

Edgar Filing: NUEVO ENERGY CO - Form 10-Q

NUEVO ENERGY CO  
Form 10-Q  
May 15, 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 MARCH 31, 2001

Commission File Number 1-10537

NUEVO ENERGY COMPANY  
-----

(Exact name of registrant as specified in its charter)

DELAWARE  
(State or other jurisdiction of  
incorporation or organization)

76-0304436  
(I.R.S. Employer  
Identification Number)

1021 Main Street, Suite 2100  
Houston, Texas  
(Address of Principal Executive Offices)

77002  
(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 May 10, 2001, the number of outstanding shares of the Registrant's common stock was 16,702,099.

NUEVO ENERGY COMPANY

INDEX

Edgar Filing: NUEVO ENERGY CO - Form 10-Q

PAGE  
NUMBER

PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements

Condensed Consolidated Balance Sheets:  
March 31, 2001 (Unaudited) and December 31, 2000..... 3  
Condensed Consolidated Statements of Operations (Unaudited):  
Three months ended March 31, 2001and March 31, 2000..... 4  
Condensed Consolidated Statements of Cash Flows (Unaudited):  
Three months ended March 31, 2001and March 31, 2000..... 5  
Notes to Condensed Consolidated Financial Statements (Unaudited) 6

ITEM 2. Management's Discussion and Analysis of Financial Condition  
and Results of Operations..... 12

ITEM 3. Quantitative and Qualitative Disclosures about Market Risk..... 19

PART II. OTHER INFORMATION..... 20

2

PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements

NUEVO ENERGY COMPANY  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(Amounts in Thousands)

ASSETS  
-----

CURRENT ASSETS:

Cash and cash equivalents.....  
Accounts receivable, net.....  
Product inventory.....  
Current deferred tax asset.....  
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.....

Edgar Filing: NUEVO ENERGY CO - Form 10-Q

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

LIABILITIES AND STOCKHOLDERS' EQUITY  
 -----

CURRENT LIABILITIES:

Accounts payable.....  
 Accrued interest.....  
 Accrued liabilities.....

Total current liabilities.....

LONG-TERM DEBT, NET OF CURRENT MATURITIES.....

OTHER LONG-TERM LIABILITIES.....

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, 20,620,796 and 20,620,296  
 shares issued and 16,506,268 and 16,632,318 shares outstanding at March 31, 2001 and  
 December 31, 2000, respectively.....

Additional paid-in capital.....

Treasury stock, at cost, 3,934,250 and 3,813,074 shares, at  
 March 31, 2001 and December 31, 2000, respectively.....

Stock held by benefit trust, 180,278 and 174,904 shares, at  
 March 31, 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.

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

|                                  | Three Months Ended March 31, |          |
|----------------------------------|------------------------------|----------|
|                                  | 2001                         | 2000     |
|                                  | -----                        | -----    |
| REVENUES:                        |                              |          |
| Oil and gas revenues.....        | \$119,231                    | \$70,739 |
| Gain on sale of assets, net..... | ---                          | 140      |
| Interest and other income.....   | 698                          | 626      |

Edgar Filing: NUEVO ENERGY CO - Form 10-Q

|  |          |        |
|--|----------|--------|
|  | -----    | -----  |
|  | 119,929  | 71,505 |
|  | -----    | -----  |
| COSTS AND EXPENSES:  |          |        |
| Lease operating expenses.....  | 59,157   | 31,111 |
| Exploration costs.....   | 2,665    | 3,254  |
| Depreciation, depletion and amortization.....  | 19,835   | 16,241 |
| Loss on sale of assets, net.....   | 329      | ---    |
| General and administrative expenses.....   | 7,276    | 8,705  |
| Interest expense, net.....   | 11,135   | 8,290  |
| Dividends on Guaranteed Preferred<br>Beneficial Interests in Company's<br>Convertible Debentures (TECONS)..... | 1,653    | 1,653  |
| Other expense.....   | 1,793    | 1,160  |
|  | -----    | -----  |
|  | 103,843  | 70,414 |
|  | -----    | -----  |
| Income before income taxes.....  | 16,086   | 1,091  |
| Provision for income taxes.....  | 6,483    | 440    |
|  | -----    | -----  |
| NET INCOME.....  | \$ 9,603 | \$ 651 |
|  | =====    | =====  |
| EARNINGS PER SHARE:  |          |        |
| Basic:   |          |        |
| Earnings per common share.....   | \$0.58   | \$0.04 |
|  | =====    | =====  |
| Weighted average common shares outstanding.....  | 16,533   | 17,673 |
|  | =====    | =====  |
| DILUTED:   |          |        |
| Earnings per common share.....   | \$0.57   | \$0.04 |
|  | =====    | =====  |
| Weighted average common and dilutive potential<br>common shares outstanding.....                               | 17,003   | 18,068 |
|  | =====    | =====  |

See accompanying notes to condensed consolidated financial statements.

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

|  |                                  |
|--|----------------------------------|
|  | Three Months Ended March 31,     |
|  | -----                            |
|  | 2001                      2000   |
|  | -----                      ----- |

Edgar Filing: NUEVO ENERGY CO - Form 10-Q

|  |           |          |
|--|-----------|----------|
| CASH FLOWS FROM OPERATING  |           |          |
| ACTIVITIES:  |           |          |
| Net income.....  | \$ 9,603  | \$ 651   |
| Adjustments to reconcile net income to<br>net cash provided by operating activities: |           |          |
| Depreciation, depletion and amortization.....  | 19,835    | 16,241   |
| Loss (gain) on sale of assets, net.....  | 329       | (140)    |
| Dry hole costs.....  | 1,482     | (44)     |
| Amortization of other costs.....   | 596       | 444      |
| Deferred taxes.....  | 5,923     | 800      |
| Appreciation of deferred compensation plan.....                                      | 73        | 432      |
| Mark to market of liability management swap.....                                     | ---       | 781      |
| Other.....   | 508       | 33       |
|  | -----     | -----    |
|  | 38,349    | 19,198   |
| Changes in assets and liabilities:   |           |          |
| Accounts receivable.....   | (14,380)  | 9,934    |
| Accounts payable and accrued liabilities.....  | 19,207    | (10,297) |
| Other.....   | (11,766)  | (261)    |
|  | -----     | -----    |
| NET CASH PROVIDED BY OPERATING ACTIVITIES.....                                       | 31,410    | 18,574   |
|  | -----     | -----    |
| CASH FLOWS FROM INVESTING ACTIVITIES:  |           |          |
| Additions to oil and gas properties.....   | (23,006)  | (12,223) |
| Acquisitions of oil and gas properties.....  | (28,168)  | ---      |
| Additions to gas plant and other facilities.....                                     | (654)     | (524)    |
|  | -----     | -----    |
| NET CASH USED IN INVESTING ACTIVITIES.....   | (51,828)  | (12,747) |
|  | -----     | -----    |
| CASH FLOWS FROM FINANCING ACTIVITIES:  |           |          |
| Proceeds from borrowings.....  | ---       | 8,025    |
| Payments of long-term debt.....  | (25)      | (10,398) |
| Debt issuance costs.....   | (97)      | ---      |
| Treasury stock purchases.....  | (2,085)   | (11,614) |
| Proceeds from issuance of common stock.....  | ---       | 1,618    |
|  | -----     | -----    |
| NET CASH USED IN FINANCING ACTIVITIES.....   | (2,207)   | (12,369) |
|  | -----     | -----    |
| Net decrease in cash and cash equivalents.....                                       | (22,625)  | (6,542)  |
| Cash and cash equivalents at beginning of period.....                                | 39,447    | 10,288   |
|  | -----     | -----    |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD.....                                      | \$ 16,822 | \$ 3,746 |
|  | =====     | =====    |
| SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:                                   |           |          |
| Cash paid during the period for:   |           |          |
| Interest (net of amounts capitalized)  | \$ 856    | \$ 1,769 |
| Income taxes refunded  | \$ (681)  | \$ ---   |

See accompanying notes to condensed consolidated financial statements.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

## Edgar Filing: NUEVO ENERGY CO - Form 10-Q

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 March 31, 2001 and December 31, 2000 and the results of operations and changes in cash flows for the periods ended March 31, 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 will be 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.

On the date the derivative contract is entered into, the Company designates its derivative as either a hedge of fair value of a recognized asset or liability ("fair value" hedge), as a hedge of the variability of cash flows to be received ("cash-flow" hedge), or as a foreign currency cash flow hedge. Changes in the fair value of a derivative that is highly effective as, and that is designated and qualifies as, a fair-value hedge, along with the loss or gain on the hedged asset or liability that is attributable to the hedged risk (including losses or gains on firm commitments), are recorded in current-period earnings. Changes in the fair value of a cash-flow hedge are recorded in other comprehensive income (loss) until earnings are affected by the variability of cash flows. All of the Company's derivative instruments outstanding on January 1, 2001 were designated as cash-flow hedges.

The Company formally documents all relationships between hedging instruments and hedged items, as well as its risk-management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives that are designated as cash-flow hedges to forecasted transactions. The Company also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in

## Edgar Filing: NUEVO ENERGY CO - Form 10-Q

hedging transactions are highly effective in offsetting changes in cash flows of hedged transactions. When it is determined that a derivative is not highly effective as a hedge or that it has ceased to be a highly effective hedge, the Company discontinues hedge accounting prospectively.

When hedge accounting is discontinued because it is probable that a forecasted transaction will not occur, the derivative will continue to be carried on the balance sheet at its fair value, and gains and losses that were

6

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

accumulated in other comprehensive income (loss) will be recognized in earnings immediately. In all other situations in which hedge accounting is discontinued, the derivative will be carried at its fair value on the balance sheet, with changes in its fair value recognized in earnings prospectively.

At March 31, 2001, the Company had recorded \$15.2 million (net of related tax benefit of \$10.3 million) of cumulative hedging losses in other comprehensive loss, of which \$16.9 million (based on March 31, 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 \$21.5 million and \$26.5 million in the first quarter of 2001 and 2000, respectively. The portion of the Company's hedging transactions that was ineffective was (\$7,000) for the first quarter of 2001 and was recorded in Interest and other income.

For 2001, the Company has entered into swap arrangements on 26,200 BOPD for the second quarter at an average WTI price of \$19.84 per Bbl, 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 45% 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 three months ended March 31, 2000, the Company recorded an unrealized loss of \$781,000 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

## Edgar Filing: NUEVO ENERGY CO - Form 10-Q

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 quarter of 2001 and 2000 was as follows:

|                            | 2001      | 2000   |
|----------------------------|-----------|--------|
|                            | -----     | -----  |
| Net income                 | \$ 9,603  | \$ 651 |
| Comprehensive loss         | (12,039)  | ---    |
| Reclassification entry     | 12,822    | ---    |
|                            | -----     | -----  |
| Total comprehensive income | \$ 10,386 | \$ 651 |
|                            | =====     | =====  |

### INVENTORY VALUATION

Historically, 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

7

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

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



## Edgar Filing: NUEVO ENERGY CO - Form 10-Q

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 March 31, 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").

8

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

|                                       | For the Three Months Ended March 31, |          |
|---------------------------------------|--------------------------------------|----------|
|                                       | 2001                                 | 2000     |
| Sales to unaffiliated customers:      |                                      |          |
| Oil and gas - Domestic.....           | \$112,161                            | \$59,549 |
| Oil and gas - International.....      | 7,070                                | 11,190   |
|                                       | 119,231                              | 70,739   |
| Gain on sale of assets, net.....      | ---                                  | 140      |
| Other revenues.....                   | 698                                  | 626      |
|                                       | \$119,929                            | \$71,505 |
|                                       | =====                                | =====    |
| Operating profit before income taxes: |                                      |          |
| Oil and gas - Domestic.....           | \$ 38,114                            | \$17,879 |
| Oil and gas - International.....      | (510)                                | 2,761    |

Edgar Filing: NUEVO ENERGY CO - Form 10-Q

|   |           |          |
|---|-----------|----------|
|   | -----     | -----    |
|   | 37,604    | 20,640   |
| Unallocated corporate expenses.....       | 8,730     | 9,606    |
| Interest expense.....                     | 11,135    | 8,290    |
| Dividends on TECONS.....                  | 1,653     | 1,653    |
|   | -----     | -----    |
| Income before income taxes.....           | \$ 16,086 | \$ 1,091 |
|   | =====     | =====    |
| Depreciation, depletion and amortization: |           |          |
| Oil and gas - Domestic.....               | \$ 18,189 | \$13,705 |
| Oil and gas - International.....          | 1,280     | 2,169    |
| Other.....                                | 366       | 367      |
|   | -----     | -----    |
|   | \$ 19,835 | \$16,241 |
|   | =====     | =====    |

4. LONG-TERM DEBT

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

|  | March 31,<br>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         |
|  | =====             |

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 Ended |        |       |
|--|----------------------------|--------|-------|
|  | 2001                       |        |       |
|  | Income                     | Shares | In    |
|  | -----                      | -----  | ----- |
| Earnings per Common share - Basic.....   | \$9,603                    | 16,533 |       |
| Effect of dilutive securities:           |                            |        |       |
| Stock options.....                       | ---                        | 292    |       |
| Benefit Trust.....                       | 48                         | 178    |       |
|  | -----                      | -----  |       |
| Earnings per Common share - Diluted..... | \$9,651                    | 17,003 |       |
|  | =====                      | =====  |       |

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

6. CONTINGENCIES AND OTHER MATTERS

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 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.

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.

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 accrued \$0.7 million as of March 31, 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'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

## Edgar Filing: NUEVO ENERGY CO - Form 10-Q

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 income tax of a foreign country without regard to the source of its income or on a residence basis) utilized by the seller in years prior to the acquisitions if certain triggering events occur, including (i) a disposition by either the Company or CMS of its respective

10

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

Congo subsidiary, (ii) either Congo subsidiary's sale of its interest in the Yombo field, (iii) the acquisition of the Company or CMS by another consolidated group or (iv) the failure of the Company or CMS's Congo subsidiary to continue as a member of its respective consolidated group. A triggering event will not occur, however, if a subsequent purchaser enters into certain agreements specified in the consolidated return regulations intended to ensure that such dual consolidated losses will not be claimed. The only time limit associated with the occurrence of a triggering event relates to the utilization of a dual consolidated loss in a foreign jurisdiction. A dual consolidated loss that is utilized to offset income in a foreign jurisdiction is only subject to recapture for 15 years following the year in which the dual consolidated loss was incurred for US income tax purposes. The Company and CMS have agreed among themselves that the party responsible for the triggering event shall indemnify the other for any liability to the seller as a result of such triggering event. The Company's potential direct liability could be as much as \$42.5 million if a triggering event with respect to the Company occurs. Additionally, the Company believes that CMS's liability (for which the Company would be jointly liable with an indemnification right against CMS) could be as much as \$61.0 million. The Company does not expect a triggering event to occur with respect to it or CMS and does not believe the agreement will have a material adverse effect upon the Company.

#### 7. ACQUISITIONS

In January 2001, the Company acquired approximately 2,900 acres previously held by Naftex ARM, LLC, in Kern County, California. The Company paid approximately \$28.2 million in connection with this acquisition. The newly acquired acreage is southeast of the Company's interest in the Cymric field, and has current production of approximately 1,000 BOE per day, of which more than half is natural gas. In addition, the acreage provides significant development potential.

#### 8. DIVESTITURES

## Edgar Filing: NUEVO ENERGY CO - Form 10-Q

In May 2000, the Company sold its working interest in the Las Cienegas field in California for proceeds of approximately \$4.6 million. The Company reclassified these assets to assets held for sale during the third quarter of 1999, at which time it discontinued depleting and depreciating these assets. No impairment charge was recorded upon reclassification to assets held for sale. In connection with this sale, the Company unwound hedges of 2,800 BOPD for the period May 2000 through December 2000 and recorded an adjusted net gain on sale of approximately \$923,000.

### 9. SHARE REPURCHASES

Since December 1997, the Board of Directors of the Company has authorized the open market repurchase of up to 4,616,600 shares of outstanding Common Stock at times and at prices deemed appropriate by management and consistent with the authorization of the Board. During the three months ended March 31, 2001, the Company repurchased 127,800 shares at an average purchase price of \$16.32 per share, including commissions. As of March 31, 2001, the Company had repurchased 3,608,900 shares since December 1997, on a cumulative basis, at an average purchase price of \$16.56 per share, including commissions, under the current share repurchase program.

11

## NUEVO ENERGY COMPANY ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### FORWARD LOOKING STATEMENTS

This document includes "forward looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934 ("Exchange Act") and the Private Securities Litigation Reform Act of 1995. All statements other than statements of historical facts included in this document, including without limitation, statements under "Management's Discussion and Analysis of Financial Condition and Results of Operations" regarding the Company's financial position, estimated quantities and net present values of reserves, business strategy, plans and objectives of management of the Company for future operations and covenant compliance, are forward-looking statements. Although the Company believes that the assumptions upon which such forward-looking statements are based are reasonable, it can give no assurances that such assumptions will prove to have been correct. Important factors that could cause actual results to differ materially from the Company's expectations ("Cautionary Statements") are disclosed below and elsewhere in this document and in the Company's Annual Report on Form 10-K and other filings made with the Securities and Exchange Commission. All subsequent written and oral forward-looking statements attributable to the Company or persons acting on its behalf are expressly qualified by the Cautionary Statements.

### CAPITAL RESOURCES AND LIQUIDITY

Since inception, the Company has expanded its operations through a series of disciplined, low-cost acquisitions of oil and gas properties and the subsequent exploitation and development of these properties. The Company has complemented these efforts with divestitures of non-core assets and an opportunistic exploration program, which provides exposure to high-potential prospects. The funding of these activities has historically been provided by operating cash flows, bank financing, private and public placements of debt and equity securities and property divestitures. Net cash provided by

## Edgar Filing: NUEVO ENERGY CO - Form 10-Q

operating activities was \$31.4 million and \$18.6 million for the three months ended March 31, 2001 and 2000, respectively. The Company invested \$52.4 million (including acquisitions of \$28.2 million) and \$15.9 million in oil and gas properties for the three months ended March 31, 2001 and 2000, respectively.

The current borrowing base on the Company's credit facility is \$225.0 million. At March 31, 2001, there were no outstanding borrowings under the revolving credit agreement. Accordingly, \$225.0 million of committed revolving credit capacity was unused and available at March 31, 2001. At March 31, 2001, the Company had a working capital deficit of \$4.9 million.

Since December 1997, the Board of Directors of the Company has authorized the open market repurchase of up to 4,616,600 shares of outstanding Common Stock at times and at prices deemed appropriate by management and consistent with the authorization of the Board. During the three months ended March 31, 2001, the Company repurchased 127,800 shares at an average purchase price of \$16.32 per share, including commissions. As of March 31, 2001, the Company had repurchased 3,608,900 shares since December 1997, on a cumulative basis, at an average purchase price of \$16.56 per share, including commissions, under the current share repurchase program.

The Company believes its cash flow from operations and available financing sources are sufficient to meet its obligations as they become due and to finance its exploration and development programs.

### CAPITAL EXPENDITURES

The Company anticipates spending an additional \$100.0 million on development activities and an additional \$36.0 million on exploration activities and other capital projects during the remainder of the year.

12

### NUEVO ENERGY COMPANY MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

Exploration and development expenditures, including acquisitions and amounts expensed under the successful efforts method, for the first three months of 2001 and 2000 are as follows (amounts in thousands):

|               | For the Three Months Ended<br>March 31, |          |
|---------------|---|----------|
|               | 2001                                    | 2000     |
| Domestic      | \$44,578                                | \$12,400 |
| International | 7,772                                   | 3,506    |
|               | -----                                   | -----    |
| Total         | \$52,350                                | \$15,906 |
|               | =====                                   | =====    |

The following is a description of significant exploration and development activity during the first three months of 2001.

#### Exploration Activity

Domestic

## Edgar Filing: NUEVO ENERGY CO - Form 10-Q

As part of its strategy to explore for deeper, larger prospects and lighter hydrocarbons onshore California, in January 2001 the Company acquired approximately 2,900 acres previously held by Naftex ARM, LLC, in Kern County, California for approximately \$28.2 million. The newly acquired acreage is southeast of Nuevo's deep Point of Rocks discovery, the Star Fee 701 well. While there is considerable exploration potential in this acreage, it has the additional benefit of current production of approximately 1,000 BOE per day, of which more than half is natural gas. In addition, the acreage provides significant development potential.

The Star Fee 701 well has produced more than 200,000 BOE since mid-August 2000. The Star Fee 701 well is currently producing approximately 500 BOE per day, consisting of 30 API oil and just under 1 million cubic feet per day of associated gas, from a single sand package within the Point of Rocks formation. This discovery well was drilled to a total depth of 11,200 feet and penetrated four Point of Rocks sand packages. Total net pay from the upper two sand packages is approximately 500 feet. The production capability of the two lower zones is currently unknown. The Company plans to target these deeper sand packages for completion in an offset well in the near future. In addition, Nuevo plans to drill at least two deep prospects in the newly acquired acreage in 2001.

Nuevo also drilled a shallow gas discovery, the Golden 1-21 well, in Kern County, California. This well was drilled to a total depth of 6,055 feet and initially produced at a rate of approximately 1 MMcfd. The Golden 1-21 well is currently producing at a rate of approximately 500 Mcfd. Nuevo is applying for permits to drill six delineation wells starting in the summer 2001. The Golden 1-21 discovery well is located approximately four miles from the South Belridge and Elk Hills Fields. Nuevo is the operator of the 30,000-acre Area of Mutual Interest in which the Golden 1-21 well is located and holds an 86% interest in the well.

### International

During January and February 2001, Nuevo drilled the NAK #1 exploratory well in the Accra-Keta Permit, offshore the Republic of Ghana. This well was located in approximately 1,000 feet of water and was drilled to a total depth of 10,100 feet. The Company plugged and abandoned the NAK #1 well as a dry hole. Costs to drill this well were approximately \$12.5 million (approximately \$1.5 million net to Nuevo), and were incurred in the first quarter of 2001. The Company plans to evaluate the NAK #1 well results during the second quarter of 2001 in order to determine its future exploration plans in this permit.

13

NUEVO ENERGY COMPANY  
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL  
CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

### Development Activity

#### Domestic

Due to the current high gas prices in California, Nuevo deferred certain capital spending associated with its thermal operations, assuming gas prices remain at these high levels for the remainder of the year.

Onshore California, the Company's single largest exploitation project in 2001

## Edgar Filing: NUEVO ENERGY CO - Form 10-Q

is the continuing development of its Star Fee acreage in the Cymric Field. In the first quarter of 2001, this development included drilling 17 Diatomite development wells and one follow-up well to the highly successful Star Fee 701 well. This Star Fee 702 well is currently being drilled, and results should be evaluated in the second quarter of 2001.

### International

During the first quarter of 2001, the Company replaced the pipelines from the two platforms in the Yombo field offshore Congo. The net cost of the pipeline replacements was approximately \$2.0 million, \$1.7 million of which was capitalized in the first quarter. In addition, three wells were drilled on the B Platform as part of a five-well drilling program. These wells have been completed and are currently producing at a combined rate of approximately 2,400 BOPD. The remaining two wells in this program will commence drilling in 2001.

### CALIFORNIA NATURAL GAS AND ELECTRICITY MARKETS

The price of natural gas and the threat of electrical disruptions are factors that create volatility in the Company's California oil and gas operations. Because of recent developments, Nuevo has made significant changes in its natural gas disposition and electricity production in California. Regarding natural gas, Nuevo has a net long position in California - producing more natural gas than consumed in thermal crude production. Moreover, as gas prices escalated in late 2000, Nuevo began to exploit this gas position by diverting gas consumed in less profitable cyclic steaming operations to more profitable gas sales. This strategy will remain as long as gas prices support sales over thermal oil production.

In California, Nuevo can generate a total of 22.5 Megawatts ("MW") of power at various sites. Two turbines came on-line at the Company's Brea Olinda field using gas previously flared. Three turbines in Kern County can produce 12 MW of power and cogenerate 15% of Nuevo's total steam needs in thermal operations. By self-generating power consumption in Kern County, Nuevo has reduced its exposure to rising electricity prices. Nuevo's facilities receive power under interruptible service contracts. Considering the fact that California is short of electricity and some Nuevo facilities receive interruptible service, the Company could experience periodic power interruptions. In addition, the State of California could change existing rules or impose new rules or regulations with respect to power that could impact the Company's operating costs.

### 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 will be recognized on the balance sheet at their fair value. The Company currently uses swaps and options to



## Edgar Filing: NUEVO ENERGY CO - Form 10-Q

hedge its exposure to material changes in the future price of crude oil.

14

### NUEVO ENERGY COMPANY MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

On the date the derivative contract is entered into, the Company designates its derivative as either a hedge of fair value of a recognized asset or liability ("fair value" hedge), as a hedge of the variability of cash flows to be received ("cash-flow" hedge), or as a foreign currency cash flow hedge. Changes in the fair value of a derivative that is highly effective as, and that is designated and qualifies as, a fair-value hedge, along with the loss or gain on the hedged asset or liability that is attributable to the hedged risk (including losses or gains on firm commitments), are recorded in current-period earnings. Changes in the fair value of a cash-flow hedge are recorded in other comprehensive income (loss) until earnings are affected by the variability of cash flows. All of the Company's derivative instruments outstanding on January 1, 2001 were designated as cash-flow hedges.

The Company formally documents all relationships between hedging instruments and hedged items, as well as its risk-management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives that are designated as cash-flow hedges to forecasted transactions. The Company also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of hedged transactions. When it is determined that a derivative is not highly effective as a hedge or that it has ceased to be a highly effective hedge, the Company discontinues hedge accounting prospectively.

When hedge accounting is discontinued because it is probable that a forecasted transaction will not occur, the derivative will continue to be carried on the balance sheet at its fair value, and gains and losses that were accumulated in other comprehensive income (loss) will be recognized in earnings immediately. In all other situations in which hedge accounting is discontinued, the derivative will be carried at its fair value on the balance sheet, with changes in its fair value recognized in earnings prospectively.

At March 31, 2001, the Company had recorded \$15.2 million (net of related tax benefit of \$10.3 million) of cumulative hedging losses in other comprehensive loss, of which \$16.9 million (based on March 31, 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 \$21.5 million and \$26.5 million in the first quarter of 2001 and 2000, respectively. The portion of the Company's hedging transactions that was ineffective was (\$7,000) for the first quarter of 2001 and was recorded in Interest and other income.

For 2001, the Company has entered into swap arrangements on 26,200 BOPD for the second quarter at an average WTI price of \$19.84 per Bbl, 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 45% of the Company's remaining estimated 2001 oil production.

For 2002, the Company has entered into swap arrangements on 12,500 BOPD for

## Edgar Filing: NUEVO ENERGY CO - Form 10-Q

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 three months ended March 31, 2000, the Company recorded an unrealized loss of \$781,000 related to the change in the fair value of the Notes. This swap arrangement was settled in the third quarter of 2000.

15

### NUEVO ENERGY COMPANY MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

#### SUBSEQUENT EVENT

On May 8, 2001, the Board of Directors of the Company announced that it accepted the resignation of Douglas L. Foshee as Chairman, President and Chief Executive Officer of the Company, effectively immediately. The Board announced that Isaac Arnold, an outside Nuevo director since 1990, was appointed Chairman of the Board. The Board also announced that Phillip Gobe, currently Nuevo's Chief Operating Officer, was appointed President and Chief Executive Officer on an interim basis. The Nominating and Governance Committee has initiated a search for a new President and Chief Executive Officer, and Mr. Gobe will be considered as part of this search.

#### RESULTS OF OPERATIONS (THREE MONTHS ENDED MARCH 31, 2001 AND 2000)

The following table sets forth certain operating information of the Company (inclusive of the effect of hedging) for the periods presented:

|  | Three Months<br>Ended March 31, |       | %     |
|--|---------------------------------|-------|-------|
|  | 2001                            | 2000  |       |
| <b>PRODUCTION:</b>   |                                 |       |       |
| Oil and condensate - Domestic (MBBLS).....                 | 3,892                           | 3,714 | 5%    |
| Oil and condensate - International (MBBLS).....            | 252                             | 501   | (50%) |
| Oil and condensate - Total (MBBLS).....                    | 4,144                           | 4,215 | (2%)  |
| Natural gas - Domestic/Total (MMCF).....                   | 3,824                           | 3,995 | (4%)  |
| Natural gas liquids - Domestic/Total (MBBLS).....          | 44                              | 41    | 7%    |
| Equivalent barrels of production - Domestic (MBOE).....    | 4,573                           | 4,421 | 3%    |
| Equivalent barrels of production - International (MBOE)... | 252                             | 501   | (50%) |

Edgar Filing: NUEVO ENERGY CO - Form 10-Q

|  |          |          |      |
|--|----------|----------|------|
| Equivalent barrels of production - Total (MBOE).....       | -----    | -----    |      |
|  | 4,825    | 4,922    | (2%) |
| AVERAGE SALES PRICE:                                       |          |          |      |
| Oil and condensate (per Bbl):                              |          |          |      |
| Domestic - net of hedge effect.....                        | \$15.45  | \$13.13  | 18%  |
| International - net of hedge effect and Congo earn-out.... | \$28.01  | \$22.32  | 25%  |
| Total - exclusive of hedges and Congo earn-out.....        | \$21.65  | \$20.52  | 6%   |
| Total - hedge effect and Congo earn-out.....               | \$(5.44) | \$(6.30) | 14%  |
|  | -----    | -----    |      |
| Total - net of hedge effect and Congo earn-out.....        | \$16.21  | \$14.22  | 14%  |
|  | =====    | =====    |      |
| Natural gas - Domestic/Total.....                          | \$13.26  | \$ 2.42  | 448% |
| LEASE OPERATING EXPENSE:                                   |          |          |      |
| Average unit production cost(1) per BOE - Domestic.....    | \$12.01  | \$ 6.28  | 91%  |
| Average unit production cost(1) per BOE - International... | \$16.87  | \$ 6.69  | 152% |
| Average unit production cost(1) per BOE - Total.....       | \$12.26  | \$ 6.32  | 94%  |

(1) Costs incurred to operate and maintain wells and related equipment and facilities, including ad valorem and severance taxes.

16

NUEVO ENERGY COMPANY  
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL  
CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

Revenues

Oil and Gas Revenues:

Oil and gas revenues for the three months ended March 31, 2001, were \$119.2 million, or 69% higher than oil and gas revenues for the same period in 2000. This increase is primarily due to a significant increase in realized gas prices (from \$2.42 per Mcf to \$13.26 per Mcf, quarter over quarter) and a 14% increase in realized oil prices. These increases were partially offset by a slight decrease in production, which was primarily attributable to a decrease in international oil production that resulted from two pipeline replacements in the first quarter of 2001. First quarter 2001 oil price realizations reflect hedging losses of \$21.5 million, or \$5.18 per barrel. First quarter 2000 oil price realizations reflect hedging losses of \$26.5 million, or \$6.29 per barrel.

Domestic: Oil and gas revenues for the three months ended March 31, 2001, were \$112.2 million, or 88% higher than oil and gas revenues for the same period in 2000. This increase is primarily due to a 448% improvement in average realized gas prices and an 18% improvement in average realized oil prices (net of hedges), further boosted by a 3% increase in total production. The realized oil price of \$15.45 per barrel for the first quarter of 2001 includes negative hedging results of \$5.52 per domestic barrel of oil. The realized oil price of \$13.13 per barrel for the first quarter of 2000 includes negative hedging results of \$7.50 per domestic barrel of oil.

International: Oil revenues for the three months ended March 31, 2001, decreased \$4.1 million, or 37%, compared to the same period in 2000. This decrease resulted from a 50% decrease in oil production that resulted from the temporary shut-down of production while two pipelines were replaced in the Congo during the first quarter of 2001. This decrease in production was partially

## Edgar Filing: NUEVO ENERGY CO - Form 10-Q

offset by a 25% increase in oil price realizations to \$28.01 per barrel. The realized oil price for the first quarter of 2000 includes hedging gains of \$2.70 per international barrel of oil. There were no hedges in place for the first quarter of 2001 for international production.

### Interest and Other Income:

The 12% increase in interest and other income in the first quarter of 2001 as compared to the same period in 2000 is primarily due to higher interest income that resulted from higher average cash balances in 2001.

### Expenses

#### Lease Operating Expenses:

Lease operating expenses for the three months ended March 31, 2001, were \$59.2 million, or 90% higher than for the three months ended March 31, 2000. The majority of this increase is due to a \$21.4 million increase in steam costs related to the Company's thermal oil producing operations. Additionally, there was a \$2.0 million increase in turbine fuel costs at the Company's Brea Olinda field onshore California. The Brea Olinda facilities came on-line after the first quarter of 2000, so all associated costs are additive in the first quarter of 2001. Lease operating expenses per BOE were \$12.26 in the first quarter of 2001, compared to \$6.32 in the same period in 2000.

Domestic: Lease operating expenses per BOE were \$12.01 in the first quarter of 2001, compared to \$6.28 in the same period in 2000. Higher steam and facility costs contributed to the higher lease operating expenses quarter over quarter.

International: Lease operating expenses per BOE were \$16.87 in the first quarter of 2001, compared to \$6.69 in the same period in 2000. The significant increase in lease operating expenses per BOE is primarily attributable to the 50% decrease in production.

17

## NUEVO ENERGY COMPANY MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

#### Exploration Costs:

Exploration costs, including geological and geophysical ("G&G") costs, dry hole costs, delay rentals and expensed project costs, were \$2.7 million and \$3.3 million for the three months ended March 31, 2001 and 2000, respectively. For the three months ended March 31, 2001, exploration costs were comprised of \$1.5 million of dry hole costs (related to the NAK #1 exploratory well in the Accra-Keta Permit, offshore the Republic of Ghana), \$1.0 million in G&G, and \$0.2 million of other project costs. For the three months ended March 31, 2000, exploration costs were comprised of \$3.2 million in G&G (primarily for 3-D seismic acquisition and processing in the Accra-Keta prospect, offshore the Republic of Ghana), and \$0.1 million in delay rentals.

#### Depreciation, Depletion and Amortization:

Depreciation, depletion and amortization for the three months ended March 31, 2001, reflects a 22% increase from the same period in 2000, due to a higher depletion rate, which primarily resulted from a decrease in reserve estimates at year-end 2000 versus year-end 1999. The decrease in reserve estimates was due to higher gas prices, which are held flat under the SEC reserve case and adversely impact the economics of the Company's thermally produced oil fields.

## Edgar Filing: NUEVO ENERGY CO - Form 10-Q

### (Loss) Gain on Sale of Assets, net:

Loss on sale of assets for the three months ended March 31, 2001, was \$329,000, representing subsequent sales price adjustments relating to the Company's sale of certain oil and gas properties in 2000. Gain on sale of assets for the three months ended March 31, 2000, was \$140,000, representing subsequent sales price adjustments relating to the Company's sale of certain oil and gas properties in 1999.

### General and Administrative Expenses:

General and administrative expenses were \$7.3 million and \$8.7 million in the three months ended March 31, 2001 and 2000, respectively. The 16% decrease is due primarily to a \$0.5 million decrease in salaries and benefits and a \$0.4 million lower mark to market effect on the liabilities associated with the Company's deferred compensation plan. The remaining decrease is made up of individually insignificant items.

### Interest Expense:

Interest expense of \$11.1 million for the three months ended March 31, 2001, increased 34% as compared to interest expense in the same period in 2000. The increase is primarily attributable to the issuance of 9 3/8% Senior Subordinated Notes due 2010 in the third quarter of 2000, partially offset by a decrease in outstanding borrowings on the Company's credit facility.

### Other Expense:

The 55% increase in other expense from the first quarter of 2000 to the first quarter of 2001 is primarily due to the impairment of \$1.4 million of electricity receivables in the first quarter of 2001. This increase was partially offset by a mark to market adjustment of \$781,000 related to the Company's liability management swap (see Note 1 to the Notes to Condensed Consolidated Financial Statements) in the first quarter of 2000.

### Net Income

Net income of \$9.6 million, \$0.58 per common share - basic and \$0.57 per common share - diluted, was reported for the three months ended March 31, 2001, as compared to net income of \$651,000, \$0.04 per common share - basic and diluted, reported for the same period in 2000.

18

## NUEVO ENERGY COMPANY

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

#### QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information contained in Item 3 updates, and should be read in conjunction with, information set forth in Part II, Item 7a in Nuevo's Annual Report on Form 10-K for the year ended December 31, 2000, in addition to the interim condensed consolidated financial statements and accompanying notes presented in Items 1 and 2 of this Form 10-Q.

There are no material changes in market risks faced by the Company from those reported in Nuevo's Annual Report on Form 10-K for the year ended December 31, 2000.

19

# Edgar Filing: NUEVO ENERGY CO - Form 10-Q

## NUEVO ENERGY COMPANY

### PART II. OTHER INFORMATION

#### ITEM 1. LEGAL PROCEEDINGS

See Note 7 to the Notes to Condensed Consolidated Financial Statements.

On April 5, 2000, the Company filed a lawsuit against ExxonMobil Corporation in the United States District Court for the Central District of California, Western Division. The Company and ExxonMobil each own a 50% interest in the Sacate Field, offshore Santa Barbara County, California, which can only be accessed from an existing ExxonMobil platform. The Company has alleged that by grossly inflating the fee that ExxonMobil insists the Company must pay to use an existing ExxonMobil platform and production infrastructure, ExxonMobil failed to submit a proposal for the development of the Sacate field consistent with the Unit Operating Agreement. The Company therefore believes that it has been denied a reasonable opportunity to exercise its rights under the Unit Operating Agreement. ExxonMobil contends that Nuevo had not consented to the operation and therefore cannot receive its share of production from Sacate until ExxonMobil has first recovered certain costs and fees. As a result, Nuevo has neither received revenues, incurred operating expenses, nor booked any proved reserves related to Sacate. The Company has alleged that ExxonMobil's actions breach the Unit Operating Agreement and the covenant of good faith and fair dealing. The Company is seeking damages and a declaratory judgment as to the payment that must be made to access ExxonMobil's platform and facilities. The Company's capitalized costs associated with Sacate are insignificant.

#### ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

##### (A) EXHIBITS

None.

##### (B) REPORTS ON FORM 8-K.

- 1) A Current Report on Form 8-K, dated January 12, 2001, reporting Item 9. Regulation FD Disclosure was filed on January 12, 2001.
- 2) A Current Report on Form 8-K, dated February 8, 2001, reporting Item 9. Regulation FD Disclosure was filed on February 8, 2001.
- 3) A Current Report on Form 8-K, dated March 14, 2001, reporting Item 4. Change in Registrant's Certifying Accountant was filed on March 14, 2001.
- 4) A Current Report on Form 8-K, dated March 16, 2001, reporting Item 9. Regulation FD Disclosure was filed on March 16, 2001.

20

## GLOSSARY OF OIL AND GAS TERMS

### TERMS USED TO DESCRIBE QUANTITIES OF OIL AND NATURAL GAS

## Edgar Filing: NUEVO ENERGY CO - Form 10-Q

- . Bbl -- One stock tank barrel, or 42 US gallons liquid volume, of crude oil or other liquid hydrocarbons.
- . Bcf -- One billion cubic feet of natural gas.
- . Bcfe -- One billion cubic feet of natural gas equivalent.
- . BOE -- One barrel of oil equivalent, converting gas to oil at the ratio of 6 Mcf of gas to 1 Bbl of oil.
- . BOPD -- One barrel of oil per day.
- . MBbl -- One thousand Bbls.
- . Mcf -- One thousand cubic feet of natural gas.
- . MMBbl -- One million Bbls of oil or other liquid hydrocarbons.
- . MMcf -- One million cubic feet of natural gas.
- . MMcfd-- One million cubic feet of natural gas per day.
- . MBOE -- One thousand BOE.
- . MMBOE -- One million BOE.

### TERMS USED TO CLASSIFY OUR RESERVE QUANTITIES

- . Proved reserves -- The estimated quantities of crude oil, natural gas and natural gas liquids which, upon analysis of geological and engineering data, appear with reasonable certainty to be recoverable in the future from known oil and natural gas reservoirs under existing economic and operating conditions.

The SEC definition of proved oil and gas reserves, per Article 4-10(a)(2) of Regulation S-X, is as follows:

Proved oil and gas reserves. Proved oil and gas reserves are the estimated quantities of crude oil, natural gas, and natural gas liquids which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions, i.e., prices and costs as of the date the estimate is made. Prices include consideration of changes in existing prices provided only by contractual arrangements, but not on escalations based upon future conditions.

(a) Reservoirs are considered proved if economic producibility is supported by either actual production or conclusive formation test. The area of a reservoir considered proved includes (A) that portion delineated by drilling and defined by gas-oil and/or oil-water contacts, if any; and (B) the immediately adjoining portions not yet drilled, but which can be reasonably judged as economically productive on the basis of available geological and engineering data. In the absence of information on fluid contacts, the lowest known structural occurrence of hydrocarbons controls the lower proved limit of the reservoir.

(b) Reserves which can be produced economically through application of improved recovery, techniques (such as fluid injection) are included in the "proved" classification when successful testing by a pilot project, or the operation of an installed program in the reservoir, provides support for the engineering analysis on which the project or program was based.

## Edgar Filing: NUEVO ENERGY CO - Form 10-Q

(c) Estimates of proved reserves do not include the following: (1) oil that may become available from known reservoirs but is classified separately as "indicated additional reserves"; (2) crude oil, natural gas, and natural gas liquids, the recovery of which is subject to reasonable doubt because of uncertainty as to geology, reservoir

21

characteristics, or economic factors; (3) crude oil, natural gas, and natural gas liquids, that may occur in undrilled prospects; and (4) crude oil, natural gas, and natural gas liquids, that may be recovered from oil shales, coal, gilsonite and other such sources.

- . Proved developed reserves -- Proved reserves that can be expected to be recovered through existing wells with existing equipment and operating methods.
- . Proved undeveloped reserves -- Proved reserves that are expected to be recovered from new wells on undrilled acreage, or from existing wells where a relatively major expenditure is required.

### TERMS USED TO DESCRIBE THE LEGAL OWNERSHIP OF THE COMPANY'S OIL AND GAS PROPERTIES

- . Royalty interest -- A real property interest entitling the owner to receive a specified portion of the gross proceeds of the sale of oil and natural gas production or, if the conveyance creating the interest provides, a specific portion of oil and natural gas produced, without any deduction for the costs to explore for, develop or produce the oil and natural gas. A royalty interest owner has no right to consent to or approve the operation and development of the property, while the owners of the working interests have the exclusive right to exploit the mineral on the land.
- . Working interest -- A real property interest entitling the owner to receive a specified percentage of the proceeds of the sale of oil and natural gas production or a percentage of the production, but requiring the owner of the working interest to bear the cost to explore for, develop and produce such oil and natural gas. A working interest owner who owns a portion of the working interest may participate either as operator or by voting his percentage interest to approve or disapprove the appointment of an operator and drilling and other major activities in connection with the development and operation of a property.
- . Net revenue interest -- A real property interest entitling the owner to receive a specified percentage of the proceeds of the sale of oil and natural gas production or a percentage of the production, net of royalty interests and costs to explore for, develop and produce such oil and natural gas.

### TERMS USED TO DESCRIBE SEISMIC OPERATIONS

- . Seismic data -- Oil and gas companies use seismic data as their principal source of information to locate oil and gas deposits, both to aid in exploration for new deposits and to manage or enhance production from known reservoirs. To gather seismic data, an energy source is used to send sound waves into the subsurface strata. These waves are reflected back to the surface by underground formations, where they are detected by geophones which digitize and record the reflected waves. Computers are then used to process the raw data to develop an image of underground formations.



## Edgar Filing: NUEVO ENERGY CO - Form 10-Q

- . 2-D seismic data -- 2-D seismic survey data has been the standard acquisition technique used to image geologic formations over a broad area. 2-D seismic data is collected by a single line of energy sources which reflect seismic waves to a single line of geophones. When processed, 2-D seismic data produces an image of a single vertical plane of sub-surface data.
- . 3-D seismic -- 3-D seismic data is collected using a grid of energy sources, which are generally spread over several miles. A 3-D survey produces a three dimensional image of the subsurface geology by collecting seismic data along parallel lines and creating a cube of information that can be divided into various planes, thus improving visualization. Consequently, 3-D seismic data is a more reliable indicator of potential oil and natural gas reservoirs in the area evaluated than 2-D seismic data.

### THE COMPANY'S MISCELLANEOUS DEFINITIONS

- . Infill drilling - Infill drilling is the drilling of an additional well or additional wells in excess of those provided for by a spacing order in order to more adequately drain a reservoir.
- . No. 6 fuel oil (Bunker) - No. 6 fuel oil is a heavy residual fuel oil used by ships, industry, and for large-scale heating installations.

22

NUEVO ENERGY COMPANY

### PART II. OTHER INFORMATION (CONTINUED)

#### 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.

NUEVO ENERGY COMPANY  
(Registrant)

Date: May 15, 2001  
-----

By: /s/ Robert M. King  
-----  
Robert M. King  
Senior Vice President and Chief Financial  
Officer (Principal Financial Officer)

23