
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 June 30, 2004

☐ **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

(Address of principal executive offices) (zip code)

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

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes ☒ No ☐

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of July 23, 2004.

<u>Title of each class</u>	<u>Number of shares</u>
Common Stock, \$.01 par value	117,850,517

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 Amounts) (Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
Net Operating Revenues				
Natural Gas	\$ 430,532	\$ 377,643	\$ 847,921	\$ 811,734
Crude Oil, Condensate and Natural Gas Liquids	102,401	61,471	192,859	136,979
Losses on Mark-to-Market Commodity Derivative Contracts	(14,563)	(15,753)	(59,018)	(60,974)
Other, Net	<u>651</u>	<u>1,393</u>	<u>1,579</u>	<u>1,684</u>
Total	519,021	424,754	983,341	889,423
Operating Expenses				
Lease and Well	65,532	53,620	129,949	101,959
Exploration Costs	19,596	22,139	45,592	39,597
Dry Hole Costs	19,064	3,436	29,091	10,056
Impairments	15,711	25,475	33,359	37,431
Depreciation, Depletion and Amortization	116,224	106,587	230,021	210,140
General and Administrative	26,370	24,934	51,285	45,355
Taxes Other Than Income	<u>29,788</u>	<u>11,695</u>	<u>65,872</u>	<u>41,888</u>
Total	<u>292,285</u>	<u>247,886</u>	<u>585,169</u>	<u>486,426</u>
Operating Income	226,736	176,868	398,172	402,997
Other Income (Expense), Net	<u>1,425</u>	<u>2,680</u>	<u>(1,304)</u>	<u>2,832</u>
Income Before Interest Expense and Income Taxes	228,161	179,548	396,868	405,829
Interest Expense, Net	<u>15,416</u>	<u>13,807</u>	<u>32,099</u>	<u>29,125</u>
Income Before Income Taxes	212,745	165,741	364,769	376,704
Income Tax Provision	<u>67,808</u>	<u>56,950</u>	<u>118,979</u>	<u>131,357</u>
Net Income Before Cumulative Effect of Change in Accounting Principle	144,937	108,791	245,790	245,347
Cumulative Effect of Change in Accounting Principle, Net of Income Tax	<u>-</u>	<u>-</u>	<u>-</u>	<u>(7,131)</u>
Net Income	144,937	108,791	245,790	238,216
Preferred Stock Dividends	<u>2,758</u>	<u>2,758</u>	<u>5,516</u>	<u>5,516</u>
Net Income Available to Common	<u>\$ 142,179</u>	<u>\$ 106,033</u>	<u>\$ 240,274</u>	<u>\$ 232,700</u>
Net Income Per Share Available to Common				
Basic				
Net Income Available to Common Before Cumulative Effect of Change in Accounting Principle	\$ 1.22	\$ 0.93	\$ 2.07	\$ 2.09
Cumulative Effect of Change in Accounting Principle, Net of Income Tax	<u>-</u>	<u>-</u>	<u>-</u>	<u>(0.06)</u>
Net Income Available to Common	<u>\$ 1.22</u>	<u>\$ 0.93</u>	<u>\$ 2.07</u>	<u>\$ 2.03</u>
Diluted				
Net Income Available to Common Before Cumulative Effect of Change in Accounting Principle	\$ 1.20	\$ 0.91	\$ 2.03	\$ 2.06
Cumulative Effect of Change in Accounting Principle, Net of Income Tax	<u>-</u>	<u>-</u>	<u>-</u>	<u>(0.06)</u>
Net Income Available to Common	<u>\$ 1.20</u>	<u>\$ 0.91</u>	<u>\$ 2.03</u>	<u>\$ 2.00</u>
Average Number of Common Shares				
Basic	<u>116,388</u>	<u>114,382</u>	<u>116,052</u>	<u>114,430</u>
Diluted	<u>118,709</u>	<u>116,131</u>	<u>118,227</u>	<u>116,212</u>

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

PART I. FINANCIAL INFORMATION - (Continued)

ITEM 1. FINANCIAL STATEMENTS - (Continued)

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

	June 30, 2004	December 31, 2003
	(Unaudited)	
ASSETS		
Current Assets		
Cash and Cash Equivalents	\$ 67,839	\$ 4,443
Accounts Receivable, Net	355,662	295,118
Inventories	30,253	21,922
Deferred Income Taxes	39,564	31,548
Other	<u>57,106</u>	<u>42,983</u>
Total	550,424	396,014
Oil and Gas Properties (Successful Efforts Method)	8,616,115	8,189,062
Less: Accumulated Depreciation, Depletion and Amortization	<u>(4,149,096)</u>	<u>(3,940,145)</u>
Net Oil and Gas Properties	4,467,019	4,248,917
Other Assets	<u>109,523</u>	<u>104,084</u>
Total Assets	<u>\$ 5,126,966</u>	<u>\$ 4,749,015</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts Payable	\$ 319,535	\$ 282,379
Accrued Taxes Payable	50,165	33,276
Dividends Payable	7,425	6,175
Liabilities from Price Risk Management Activities	58,601	37,779
Deferred Income Taxes	36,260	73,611
Other	<u>34,078</u>	<u>43,299</u>
Total	506,064	476,519
Long-Term Debt	1,085,822	1,108,872
Other Liabilities	180,743	171,115
Deferred Income Taxes	876,406	769,128
Shareholders' Equity		
Preferred Stock, \$.01 Par, 10,000,000 Shares Authorized:		
Series B, 100,000 Shares Issued, Cumulative, \$100,000 Liquidation Preference	98,707	98,589
Series D, 500 Shares Issued, Cumulative, \$50,000 Liquidation Preference	49,918	49,827
Common Stock, \$.01 Par, 320,000,000 Shares Authorized and 124,730,000 Shares Issued	201,247	201,247
Additional Paid in Capital	7,478	1,625
Unearned Compensation	(27,978)	(23,473)
Accumulated Other Comprehensive Income	41,473	73,934
Retained Earnings	2,347,446	2,121,214
Common Stock Held in Treasury, 7,044,550 shares at June 30, 2004 and 8,819,600 shares at December 31, 2003	<u>(240,360)</u>	<u>(299,582)</u>
Total Shareholders' Equity	<u>2,477,931</u>	<u>2,223,381</u>
Total Liabilities and Shareholders' Equity	<u>\$ 5,126,966</u>	<u>\$ 4,749,015</u>

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

PART I. FINANCIAL INFORMATION - (Continued)

ITEM 1. FINANCIAL STATEMENTS - (Continued)

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

	Six Months Ended June 30,	
	2004	2003
Cash Flows From Operating Activities		
Reconciliation of Net Income to Net Cash Provided by Operating Activities:		
Net Income	\$ 245,790	\$ 238,216
Items Not Requiring Cash		
Depreciation, Depletion and Amortization	230,021	210,140
Impairments	33,359	37,431
Deferred Income Taxes	84,216	79,975
Cumulative Effect of Change in Accounting Principle, Net of Income Tax	-	7,131
Other, Net	13,289	3,965
Exploration Costs	45,592	39,597
Dry Hole Costs	29,091	10,056
Mark-to-Market Commodity Derivative Contracts		
Total Losses	59,018	60,974
Realized Losses	(38,211)	(39,089)
Tax Benefits from Stock Options Exercised	13,792	4,802
Other, Net	(1,273)	3,499
Changes in Components of Working Capital and Other Liabilities		
Accounts Receivable	(60,458)	(44,420)
Inventories	(8,331)	(44)
Accounts Payable	37,171	24,353
Accrued Taxes Payable	(4,450)	16,809
Other Liabilities	257	(1,151)
Other, Net	(3,465)	7,899
Changes in Components of Working Capital Associated with Investing and Financing Activities	<u>16,736</u>	<u>(6,931)</u>
Net Cash Provided by Operating Activities	692,144	653,212
Investing Cash Flows		
Additions to Oil and Gas Properties	(534,540)	(325,046)
Exploration Costs	(45,592)	(39,597)
Dry Hole Costs	(29,091)	(10,056)
Proceeds from Sales of Assets	9,762	9,750
Changes in Components of Working Capital Associated with Investing Activities	(15,988)	6,879
Other, Net	<u>(13,139)</u>	<u>1,279</u>
Net Cash Used in Investing Activities	(628,588)	(356,791)
Financing Cash Flows		
Long-Term Debt Borrowing	150,000	-
Long-Term Debt Repayments	(173,050)	(134,310)
Dividends Paid	(18,099)	(14,480)
Treasury Stock Purchased	-	(21,295)
Proceeds from Stock Options Exercised	43,190	14,730
Other, Net	<u>(2,201)</u>	<u>53</u>
Net Cash Used in Financing Activities	(160)	(155,302)
Increase in Cash and Cash Equivalents	63,396	141,119
Cash and Cash Equivalents at Beginning of Period	4,443	9,848
Cash and Cash Equivalents at End of Period	<u>\$ 67,839</u>	<u>\$ 150,967</u>

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

PART I. FINANCIAL INFORMATION (Continued)

ITEM 1. FINANCIAL STATEMENTS (Continued)

EOG RESOURCES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. The consolidated financial statements of EOG Resources, Inc. (EOG) included herein have been prepared by management without audit pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Accordingly, they reflect all normal recurring adjustments which are, in the opinion of management, necessary for a fair presentation of the financial results for the interim periods. Certain information and notes normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America 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, 2003 (EOG's 2003 Annual Report).

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

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

As more fully discussed in Note 12 to the consolidated financial statements included in EOG's 2003 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 commodity derivative financial instruments, primarily price swaps and collars, as the means to manage this price risk. In addition to these 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 these various physical commodity contracts is included in revenues at the time of settlement, which in turn affects average realized hydrocarbon prices. During the first six months of 2004 and 2003, EOG elected not to designate any of its commodity derivative financial contracts as accounting hedges, and accordingly, accounted for these commodity derivative financial contracts using the mark-to-market accounting method.

EOG is exposed to foreign currency exchange rate risk inherent in its operations in foreign countries, including Canada, Trinidad and the United Kingdom. From time to time, EOG engages in exchange rate risk management activities to manage its exposure to exchange rates. Effective March 9, 2004, EOG entered into a foreign currency swap transaction with multiple banks to eliminate any exchange rate impacts that may result from the notes offered by one of the Canadian subsidiaries on the same date (see Note 8). EOG accounts for the foreign currency swap transaction using the hedge accounting method, pursuant to the provisions of Statement of Financial Accounting Standards (SFAS) No. 133 - "Accounting for Derivative Instruments and Hedging Activities," as amended by SFAS Nos. 137, 138 and 149. Under those provisions, as of June 30, 2004, EOG recorded the fair value of the swap of \$2.7 million in Other Liabilities in the Liabilities section of the Consolidated Balance Sheets. Changes in the fair value of the foreign currency swap result in no net impact to the Consolidated Statements of Income and an after-tax loss of \$1.7 million in Accumulated Other Comprehensive Income in the Shareholders' Equity section of the Consolidated Balance Sheets.

On January 1, 2003, EOG adopted SFAS No. 143 - "Accounting for Asset Retirement Obligations" which essentially requires entities to record the fair value of a liability for legal obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. The impact of adopting the statement was an after-tax charge of \$7.1 million, which was reported in the first quarter of 2003 as cumulative effect of change in accounting principle.

PART I. FINANCIAL INFORMATION (Continued)

ITEM 1. FINANCIAL STATEMENTS (Continued)

EOG RESOURCES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

In December 2002, the Financial Accounting Standards Board (FASB) issued SFAS No. 148 - "Accounting for Stock-Based Compensation - Transition and Disclosure - an amendment of FASB Statement No. 123." This statement provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation, along with the requirement of disclosure in both annual and interim financial statements about the method used and effect on reported results (see Note 7). On March 31, 2004, the FASB issued a proposed statement to amend SFAS No. 123 to require all companies to expense the value of employee stock options. This proposed statement set a comment deadline of June 30, 2004, and would be effective prospectively beginning first quarter of 2005 for EOG. EOG is currently evaluating the effect of the proposed statement on its financial statements and continues to monitor further developments relating to the proposed statement.

During the third quarter of 2003, the SEC made comments to other registrants that oil and gas mineral rights acquired should be classified as an intangible asset pursuant to SFAS No. 141 - "Business Combinations," and SFAS No. 142 - "Goodwill and Other Intangible Assets." However, the SEC is not currently requiring all oil and gas producing companies to apply this classification or the disclosure requirements of intangible assets. Currently, EOG classifies the cost of oil and gas mineral rights as oil and gas properties and believes that this is consistent with oil and gas accounting and industry practice. The FASB has been asked to address this issue. If the FASB determines that the reclassification is required, EOG would reclassify these costs from oil and gas properties to intangible assets on the balance sheet. There would be no effect on the Consolidated Statements of Income or Consolidated Statements of Cash Flows. In March 2004, the FASB reached a consensus that for the mining industry all mineral rights are tangible assets and that SFAS Nos. 141 and 142 should be amended accordingly. In July 2004, the FASB set a comment deadline of August 17, 2004 to gather input as to whether the cost of oil and gas mineral rights is covered by the scope exception in SFAS No. 142 and, therefore, the current oil and gas accounting and industry practice is proper. EOG will continue to monitor the developments in this area until the final decision by the FASB emerges.

On April 1, 2004, EOG adopted FASB Staff Position No. 106-2 - "Accounting and Disclosure Requirements related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003" (FSP 106-2), which provides guidance on accounting for the effects of the Medicare Prescription Drug Improvement Act of 2003 for employers that sponsor postretirement health care plans that provide prescription drug benefits. The adoption of FSP 106-2 did not have a material impact on EOG's financial statements (see Note 7 - Postretirement Plan).

PART I. FINANCIAL INFORMATION (Continued)

ITEM 1. FINANCIAL STATEMENTS (Continued)

EOG RESOURCES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. The following table sets forth the computation of net income per share available to common for the three-month and six-month periods ended June 30, 2004 and 2003 (in thousands, except per share amounts):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
Numerator for Basic and Diluted Earnings Per Share - Net Income Available to Common	\$ 142,179	\$ 106,033	\$ 240,274	\$ 232,700
Denominator for Basic Earnings Per Share - Weighted Average Shares	116,388	114,382	116,052	114,430
Potential Dilutive Common Shares - Stock Options	1,867	1,509	1,734	1,531
Restricted Stock and Units	<u>454</u>	<u>240</u>	<u>441</u>	<u>251</u>
Denominator for Diluted Earnings Per Share - Adjusted Weighted Average Shares	<u>118,709</u>	<u>116,131</u>	<u>118,227</u>	<u>116,212</u>
Net Income Per Share of Common Stock				
Basic	\$ <u>1.22</u>	\$ <u>0.93</u>	\$ <u>2.07</u>	\$ <u>2.03</u>
Diluted	\$ <u>1.20</u>	\$ <u>0.91</u>	\$ <u>2.03</u>	\$ <u>2.00</u>

3. The following table presents the components of EOG's comprehensive income for the three-month and six-month periods ended June 30, 2004 and 2003 (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
Comprehensive Income				
Net Income	\$ 144,937	\$ 108,791	\$ 245,790	\$ 238,216
Other Comprehensive Income				
Foreign Currency Translation Adjustment	(18,573)	48,167	(30,746)	87,423
Foreign Currency Swap Transaction, Net of Income Tax of \$802	<u>(1,715)</u>	<u>-</u>	<u>(1,715)</u>	<u>-</u>
Total	<u>\$ 124,649</u>	<u>\$ 156,958</u>	<u>\$ 213,329</u>	<u>\$ 325,639</u>

PART I. FINANCIAL INFORMATION (Continued)

ITEM 1. FINANCIAL STATEMENTS (Continued)

EOG RESOURCES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. Selected financial information about operating segments is reported below for the three-month and six-month periods ended June 30, 2004 and 2003 (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
Net Operating Revenues				
United States	\$ 388,258	\$ 328,528	\$ 723,026	\$ 687,042
Canada	99,965	72,922	200,767	153,613
Trinidad	30,798	23,304	59,548	48,768
Total	<u>\$ 519,021</u>	<u>\$ 424,754</u>	<u>\$ 983,341</u>	<u>\$ 889,423</u>
Operating Income (Loss)				
United States	\$ 152,113	\$ 126,308	\$ 253,118	\$ 288,430
Canada	54,769	40,130	109,018	91,521
Trinidad	21,401	10,736	41,278	27,707
United Kingdom	(1,547)	(242)	(5,242)	(4,822)
Other	-	(64)	-	161
Total	<u>226,736</u>	<u>176,868</u>	<u>398,172</u>	<u>402,997</u>
Reconciling Items				
Other Income (Expense), Net	1,425	2,680	(1,304)	2,832
Interest Expense, Net	15,416	13,807	32,099	29,125
Income Before Income Taxes	<u>\$ 212,745</u>	<u>\$ 165,741</u>	<u>\$ 364,769</u>	<u>\$ 376,704</u>

5. EOG and numerous other companies in the natural gas industry were named as defendants in various lawsuits alleging violations of the Civil False Claims Act in connection with the payment of royalties on natural gas and natural gas liquids produced on federal and Indian lands. EOG was involved in two of these lawsuits. The plaintiffs in one of the lawsuits dismissed EOG from that case without prejudice. EOG recently settled the second of these lawsuits for a nominal amount.

EOG has been named as a potentially responsible party in certain Comprehensive Environmental Response Compensation and Liability Act proceedings. However, management does not believe that any potential assessments resulting from such proceedings will individually, or in the aggregate, have a material adverse effect on the financial condition or results of operations of EOG.

There are various other lawsuits and claims against EOG that have arisen in the ordinary course of business. However, management does not believe these lawsuits and claims will individually, or in the aggregate, have a material adverse effect on the financial condition or results of operations of EOG.

PART I. FINANCIAL INFORMATION (Continued)

ITEM 1. FINANCIAL STATEMENTS (Continued)

EOG RESOURCES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6. 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 retirements of oil and gas properties pursuant to SFAS No. 143 for the three-month periods ended March 31 and June 30, 2004 (in thousands):

	Asset Retirement Obligations		
	Short-Term	Long-Term	Total
Balance at December 31, 2003	\$ 5,320	\$ 118,624	\$ 123,944
Liabilities Incurred	321	2,073	2,394
Liabilities Settled	(97)	(28)	(125)
Accretion	36	1,331	1,367
Foreign Currency Translation	(3)	(212)	(215)
Balance at March 31, 2004	5,577	121,788	127,365
Liabilities Incurred	-	2,863	2,863
Liabilities Settled	(748)	(4,520)	(5,268)
Accretion	17	1,316	1,333
Foreign Currency Translation	(10)	(372)	(382)
Balance at June 30, 2004	<u>\$ 4,836</u>	<u>\$ 121,075</u>	<u>\$ 125,911</u>

7. EOG has various stock plans (Plans) under which employees and non-employee members of the Board of Directors of EOG and its subsidiaries have been or may be granted certain equity compensation.

Stock Options. EOG has in place compensatory stock option plans whereby participants have been or may be granted rights 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.

Employee Stock Purchase Plan. EOG has in place an employee stock purchase plan, pursuant to Section 423 of the Internal Revenue Code of 1986, as amended, whereby participants are granted rights to purchase shares of common stock of EOG at a price that is 15% less than the market price of the stock on either the first day or the last day of a six-month offering period, whichever is less.

PART I. FINANCIAL INFORMATION (Continued)

ITEM 1. FINANCIAL STATEMENTS (Continued)

EOG RESOURCES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Pro Forma Information. EOG's pro forma net income available to common and net income per share available to common for the three-month and six-month periods ended June 30, 2004 and 2003, had compensation costs of stock options and the employee stock purchase plan been recorded using the fair value method in accordance with SFAS No. 123 – "Accounting for Stock-Based Compensation," as amended by SFAS No. 148 – "Accounting for Stock-Based Compensation – Transition and Disclosure – an amendment of FASB Statement No. 123," are presented below pursuant to the disclosure requirement of SFAS No. 148 (in millions, except per share amounts):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
Net Income Available to Common - As Reported	\$ 142.2	\$ 106.0	\$ 240.3	\$ 232.7
Deduct: Total Stock-Based Employee Compensation Expense, Net of Income Tax	<u>(2.9)</u>	<u>(2.3)</u>	<u>(5.4)</u>	<u>(5.6)</u>
Net Income Available to Common - Pro Forma	<u>\$ 139.3</u>	<u>\$ 103.7</u>	<u>\$ 234.9</u>	<u>\$ 227.1</u>
Net Income per Share Available to Common				
Basic - As Reported	<u>\$ 1.22</u>	<u>\$ 0.93</u>	<u>\$ 2.07</u>	<u>\$ 2.03</u>
Basic - Pro Forma	<u>\$ 1.20</u>	<u>\$ 0.91</u>	<u>\$ 2.02</u>	<u>\$ 1.98</u>
Diluted - As Reported	<u>\$ 1.20</u>	<u>\$ 0.91</u>	<u>\$ 2.03</u>	<u>\$ 2.00</u>
Diluted - Pro Forma	<u>\$ 1.17</u>	<u>\$ 0.89</u>	<u>\$ 1.99</u>	<u>\$ 1.95</u>

The effects of applying SFAS No. 123, as amended, in this pro forma disclosure should not be interpreted as being indicative of future effects. SFAS No. 123 does not apply to awards prior to 1995 and the extent and timing of additional future awards cannot be predicted.

Restricted Stock and Units. Under the Plans, employees may be granted restricted stock and/or units without cost to them. Related compensation expense for the three-month periods ended June 30, 2004 and 2003 was \$2.4 million and \$1.3 million, respectively. Related compensation expense for the six-month periods ended June 30, 2004 and 2003 was \$4.4 million and \$2.6 million, respectively.

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. EOG's contributions to these plans are based on various percentages of compensation, and in some instances, are based upon the amount of the employees' contributions to the plan. For the three-month periods ended June 30, 2004 and 2003, the contributions to these plans amounted to approximately \$2.7 million and \$2.0 million, respectively. For the six-month periods ended June 30, 2004 and 2003, the contributions to these plans amounted to approximately \$5.7 million and \$3.9 million, respectively.

In addition, EOG's Canadian subsidiary maintains a non-contributory defined contribution pension plan and a matched savings plan and EOG's Trinidadian subsidiary maintains a contributory defined benefit pension plan and a matched savings plan. These plans are available to most employees of the Canadian and Trinidadian subsidiaries, and contributions related to these plans were \$222,000 and \$149,000 for the three-month periods ended June 30, 2004 and 2003, respectively. Contributions related to these plans were \$427,000 and \$285,000 for the six-month periods ended June 30, 2004 and 2003, respectively.

PART I. FINANCIAL INFORMATION (Continued)

ITEM 1. FINANCIAL STATEMENTS (Concluded)

EOG RESOURCES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Postretirement Plan. During 2000, EOG adopted postretirement medical and dental benefits for eligible employees and their eligible dependents. Benefits are provided under the provisions of a contributory defined dollar benefit plan. EOG accrues these postretirement benefit costs over the service lives of the employees expected to be eligible to receive such benefits.

The following table summarizes EOG's postretirement benefit expense for the three-month and six-month periods ended June 30, 2003 and 2004 (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
Service Cost	\$ 36	\$ 44	\$ 106	\$ 88
Interest Cost	29	32	79	64
Expected Return on Plan Assets	-	-	-	-
Amortization of Prior Service Cost	32	19	65	38
Amortization of Net Actuarial (Gain) Loss	(18)	-	(18)	-
Net Periodic Benefit Cost	<u>\$ 79</u>	<u>\$ 95</u>	<u>\$ 232</u>	<u>\$ 190</u>

EOG previously disclosed in its financial statements for the year ended December 31, 2003, that it expected to contribute \$57,000 to its postretirement plan in 2004. As of June 30, 2004, \$29,000 of contributions have been made. EOG presently anticipates contributing an additional \$28,000 to fund its postretirement plan in 2004 for a total of \$57,000.

- On March 9, 2004, EOG Resources Canada Inc., a wholly owned subsidiary of EOG, issued notes with a total principal amount of US\$150 million, an annual interest rate of 4.75% and a maturity date of March 15, 2014, under Rule 144A of the Securities Act of 1933, as amended. The notes are guaranteed by EOG. In conjunction with the offering, EOG entered into a foreign currency swap transaction with multiple banks for the equivalent amount of the notes and related interest, which has in effect converted this indebtedness into CAD\$201.3 million with a 5.275% interest rate.

PART I. FINANCIAL INFORMATION (Continued)

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 gas companies in the United States and has substantial proved reserves in the United States, Canada, offshore Trinidad and, to a lesser extent, the United Kingdom North Sea. EOG operates under a business strategy that focuses predominantly on three factors: achieving a strong reinvestment rate of return on its capital program, drilling internally generated prospects in order to find and develop low cost reserves, and maintaining a strong balance sheet, with a below industry average debt-to-total capitalization ratio.

Operations

United States and Canada. 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 smaller wells in large acreage plays, which, in the aggregate, will contribute substantially to EOG's crude oil and natural gas production. EOG has several larger potential plays under way in Wyoming, Utah and Texas, including the Barnett Shale. To date, EOG has leased approximately 258,000 net acres in the non-core Barnett Shale area (with the core area defined primarily as western Denton and eastern Wise counties). While EOG has continued to drill successful wells in the Barnett Shale through the use of 3-D seismic and horizontal drilling techniques, significant production growth or reserve additions are not anticipated from the Barnett Shale until 2005 and beyond.

In South Texas, EOG has continued its success in the Roleta and Frio Formations. Through the use of 3-D seismic, EOG has expanded the inventory of drilling locations in the Roleta Formation and also expects to continue an active drilling program in the Frio Formation.

International. In Trinidad, EOG drilled two development wells at its Parula Discovery. Production from these wells will be among the sources to supply existing gas contracts, as well as feeding the new methanol plant that is scheduled to commence operations in 2005. EOG recently completed an additional development well on the U(a) Block which will primarily supply natural gas to the Caribbean Nitrogen Company Limited (CNCL) and the Nitrogen (2000) Unlimited (N2000) ammonia plants. The N2000 plant has commenced commissioning operations ahead of schedule and is expected to achieve full plant productivity in August 2004.

Although EOG continues to focus on United States and Canadian natural gas, EOG sees an increasing linkage between United States and Canadian natural gas demand and Trinidadian natural gas supply. For example, liquefied natural gas (LNG) imports from existing and planned facilities in Trinidad are serious contenders to meet increasing United States 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 anticipates that its existing position with the supply contracts to the two ammonia plants and the new methanol plant will continue to give its portfolio an even broader exposure to United States and Canadian natural gas fundamentals.

In EOG's new venue in the Southern Gas Basin of the United Kingdom North Sea, EOG is on track to commence production of approximately 40 MMcfd, net, from its two gas discoveries by the end of 2004. These wells were farm-in opportunities from major oil companies. EOG is reviewing additional farm-in opportunities in this area and expects to participate in at least one more exploration well in 2004. EOG expects to begin operatorship in the United Kingdom later in 2004.

PART I. FINANCIAL INFORMATION (Continued)

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS - (Continued)
EOG RESOURCES, INC.**

Capital Structure

As noted, one of management's key strategies is to keep a strong balance sheet with a consistently below industry average debt-to-total capitalization ratio. During the first half of 2004, EOG reduced debt by \$23 million and increased its cash position by \$63 million. At June 30, 2004, its debt-to-total capitalization ratio was 30.5%, down from 33.3% at December 31, 2003. On March 9, 2004, EOG Resources Canada Inc., a wholly owned subsidiary of EOG, issued notes with a total principal amount of US\$150 million. The proceeds from these notes, along with the cash provided from operating activities, allowed EOG to fund its entire first half of 2004 capital program of \$609 million and pay down \$98 million on outstanding commercial paper borrowings and \$75 million on a senior unsecured term loan facility. As management currently assesses price forecast and demand trends for the remainder of 2004, EOG continues to believe that operations and capital expenditure activity can be funded by cash generated from operations and, if needed, available financing alternatives.

For 2004, EOG's current estimated capital expenditure budget increased from approximately \$1.1 billion to approximately \$1.3 billion, excluding acquisitions. EOG plans to spend about 5% of this estimated capital expenditure budget to drill new, internally generated, bigger target ideas. United States and Canadian natural gas 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 believes that EOG has one of the strongest overall drilling inventories in EOG's history.

PART I. FINANCIAL INFORMATION (Continued)

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

Results of Operations

The following review of operations for the three-month periods ended June 30, 2004 and 2003 should be read in conjunction with the consolidated financial statements of EOG and notes thereto.

Net Operating Revenues

During the second quarter of 2004, net operating revenues increased \$94 million to \$519 million. Total wellhead revenues of \$533 million increased \$94 million, or 21%, as compared to a year ago. Wellhead volume and price statistics for the three-month periods ended June 30, 2004 and 2003 were as follows:

	Three Months Ended June 30,	
	2004	2003
Natural Gas Volumes (MMcf per day)⁽¹⁾		
United States	619	636
Canada	<u>197</u>	<u>153</u>
United States and Canada	816	789
Trinidad	<u>162</u>	<u>148</u>
Total	<u>978</u>	<u>937</u>
Average Natural Gas Prices (\$/Mcf)⁽²⁾		
United States	\$ 5.67	\$ 5.06
Canada	5.04	4.77
United States and Canada Composite	5.52	5.00
Trinidad	1.36	1.32
Composite	4.83	4.42
Crude Oil and Condensate Volumes (MBbl per day)⁽¹⁾		
United States	21.0	17.3
Canada	<u>2.6</u>	<u>2.3</u>
United States and Canada	23.6	19.6
Trinidad	<u>3.1</u>	<u>2.3</u>
Total	<u>26.7</u>	<u>21.9</u>
Average Crude Oil and Condensate Prices (\$/Bbl)⁽²⁾		
United States	\$ 37.39	\$ 28.18
Canada	35.59	27.00
United States and Canada Composite	37.19	28.04
Trinidad	37.69	26.31
Composite	37.25	27.86
Natural Gas Liquids Volumes (MBbl per day)⁽¹⁾		
United States	5.0	3.0
Canada	<u>0.6</u>	<u>0.4</u>
Total	<u>5.6</u>	<u>3.4</u>
Average Natural Gas Liquids Prices (\$/Bbl)⁽²⁾		
United States	\$ 23.78	\$ 19.63
Canada	20.35	14.15
Composite	23.40	19.00
Natural Gas Equivalent Volumes (MMcfe per day)⁽³⁾		
United States	775	757
Canada	<u>216</u>	<u>170</u>
United States and Canada	991	927
Trinidad	<u>181</u>	<u>162</u>
Total	<u>1,172</u>	<u>1,089</u>
Total Bcfe⁽³⁾ Deliveries	106.6	99.1

(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.

PART I. FINANCIAL INFORMATION (Continued)

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS - (Continued)
EOG RESOURCES, INC.**

Wellhead natural gas revenues for the second quarter of 2004 increased \$53 million, or 14%, due to the increase in the composite average wellhead natural gas price (\$37 million) and the increase in natural gas deliveries (\$16 million). The composite average wellhead price for natural gas increased 9% to \$4.83 per Mcf for the second quarter of 2004 from \$4.42 per Mcf for the same period of 2003.

Natural gas deliveries increased 41 MMcf per day, or 4%, to 978 MMcf per day for the second quarter of 2004 from 937 MMcf per day for the comparable period in 2003, primarily due to a 44 MMcf per day, or 29%, increase in Canada and a 14 MMcf per day, or 9%, increase in Trinidad, partially offset by a 17 MMcf per day, or 3%, decline in the United States. The increase in Canada was attributable to the property acquisitions in the fourth quarter of 2003 (32 MMcf per day) and additional production from drilling activities (17 MMcf per day), partially offset by a temporary plant shutdown (5 MMcf per day). The increase in Trinidad was attributable to the Parula wells on the SECC block beginning production in February 2004 (17 MMcf per day), partially offset by the decreased production from the U(a) block as a result of a temporary ammonia plant shutdown in May 2004 (5 MMcf per day).

Wellhead crude oil and condensate revenues increased \$35 million, or 63%, due to increases in both the composite average wellhead crude oil and condensate price (\$23 million) and the wellhead crude oil and condensate deliveries (\$12 million). The composite average wellhead crude oil and condensate price for the second quarter of 2004 was \$37.25 per barrel compared to \$27.86 per barrel for the same period of 2003.

Wellhead crude oil and condensate deliveries increased 4.8 MBbl per day, or 22%, to 26.7 MBbl per day for the second quarter of 2004. The increase was mainly from the production from new wells in the United States (3.7 MBbl per day) and from higher production from the Parula wells in Trinidad (0.9 MBbl per day).

Natural gas liquids revenues were \$6 million higher than a year ago primarily due to increases in deliveries (\$4 million) and the composite average price (\$2 million).

During the second quarter of 2004, EOG recognized a loss on mark-to-market financial commodity derivative contracts of \$15 million compared to a loss of \$16 million for the same period in 2003. During the second quarter of 2004, net cash outflow related to settled natural gas financial collar contracts and settled natural gas and crude oil financial price swap contracts was \$36 million compared to a net cash outflow of \$11 million for the same period in 2003.

Operating and Other Expenses

For the second quarter of 2004, operating expenses of \$292 million were \$44 million higher than the \$248 million incurred in the second quarter of 2003. The following table presents the costs per Mcfe for the three-month periods ended June 30, 2004 and 2003:

	Three Months Ended	
	June 30,	
	2004	2003
Lease and Well	\$ 0.61	\$ 0.54
DD&A	1.09	1.08
General and Administrative (G&A)	0.25	0.25
Taxes Other than Income	0.28	0.12
Interest Expense, Net	0.15	0.14
Total Per-Unit Costs⁽¹⁾	<u>\$ 2.38</u>	<u>\$ 2.13</u>

(1) Total per-unit costs do not include exploration costs, dry hole costs and impairments.

PART I. FINANCIAL INFORMATION (Continued)

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS - (Continued)
EOG RESOURCES, INC.**

The higher per-unit costs of lease and well, depreciation, depletion and amortization (DD&A), taxes other than income and net interest expense for the three-month period ended June 30, 2004 compared to the same period in 2003 were due primarily to the reasons set forth below.

Lease and well expenses of \$66 million were \$12 million higher than the prior year period due primarily to a general increase in service costs related to operating activities in the United States (\$4 million), increased transportation expense in the United States (\$3 million), increased production in Canada (\$3 million) and in the United States (\$1 million), and changes in the Canadian exchange rate (\$1 million).

DD&A expenses of \$116 million increased \$10 million from the prior year period due primarily to increased production in Canada (\$4 million) and in the United States (\$2 million), increased United States DD&A rates (\$2 million) and increased Canadian DD&A rates (\$1 million).

Taxes other than income of \$30 million were \$18 million higher than the prior year period due primarily to \$17 million in retroactive credits against severance taxes resulting from the qualification of additional wells for a Texas high cost gas severance tax exemption recorded in the second quarter of 2003 versus \$1 million recorded in the second quarter of 2004.

Net interest expense of \$15 million increased \$2 million compared to the second quarter of 2003 primarily due to a slightly higher average debt balance.

Exploration costs of \$20 million were \$3 million lower than a year ago due primarily to a major seismic acquisition program in Trinidad (\$4 million) which began in the second quarter of 2003, partially offset by increased geological and geoscience expenditures in the United States (\$1 million).

Impairments of \$16 million decreased \$10 million compared to the prior year period due to lower amortization of unproved leases in the United States (\$4 million) and lower impairments to the carrying value of certain long-lived assets as a result of downward revisions in the future cash flow analysis for certain properties in the United States (\$6 million). Total impairments under Statement of Financial Accounting Standards No. 144 - "Accounting for the Impairment or Disposal of Long-Lived Assets" for the second quarter of 2004 and 2003 were \$2 million and \$8 million, respectively.

For the second quarter of 2004, the income tax provision of \$68 million increased \$11 million compared to the second quarter of 2003, primarily due to higher income before income taxes (\$17 million) and higher effective foreign income tax rates (\$3 million), partially offset by lower deferred income taxes associated with a reduction in the Alberta (Canada) corporate tax rate (\$5 million) and decreases in other adjustments (\$4 million). The net effective tax rate for the second quarter of 2004 decreased to 32% from 34% for the same period of 2003.

PART I. FINANCIAL INFORMATION (Continued)

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS - (Continued)
EOG RESOURCES, INC.**

Results of Operations

Net Operating Revenues

During the first half of 2004, net operating revenues increased \$94 million to \$983 million. Total wellhead revenues of \$1,040 million increased \$92 million, or 10%, as compared to a year ago. Wellhead volume and price statistics for the six-month periods ended June 30, 2004 and 2003 were as follows:

	Six Months Ended June 30,	
	2004	2003
Natural Gas Volumes (MMcf per day)		
United States	618	639
Canada	<u>201</u>	<u>155</u>
United States and Canada	819	794
Trinidad	<u>158</u>	<u>152</u>
Total	<u>977</u>	<u>946</u>
Average Natural Gas Prices (\$/Mcf)		
United States	\$ 5.54	\$ 5.49
Canada	5.01	4.97
United States and Canada Composite	5.41	5.39
Trinidad	1.42	1.32
Composite	4.77	4.74
Crude Oil and Condensate Volumes (MBbl per day)		
United States	20.5	17.8
Canada	<u>2.6</u>	<u>2.2</u>
United States and Canada	23.1	20.0
Trinidad	<u>2.8</u>	<u>2.4</u>
Total	<u>25.9</u>	<u>22.4</u>
Average Crude Oil and Condensate Prices (\$/Bbl)		
United States	\$ 36.11	\$ 30.63
Canada	33.63	29.26
United States and Canada Composite	35.83	30.48
Trinidad	35.52	29.82
Composite	35.80	30.41
Natural Gas Liquids Volumes (MBbl per day)		
United States	4.9	3.1
Canada	<u>0.6</u>	<u>0.5</u>
Total	<u>5.5</u>	<u>3.6</u>
Average Natural Gas Liquids Prices (\$/Bbl)		
United States	\$ 24.24	\$ 21.46
Canada	20.25	19.22
Composite	23.80	21.13
Natural Gas Equivalent Volumes (MMcfe per day)		
United States	771	764
Canada	<u>219</u>	<u>172</u>
United States and Canada	990	936
Trinidad	<u>175</u>	<u>166</u>
Total	<u>1,165</u>	<u>1,102</u>
Total Bcfe Deliveries	212.1	199.4

PART I. FINANCIAL INFORMATION (Continued)

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS - (Continued)
EOG RESOURCES, INC.**

During the first half of 2004, wellhead natural gas revenues increased 4% to \$847 million from \$811 million for the same period of 2003. The increase was due to the increase in natural gas deliveries (\$31 million) and the increase in the composite average wellhead natural gas price (\$5 million). The composite average wellhead price for natural gas increased to \$4.77 per Mcf from \$4.74 per Mcf for the comparable period a year ago.

Natural gas deliveries increased 31 MMcf per day, or 3%, to 977 MMcf per day for the first half of 2004 from 946 MMcf per day a year ago, primarily due to a 46 MMcf per day, or 30%, increase in Canada and a 6 MMcf per day, or 4%, increase in Trinidad, partially offset by a 21 MMcf per day, or 3%, decline in the United States. The increase in Canada was attributable to the property acquisitions in the fourth quarter of 2003 (32 MMcf per day) and additional production from drilling activities (17 MMcf per day), offset by a temporary plant shutdown (3 MMcf per day). The increase in Trinidad was attributable to the Parula wells on the SECC block beginning production in February 2004 (9 MMcf per day).

Wellhead crude oil and condensate revenues for the first half of 2004 increased \$46 million, or 37%, as compared to the prior year same period, due to the increases in both the average wellhead crude oil and condensate prices (\$26 million) and crude oil and condensate deliveries (\$20 million). The composite average wellhead price for crude oil and condensate increased 18% to \$35.80 per barrel from \$30.41 per barrel for the comparable period a year ago.

Wellhead crude oil and condensate deliveries increased 3.5 MBbl per day, or 16%, to 25.9 MBbl per day for the first half of 2004 from 22.4 MBbl per day a year ago. The increase was mainly due to the production from new wells in the United States (2.7 MBbl per day) and production from the Parula wells on the SECC block commencing in February 2004 in Trinidad (0.5 MBbl per day).

Natural gas liquids revenues were \$10 million higher than a year ago primarily due to increases in deliveries (\$7 million) and the composite average price (\$3 million).

During the first six months of 2004, EOG recognized a loss on mark-to-market financial commodity derivative contracts of \$59 million compared to a loss of \$61 million for the same period in 2003. During the first six months of 2004, net cash outflow related to settled natural gas financial collar contracts and settled natural gas and crude oil financial price swap contracts was \$38 million compared to a net cash outflow of \$39 million for the same period in 2003.

Operating and Other Expenses

For the first six months of 2004, operating expenses of \$585 million were \$99 million higher than the \$486 million incurred in the first six months of 2003. The following table presents the costs per Mcfe for the six-month periods ended June 30, 2004 and 2003:

	Six Months Ended June 30,	
	2004	2003
Lease and Well	\$ 0.61	\$ 0.51
DD&A	1.09	1.05
G&A	0.24	0.23
Taxes Other than Income	0.31	0.21
Interest Expense, Net	0.15	0.15
Total Per-Unit Costs⁽¹⁾	<u>\$ 2.40</u>	<u>\$ 2.15</u>

(1) Total per-unit costs do not include exploration costs, dry hole costs and impairments.

PART I. FINANCIAL INFORMATION (Continued)

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

The higher per-unit costs of lease and well, DD&A, G&A, taxes other than income and net interest expense for the six-month period ended June 30, 2004 compared to the same period in 2003 were due primarily to the reasons set forth below.

Lease and well expenses of \$130 million were \$28 million higher than the prior year period due primarily to a general increase in service costs related to operating activities in the United States (\$9 million) and Canada (\$1 million), increased transportation expense in the United States (\$7 million) and in Canada (\$1 million), increased production in Canada (\$6 million) and changes in the Canadian exchange rate (\$3 million).

DD&A expenses of \$230 million increased \$20 million from the prior year period due primarily to increased production in Canada (\$8 million), changes in the Canadian exchange rate (\$3 million), increased Canadian DD&A rates (\$3 million) from acquiring and developing reserves and increased United States DD&A rates (\$3 million) due to a gradual proportional increase in production from higher cost properties.

G&A expenses of \$51 million were \$6 million higher than the comparable prior year period due primarily to expanded operations.

Taxes other than income of \$66 million were \$24 million higher than the prior year period due primarily to \$18 million in retroactive credits against severance taxes resulting from the qualification of additional wells for a Texas high cost gas severance tax exemption recorded in the first half of 2003 versus \$2 million recorded in the first half of 2004 and the results of a production tax lawsuit expensed in the first quarter of 2004 (\$5 million).

Net interest expense of \$32 million increased \$3 million compared to the same period of 2003 primarily due to an interest charge related to the results of a production tax lawsuit in the first quarter of 2004 (\$2 million) and a slightly higher average debt balance (\$1 million).

Exploration costs of \$46 million were \$6 million higher than a year ago due primarily to increased geological and geoscience expenditures in the United States (\$9 million) and Canada (\$1 million), partially offset by a decrease in geological and geoscience expenditures in Trinidad due primarily to a major seismic acquisition program in Trinidad (\$4 million) which began in the second quarter of 2003.

Impairments decreased \$4 million to \$33 million compared to the comparable prior year period due to lower amortization of unproved leases in the United States (\$1 million) and lower impairments to the carrying value of certain long-lived assets as a result of downward revisions in the future cash flow analysis for certain properties in the United States (\$3 million). Total impairments under Statement of Financial Accounting Standards No. 144 - "Accounting for the Impairment or Disposal of Long-Lived Assets" for the first six months of 2004 and 2003 were \$5 million and \$8 million, respectively.

For the first six months of 2004, the income tax provision of \$119 million decreased \$12 million compared to the first six months of 2003, primarily due to lower income before income taxes (\$5 million), lower deferred income taxes associated with a reduction in the Alberta (Canada) corporate tax rate (\$5 million) and decreases in other adjustments (\$5 million), partially offset by higher effective foreign tax rates (\$3 million). The net effective tax rate for the first six months of 2004 decreased to 33% from 35% for the same period of 2003.

PART I. FINANCIAL INFORMATION (Continued)

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

Capital Resources and Liquidity

Cash Flows

At June 30, 2004 and December 31, 2003, EOG had cash and cash equivalents of \$68 million and \$4 million, respectively.

The primary sources of cash for EOG during the first half of 2004 included funds generated from operations, proceeds from sales of assets, proceeds from new borrowings (see discussion on the US\$150 million notes issuance below) and proceeds from stock options exercised. Primary cash outflows included funds used in operations, exploration and development expenditures, repayment of debt and payment of dividends to shareholders.

Cash provided by operating activities of \$692 million for the first six months of 2004 increased \$39 million as compared to the same period in 2003 primarily reflecting higher wellhead revenues (\$92 million), partially offset by higher cash operating expenses (\$44 million) and unfavorable changes in working capital (\$19 million).

Cash used in investing activities of \$629 million for the first six months of 2004 increased by \$272 million as compared to the same period in 2003 due primarily to increased exploration and development expenditures (\$235 million) and unfavorable changes in working capital related to investing activities (\$23 million). Changes in Components of Working Capital Associated with Investing Activities included changes in accounts payable associated with the accrual of exploration and development expenditures and changes in inventories which represent materials and equipment used in drilling and related activities.

During the first quarter of 2004, EOG completed a sale agreement whereby a portion of an EOG subsidiary's shareholdings in N2000, a Trinidadian company, was sold to a third party energy company for \$3 million. The sale left EOG with an equity interest of approximately 23% in N2000 and did not result in any gain or loss. The proceeds were reported as Proceeds from Sales of Assets.

Cash used by financing activities was less than \$1 million for the first six months of 2004 versus cash used of \$155 million for the same period in 2003. Financing activities for 2004 included the net repayment of long-term debt (\$23 million) consisting of repayments of the outstanding balances of commercial paper borrowings (\$98 million) and a senior unsecured term loan facility (\$75 million), offset partially by the notes issuance discussed below (\$150 million). Other financing activities included proceeds from the exercise of employee stock options (\$43 million) and payments of cash dividends (\$18 million).

On March 9, 2004, EOG Resources Canada Inc., a wholly owned subsidiary of EOG, issued notes with a total principal amount of US\$150 million, an annual interest rate of 4.75% and a maturity date of March 15, 2014, under Rule 144A of the Securities Act of 1933, as amended. The notes are guaranteed by EOG. In conjunction with the offering, EOG entered into a foreign currency swap transaction for the equivalent amount of the notes and related interest, which has in effect converted this indebtedness into CAD\$201.3 million with a 5.275% interest rate.

Based upon existing economic and market conditions, management believes net operating cash flow and available financing alternatives will be sufficient to fund net investing and other cash requirements of EOG for the foreseeable future.

PART I. FINANCIAL INFORMATION (Continued)

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS - (Continued)
EOG RESOURCES, INC.**

Total Exploration and Development Expenditures

The table below presents total exploration and development expenditures for the six-month periods ended June 30, 2004 and 2003 (in millions):

	Six Months Ended June 30,	
	2004	2003
United States	\$ 446	\$ 298
Canada	<u>106</u>	<u>54</u>
United States and Canada	552	352
Trinidad	38	10
United Kingdom	17	11
Other	<u>2</u>	<u>2</u>
Exploration and Development Expenditures	609	375
Asset Retirement Costs	5	3
Deferred Income Tax Benefits on Acquired Properties	<u>(17)</u>	<u>-</u>
Total Exploration and Development Expenditures	<u>\$ 597</u>	<u>\$ 378</u>

Exploration and development expenditures of \$609 million for the first half of 2004 were \$234 million higher than the prior year period due primarily to increased development and exploratory activities and higher cost structure in the United States and Canada (\$200 million), and increased drilling activities in Trinidad (\$28 million) and the United Kingdom (\$6 million). The 2004 exploration and development expenditures of \$609 million included \$420 million in development, \$182 million in exploration, \$4 million in capitalized interest and \$3 million in property acquisitions. The 2003 exploration and development expenditures of \$375 million included \$248 million in development, \$105 million in exploration, \$18 million in property acquisitions and \$4 million in capitalized interest.

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. There are no material continuing commitments associated with expenditure plans.

Commodity Derivative Transactions

As more fully discussed in Note 12 to the consolidated financial statements included in EOG's Annual Report on Form 10-K for the year ended December 31, 2003, 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 commodity derivative financial instruments, primarily price swaps and collars, as the means to manage this price risk. In addition to these 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 these various physical commodity contracts is included in revenues at the time of settlement, which in turn affects average realized hydrocarbon prices. During the first six months of 2004 and 2003, EOG elected not to designate any of its commodity derivative financial contracts as accounting hedges, and accordingly, accounted for these commodity derivative financial contracts using the mark-to-market accounting method.

PART I. FINANCIAL INFORMATION (Continued)

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

Presented below is a summary of EOG's remaining 2004 natural gas financial collar contracts and natural gas and crude oil financial price swap contracts at June 30, 2004 with prices expressed in dollars per million British thermal units (\$/MMBtu) and in dollars per barrel (\$/Bbl), as applicable, and notional volumes in million British thermal units per day (MMBtud) and in barrels per day (Bbld), as applicable. EOG has not entered into any additional natural gas financial collar contracts or natural gas or crude oil financial price swap contracts since EOG filed its Current Report on Form 8-K on August 2, 2004. The total fair value of the natural gas financial collar contracts and natural gas and crude oil financial price swap contracts at June 30, 2004 was a negative \$59 million. There are no such contracts for any period after 2004.

Month	Natural Gas Financial Collar Contracts					Financial Price Swap Contracts			
	Volume (MMBtud)	Floor Price		Ceiling Price		Natural Gas		Crude Oil	
		Floor Range	Weighted Average	Ceiling Range	Weighted Average	Volume (MMBtud)	Weighted Average Price	Volume (Bbld)	Weighted Average Price
		/Floor (\$/MMBtu)	(\$/MMBtu)	(\$/MMBtu)	(\$/MMBtu)		(\$/MMBtu)		(\$/Bbl)
Jul	375,000	\$4.47 - 4.75	\$4.58	\$4.93 - 5.19	\$5.09	30,000	\$4.80	3,000	\$27.91
Aug	375,000	4.47 - 4.75	4.58	4.93 - 5.19	5.09	30,000	4.80	2,000	28.11
Sep	375,000	4.47 - 4.75	4.58	4.93 - 5.19	5.09	30,000	4.78	-	-
Oct	375,000	4.47 - 4.75	4.58	4.93 - 5.19	5.09	30,000	4.80	-	-
Nov	100,000	6.35	6.35	7.60 - 7.64	7.61	-	-	-	-

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 extent to which EOG can replicate on its other Barnett Shale acreage the results of its most recent Barnett Shale wells; political developments around the world; acts of war and terrorism and responses to these acts; and financial market conditions. In light of these risks, uncertainties and assumptions, the events anticipated by EOG's forward-looking statements might not occur. EOG undertakes no obligations to update or revise its forward-looking statements, whether as a result of new information, future events or otherwise.

PART 1. FINANCIAL INFORMATION (Concluded)

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK
EOG RESOURCES, INC.**

EOG's exposure to interest rate risk, commodity price risk and foreign currency exchange risk is discussed respectively in the Financing and Outlook sections of the "Management's Discussion and Analysis of Financial Condition and Results of Operations - Capital Resources and Liquidity," on pages 10 through 14 of the Form 8-K filed on February 24, 2004.

**ITEM 4. CONTROLS AND PROCEDURES
EOG RESOURCES, INC.**

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 quarter ended June 30, 2004. 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 end of the quarter ended June 30, 2004 to ensure that information that is required to be disclosed by EOG in the reports it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. There were no changes in EOG's internal control over financial reporting that occurred during the quarter ended June 30, 2004 that have materially affected, or are reasonably likely to materially affect, EOG's internal control over financial reporting.

PART II. OTHER INFORMATION

EOG RESOURCES, INC.

ITEM 1. Legal Proceedings

See Part I, Item 1, Note 5 to Consolidated Financial Statements, which is incorporated herein by reference.

ITEM 2. Changes in Securities and Use of Proceeds

Period	(a) Total Number of Shares Purchased ⁽¹⁾	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs ⁽²⁾
April 1, 2004 - April 30, 2004	1,043	\$46.59	-	6,386,200
May 1, 2004 - May 31, 2004	65,219	52.19	-	6,386,200
June 1, 2004 - June 30, 2004	<u>46</u>	53.73	<u>-</u>	6,386,200
Total	<u>66,308</u>	\$51.97	<u>-</u>	

- (1) Includes 52,274 shares that were returned to EOG in payment of the exercise price of employee stock options and 14,034 shares that were 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 4. Submission of Matters to a Vote of Security Holders

The Annual Meeting of Shareholders of EOG Resources, Inc. was held on May 4, 2004, in Houston, Texas, for the purpose of electing a board of directors, ratifying the appointment of auditors and approving EOG's Amended and Restated 1992 Stock Plan. Proxies for the meeting were solicited pursuant to Section 14(a) of the Securities Exchange Act of 1934, and there was no solicitation in opposition to management's solicitations.

- (a) Each of the directors nominated by the Board and listed in the proxy statement was elected with votes as follows:

<u>Nominee</u>	<u>Shares For</u>	<u>Shares Withheld</u>
George A. Alcorn	102,580,412	2,817,641
Charles R. Crisp	102,633,144	2,764,909
Mark G. Papa	103,091,689	2,306,364
Edmund P. Segner, III	102,868,915	2,529,138
Donald F. Textor	101,979,815	3,418,238
Frank G. Wisner	102,592,185	2,805,868

- (b) The appointment of Deloitte & Touche LLP, independent public accountants, as auditors for the year ending December 31, 2004 was ratified by the following vote: 103,387,415 shares for; 1,359,286 shares against; and 535,373 shares abstaining.
- (c) EOG's Amended and Restated 1992 Stock Plan was approved by the following vote: 85,375,150 shares for; 10,155,324 shares against; and 703,041 shares abstaining.

PART II. OTHER INFORMATION (Concluded)

EOG RESOURCES, INC.

ITEM 5. Other Information

On July 2, 2004, EOG announced that Mr. W. D. (Bill) Stevens and Mr. H. Leighton Steward had been elected to its Board of Directors.

ITEM 6. Exhibits and Current Reports on Form 8-K

(a) Exhibits

Exhibit 31.1 - Section 302 Certification of Periodic Report of Chief Executive Officer.

Exhibit 31.2 - Section 302 Certification of Periodic Report of Principal Financial Officer.

Exhibit 32.1 - Section 906 Certification of Periodic Report of Chief Executive Officer.

Exhibit 32.2 - Section 906 Certification of Periodic Report of Principal Financial Officer.

(b) Current Reports on Form 8-K

During the second quarter of 2004, EOG furnished the following Current Reports on Form 8-K:

- On April 5, 2004, to report anticipated financial results of the price risk management activities for the first quarter of 2004 and provide updated information on the remaining 2004 natural gas financial collar contracts and natural gas and crude oil financial price swap contracts in Item 9 - Regulation FD Disclosure.
- On April 30, 2004, to provide estimates for the second quarter and full year 2004 and to provide updated information on the remaining 2004 natural gas financial collar contracts and natural gas and crude oil financial price swap contracts in Item 9 - Regulation FD Disclosure.
- On May 3, 2004, to furnish the press release issued on May 2, 2004 for the first quarter 2004 financial and operational results in Item 7 – Financial Statements and Exhibits and Item 12 – Results of Operations and Financial Condition.

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: August 3, 2004

By: /s/ TIMOTHY K. DRIGGERS
Timothy K. Driggers
Vice President and Chief Accounting Officer
(Principal Accounting Officer)

EXHIBIT INDEX

<u>Exhibit Number</u>	<u>Description</u>
*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

CERTIFICATIONS

I, Mark G. Papa, the Principal Executive Officer of EOG Resources, Inc., a Delaware corporation, certify that:

1. I have reviewed this quarterly report on Form 10-Q of EOG Resources, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) [Paragraph omitted in accordance with SEC transition instructions contained in SEC Release 34-47986]
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 3, 2004

/s/ MARK G. PAPA

Mark G. Papa
Chairman of the Board and Chief Executive Officer
(Principal Executive Officer)

CERTIFICATION OF PERIODIC REPORT

I, Mark G. Papa, Chairman of the Board and Chief Executive Officer of EOG Resources, Inc., a Delaware Corporation (the "Company"), certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that:

- (1) the Quarterly Report on Form 10-Q of the Company for the quarterly period ended June 30, 2004 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Dated: August 3, 2004

/s/ MARK G. PAPA

Mark G. Papa
Chairman of the Board and
Chief Executive Officer

CERTIFICATIONS

I, Edmund P. Segner, III, the Principal Financial Officer of EOG Resources, Inc., a Delaware corporation, certify that:

1. I have reviewed this quarterly report on Form 10-Q of EOG Resources, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) [Paragraph omitted in accordance with SEC transition instructions contained in SEC Release 34-47986]
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 3, 2004

/s/ EDMUND P. SEGNER, III

Edmund P. Segner, III
President and Chief of Staff
(Principal Financial Officer)

CERTIFICATION OF PERIODIC REPORT

I, Edmund P. Segner, III, President and Chief of Staff, and Principal Financial Officer of EOG Resources, Inc., a Delaware Corporation (the "Company"), certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that:

- (1) the Quarterly Report on Form 10-Q of the Company for the quarterly period ended June 30, 2004 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Dated: August 3, 2004

/s/ EDMUND P. SEGNER, III
Edmund P. Segner, III
President and Chief of Staff,
and Principal Financial Officer