NUEVO ENERGY CO
Form 10-Q
August 13, 2001

UNITED STATES
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, 2001

Commission File Number 1-10537

NUEVO ENERGY COMPANY
(Exact name of registrant as specified in its charter)

DELAWARE	76-0304436
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
1021 Main Street, Suite 2100 Houston, Texas	77002
(Address of Principal Executive Offices)	(Zip Code)

Registrant's telephone number, including area code: (713) 652-0706

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No

As of August 8, 2001, the number of outstanding shares of the Registrant's common stock was 16,989,326.

NUEVO ENERGY COMPANY

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PART I. FINANCIAL INFORMATION

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PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements

NUEVO ENERGY COMPANY
CONDENSED CONSOLIDATED BALANCE SHEETS
(Amounts in Thousands, Except Share Data)

ASSETS

CURRENT ASSETS:
Cash and cash equivalents..........
Accounts receivable, net..........
Product inventory..........
Prepaid expenses and other..........

Total current assets..........

PROPERTY AND EQUIPMENT, AT COST:
Land..........
Oil and gas properties (successful efforts method)..........
Gas plant facilities..........
Other facilities..........

Accumulated depreciation, depletion and amortization..........

DEFERRED TAX ASSETS, NET..........
OTHER ASSETS..........

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES:
Accounts payable
Accrued interest
Accrued drilling costs
Accrued lease operating costs
Other accrued liabilities
Total current liabilities
LONG-TERM DEBT, NET OF CURRENT MATURITIES
OTHER LONG-TERM LIABILITIES
COMMITMENTS AND CONTINGENCIES (NOTE 6)
COMPANY-OBLIGATED MANDATORILY REDEEMABLE CONVERTIBLE PREFERRED SECURITIES OF NUEVO FINANCING I
STOCKHOLDERS' EQUITY:
Common stock, $.01 par value, 50,000,000 shares authorized, 20,900,921 and 20,620,296 shares issued and 16,875,205 and 16,632,318 shares outstanding at June 30, 2001 and December 31, 2000, respectively
Additional paid-in capital
Treasury stock, at cost, 3,912,949 and 3,813,074 shares, at June 30, 2001 and December 31, 2000, respectively
Stock held by benefit trust, 112,767 and 174,904 shares, at June 30, 2001 and December 31, 2000, respectively
Deferred stock compensation
Other comprehensive loss
Accumulated deficit
Total stockholders' equity

See accompanying notes to condensed consolidated financial statements.

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NUEVO ENERGY COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)
(Amounts in Thousands, Except per Share Data)

	Three Months Ended June 30,	
	2001	2000
REVENUES:		
Oil and gas revenues	$100,260	$69,136
Gain on sale of assets, net	198	366
Interest and other income	241	195

	100,699	69,697
COSTS AND EXPENSES:		
Lease operating expenses	49,038	33,896
Exploration costs	5,382	1,488
Depreciation, depletion and amortization	20,398	15,164
General and administrative expenses	9,229	7,531
Interest expense, net	10,449	8,517
Dividends on Guaranteed Preferred Beneficial Interests in Company's Convertible Debentures (TECONS)	1,653	1,653
Other expense	99	2,687
	96,248	70,936
Income (loss) before income taxes	4,451	(1,239)
Provision (benefit) for income taxes	1,792	(499)
NET INCOME (LOSS)	$ 2,659	$ (740)
EARNINGS (LOSS) PER SHARE:		
Basic:		
Earnings (loss) per common share	$0.16	$(0.04)
Weighted average common shares outstanding	16,645	17,429
DILUTED:		
Earnings (loss) per common share	$0.14	$(0.04)
Weighted average common and dilutive potential common shares outstanding	17,152	17,429

See accompanying notes to condensed consolidated financial statements.

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NUEVO ENERGY COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)
(Amounts in Thousands, Except per Share Data)

	Six Months Ended June 30,	
	2001	2000
REVENUES:		
Oil and gas revenues	$217,406	$139,357
Gain (loss) on sale of assets, net	(131)	506

Interest and other income	946	821
	218,221	140,684
COSTS AND EXPENSES:		
Lease operating expenses	106,325	65,083
Exploration costs	8,047	4,742
Depreciation, depletion and amortization	40,025	31,391
General and administrative expenses	16,505	16,236
Interest expense, net	21,584	16,807
Dividends on Guaranteed Preferred Beneficial Interests in Company's Convertible Debentures (TECONS)	3,306	3,306
Other expense	1,892	3,847
	197,684	141,412
Income (loss) before income taxes and cumulative effect	20,537	(728)
Provision (benefit) for income taxes	8,275	(293)
Income (loss) before cumulative effect	12,262	(435)
Cumulative effect of a change in accounting principle, net of income tax benefit of $537	---	(796)
NET INCOME (LOSS)	$ 12,262	$ (1,231)
EARNINGS (LOSS) PER SHARE:		
Basic:		
Income (loss) before cumulative effect	$ 0.74	$ (0.02)
Cumulative effect of a change in accounting principle, net of income tax benefit	---	(0.05)
Earnings (loss) per common share	$ 0.74	$ (0.07)
Weighted average common shares outstanding	16,589	17,551
DILUTED:		
Income (loss) before cumulative effect	$ 0.71	$ (0.02)
Cumulative effect of a change in accounting principle, net of income tax benefit	---	(0.05)
Earnings (loss) per common share	$ 0.71	$ (0.07)
Weighted average common and dilutive potential common shares outstanding	17,078	17,551

See accompanying notes to condensed consolidated financial statements.

NUEVO ENERGY COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)
(Amounts in Thousands)

	Six Months June 30, 2001	Six Months June 30, 2000
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)................................	$ 12,262	$ (1,231)
Adjustments to reconcile net income (loss) to net cash provided by/(used in) operating activities:		
Depreciation, depletion and amortization......	40,025	31,391
Cumulative effect of a change in accounting principle, net of income tax benefit.........	---	796
Loss (gain) on sale of assets, net...........	131	(506)
Dry hole costs...............................	1,986	89
Impairment of oil and gas properties..........	880	---
Amortization of other costs..................	1,195	903
Deferred taxes...............................	8,175	78
Other..	319	461
	64,973	31,981
Changes in assets and liabilities:..............		
Accounts......................................	1,540	8,450
Accounts......................................	19,562	(3,152)
Other...	(19,724)	(951)
NET CASH PROVIDED BY OPERATING ACTIVITIES..........	66,351	36,328
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to oil and gas properties............	(70,035)	(43,609)
Acquisitions of oil and gas properties..........	(28,456)	---
Additions to gas plant facilities..............	---	(126)
Additions to other facilities..................	(5,631)	(721)
Proceeds from sales of properties..............	---	1,297
NET CASH (USED IN) INVESTING ACTIVITIES...........	(104,122)	(43,159)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from borrowings........................	54,950	32,500
Deferred financing costs........................	(97)	(1,634)
Payments of long-term debt......................	(54,975)	(10,773)
Treasury stock purchases........................	(2,085)	(12,540)
Proceeds from issuance of common stock...........	3,623	2,112
NET CASH PROVIDED BY FINANCING ACTIVITIES...........	1,416	9,665
Net (decrease) increase in cash and cash equivalents..................................	(36,355)	2,834
Cash and cash equivalents at beginning of period.	39,447	10,288
CASH AND CASH EQUIVALENTS AT END OF PERIOD.........	$ 3,092	$ 13,122

	========	========
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest (net of amounts capitalized)............	$20,244	$15,782
Income taxes....................................	$ 375	$ ---

See accompanying notes to condensed consolidated financial statements.

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NUEVO ENERGY COMPANY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission and, therefore, do not include all disclosures required by accounting principles generally accepted in the United States. However, in the opinion of management, these statements include all adjustments, which are of a normal recurring nature, necessary to present fairly the financial position at June 30, 2001 and December 31, 2000 and the results of operations and changes in cash flows for the periods ended June 30, 2001 and 2000. These financial statements should be read in conjunction with the financial statements and notes to financial statements in the 2000 Form 10-K of Nuevo Energy Company (the "Company").

USE OF ESTIMATES

In order to prepare these financial statements in conformity with accounting principles generally accepted in the United States, management of the Company has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities, as well as reserve information, which affects the depletion calculation. Actual results could differ from those estimates.

DERIVATIVE FINANCIAL INSTRUMENTS

In June 1998, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities". This statement, as amended by SFAS No. 137 and SFAS No. 138, establishes standards of accounting for and disclosures of derivative instruments and hedging activities. This statement requires all derivative instruments to be carried on the balance sheet at fair value and was effective for the Company beginning January 1, 2001.

The Company adopted SFAS No. 133 on January 1, 2001. In accordance with the current transition provisions of SFAS 133, the Company recorded a net-of-tax cumulative-effect transition adjustment of $(16.0) million (net of related tax benefit of $10.8 million) in accumulated other comprehensive income (loss) to recognize the fair value of its derivatives designated as cash-flow hedging instruments at the date of adoption.

All of the Company's derivative instruments are recognized on the balance sheet at their fair value. The Company currently uses swaps and options to hedge its exposure to material changes in the future price of crude oil.

At June 30, 2001, the Company had recorded $7.2 million (net of related tax benefit of $4.8 million) of cumulative hedging losses in other comprehensive loss, of which $6.4 million (based on June 30, 2001 forecasted future prices) is expected to be reclassified to earnings within the next 12 months. The amounts ultimately reclassified to earnings will vary due to changes in the fair value of the open derivative contracts prior to settlement.

As a result of hedging transactions, oil and gas revenues were reduced by $40.9 million and $51.3 million in the first six months of 2001 and 2000, respectively. The portion of the Company's hedging transactions that was ineffective was $3,000 for the first six months of 2001 and was recorded in interest and other income.

For the remainder of 2001, the Company has entered into swap arrangements for the third quarter on 20,000 BOPD at an average WTI price of $21.22 per Bbl, and for the fourth quarter on 15,500 BOPD at an average WTI price of $22.95 per Bbl. On a physical volume basis, these hedges cover 39% of the Company's remaining estimated 2001 oil production.

For 2002, the Company has entered into swap arrangements on 12,500 BOPD for the first quarter at an average WTI price of $25.91 per Bbl. For the remainder of 2002, the Company purchased put options with a WTI strike price of $22.00 per Bbl, on 19,000 BOPD for the second quarter, and on 14,000 BOPD for both the third and fourth quarters. All of these agreements expose the Company to counterparty credit risk to the extent that the counterparty is unable to meet its settlement commitments to the Company.

In February 1999, the Company entered into a swap arrangement with a major financial institution that effectively converted the interest rate on $16.4 million notional amount of the 9 1/2 % Senior Subordinated Notes due 2008 ("Notes") to a variable LIBOR-based rate. In addition, the swap arrangement also effectively hedged the price at which the Company could repurchase these Notes. For the six months ended June 30, 2000, the Company recorded an unrealized loss of $371,000 related to the change in the fair value of the Notes. This swap arrangement was settled in the third quarter of 2000.

COMPREHENSIVE INCOME (LOSS)

Comprehensive income (loss) includes net income (loss) and all changes in other comprehensive income (loss) including, among other things, foreign currency translation adjustments, unrealized gains and losses on certain investments in debt and equity securities and changes in the fair value of derivatives designated as cash-flow hedges. Comprehensive income (loss) for the first six months of 2001 and 2000 was as follows:

	2001	2000
Net income (loss)	$ 12,262	$(1,231)
Comprehensive loss	(15,584)	---
Reclassification entry	24,399	---

Total comprehensive income (loss)	$ 21,077	$(1,231)
	========	=======

RECENT ACCOUNTING PRONOUNCEMENTS

In July 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations." The statement requires entities to record the fair value of a liability for legal obligations associated with the retirement obligations of tangible long-lived assets in the period in which it is incurred. When the liability is initially recorded, the entity increases the carrying amount of the related long-lived asset. Over time, accretion of the liability is recognized each period, and the capitalized cost is depreciated over the useful life of the related asset. Upon settlement of the liability, an entity either settles the obligation for its recorded amount or incurs a gain or loss upon settlement. The standard is effective for fiscal years beginning after June 15, 2002, with earlier application encouraged. The Company is currently evaluating the effect of adopting Statement No. 143 on its financial statements and has not determined the timing of adoption.

INVENTORY VALUATION

Prior to December 2000, the Company recorded inventory relating to quantities of processed fuel oil and natural gas liquids in storage at current market pricing. Also, fuel oil in inventory was stated at period-end market prices less transportation costs, and the Company recognized changes in the market value of inventory from one period to the next as oil revenues. In December 2000, the staff of the Securities and Exchange Commission announced that commodity inventories should be carried at lower of cost or market rather than at market value. As a result, the Company changed its inventory valuation method to the lower of cost or market in the fourth quarter of 2000, retroactive to the beginning of the year. Accordingly, the Company's quarterly results for 2000 have been restated to reflect this change in accounting.

RECLASSIFICATIONS

Certain reclassifications of prior year amounts have been made to conform to the current presentation.

2. PROPERTY AND EQUIPMENT

The Company utilizes the successful efforts method of accounting for its investments in oil and gas properties. Under successful efforts, oil and gas lease acquisition costs and intangible drilling costs associated with exploration efforts that result in the discovery of proved reserves and costs associated with development drilling, whether or not successful, are capitalized when incurred. When a proved property is sold, ceases to produce or is abandoned, a gain or loss is recognized. When an entire interest in an unproved property is sold for cash or cash equivalent, gain or loss is recognized, taking into consideration any recorded impairment. When a partial interest in an unproved property is sold, the amount received is treated as a reduction of the cost of the interest retained.

Unproved leasehold costs are capitalized pending the results of exploration efforts. Significant unproved leasehold costs are reviewed periodically and a loss is recognized to the extent, if any, that the cost of the property has been impaired. Exploration costs, including geological and geophysical expenses, exploratory dry holes and delay rentals, are charged to expense as incurred.

Costs of successful wells, development dry holes and proved leases are capitalized and depleted on a unit-of-production basis over the life of the remaining proved reserves. Capitalized drilling costs are depleted on a unit-of-production basis over the life of the remaining proved developed reserves. Estimated costs (net of salvage value) of dismantlement, abandonment and site remediation are computed by the Company and an independent consultant, and are included when calculating depreciation and depletion using the unit-of-production method.

In accordance with SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of", the Company reviews its long-lived assets to be held and used, including proved oil and gas properties accounted for using the successful efforts method of accounting, on a depletable unit basis whenever events or circumstances indicate that the carrying value of those assets may not be recoverable. SFAS No. 121 requires an impairment loss be recognized when the carrying amount of an asset exceeds the sum of the undiscounted estimated future cash flows. In this circumstance, the Company recognizes an impairment loss equal to the difference between the carrying value and the fair value of the asset. Fair value is estimated to be the present value of expected future net cash flows from proved reserves, utilizing a risk-adjusted rate of return.

3. INDUSTRY SEGMENT INFORMATION

As of June 30, 2001, the Company's oil and gas exploration and production operations were concentrated primarily in two geographic regions: domestically, onshore and offshore California, and internationally, offshore the Republic of Congo in West Africa (the "Congo").

	For the Six Months Ended June 30,	
	2001	2000
	(amounts in thousands)	
Sales to unaffiliated customers:		
Oil and gas - Domestic....................	$204,123	$121,354
Oil and gas - International...............	13,283	18,003
Total sales................................	217,406	139,357
Gain (loss) on sale of assets, net.........	(131)	506
Other revenues............................	946	821
Total revenues............................	$218,221	$140,684

Operating profit before income taxes:		
Oil and gas - Domestic....................	$ 58,816	$ 35,399
Oil and gas - International...............	4,193	2,742
	63,009	38,141
Unallocated corporate expenses.............	17,582	18,756
Interest expense, net......................	21,584	16,807
Dividends on TECONS........................	3,306	3,306
Income (loss) before income taxes..........	$ 20,537	$ (728)
Depreciation, depletion and amortization:		
Oil and gas - Domestic....................	$ 35,416	$ 26,854
Oil and gas - International...............	3,466	3,804
Other.....................................	1,143	733
	$ 40,025	$ 31,391

4. LONG-TERM DEBT

Long-term debt consists of the following (amounts in thousands):

	June 30, 2001
9 3/8% Senior Subordinated Notes due 2010..................................	$150,000
9 1/2% Senior Subordinated Notes due 2008..................................	257,310
9 1/2% Senior Subordinated Notes due 2006..................................	2,392
Total long-term debt..	$409,702

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NUEVO ENERGY COMPANY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(UNAUDITED)

5. EARNINGS PER SHARE COMPUTATION

SFAS No. 128 requires a reconciliation of the numerator (income) and denominator (shares) of the basic earnings per share ("EPS") computation to the numerator and denominator of the diluted EPS computation. The Company's reconciliation is as follows:

For the Three months End		
2001		
Income	Shares	(

Earnings (loss) per Common share - Basic................	$2,659	16,645
Effect of dilutive securities:		
Stock options..	---	338
Benefit Trust..	(217)	169
Earnings (loss) per Common share - Diluted..............	$2,442	17,152

For the Six months Ende		
	2001	
	Income	Shares
Earnings (loss) before cumulative effect per Common share - Basic..............................	$12,262	16,589
Effect of dilutive securities:		
Stock options..	---	316
Benefit Trust..	(170)	173
Earnings (loss) before cumulative effect per Common share - Diluted..	$12,092	17,078

Certain of the Company's stock options that would potentially dilute Basic EPS in the future were not included in the computation of Diluted EPS because to do so would have been antidilutive for the three and six months ended June 30, 2000.

6. CONTINGENCIES AND OTHER MATTERS

On June 15, 2001, the Company experienced a failure of a carbon dioxide treatment vessel at the Rincon Offshore Separation Facility ("ROSF") located in Ventura County, California. There were no injuries associated with this event and the cause of the failure is under investigation. Crude oil and natural gas produced from three fields offshore California are transported onshore by pipeline to the ROSF plant where crude oil and water are separated and treated, and carbon dioxide is removed from the natural gas stream. The daily net production associated with these fields is 3,000 barrels of crude oil and 2.4 MMcf of gas, representing approximately 6% of Nuevo's daily production. As of early July, the crude oil production resumed and efforts are underway to bring the natural gas production back online. The cost of repair less a $20,000 deductible is expected to be covered by insurance. The Company may have exposure to costs that may not be recoverable from insurance. Such costs would not be expected to be material to the Company's operating results, financial condition or liquidity.

On September 22, 2000, the Company was named as a defendant in the lawsuit Thomas Wachtell et. al. v. Nuevo Energy Company et. al. in the Superior Court of Los Angeles County, California. The Company successfully removed this lawsuit to the United States District Court for the Central District of California. The plaintiffs, who own certain interests in the Point Pedernales properties, have asserted numerous causes of action including breach of contract, fraud and conspiracy in connection with the plaintiff's allegation that: (i) royalties have not been properly paid to them for production from the Point Pedernales field, (ii) payments have not been made to them related to production from the Sacate field, and, (iii) the Company has failed to recognize the plaintiff's interests in the Tranquillon Ridge project. The plaintiffs have not specified damages. The Company has not yet been required to file an answer, but believes the allegations are without merit and intends to vigorously contest these claims. Management does not believe that the outcome of this matter will have a material adverse impact on the Company's operating results, financial condition or liquidity.

In September 1997, there was a spill of crude oil into the Santa Barbara Channel from a pipeline that connects the Company's Point Pedernales field with shore-based processing facilities. The volume of the spill was estimated to be 163 barrels of oil. Repairs were completed by the end of 1997, and production recommenced in December 1997. The costs of the clean-up and the cost to repair the pipeline either have been or are expected

to be covered by insurance held by the Company, less the Company's deductibles of $120,000. Additionally, the Company has exposure to certain costs that are expected to be recoverable from insurance, including certain fines, penalties, and damages, for which the Company has accrued $0.7 million as of June 30, 2001 and December 31, 2000, as a receivable and payable. The Company may also have exposure to costs that may not be recoverable from insurance. Such costs are not quantifiable at this time, but are not expected to be material to the Company's operating results, financial condition or liquidity.

The Company has been named as a defendant in certain other lawsuits incidental to its business. Management does not believe that the outcome of such litigation will have a material adverse impact on the Company's operating results or financial condition. However, these actions and claims in the aggregate seek substantial damages against the Company and are subject to the inherent uncertainties in any litigation. The Company is defending itself vigorously in all such matters.

The Company's international investments involve risks typically associated with investments in emerging markets such as an uncertain political, economic, legal and tax environment and expropriation and nationalization of assets. In addition, if a dispute arises in its foreign operations, the Company may be subject to the exclusive jurisdiction of foreign courts or may not be successful in subjecting foreign persons to the jurisdiction of the United States. The Company attempts to conduct its business and financial affairs so as to protect against political and economic risks applicable to operations in the various countries where it operates, but there can be no assurance that the Company will be successful in so protecting itself. A portion of the Company's investment in the Congo is insured through political risk insurance provided by the Overseas Private Investment Corporation ("OPIC"). The political risk insurance through OPIC covers up to $25.0 million relating to expropriation and political violence, which is the maximum coverage available through OPIC. The Company has no deductible for this insurance.

In connection with their respective February 1995 acquisitions of two subsidiaries (each a "Congo subsidiary") owning interests in the Yombo field offshore Congo, the Company and a wholly-owned subsidiary of CMS NOMECO Oil & Gas Co. ("CMS") agreed with the seller of the subsidiaries not to claim certain tax losses ("dual consolidated losses") incurred by such subsidiaries prior to the acquisitions. Under the tax law in the Congo, as it existed when this acquisition took place, if an entity is acquired in its entirety and that entity has certain tax attributes, for example tax loss carryforwards from operations in the Republic of Congo, the subsequent owners of that entity can continue to utilize those losses without restriction. Pursuant to the agreement, the Company and CMS may be liable to the seller for the recapture of dual consolidated losses (net operating losses of any domestic corporation that are subject to an