selecting counterparties that it believes to be financially strong, by spreading the credit risk among many such counterparties, by entering into master netting arrangements with the counterparties and by requiring collateral as appropriate. Occidental actively monitors the creditworthiness of each counterparty and records valuation adjustments to reflect counterparty risk, if necessary. Certain of Occidental's OTC derivative instruments contain credit risk contingent features, primarily tied to credit ratings for Occidental or its counterparties, which may affect the amount of collateral that each would need to post. As of September 30, 2010 and December 31, 2009, Occidental had a net liability of \$222 million and \$350 million, respectively, for which the amount of collateral posted was \$56 million and \$14 million, respectively. Occidental believes that if it had received a one-notch reduction in its credit rating, it would not have resulted in a material change in its collateral-posting requirements as of September 30, 2010 and December 31, 2009.

#### 12. Industry Segments

Occidental conducts its continuing operations through three segments: (1) oil and gas; (2) chemical; and (3) midstream, marketing and other (midstream and marketing). The oil and gas segment explores for, develops, produces and markets crude oil, including natural gas liquids (NGLs) and condensate, as well as natural gas. The chemical segment manufactures and markets basic chemicals, vinyls and other chemicals. The midstream and marketing segment gathers, treats, processes, transports, stores, purchases and markets crude oil (including NGLs and condensate), natural gas, CO<sub>2</sub> and power. The segment also trades around its assets, including pipelines and storage facilities, and trades commodities and commodity-related securities.

Segment earnings generally exclude income taxes, interest income, interest expense, environmental remediation expenses, unallocated corporate expenses and discontinued operations, but include gains and losses from dispositions of segment assets and income from the segments' equity investments.



The following table presents Occidental's industry segment and corporate disclosures (in millions):

	Oil and Gas	Chemical	Midstream, Marketing and Other	Corporate and Eliminations	Total
Nine months ended September 30, 2010					
Net sales	\$ 10,963	\$ 3,020	\$ 993	\$ (548)(a)	\$ 14,428
Pretax operating profit (loss)	\$ 5,475	\$ 327	\$ 270	\$ (333)(b)	\$ 5,739
Income taxes				(2,345)(c)	(2,345)
Discontinued operations, net				(18)	(18)
Net income attributable to noncontrolling interest	(58)				(58)
Net income (loss) attributable to common stock	\$ 5,417	\$ 327	\$ 270	\$ (2,696)	\$ 3,318
Nine months ended September 30, 2009					
Net sales	\$ 7,952	\$ 2,445	\$ 763	\$ (296)(a)	\$ 10,864
Pretax operating profit (loss)	\$ 3,127	\$ 356	\$ 154	\$ (373)(b)	\$ 3,264
Income taxes				(1,245)(c)	(1,245)
Discontinued operations, net				(7)	(7)
Net income attributable to noncontrolling interest	(35)				(35)
Net income (loss) attributable to common stock	\$ 3,092	\$ 356	\$ 154	\$ (1,625)	\$ 1,977

- (a) Intersegment sales are generally made at prices approximating those that the selling entity is able to obtain in third-party transactions.
- (b) Includes net interest expense, administration expense, environmental remediation and other pre-tax items.
- (c) Includes all foreign and domestic income taxes from continuing operations.

## 13. Earnings Per Share

Occidental's instruments containing rights to nonforfeitable dividends granted in share-based payment transactions are considered participating securities prior to vesting, and therefore, have been included in the earnings allocations in computing basic and diluted EPS under the two-class method.

Basic EPS was computed by dividing net income attributable to common stock by the weighted-average number of common shares outstanding during each period, net of treasury shares and including vested but unissued shares and share units. The computation of diluted EPS further reflected the dilutive effect of stock options and unvested stock awards.

The following table presents the calculation of basic and diluted EPS for the three and nine months ended September 30, 2010 and 2009:

(in millions, except per-share amounts)	Three months		Periods Ended September 30	
	2010	2009	2010	2009
<b>Basic EPS</b>				
Income from continuing operations	\$ 1,218	\$ 943	\$ 3,394	\$ 2,019
Less: Income from continuing operations attributable to noncontrolling interest	(22)	(14)	(58)	(35)
Income from continuing operations attributable to common stock	1,196	929	3,336	1,984
Discontinued operations, net	(5)	(2)	(18)	(7)
Net income attributable to common stock	1,191	927	3,318	1,977
Less: Net income allocated to participating securities	(2)	(1)	(4)	(3)
Net income attributable to common stock, net of participating securities	\$ 1,189	\$ 926	\$ 3,314	\$ 1,974
Weighted average number of basic shares	812.7	811.8	812.4	811.1
Basic EPS	\$ 1.46	\$ 1.14	\$ 4.08	\$ 2.43
<b>Diluted EPS</b>				
Net income attributable to common stock, net of participating securities	\$ 1,189	\$ 926	\$ 3,314	\$ 1,974
Weighted average number of basic shares	812.7	811.8	812.4	811.1
Dilutive effect of potentially dilutive securities	1.2	2.6	1.4	2.8
Total diluted weighted average common shares	813.9	814.4	813.8	813.9
Diluted EPS	\$ 1.46	\$ 1.14	\$ 4.07	\$ 2.43

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Consolidated Results of Operations

Occidental (which means Occidental Petroleum Corporation (OPC) and/or one or more entities in which it owns a majority voting interest) reported net income of \$1.2 billion for the third quarter of 2010 on net sales of \$4.9 billion, compared to net income of \$927 million on net sales of \$4.1 billion for the same period of 2009. Diluted earnings per share (EPS) were \$1.46 for the third quarter of 2010 compared to \$1.14 for the same period of 2009. Occidental reported net income of \$3.3 billion for the first nine months of 2010 on net sales of \$14.4 billion, compared to net income of \$2.0 billion on net sales of \$10.9 billion for the same period of 2009. Diluted EPS were \$4.07 and \$2.43 for the first nine months of 2010 and 2009, respectively.

Net income for three months ended September 30, 2010, compared to the same period of 2009, reflected higher crude oil and natural gas prices and volumes, improved margins and volumes across chlor-alkali and vinyl products, especially in the export markets, higher income in the trading and marketing business and higher pipeline margins, partially offset by higher oil and gas operating costs, partly resulting from the effects of fully expensing carbon dioxide (CO<sub>2</sub>) costs beginning in 2010, and higher depreciation, depletion and amortization (DD&A) rates. Net income for the nine months ended September 30, 2010, compared to the same period of 2009, reflected higher crude oil and natural gas prices and volumes, higher margins in the gas processing business and higher earnings in the pipeline and power generation business, partially offset by higher oil and gas operating costs and DD&A rates.

Net income for the nine months ended September 30, 2009 included after-tax charges of \$41 million for severance, railcar leases and rig termination costs.

Unless indicated otherwise, net income and EPS reflect net income attributable to common stock.

Selected Income Statement Items

The increase in net sales for the three and nine months ended September 30, 2010, compared to the same periods of 2009, reflected higher crude oil and natural gas prices, higher chemical prices and volumes across chlor-alkali and vinyl products, especially in the export markets, and improved results in the trading and marketing business.

The increase in cost of sales for the three and nine months ended September 30, 2010, compared to the same periods of 2009, reflected higher oil and gas operating costs, partly resulting from the effects of fully expensing CO<sub>2</sub>, higher DD&A rates and chemical energy and feedstock costs. The increase in cost of sales for the nine months ended September 30, 2010, compared to the same period of 2009, also reflected higher third-party marketing volumes in the midstream, marketing and other segment (midstream and marketing). The decrease in selling, general and administrative and other operating expenses for the three and nine months ended September 30, 2010, compared to the same periods of 2009, reflected lower expenses incurred in 2010 related to foreign labor strikes and rig idling costs. The decrease in selling, general and administrative and other operating expenses for the nine months ended September 30, 2010, compared to the same period of 2009, also reflected 2009 pre-tax charges of \$63 million for severance, railcar leases and rig termination costs. The increase in exploration expenses for the nine months ended September 30, 2010, compared to the same period of 2009, reflected higher exploration expenses for the exploration programs mostly in the Middle East and Midcontinent Gas.

The increase in provision for domestic and foreign income taxes for the three and nine months ended September 30, 2010, compared to the same periods of 2009, reflected higher pre-tax income and higher effective tax rates in 2010 than 2009. Provision for domestic and foreign income taxes for three and nine months ended September 30, 2009

included tax benefits from the relinquishment of international exploration contracts.

### Selected Analysis of Financial Position

See “Liquidity and Capital Resources” for discussion about the change in cash and cash equivalents.

The increase in trade receivables, net, reflected higher crude oil volumes, partially offset by lower gas prices during the third quarter of 2010, compared to the fourth quarter of 2009. The decrease in marketing and trading assets and other, reflected decreases in trading securities held and marketing activities, lower joint venture receivables and collection of domestic and foreign tax receivables in 2010. The increase in property, plant and equipment, net reflected capital expenditures of approximately \$2.8 billion and acquisitions of approximately \$2.1 billion, partially offset by DD&A.

The decrease in current maturities of long-term debt reflected payments of amounts due on senior notes. The increase in accounts payable reflected higher third-party product marketing and trading activity and higher capital expenditures, partially offset by lower gas prices during the third quarter of 2010, compared to the fourth quarter of 2009. The decrease in accrued liabilities reflected 2010 payments related to the Phibro trading unit acquisition and scheduled foreign contract payments, partially offset by higher joint venture payables and accruals for scheduled payments related to 2010 acquisitions. The increase in domestic and foreign income taxes payable reflected higher foreign income and the timing of estimated income tax payments. The increase in deferred and other domestic and foreign income taxes was due to deferred tax charges. The increase in deferred credits and other liabilities – other reflected the long-term portion of the payments for 2010 acquisitions and accruals related to the Phibro acquisition, partially offset by lower mark-to-market activity for derivative financial instruments. The increase in stockholder’s equity reflected net income for the first nine months of 2010, partially offset by dividend payments.

## Segment Operations

Occidental conducts its continuing operations through three segments: (1) oil and gas; (2) chemical; and (3) midstream and marketing. The oil and gas segment explores for, develops, produces and markets crude oil, including natural gas liquids (NGLs) and condensate (together with NGLs, “liquids”), as well as natural gas. The chemical segment manufactures and markets basic chemicals, vinyls and other chemicals. The midstream and marketing segment gathers, treats, processes, transports, stores, purchases and markets crude oil (including liquids), natural gas, CO<sub>2</sub> and power. The segment also trades around its assets, including pipelines and storage capacity, and trades commodities and commodity-related securities.

The following table sets forth the sales and earnings of each operating segment and corporate items for the three and nine months ended September 30, 2010 and 2009 (in millions):

	2010	Three Months		Periods Ended September 30	
		2009	2010	2009	
Net Sales (a)					
Oil and Gas	\$ 3,641	\$ 3,089	\$ 10,963	\$ 7,952	
Chemical	1,051	842	3,020	2,445	
Midstream, Marketing and Other	388	285	993	763	
Eliminations	(184)	(112)	(548)	(296)	
	\$ 4,896	\$ 4,104	\$ 14,428	\$ 10,864	
Segment Earnings (b)					
Oil and Gas (c)	\$ 1,745	\$ 1,464	\$ 5,417	\$ 3,092	
Chemical	189	72	327	356	
Midstream, Marketing and Other	163	77	270	154	
	2,097	1,613	6,014	3,602	
Unallocated Corporate Items					
Interest expense, net (b)	(19)	(33)	(77)	(76)	
Income taxes	(816)	(549)	(2,345)	(1,245)	
Other expense, net (b)	(66)	(102)	(256)	(297)	
Income from continuing operations (c)	1,196	929	3,336	1,984	
Discontinued operations, net (b)	(5)	(2)	(18)	(7)	
Net income (c)	\$ 1,191	\$ 927	\$ 3,318	\$ 1,977	

- (a) Intersegment sales are generally made at prices approximating those that the selling entity is able to obtain in third-party transactions.
- (b) Refer to “Significant Items Affecting Earnings,” “Oil and Gas Segment,” “Chemical Segment,” “Midstream, Marketing and Other Segment” and “Corporate” discussions that follow.
- (c) Represents amounts attributable to common stock shown after deducting noncontrolling interest amounts of \$22 million and \$14 million for the three months ended September 30, 2010 and 2009, respectively, and \$58 million and \$35 million for the nine months ended September 30, 2010 and 2009, respectively.



## Significant Transactions and Events Affecting Earnings

The following table sets forth, for the three and nine months ended September 30, 2010 and 2009, the effects of significant transactions and events affecting Occidental's earnings that vary widely and unpredictably in nature, timing and amount (in millions):

	Three Months		Periods Ended September 30	
	2010	2009	2010	Nine Months 2009
<b>Oil &amp; Gas</b>				
Rig terminations	\$	\$	\$	\$ (8)
Total Oil and Gas	\$	\$	\$	\$ (8)
<b>Chemical</b>				
No significant items affecting earnings	\$	\$	\$	\$
Total Chemical	\$	\$	\$	\$
<b>Midstream, Marketing and Other</b>				
No significant items affecting earnings	\$	\$	\$	\$
Total Midstream, Marketing and Other	\$	\$	\$	\$
<b>Corporate</b>				
Severance accrual	\$	\$	\$	\$ (40)
Railcar leases				(15)
Tax effect of pre-tax adjustments				22
Discontinued operations, net*	(5)	(2)	(18)	(7)
Total Corporate	\$ (5)	\$ (2)	\$ (18)	\$ (40)
<b>Total</b>	<b>\$ (5)</b>	<b>\$ (2)</b>	<b>\$ (18)</b>	<b>\$ (48)</b>

\*Amounts shown after tax.

## Worldwide Effective Tax Rate

The following table sets forth the calculation of the worldwide effective tax rate for income from continuing operations for the three and nine months ended September 30, 2010 and 2009 (in millions):

	Three Months		Periods Ended September 30	
	2010	2009	2010	Nine Months 2009
Oil & Gas earnings (a)	\$ 1,745	\$ 1,464	\$ 5,417	\$ 3,092
Chemical earnings	189	72	327	356
Midstream, Marketing and Other earnings	163	77	270	154
Unallocated corporate items	(85)	(135)	(333)	(373)
Pre-tax income (a)	2,012	1,478	5,681	3,229



Income tax expense				
Federal and state	322	189	958	349
Foreign	494	360	1,387	896
Total	816	549	2,345	1,245
Income from continuing operations (a)	\$ 1,196	\$ 929	\$ 3,336	\$ 1,984
Worldwide effective tax rate	41%	37%	41%	39%

(a) Represents amounts attributable to common stock shown after deducting noncontrolling interest amounts of \$22 million and \$14 million for the three months ended September 30, 2010 and 2009, respectively, and \$58 million and \$35 million for the nine months ended September 30, 2010 and 2009, respectively.

## Oil and Gas Segment

The following tables set forth the sales and production volumes of crude oil and liquids and natural gas per day for the three and nine months ended September 30, 2010 and 2009. The differences between the sales volumes and production per day are generally due to the timing of shipments at Occidental's international locations where product is loaded onto tankers.

Sales Volumes per Day	Three Months		Periods Ended September 30	
	2010	2009	2010	Nine Months 2009
<b>Crude Oil and Liquids (MBBL)</b>				
United States	270	269	270	271
Middle East/North Africa	215	196	209	198
Latin America (a)	71	74	71	83
<b>Natural Gas (MMCF)</b>				
United States	656	653	671	632
Middle East	478	306	456	308
Latin America	54	45	48	47
<b>Total sales volumes (MBOE) (a,c)</b>	<b>754</b>	<b>707</b>	<b>746</b>	<b>717</b>
<b>Production per Day</b>				
<b>Crude Oil and Liquids (MBBL)</b>				
United States	270	269	270	271
Middle East/North Africa	211	200	210	200
Latin America (b)	77	74	75	82
<b>Natural Gas (MMCF)</b>				
United States	656	653	671	632
Middle East	478	306	456	308
Latin America	54	45	48	47
<b>Total production (MBOE) (b,c)</b>	<b>756</b>	<b>710</b>	<b>751</b>	<b>717</b>

- (a) Includes sales volumes per day of 5 mbbbl for each of the three months ended September 30, 2010 and 2009, and 5 mbbbl and 6 mbbbl for the nine months ended September 30, 2010 and 2009, respectively, related to the noncontrolling interest in a Colombian subsidiary.
- (b) Includes production volumes per day of 5 mbbbl for each of the three months ended September 30, 2010 and 2009, and 5 mbbbl and 6 mbbbl for the nine months ended September 30, 2010 and 2009, respectively, related to the noncontrolling interest in a Colombian subsidiary.
- (c) Natural gas volumes have been converted to barrels of oil equivalent (BOE) based on energy content of 6,000 cubic feet (one thousand cubic feet is referred to as "Mcf") of gas to one barrel of oil.

Average Sales Prices	Three Months		Periods Ended September 30	
	2010	2009	2010	Nine Months 2009
Crude Oil (\$/BBL)				
United States	\$ 71.14	\$ 63.37	\$ 71.96	\$ 52.04
Middle East/North Africa	\$ 73.66	\$ 66.04	\$ 75.39	\$ 53.55
Latin America	\$ 61.01	\$ 55.40	\$ 59.91	\$ 46.51
Worldwide	\$ 70.71	\$ 62.79	\$ 71.57	\$ 51.44
Natural Gas (\$/MCF)				
United States	\$ 4.20	\$ 3.04	\$ 4.67	\$ 3.15
Latin America	\$ 3.83	\$ 2.87	\$ 3.71	\$ 3.04
Worldwide	\$ 2.82	\$ 2.53	\$ 3.13	\$ 2.59

Oil and gas segment earnings for the three and nine months ended September 30, 2010, were \$1.7 billion and \$5.4 billion, respectively, compared to \$1.5 billion and \$3.1 billion, respectively, for the same periods of 2009. The increase in oil and gas segment earnings for the three and nine months ended September 30, 2010, compared to the same periods of 2009, reflected higher crude oil and natural gas prices and volumes, partially offset by higher operating expenses, partly resulting from fully expensing CO2 costs in 2010, and higher DD&A rates.

In the third quarter of 2010, the average West Texas Intermediate (WTI) price was \$76.20 per barrel and the average New York Mercantile Exchange (NYMEX) price for natural gas was \$4.53 per million British Thermal Units (BTUs), compared to \$68.30 per barrel and \$3.60 per million BTUs, respectively, for the third quarter of 2009. Occidental's realized crude oil price for the third quarter of 2010 was \$70.71 per barrel, compared to \$62.79 per barrel for the third quarter of 2009. Based on the current levels of production and prices, if domestic natural gas prices vary by \$0.50 per million BTUs, it would have an estimated effect on quarterly pre-tax income of approximately \$27 million, while a \$1.00 per-barrel change in oil prices would have an estimated quarterly pre-tax impact of approximately \$39 million. If production levels change, the sensitivity of Occidental's results to oil and gas prices also would change.

Oil and gas production (net of noncontrolling interest) in the third quarter of 2010 was 751,000 BOE per day, compared with 705,000 BOE per day for the same period of 2009. Volumes increased by 6.5 percent, primarily in the Middle East/North Africa, with smaller increases in Argentina and the United States. The Middle East/North Africa increase included new production from the start-up of Occidental's Bahrain joint venture and increased production from the Mukhaizna field in Oman. Daily sales volumes (net of noncontrolling interest) were 749,000 BOE in the third quarter of 2010, compared to 702,000 BOE in the third quarter of 2009. Oil and gas production in the first nine months of 2010 was 746,000 BOE per day, compared with 711,000 BOE per day for the same period of 2009. Volumes increased by nearly 5 percent, primarily in the Middle East/North Africa as a result of the new production in Bahrain and higher production in the Mukhaizna field in Oman, and domestically in California. Production was negatively impacted in the Middle East/North Africa, Long Beach and Colombia resulting from higher year-over-year average oil prices affecting production sharing and similar contracts by 21,000 BOE per day. Daily sales volumes were 741,000 BOE in the first nine months of 2010, compared to 711,000 BOE for the same period of 2009. Sales volumes generally differ from production volumes due to the timing of liftings in Occidental's international operations. An increase in oil prices of \$5.00 per barrel from the third quarter 2010 levels would result in approximately 4,000 BOE per day lower production due to the impact of higher prices affecting Occidental's production sharing and similar contracts.

Oil and gas cash production costs, excluding production and property taxes, increased from \$9.37 per BOE for the total year 2009 to \$10.25 per BOE for the nine months ended September 30, 2010. The increase for the nine months

of 2010 reflected \$0.35 per barrel in higher CO2 costs, due to the change to expensing 100 percent of injected CO2 costs beginning in 2010, and higher field support operations, workovers and maintenance costs. The higher domestic workover activity is mostly in the Permian.

In January 2010, Occidental and its partners signed a technical service contract with the government of Iraq to develop the Zubair Field in Iraq. During the nine months ended September 30, 2010, Occidental agreed to acquire various interests, mostly in operated, producing properties in the Permian and midcontinent regions, for approximately \$2.1 billion. Occidental also obtained a ten-year extension for its hydrocarbon concessions in the Santa Cruz province of Argentina.

#### Chemical Segment

Chemical segment earnings for the three months ended September 30, 2010 and 2009 were \$189 million and \$72 million, respectively. The third quarter of 2010 results reflected improved margins and volumes across chlor-alkali and vinyl products. Export volumes increased by 22 percent compared to 2009.

Chemical segment earnings for the nine months ended September 30, 2010 and 2009 were \$327 million and \$356 million, respectively. The 2010 results reflected improving market conditions, with global markets outpacing domestic markets in the recovery, resulting in 16 percent higher export volumes compared to 2009.

#### Midstream, Marketing and Other Segment

Midstream and marketing segment earnings for the three months ended September 30, 2010 and 2009 were \$163 million and \$77 million, respectively. Earnings for the third quarter of 2010 reflected higher income in the trading and marketing businesses and higher pipeline margins.

Midstream and marketing segment earnings for the nine months ended September 30, 2010 and 2009 were \$270 million and \$154 million, respectively. The 2010 results reflected higher margins in the gas processing business and improved results in the pipeline and power generation businesses.

#### Corporate

During the nine months ended September 30, 2009, Occidental recorded pre-tax charges of \$55 million for severance and railcar leases.

#### Liquidity and Capital Resources

At September 30, 2010, Occidental had approximately \$2.1 billion in cash on hand. Available but unused lines of committed bank credit totaled approximately \$1.5 billion at September 30, 2010. Income and cash flows are largely dependent on crude oil and gas prices and sales volumes, all of which increased in the first nine months of 2010, compared to the same period of 2009. Occidental believes that cash on hand and cash generated from operations will be sufficient to fund its operating needs and planned capital expenditures, dividends and any debt payments.

Occidental's cash flow from operations for the nine months ended September 30, 2010 was approximately \$6.6 billion, compared to \$3.8 billion for the same period in 2009. The most important sources of the increase in operating cash flow in 2010, compared to 2009, were higher worldwide crude oil and domestic natural gas prices. In the first nine months of 2010, compared to the same period in 2009, Occidental's average worldwide realized crude oil price was 39 percent higher and Occidental's average realized natural gas price increased 48 percent in the U.S., where approximately 57 percent of Occidental's natural gas was produced. The overall impact of the chemical and midstream and marketing segments' margins on cash flow was less significant than the increases in oil and gas prices because the chemical and midstream and marketing segments' earnings and cash flows are significantly smaller than those for the oil and gas segment.

Occidental's net cash used by investing activities was \$4.6 billion for the first nine months of 2010, compared to \$3.2 billion for the same period of 2009. The 2010 amount included payments of \$1.6 billion for acquisitions of various interests in domestic oil and gas properties, mostly in the Permian and midcontinent regions, and approximately \$300 million for foreign contracts. The 2009 amount included cash payments for foreign contracts

and acquisitions of various oil and gas and chemical interests of \$582 million. Capital expenditures for the first nine months of 2010 were \$2.8 billion, including \$2.3 billion for oil and gas. Capital expenditures for the first nine months of 2009 were \$2.6 billion, including \$2.1 billion for oil and gas.

Occidental's net cash used by financing activities was \$1.2 billion in the first nine months of 2010, compared to net cash used by financing activities of \$764 million for the same period of 2009. The 2010 amount included the repayment of Occidental's debt of \$311 million and dividend payments of \$848 million. The 2009 amount included net proceeds of \$740 million from the issuance of senior notes, payments of debt of \$699 million and dividend payments of \$794 million.

As of September 30, 2010, under the most restrictive covenants of its financing agreements, Occidental had substantial capacity for additional unsecured borrowings, the payment of cash dividends and other distributions on, or acquisitions of, Occidental stock.

Occidental's capital spending estimate for 2010 is approximately \$4.4 billion and Occidental will focus on the goal of keeping Occidental's returns well above its cost of capital.

#### Environmental Liabilities and Expenditures

Occidental's operations are subject to stringent federal, state, local and foreign laws and regulations relating to improving or maintaining environmental quality. Occidental's environmental compliance costs have generally increased over time and could continue to rise in the future. Occidental factors environmental expenditures for its operations into its business planning process as an integral part of producing quality products responsive to market demand.

The laws that require or address environmental remediation, including the Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA) and similar federal, state, local and foreign laws, may apply retroactively and regardless of fault, the legality of the original activities or the current ownership or control of sites. OPC or certain of its subsidiaries participate in or actively monitor a range of remedial activities and government or private proceedings under these laws with respect to alleged past practices at operating, closed and third-party sites. Remedial activities may include one or more of the following: investigation involving sampling, modeling, risk assessment or monitoring; cleanup measures including removal, treatment or disposal; or operation and maintenance of remedial systems. The environmental proceedings seek funding or performance of remediation and, in some cases, compensation for alleged property damage, punitive damages, civil penalties, injunctive relief and government oversight costs.

As of September 30, 2010, Occidental participated in or monitored remedial activities or proceedings at 169 sites. The following table presents Occidental's environmental remediation reserves as of September 30, 2010, the current portion of which is included in accrued liabilities (\$82 million) and the remainder in deferred credits and other liabilities — other (\$286 million). The reserves are grouped as environmental remediation sites listed or proposed for listing by the U.S. Environmental Protection Agency on the CERCLA National Priorities List (NPL sites) and three categories of non-NPL sites — third-party sites, Occidental-operated sites and closed or non-operated Occidental sites.

	Number of Sites	Reserve Balance (in millions)
NPL sites	39	\$ 56
Third-party sites	82	94
Occidental-operated sites	19	115

Edgar Filing: OCCIDENTAL PETROLEUM CORP /DE/ - Form 10-Q

Closed or non-operated Occidental sites	29	103
Total	169	\$ 368

26



As of September 30, 2010, Occidental's environmental reserves exceeded \$10 million at 13 of the 169 sites described above, and 121 of the sites had reserves from \$0 to \$1 million each. Occidental expects to expend funds corresponding to about half of the current environmental reserves over the next four years and the balance over the subsequent ten or more years. Occidental believes its range of reasonably possible additional loss beyond those liabilities recorded for environmental remediation at the sites described above could be up to \$375 million. The status of Occidental's involvement with the sites and related significant assumptions have not changed materially since December 31, 2009.

Refer to the "Environmental Liabilities and Expenditures" section of Management's Discussion and Analysis of Financial Condition and Results of Operations in Occidental's Annual Report on Form 10-K for the year ended December 31, 2009 for additional information regarding Occidental's environmental expenditures.

#### Lawsuits, Claims, Commitments, Contingencies and Related Matters

OPC or certain of its subsidiaries are named, in the normal course of business, in lawsuits, claims and other legal proceedings that seek, among other things, compensation for alleged personal injury, breach of contract, property damage, punitive damages, civil penalties or other losses, or injunctive or declaratory relief. OPC or certain of its subsidiaries also have been named in proceedings under CERCLA and similar federal, state, local and foreign environmental laws. These environmental proceedings seek funding or performance of remediation and, in some cases, compensation for alleged property damage, punitive damages, civil penalties and injunctive relief; however, Occidental is usually one of many companies in these proceedings and has to date been successful in sharing response costs with other financially sound companies. With respect to all such lawsuits, claims and proceedings, including environmental proceedings, Occidental accrues reserves when it is probable a liability has been incurred and the amount of loss can be reasonably estimated.

During the course of its operations, Occidental is subject to audit by tax authorities for varying periods in various federal, state, local and foreign tax jurisdictions. While the audits of corporate tax returns for taxable years through 2008 have concluded for U.S. federal income tax purposes, the 2009 and 2010 taxable years are currently under review by the U.S. Internal Revenue Service pursuant to its Compliance Assurance Program. Taxable years from 2000 through 2009 remain subject to examination by foreign and state government tax authorities in certain jurisdictions. In certain of these locations, tax authorities are in various stages of auditing Occidental's income taxes. During the course of tax audits, disputes have arisen and other disputes may arise as to facts and matters of law.

Occidental has indemnified various parties against specified liabilities that those parties might incur in the future in connection with purchases and other transactions that they have entered into with Occidental. These indemnities usually are contingent upon the other party incurring liabilities that reach specified thresholds. As of September 30, 2010, Occidental is not aware of circumstances that it believes would reasonably be expected to lead to future indemnity claims against it in connection with these transactions that would result in payments materially in excess of reserves.

The ultimate amount of losses and the timing of any such losses that OPC and its subsidiaries may incur resulting from currently outstanding lawsuits, claims and proceedings, audits, commitments, contingencies and related matters cannot be determined reliably at this time. If these matters were ultimately resolved unfavorably at amounts substantially exceeding Occidental's reserves, an outcome not currently expected, it is possible that such outcome could have a material adverse effect upon Occidental's consolidated financial position or results of operations. However, after taking into account reserves, management does not expect the ultimate resolution of any of these matters to have a material adverse effect upon Occidental's consolidated financial position or results of operations.

#### Recently Adopted Accounting and Disclosure Changes

**Fair Value Measurements** – Beginning in the quarter ended March 31, 2010, Occidental enhanced its fair value measurement disclosures as a result of adopting new disclosure requirements issued by the Financial Accounting Standards Board (FASB) in January 2010. The new rules require interim and year-end disclosures of: (i) fair value measurements by classes of assets and liabilities; (ii) valuation techniques and inputs used for Level 2 or 3 fair value measurements; and (iii) significant transfers into and out of Level 1 and 2 measurements and the reasons for the transfers.

**Variable Interest Entities** – Beginning January 1, 2010, Occidental modified its method of assessing the consolidation of variable interest entities as a result of adopting new accounting requirements issued by the FASB in June 2009. This new rule had no impact on Occidental's financial statements upon adoption and will require assessment on an ongoing basis.

#### Safe Harbor Statement Regarding Outlook and Forward-Looking Information

Portions of this report contain forward-looking statements and involve risks and uncertainties that could materially affect expected results of operations, liquidity, cash flows and business prospects. Factors that could cause results to differ materially include, but are not limited to: global commodity pricing fluctuations; supply and demand considerations for Occidental's products; not successfully completing, or any material delay of, any development of new fields, expansion projects, capital expenditures, efficiency-improvement projects, acquisitions or dispositions; potential failure to achieve expected production from existing and future oil and gas development projects; exploration risks such as drilling unsuccessful wells; any general economic recession or slowdown domestically or internationally; higher-than-expected costs; potential liability for remedial actions under existing or future environmental regulations and litigation; potential liability resulting from pending or future litigation; general domestic and international political conditions; potential disruption or interruption of Occidental's production or manufacturing or damage to facilities due to accidents, chemical releases, labor unrest, weather, natural disasters, political events or insurgent activity; failure of risk management; changes in law or regulations; or changes in tax rates. Words such as "estimate", "project", "predict", "will", "would", "should", "could", "may", "might", "anticipate", "believe", "expect" or similar expressions that convey the uncertainty of future events or outcomes generally indicate forward-looking statements. You should not place undue reliance on these forward-looking statements, which speak only as of the date of this report. Unless legally required, Occidental does not undertake any obligation to update any forward-looking statements, as a result of new information, future events or otherwise. Material risks that may affect Occidental's results of operations and financial position appear in Part 1, Item 1A "Risk Factors" of the 2009 Form 10-K.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

For the three and nine months ended September 30, 2010, there were no material changes in the information required to be provided under Item 305 of Regulation S-K included under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations (Incorporating Item 7A) – Derivative Activities and Market Risk" in the 2009 Form 10-K.

The nine months ended September 30, 2010 included operations of the Phibro trading unit, which Occidental acquired on December 31, 2009. Occidental determined that operations of the unit are not reasonably likely to have a material adverse effect on the Company. This conclusion is based primarily on the trading limits Occidental placed on the unit, including, among others, limits on total notional trade value, value at risk and credit, as well as the highly liquid positions the operation maintains, in which the market risk can be neutralized on very short notice.

Item 4. Controls and Procedures

Occidental's Chairman of the Board of Directors and Chief Executive Officer and its Executive Vice President and Chief Financial Officer supervised and participated in Occidental's evaluation of its disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this report. Based upon that evaluation, Occidental's Chairman of the Board of Directors and Chief Executive Officer and its Executive Vice President and Chief Financial Officer concluded that Occidental's disclosure controls and procedures were effective as of September 30, 2010.

There has been no change in Occidental's internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934) during the third quarter of 2010 that has materially affected, or is reasonably likely to materially affect, Occidental's internal control over financial reporting.

## PART II OTHER INFORMATION

## Item 1. Legal Proceedings

For information regarding legal proceedings, see the information in Note 8 to the consolidated condensed financial statements in Part I of this Form 10-Q and Part II, Item I "Legal Proceedings" in the Form 10-Q for the periods ended March 31, 2010 and June 30, 2010.

In May 2010, a putative stockholder action, Resnik v. Abraham, was filed in the U.S. District Court (Delaware), naming the then-current directors, the executive officers listed in the 2010 Proxy Statement and Occidental as defendants. In July 2010, a second putative derivative action captioned Gusinsky v. Irani, was filed in the Los Angeles Superior Court. The allegations made in the complaints are set forth in Occidental's Form 10-Q for the period ended June 30, 2010. On August 13, 2010, a third putative derivative action captioned Wein v. Irani, which was virtually identical to the Gusinsky action, was filed in the Los Angeles Superior Court. The parties to the Gusinsky and Wein actions have stipulated to consolidate the cases. The parties in the Resnik case have reached an agreement in principle providing, subject to court approval, for settlement of that action on terms set forth in a Memorandum of Understanding, which appears as Exhibit 99.5 to Occidental's Form 8-K filed October 14, 2010.

## Item 2. Share Repurchase Activities

Occidental's share repurchase activities for the three months ended September 30, 2010 were as follows:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet be Purchased Under the Plans or Programs
First Quarter 2010		\$		
Second Quarter 2010 (a)	129,774	\$ 86.60		
July 1 – 31, 2010		\$		
August 1 – 31, 2010		\$		
September 1 – 30, 2010		\$		
Third Quarter 2010		\$		
Total	129,774	\$ 86.60		27,155,575

(a) Represents amounts Occidental purchased from the trustee of Occidental's defined contribution savings plan in April 2010.

Item 6. Exhibits

- 3.(ii) By-laws of Occidental, as amended through October 13, 2010 (filed as Exhibit 3.(ii) to the Current Report on Form 8-K of Occidental dated October 13, 2010 (date of earliest event reported), filed October 14, 2010, File No. 1-9210).
- 10.1 Occidental Petroleum Corporation 2005 Long-Term Incentive Plan, as amended through October 13, 2010 (filed as Exhibit 10.1 to the Current Report on Form 8-K of Occidental dated October 13, 2010 (date of earliest event reported), filed October 14, 2010, File No. 1-9210).
- 10.2 Occidental Petroleum Corporation 2005 Long-Term Incentive Plan Restricted Stock Incentive Award Terms and Conditions (filed as Exhibit 10.2 to the Current Report on Form 8-K of Occidental dated October 13, 2010 (date of earliest event reported), filed October 14, 2010, File No. 1-9210).
- 10.3 Occidental Petroleum Corporation 2005 Long-Term Incentive Plan Total Shareholder Return Incentive Award Terms and Conditions (Equity-based, Equity and Cash-settled Award) (filed as Exhibit 10.3 to the Current Report on Form 8-K of Occidental dated October 13, 2010 (date of earliest event reported), filed October 14, 2010, File No. 1-9210).
- 12 Statement regarding the computation of total enterprise ratios of earnings to fixed charges for the nine months ended September 30, 2010 and 2009 and for each of the five years in the period ended December 31, 2009.
- 31.1 Certification of CEO Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of CFO Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certifications of CEO and CFO Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 101.INS XBRL Instance Document
- 101.SCH XBRL Taxonomy Extension Schema Document
- 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document
- 101.LAB XBRL Taxonomy Extension Label Linkbase Document
- 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document
- 101.DEF XBRL Taxonomy Extension Definition Linkbase Document

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.

OCCIDENTAL PETROLEUM  
CORPORATION

DATE: November 4, 2010

/s/ Roy Pineci  
Roy Pineci  
Vice President, Controller and  
Principal Accounting Officer

EXHIBIT INDEX

EXHIBITS

12	Statement regarding the computation of total enterprise ratios of earnings to fixed charges for the nine months ended September 30, 2010 and 2009 and for each of the five years in the period ended December 31, 2009.
31.1	Certification of CEO Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of CFO Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certifications of CEO and CFO Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document