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NUEVO ENERGY CO
Form 10-K405/A
February 16, 2001

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

FORM 10-K/A

(Mark One)

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

For the fiscal year ended December 31, 1999

OR

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

For the transition period from _____ to _____

Commission File Number 1-10537

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 No.)

1021 Main, Suite 2100, Houston, Texas
(Address of principal executive offices)

77002
(Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class -----	Name of each exchange on which registered -----
Common Stock, par value \$.01 per share	New York Stock Exchange
\$2.875 Term Convertible Securities, Series A	New York Stock Exchange
Preferred Stock Purchase Rights	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

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

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Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K [X].

The aggregate market value of the voting stock held by non-affiliates of the registrant at March 22, 2000, was approximately \$350,119,028.

As of March 22, 2000, the number of outstanding shares of the registrant's common stock was 17,560,829.

Documents Incorporated by Reference:

Portions of the registrant's annual proxy statement, to be filed within 120 days after December 31, 1999, are incorporated by reference into Part III.

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ANNUAL REPORT ON FORM 10-K
FOR THE FISCAL YEAR ENDED DECEMBER 31, 1999

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PART I

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"). 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. The Company can give no assurances that the assumptions upon which such forward looking statements are based will prove to be correct. Important factors that could cause actual results to differ materially from the Company's expectations ("Cautionary Statements") are set forth throughout this document. 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.

ITEM 1. BUSINESS

General

Nuevo Energy Company ("Nuevo") was formed as a Delaware corporation on March 2, 1990, to acquire the businesses of certain public and private partnerships (collectively "Predecessor Partnerships"). On July 9, 1990, the plan of consolidation ("Plan of Consolidation") was approved by limited partners owning a majority of units of limited partner interests in the Predecessor Partnerships. Such Plan of Consolidation provided for the exchange of the net assets of the Predecessor Partnerships for common stock of Nuevo ("Common Stock"). The Common Stock began trading on the New York Stock Exchange on July 10, 1990, under the symbol "NEV." All references to the "Company" include Nuevo and its majority and wholly-owned subsidiaries, unless otherwise indicated or the context indicates otherwise.

Nuevo, headquartered in Houston, Texas, is primarily engaged in the exploration for, and the acquisition, exploitation, development and production of crude oil and natural gas. The Company's strategy to differentiate itself from its numerous peer group competitors and to generate long term shareholder value consists of: (i) a management philosophy that frames all important decisions in terms of anticipated impact on per share (rather than absolute) growth of reserves, production, cash flow and net asset value; (ii) a contrarian investment and financing orientation, in which the Company seeks to purchase assets during periods of industry weakness and sell assets during periods of industry strength; (iii) the outsourcing of non-strategic functions; and (iv) the alignment of employee compensation structures with shareholder objectives. Nuevo is also committed to an exemplary corporate governance structure, which reinforces management's overarching view that Nuevo should be a conduit for shareholders to achieve superior long term capital gains. All of Nuevo's directors, other than the chief executive officer, are independent directors. Nuevo's directors and executive officers have each made substantial equity investments in Nuevo, in order to align the Company's directors and executive officers interests with that of stockholders.

The Company accumulates oil and gas reserves through the drilling of exploratory wells on acreage owned by or leased to the Company, or through the purchase of reserves from others. The Company maximizes production from these reserves through the drilling of developmental wells and through other exploitative techniques. The Company also owns and operates gas plants and other facilities, which are ancillary to the primary business of producing oil and natural gas. The Company also owns certain surface real estate parcels in California that are candidates for sale and/or development in future years.

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Oil and Gas Activities

Since its inception in 1990, Nuevo 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 strategic divestitures and an opportunistic exploration program, which provides exposure to high potential prospects. The Company's primary strengths are its track record of rapid reserve growth on a per share basis, achieved at extremely low cost relative to industry averages; its large inventory of exploitation projects in its core areas of operation which the Company believes will support future growth in

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reserves and production per share; its demonstrated ability to significantly reduce operating costs on acquired properties from levels experienced by prior operators; its ability to identify and acquire, at attractive prices, long-lived producing properties which have significant potential for further exploration, exploitation and development; a capital structure supportive of a growing investment program and future acquisitions; and a pricerisk management policy designed to protect the Company's ability to generate self-sustaining cash flow and to meet the interest coverage tests under the Company's bond indentures. During the five years ended December 31, 1999, the Company invested \$595.4 million in seven acquisitions that added estimated net proved reserves of 214.6 million barrels ("MMBBLs") of oil and 171.1 billion cubic feet ("BCF") of natural gas and replaced 501% of its production at an average cost of \$2.72 per barrel of oil equivalent ("BOE"). As a result, the Company's estimated net proved equivalent reserves have increased by approximately 258% since 1995.

Domestic Operations

As of December 31, 1999, the Company's estimated net U.S. proved reserves totaled 263.4 million barrels of oil equivalent ("MMBOE") or 91% of Nuevo's total proved reserve base. During 1999, the Company's domestic production was 18.9 MMBOE, or 91% of total production.

West: The majority of the Company's domestic properties are located in the state of California, where the Company operates from an office in Bakersfield. The Company's properties in California are categorized by district as either Bakersfield, Pacific Onshore or Pacific Offshore.

Nuevo's Bakersfield district operations encompass an estimated net proved reserve base of 135.4 MMBOE as of December 31, 1999, and produced 8.5 MMBOE in 1999. Bakersfield district properties include the Company's interests in the Cymric, Midway-Sunset and Belridge oil fields in the Western San Joaquin Basin in Kern County, California, and in the Coalinga gas field in the North San Joaquin Valley. The Company's Bakersfield properties utilize thermal operations to maximize current production and the ultimate recovery of reserves. The Company owns a 100% working interest (88% net revenue) in its properties in the Cymric field and the entire working interest and an average net revenue interest of approximately 98% in its properties in the Midway-Sunset field. Production is from two zones in the Cymric field, the Tulare formation and the Antelope Shale. The Midway-Sunset field produces from five zones with the Potter Sand and the thermal Diatomite accounting for the majority of the total production. The productive zones of the Belridge field above 2,000 feet in which the Company owns royalty interest are operated by another independent energy company. The remaining deeper zones of the Belridge field are operated and owned by the

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Company in fee with 100% working and net revenue interests. The Coalinga gas field is operated by Nuevo and the Company owns an average 61% working interest (52% net revenue). Production is from the Gatchell formation.

Nuevo's Pacific Onshore district operations encompass an estimated net proved reserve base of 50.8 MMBOE as of December 31, 1999, and produced 2.5 MMBOE in 1999. Pacific Onshore district properties include the Company's interest in the Brea Olinda oil field in northern Orange County. The Company operates three fee properties in the Brea Olinda field with a 100% working and net revenue interest. The Company also has royalty interests in additional wells in the Brea Olinda field. Brea Olinda production is from multiple-pay zones in the Miocene and Pliocene sandstones at depths up to 6,500 feet.

Nuevo's Pacific Offshore district operations encompass an estimated net proved reserve base of 74.9 MMBOE as of December 31, 1999, and resulted in production of 6.9 MMBOE in 1999. Pacific Offshore district properties include the Company's interests in the Point Pedernales, Dos Cuadras, Huntington Beach, Santa Clara and Belmont oil fields in federal OCS leases, offshore Santa Barbara and Ventura Counties and Long Beach. The Company acquired a 12% working interest (10% net revenue) in the Point Pedernales field in July 1994 and an additional 68% working interest (57% net revenue) in the field as part of the acquisition of the California properties in 1996. The Point Pedernales field is operated by the Company, and is located 3.5 miles offshore Santa Barbara County, California, in federal waters. Production is from the Monterey Shale at depths from 3,500-5,150 feet. The Dos Cuadras fields are located offshore five and one-half miles from Santa Barbara in the Santa Barbara Channel. The Company operates three platforms with a 50% working interest (42% net revenue) and another platform with a 67.5% working interest (56% net revenue).

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East: The Company also has properties located in the onshore Gulf Coast region, which are operated from the Company's headquarters in Houston. Nuevo's Houston district operations encompass an estimated net proved reserve base of 2.3 MMBOE as of December 31, 1999, and produced 1.0 MMBOE in 1999. Houston district properties include the Company's interests in the Giddings gas fields in Grimes and Austin Counties, Texas; and in the North Frisco City oil field in Monroe County, Alabama. The Company owns an interest in 12 producing wells in the Giddings field and has an average 46.9% working (35.2% net revenue) interest in these wells. The North Frisco City field is Company-operated. Nuevo owns approximately a 22% working (17% net revenue) interest.

General: The Company continues to create value through domestic oil and gas development projects. The Company initiates workovers, recompletions, development drilling, secondary and tertiary recovery operations and other production enhancement techniques to maximize current production and the ultimate recovery of reserves. The Company has identified in excess of 1,250 domestic exploitation projects on existing properties, at a West Texas Intermediate ("WTI") crude price of \$18.50 per barrel of oil ("BBL"). Capital expenditures for domestic exploitation projects totaled \$38.3 million in 1999 and are budgeted at approximately \$105.0 million in 2000, if the crude oil forward strip remains above \$20.00 per BBL. Examples of current or planned projects include the continuation of horizontal drilling in the Bakersfield district and infill drilling in the recently acquired acreage in the Cymric field to further exploit the Diatomite formation.

The Company also has a program targeting exploration opportunities in California. The Company seeks to reduce the risks normally associated with

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exploration through the use of advanced technologies, such as 3-D seismic surveys and computer aided exploration ("CAEX") techniques, and by participating with experienced industry partners. The Company's exploration program resulted in four dry wells in 1999.

Capital expenditures for domestic exploration activity totaled \$3.9 million in 1999 and are budgeted at approximately \$11.0 million in 2000.

International Operations

As of December 31, 1999, the Company's estimated international net proved reserves totaled 26.0 MMBOE, or 9% of Nuevo's total proved reserve base. During 1999, the Company's international production was 1.8 MMBOE, or 9% of Nuevo's total production.

Congo: The Company's international reserves and production consist of a 50% working interest (37.5% average net revenue) in the Yombo and Masseko oil fields located in the Marine I Permit offshore the Republic of Congo in West Africa ("Congo"). Estimated net proved reserves of the Yombo and Masseko oil fields as of December 31, 1999 were 26.0 MMBOE, and production during 1999 totaled 1.8 MMBOE, all from the Yombo field. In 1999, revenues relating to production from the Yombo field accounted for approximately 13% of the total oil and gas revenues for the Company. The properties are located 27 miles offshore in approximately 370 feet of water. The Company also owns a 50% interest in a converted super tanker with storage capacity of over one million barrels of oil for use as a floating production, storage and off loading vessel ("FPSO"). The Company's production is converted on the FPSO to No. 6 fuel oil with less than 0.3% sulfur content.

The Company's most significant international discovery in 1997 was the Masseko M-4 well drilled on the Marine I Permit approximately six miles to the northwest of the Yombo field. The Company drilled an exploration well to evaluate the Lower Sendji and sub-salt sections underlying the Masseko structure, as well as to further delineate the Upper Sendji and Tchala zones, which were discovered but not developed by a previous operator. This well tested at rates over 3,000 gross barrels per day from a newly discovered middle Sendji section. Platform design and development plans are being formulated for Masseko. Other potential exploration features are being evaluated for possible future drilling. Additionally, the Company initiated a waterflood project in the Yombo field to enhance production from existing Upper Sendji and Tchala zones. Plans for 2000 include performing a study to evaluate waterflood performance and to convert up to three wells to water injectors.

Ghana: In February 2000, the Company relinquished its concession for petroleum rights covering approximately 1.7 million acres in the East Cape Three Points concession offshore the Republic of Ghana in West Africa ("Ghana"). In September 1998, the Company plugged and abandoned its first well in Ghana on the East Cape

Three Points concession due to the lack of commercial quantities of hydrocarbons. Dry hole costs and geological and geophysical costs for this well (net to the Company) were \$7.3 million and \$1.6 million, respectively, in 1998.

In October 1997, Nuevo Ghana, Inc., ("Nuevo Ghana"), signed a petroleum agreement with Ghana and the Ghana National Petroleum Corporation, ("GNPC") for petroleum rights covering 2.7 million acres offshore Ghana in the Accra-Keta

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prospect area. The Company is the operator of this prospect with a 100% working interest. The exploration program for this acreage involves reprocessing existing seismic data, shooting additional seismic and drilling an exploration well during the first phase of the agreement. The Company completed a 3-D seismic survey across this concession in March 2000. The results are currently being reviewed in-house, and based upon the results, the Company plans to drill its first exploratory well on the concession in late 2000.

Tunisia: In December 1998, the Company temporarily abandoned the Chott Fejaj #3 well in Tunisia, North Africa. Based on the Company's evaluation of the initial test results on this well, the Company expensed the \$1.8 million of costs incurred as dry hole costs in 1998. The Company has acquired additional regional seismic data across its Chott-Fejaj concession. This data was acquired to better evaluate the sub-salt potential beneath the #3 well, which the Company plans to deepen in late 2000. The Company owns a 17.5% working interest in the well.

General: Capital expenditures for 1999 international exploration and development activity totaled \$2.3 million and \$20.4 million, respectively. The Company's 2000 international exploration budget of approximately \$8.0 million includes seismic evaluation, data acquisition and the drilling of two wells. International development plans for 2000 include the continuation of the Company's waterflood program in the Congo and are budgeted at approximately \$2.0 million.

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"). See "Risk Factors".

Gas Plant and Other Facilities

The Company has owned and operated gas plants and other facilities, most of which have been ancillary to the primary business of producing oil and natural gas.

As of December 31, 1999, the Company owned two gas plants in California that are strategic assets for the Company's oil and gas activities in California. The Stearns Gas Plant is located in the Brea Olinda field and was processing 3.2 MMCFD at December 31, 1999. The HS&P Gas Plant is used to process gas production from the Point Pedernales field. At December 31, 1999, the HS&P Gas Plant was processing 2.6 MMCFD.

In December 1999, the Company sold the Santa Clara Valley Gas Plant, which is located east of Ventura, California, in connection with the Company's sale of its interest in the non-core properties onshore California.

In addition to the gas plants that process Company production, Nuevo has owned certain non-core gas gathering, pipeline and storage assets. In December 1997, the Company announced its intention to dispose of these non-core assets during 1998. The decision was made to dispose of these assets as they did not directly contribute to the Company's core oil and gas operations. Such assets included: the Company's 48.5% interest in the Richfield Gas Storage facility, which was sold in February 1998 for proceeds of \$2.1 million, an 80%

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interest in Bright Star Gathering, Inc., which was sold in July 1998 for proceeds of \$1.7 million, and the Illini pipeline, which was sold in November 1999 for proceeds of \$10.0 million. An agreement to sell the Illini Pipeline was reached in April 1998; however, the approval of the sale was not received from the Illinois Commerce Commission until November 1999. No gains or losses were recognized in connection with these sales. The Company recorded a non-cash, pre-tax

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charge to fourth quarter 1997 earnings of \$23.9 million, reflecting the estimated loss on the disposition of these assets. A positive revision to this charge was made in the fourth quarter of 1998 in the amount of \$3.7 million to reflect the estimated current fair value of the Illini pipeline. The Company's results of operations included the operating results from these assets through the disposition date, as applicable. Such amounts were not significant relative to total revenues and net operating results for the Company. These assets were not depreciated subsequent to 1997. The Company retained its remaining two California gas plants, as these plants are strategic assets for the Company's oil and gas activities in California.

On May 2, 1997, the Company sold its 95% interest in the NuStar Joint Venture, which owned an interest in the Benedum natural gas processing plant, and an interest in certain related assets and natural gas gathering systems located in West Texas. The Company recognized a \$2.3 million gain on this sale, which was effective January 1, 1997.

Real Estate

In April 1996, along with its acquisition of certain California upstream oil and gas properties from Union Oil Company of California ("Unocal") (see "Acquisitions and Divestitures of Oil and Gas Properties"), the Company acquired tracts of land in Orange and Santa Barbara Counties in California, two office buildings, one in Ventura County and one in Santa Barbara County, and nearly 16,000 acres of agricultural property in the central valley of California. As of December 31, 1999, there was \$51.0 million allocated to land. The office buildings are included in other facilities at December 31, 1999.

Consistent with Nuevo's proactive asset management strategy, the Company plans to sell certain of its surface real estate assets in late 2000 or 2001. With land values rising in California, the Company expects to monetize a significant portion of its California real estate portfolio.

The surface fee in Orange County lies within the sphere of influence of the city of Brea, which is in north Orange County and includes three fee parcels, the Stearns Fee, the Stearns Columbia Fee and Naranjal "B" Fee. These are contiguous parcels with gross residential development potential of approximately 230 acres. Nuevo is working toward entitlement of this property, which is expected to be complete in the second half of 2000. The Company will evaluate its options at that time, including the potential sale. Plans are being formulated in relation to the tract of land in Santa Barbara County. The agricultural land, primarily in Kings County, Fresno County and Kern County, has surface leases for grazing or farming use, which are compatible with the production of oil.

Acquisitions and Divestitures of Oil and Gas Properties

Consistent with its contrarian acquisition and divestiture strategy,

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Nuevo has, from time to time, been an active participant in the market for oil and gas properties. The Company attempts to purchase high growth assets which, for any of a variety of reasons, are out of favor in the marketplace and hence available for acquisition at attractive prices. From time to time, the Company also seeks to divest itself of lower growth assets at times when those assets are valued highly by the marketplace. Examples of this contrarian strategy are listed below:

On December 31, 1999, the Company completed the sale of its interests in 13 onshore fields and a gas processing plant located in Ventura County, California for an adjusted sales price of \$29.6 million. The effective date of the sale was September 1, 1999. A portion of the proceeds, \$4.5 million, was deposited in escrow to address possible remediation issues. The funds will remain in escrow until the Los Angeles Regional Water Quality Control Board approves completion of the remediation work. All or any portion of the funds not used in remediation shall be delivered to the Company. The remainder of the proceeds from the sale were used to repay a portion of the Company's outstanding bank debt.

In June 1999, the Company acquired oil and gas properties located onshore and offshore California for \$61.4 million from Texaco, Inc. To purchase these assets, the Company used funds from a \$100.0 million interest-bearing escrow account that provided "like-kind exchange" tax treatment for the purchase of domestic oil and gas producing properties. The escrow account was created with proceeds from the Company's January 1999 sale of its East Texas natural gas assets. Following the Texaco transaction, the \$41.0 million remaining in the escrow account,

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which included \$2.4 million of interest income, was used to repay a portion of outstanding bank debt in early July 1999. The acquired properties had estimated net proved reserves at June 30, 1999, of 33.7 million barrels of oil equivalent ("BOE") and are either additional interests in the Company's existing properties or are located near its existing properties. The acquisition included interests in Cymric, East Coalinga, Dos Cuadras, Buena Vista Hills and other fields the Company operates.

On January 6, 1999, the Company completed the sale of its East Texas natural gas assets to an affiliate of Samson Resources Company for an adjusted sales price of approximately \$191.0 million (see Note 4 to the Notes to Consolidated Financial Statements). The Company realized an \$80.2 million adjusted pre-tax gain on the sale of these assets. A \$5.2 million gain on settled hedge transactions was also realized in connection with the closing of this sale in 1999. The effective date of the sale was July 1, 1998. The Company reclassified these assets to assets held for sale and discontinued depleting these assets during the third quarter of 1998. Estimated net proved reserves associated with these properties totaled approximately 329.0 BCF of natural gas equivalent at January 1, 1999.

In April 1998, the Company acquired an additional working interest in the Marine I Permit in the Congo for \$7.8 million. This acquisition increased the Company's net working interest in the Congo from 43.75% to 50.0%.

In July 1996, the Company completed the acquisition of certain East Texas oil and gas properties, which added 31.2 BCF to the Company's reserve base, for a net purchase price of \$9.3 million in cash. The package consisted of interests in 11 fields. In December 1996, the holders of the preferential rights

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on these properties exercised such rights for a cash payment of \$8.0 million, acquiring properties constituting approximately half of the estimated proved reserves related to this acquisition.

In June 1996, the Company sold 177 producing wells and the majority of its acreage in the Giddings field and East Texas Austin Chalk holdings for \$27.3 million, representing estimated net proved reserves of 4.2 MMBOE as of December 31, 1995. The Company retained ownership of seven wells and surrounding acreage in the Turkey Creek prospect area of the Austin Chalk trend located in Grimes County, Texas.

In April 1996, the Company acquired certain upstream oil and gas properties located onshore and offshore California ("Unocal Properties") from Unocal and certain California oil properties ("Point Pedernales Properties" and, together with the Unocal Properties, the "California Properties") from Torch and certain of its wholly-owned subsidiaries for a combined net purchase price of \$525.9 million, plus a contingent payment based on future realized oil prices. The California Properties consisted of 26 fields with approximately 2,400 active wells, and estimated net proved reserves as of December 31, 1999 of 249.3 MMBOE. During 1999, the California Properties constituted 86% of the Company's total oil and natural gas production on a barrel of oil equivalent basis. Since acquiring the California Properties, the Company has spent approximately \$255.0 million to complete over 470 exploitation and development projects.

Subsidiaries

The Company's domestic oil and gas operations are organized under Nuevo Energy Company. The Company's oil and gas operations in the Congo are organized under The Nuevo Congo Company and Nuevo Congo Ltd., both wholly-owned subsidiaries of Nuevo. From time to time, the Company may set up a new wholly-owned subsidiary for its international oil and gas operations. As of December 31, 1999, the Company did not have any significant operating activities under any other subsidiary.

Industry Segment Information

For industry segment data (including foreign operations), see Note 13 to the Notes to Consolidated Financial Statements.

Markets

The markets for hydrocarbons continue to be quite volatile. The Company's financial condition, operating results, future growth and the carrying value of its oil and gas properties are substantially dependent on prevailing prices of oil and gas. The Company's ability to maintain or increase its borrowing capacity and to obtain additional capital on attractive terms is also substantially dependent upon oil and gas prices. Prices for oil and gas are subject to large fluctuations in response to relatively minor changes in the supply of and demand for oil and gas, market uncertainty and a variety of additional factors beyond the control of the Company. These factors include weather conditions in the United States, the condition of the United States economy, the actions of the Organization of Petroleum Exporting Countries, governmental regulation, political stability in the Middle East and elsewhere, the foreign supply of oil and gas, the price of foreign oil imports and the availability of alternate fuel sources. Any substantial and extended decline in the price of oil or gas would have an adverse effect on the Company's carrying

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value of its proved reserves, borrowing capacity, the Company's ability to obtain additional capital, and its revenues, profitability and cash flows from operations. (See Note 17 to the Notes to Consolidated Financial Statements.)

Production of California San Joaquin Valley heavy oil (defined herein as those fields which produce primarily 15 degrees API quality crude oil or heavier through thermal operations) constituted 40% of the Company's total 1999 output.

In addition, properties which produce primarily other grades of relatively heavy oil (generally, 19 degrees API or heavier but produced through non-thermal operations) constituted 17% of the Company's total 1999 output.

The market price for California heavy oil differs from the established market indices for oil elsewhere in the U.S., due principally to the higher transportation and refining costs associated with heavy oil.

In February 2000, the Company entered into a 15-year contract, effective January 1, 2000, to sell all of its current and future California crude oil production to Tosco Corporation. The contract provides pricing based on a fixed percentage of the NYMEX crude oil price for each type of crude oil that Nuevo produces in California. While the contract does not reduce the Company's exposure to price volatility, it does effectively eliminate the basis differential risk between the NYMEX price and the field price of the Company's California oil production. In doing so, the contract makes it substantially easier for the Company to hedge its realized prices.

The Company's Yombo Field production in its Marine I Permit offshore the Congo produces a relatively heavy crude oil (16-20 degrees API gravity) which is processed into a low-sulfur, No. 6 fuel oil product for sale to worldwide markets. Production from this property constituted 9% of the Company's total 1999 output. The market for residual fuel oil differs from the markets for WTI and other benchmark crudes due to its primary use as an industrial or utility fuel versus the higher value transportation fuel component, which is produced from refining most grades of crude oil.

Sales to Tosco Corporation accounted for 79%, 60% and 62% of 1999, 1998 and 1997 oil and gas revenues, respectively. Also in 1999 and 1998, sales to Torch Energy Marketing accounted for 12% and 10% of total 1999 and 1998 oil and gas revenues, respectively. The loss of any single significant customer or contract could have a material adverse short-term effect on the Company; however, management of the Company does not believe that the loss of any single significant customer or contract would materially affect its business in the long-term.

Regulation

Oil and Gas Regulation

The availability of a ready market for oil and gas production depends upon numerous factors beyond the Company's control. These factors include state and Federal regulation of oil and gas production and transportation, as well as regulations governing environmental quality and pollution control, state limits on allowable rates of production by a well or proration unit, the amount of oil and gas available for sale, the availability of adequate pipeline and other transportation and processing facilities and the marketing of competitive fuels. For example, a productive gas well may be "shut-in" because of an over-supply of gas or lack of an available gas pipeline in the

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areas in which the Company may conduct operations. State and Federal regulations generally are intended to prevent waste of oil and gas, protect rights to produce oil and gas between owners in a common reservoir, control the amount of oil and gas produced by assigning allowable rates of production and control contamination of the environment. Pipelines and gas plants also are subject to the jurisdiction of various Federal, state and local agencies.

The Company's sales of natural gas are affected by the availability, terms and costs of transportation. The rates, terms and conditions applicable to the interstate transportation of gas by pipelines are regulated by the Federal Energy Regulatory Commission ("FERC") under the Natural Gas Acts, as well as under Section 311 of the Natural Gas Policy Act. Since 1985, the FERC has implemented regulations intended to increase competition within the gas industry by making gas transportation more accessible to gas buyers and sellers on an open-access, non-discriminatory basis.

The Company's sales of oil are also affected by the availability, terms and costs of transportation. The rates, terms, and conditions applicable to the interstate transportation of oil by pipelines are regulated by the FERC under the Interstate Commerce Act. In this connection, FERC has implemented a simplified and generally applicable ratemaking methodology for interstate oil pipelines to fulfill the requirements of Title VIII of the Energy Policy Act of 1992 comprised of an indexing system to establish ceilings on interstate oil pipeline rates. The FERC has announced several important transportation-related policy statements and rule changes, including a statement of policy and final rule issued February 25, 2000 concerning alternatives to its traditional cost-of-service rate-making methodology to establish the rates interstate pipelines may charge for their services. The final rule revises FERC's pricing policy and current regulatory framework to improve the efficiency of the market and further enhance competition in natural gas markets.

With respect to transportation of natural gas on or across the Outer Continental Shelf ("OCS"), the FERC requires, as a part of its regulation under the Outer Continental Shelf Lands Act ("OCSLA"), that all pipelines provide open and non-discriminatory access to both owner and non-owner shippers. Although to date the FERC has imposed light-handed regulation on offshore facilities that meet its traditional test of gathering status, it has the authority to exercise jurisdiction under the OCSLA over gathering facilities, if necessary, to permit non-discriminatory access to service. For those facilities transporting natural gas across the OCS that are not considered to be gathering facilities, the rates, terms and conditions applicable to this transportation are regulated by FERC under the NGA and NGPA, as well as the OCSLA. With respect to the transportation of oil and condensate on or across the OCS, the FERC requires, as part of its regulation under the OCSLA, that all pipelines provide open and non-discriminatory access to both owner and non-owner shippers. Accordingly, the FERC has the authority to exercise jurisdiction under the OCSLA, if necessary, to permit non-discriminatory access to service.

In the event the Company conducts operations on federal, state or Indian oil and gas leases, such operations must comply with numerous regulatory restrictions, including various nondiscrimination statutes, royalty and related valuation requirements, and certain of such operations must be conducted pursuant to certain on-site security regulations and other appropriate permits issued by the Bureau of Land Management ("BLM") or Minerals Management Service ("MMS") or other appropriate federal or state agencies.

The Company's OCS leases in federal waters are administered by the MMS and require compliance with detailed MMS regulations and orders. The MMS has promulgated regulations implementing restrictions on various production-related

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activities, including restricting the flaring or venting of natural gas. Under certain circumstances, the MMS may require any Company operations on federal leases to be suspended or terminated. Any such suspension or termination could materially and adversely affect the Company's financial condition and operations. On March 15, 2000, the MMS issued a final rule effective June 1, 2000 which amends its regulations governing the calculation of royalties and the valuation of crude oil produced from federal leases. Among other matters, this rule amends the valuation procedure for the sale of federal royalty oil by eliminating posted prices as a measure of value and relying instead on arm's length sales prices and spot market prices as market value indicators. Because the Company sells its production in the spot market and therefore pays royalties on production from federal leases, it is not anticipated that this final rule will have any substantial impact on the Company.

The Mineral Leasing Act of 1920 ("Mineral Act") prohibits direct or indirect ownership of any interest in federal onshore oil and gas leases by a foreign citizen of a country that denies "similar or like privileges" to citizens

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of the United States. Such restrictions on citizens of a "non-reciprocal" country include ownership or holding or controlling stock in a corporation that holds a federal onshore oil and gas lease. If this restriction is violated, the corporation's lease can be canceled in a proceeding instituted by the United States Attorney General. Although the regulations of the BLM (which administers the Mineral Act) provide for agency designations of non-reciprocal countries, there are presently no such designations in effect. The Company owns interest in numerous federal onshore oil and gas leases. It is possible that holders of equity interests in the Company may be citizens of foreign countries, which at some time in the future might be determined to be non-reciprocal under the Mineral Act.

The Company's pipelines used to gather and transport its oil and gas are subject to regulation by the Department of Transportation ("DOT") under the Hazardous Liquids Pipeline Safety Act of 1979, as amended ("HLPESA") relating to the design, installation, testing, construction, operation, replacement and management of pipeline facilities. The HLPESA requires the Company and other pipeline operators to comply with regulations issued pursuant to HLPESA designed to permit access to and allowing copying of records and to make certain reports and provide information as required by the Secretary of Transportation.

The Pipeline Safety Act of 1992 (The "Pipeline Safety Act") amends the HLPESA in several important respects. It requires the Research and Special Programs Administration ("RSPA") of DOT to consider environmental impacts, as well as its traditional public safety mandate, when developing pipeline safety regulations. In addition, the Pipeline Safety Act mandates the establishment by DOT of pipeline operator qualification rules requiring minimum training requirements for operators, and requires that pipeline operators provide maps and records to RSPA. It also authorizes RSPA to require certain pipeline modifications as well as operational and maintenance changes. The Company believes its pipelines are in substantial compliance with all HLPESA and the Pipeline Safety Act. Nonetheless, significant expenses would be incurred if new or additional safety measures are required.

Environmental Regulation

General. The Company's activities are subject to existing Federal,

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state and local laws and regulations governing environmental quality and pollution control. It is anticipated that, absent the occurrence of an extraordinary event, compliance with existing Federal, state and local laws, rules and regulations regulating the release of materials in the environment or otherwise relating to the protection of the environment will not have a material effect upon the operations, capital expenditures, earnings or the competitive position of the Company.

Activities of the Company with respect to exploration, drilling and production from wells, natural gas facilities, including the operation and construction of pipelines, plants and other facilities for transporting, processing, treating or storing natural gas and other products, are subject to stringent environmental regulation by state and Federal authorities including the Environmental Protection Agency ("EPA"), the Department of Transportation and FERC. Such regulation can increase the cost of planning, designing, installing and operating such facilities. In most instances, the regulatory requirements relate to water and air pollution control measures.

With respect to the Company's offshore oil and gas operations in California, the Company has significant exit cost liabilities. These liabilities include costs for dismantlement, rehabilitation and abandonment. As of December 31, 1999, the Company's net liability for these exit costs were approximately \$99 million. The Company is not indemnified for any part of these exit costs.

Waste Disposal. The Company currently owns or leases, and has in the past owned or leased, numerous properties that have been used for production of oil and gas for many years. Although the Company has utilized operating and disposal practices that were standard in the industry at the time, hydrocarbons or other wastes may have been disposed of or released on or under the properties owned or leased by the Company. In addition, many of these properties have been operated by third parties over whom the Company had no control as to such entities' treatment of hydrocarbons or other wastes or the manner in which such substances may have been disposed of or released. State and Federal laws applicable to oil and gas wastes and properties have become more strict. Under these new laws, the Company could be required to remove or remediate previously disposed wastes (including wastes disposed of or released by prior owners or operators) or property contamination (including groundwater contamination) or to perform remedial plugging operations to prevent future contamination.

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The Company may generate wastes, including hazardous wastes that are subject to the Federal Resource Conservation and Recovery Act and comparable state statutes. The EPA has limited the disposal options for certain hazardous wastes and is considering the adoption of stricter disposal standards for nonhazardous wastes. Furthermore, certain wastes generated by the Company's oil and gas operations that are currently exempt from treatment as "hazardous wastes" may in the future be designated as "hazardous wastes," and therefore be subject to more rigorous and costly operating and disposal requirements.

Superfund. The Federal Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA"), also known as the "Superfund" law, imposes joint and several liability, without regard to fault or the legality of the original conduct, on certain classes of persons with respect to the release of a "hazardous substance" into the environment. These persons include the current owner and operator of a facility and persons that disposed of or arranged for the disposal of the hazardous substances found at a facility. CERCLA also authorizes the EPA and, in some cases, third parties to take actions

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in response to threats to the public health or the environment and to seek to recover from the responsible classes of persons the costs of such action. In the course of its operations, the Company may have generated and may generate wastes that fall within CERCLA's definition of "hazardous substances". The Company may also be an owner of facilities on which "hazardous substances" have been released by previous owners or operators. The Company may be responsible under CERCLA for all or part of the costs to clean up facilities at which such wastes have been released. Neither the Company nor, to its knowledge, its Predecessor Partnerships has been named a potentially responsible person under CERCLA nor does the Company know of any prior owners or operators of its properties that are named as potentially responsible parties related to their ownership or operation of such property.

Air Emissions. The operations of the Company are subject to local, state and Federal regulations for the control of emissions of air pollution. Administrative enforcement actions for failure to comply strictly with air pollution regulations or permits are generally resolved by payment of monetary fines and correction of any identified deficiencies. Alternatively, regulatory agencies could require the Company to forego construction, modification or operation of certain air emission sources, although the Company believes that in the latter cases it would have enough permitted or permittable capacity to continue its operations without a material adverse effect on any particular producing field.

Oil Pollution Act. The Oil Pollution Act of 1990 ("OPA") and regulations thereunder impose certain duties and liabilities on "responsible parties" related to the prevention of oil spills and damages resulting from such spills in United States waters. A "responsible party" includes the owner or operator of a facility or vessel, or the lessee or permittee of the area in which a facility covered by OPA is located. OPA assigns joint and several liability to each responsible party for oil removal costs and a variety of public and private damages. Few defenses exist to the liability imposed by OPA.

The OPA also imposes ongoing requirements on a responsible party, including proof of financial responsibility to cover at least some costs in a potential spill. Certain amendments to the OPA that were enacted in 1996 require owners and operators of offshore facilities that have a worst case oil spill potential of more than 1,000 barrels to demonstrate financial responsibility in amounts ranging from \$10 million in specified state waters and \$35 million in federal OCS waters, with higher amounts, up to \$150 million based upon worst case oil-spill discharge volume calculations. The Company believes that it currently has established adequate proof of financial responsibility for its offshore facilities.

Management believes that the Company is in substantial compliance with current applicable environmental laws and regulations and that continued compliance with existing requirements will not have a material adverse impact on the Company.

Competition

The Company operates in the highly competitive areas of oil and gas exploration, development and production. The availability of funds and information relating to a property, the standards established by the Company for the minimum projected return on investment and the availability of alternate fuel sources are factors

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that affect the Company's ability to compete in the marketplace. The Company's competitors include major integrated oil companies and a substantial number of independent energy companies, many of which possess greater financial and other resources than the Company. The Company competes with these competitors to acquire producing properties, exploration leases, licenses, concessions and marketing agreements.

Personnel

At December 31, 1999, the Company employed 62 full time employees who represent the executive officers and key operating, exploration, financial and accounting management. The Company outsources certain administrative and operational functions to Torch and its subsidiaries, which maintains a large technical, operating, accounting and administrative staff to provide services to Nuevo and its other clients. (See Note 6 to the Notes to Consolidated Financial Statements). The combined personnel of Torch and the Company consisted of 982 employees at December 31, 1999.

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ITEM 2. PROPERTIES

Reserves, Productive Wells, Acreage and Production

The Company holds interests in oil and gas wells located in the United States and West Africa. The Company's principal developed properties are located in California, Texas, Louisiana, Alabama, and offshore Congo, West Africa; undeveloped acreage is located primarily in California, Texas, Congo, Ghana and Tunisia. Estimated proved oil and gas reserves at December 31, 1999 increased approximately 12% since December 31, 1998, primarily as a result of higher oil prices. (See Note 17 to the Notes to Consolidated Financial Statements). The Company has not filed any different oil or gas reserve information with any foreign government or other Federal authority or agency.

The following table sets forth certain information, as of December 31, 1999, which relates to the Company's principal oil and gas properties:

	Gross Wells	Net Proved Reserves (SEC) December 31, 1999			1999
		Oil* (Mbbbls)	Gas (Mmcf)	MBOE	Oil* (Mbbbls)
U.S. PROPERTIES					
California Fields					
Cymric	574	75,285	2,260	75,662	3,798
Midway-Sunset	483	37,537	--	37,537	2,590
Brea Olinda	217	33,275	21,924	36,929	783
Belridge	342	12,336	683	12,450	676
Santa Clara	26	20,572	37,565	26,833	840
Dos Cuadras	98	13,336	8,407	14,737	660
Point Pedernales	12	13,682	4,584	14,446	2,202
Huntington Beach	17	6,533	507	6,617	663
Other	632	26,040	58,890	35,855	3,205

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Total California Fields	2,401	238,596	134,820	261,066	15,417
Other U.S. Fields					
North Frisco City, Alabama	6	401	1,132	590	230
Giddings, Texas	13	8	2,724	462	6
Other	27	185	6,449	1,259	239
Total U.S. Properties	2,447	239,190	145,125	263,377	15,892
FOREIGN PROPERTIES					
Yombo, Congo	24	18,017	--	18,017	1,835
Masseko, Congo	--	8,031	--	8,031	--
Total Foreign Properties	24	26,048	--	26,048	1,835
Unocal contingent payment	--	--	--	--	--
Hedge effect	--	--	--	--	--
TOTAL PROPERTIES	2,471	265,238	145,125	289,425	17,727

* includes natural gas liquids
 ** pre-tax

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The summary of SEC reserves, which is presented on the previous page, is computed based on realized prices at December 31, 1999, held constant over time (see Note 17 to the Notes to Consolidated Financial Statements). Oil prices at December 31, 1999, were unusually high. Management believes that the following reserve information, which reflects fluctuating commodity pricing based on market information available at year-end, is more consistent with management's belief that the current oil and gas prices will revert to long-term historical averages. The following table sets forth this alternative reserve information (based on NYMEX prices of \$22.40 per barrel of oil in 2000 and \$20.00 per barrel thereafter, and \$2.50 per Mcf of gas held constant), as of December 31, 1999. Because the prices used in the following table are lower than the year-end prices Nuevo received for its production, the following does not represent information attributable to "proved reserves" as defined by the SEC.

Estimated Market Case
 December 31, 1999

Oil*	Gas	MBOE	PV-10**
(Mbbls)	(Mmcf)		

U.S. PROPERTIES
 California Fields

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Cymric.....	72,265	2,247	72,640	\$ 247,633
Midway-Sunset.....	35,656	--	35,656	114,632
Brea Olinda.....	33,118	21,866	36,762	78,504
Santa Clara.....	19,454	35,212	25,323	52,853
Belridge.....	12,259	661	12,369	50,541
Dos Cuadras	12,058	7,522	13,312	34,388
Point Pedernales.....	13,636	4,597	14,402	27,533
Huntington Beach.....	5,915	457	5,991	20,702
Other.....	22,753	60,677	32,865	90,823
	-----	-----	-----	-----
Total California Fields.....	227,114	133,239	249,320	717,609
	-----	-----	-----	-----
Other U.S. Fields				
North Frisco City,				
Alabama.....	401	1,132	590	5,054
Giddings, Texas.....	8	2,737	464	4,134
Other.....	176	6,471	1,255	8,295
	-----	-----	-----	-----
Total U.S. Properties..	227,699	143,579	251,629	735,092
	-----	-----	-----	-----
FOREIGN PROPERTIES				
Yombo, Congo.....	18,589	--	18,589	111,808
Masseko, Congo.....	8,057	--	8,057	9,777
	-----	-----	-----	-----
Total Foreign Properties.....	26,646	--	26,646	121,585
	-----	-----	-----	-----
Hedge effect.....	--	--	--	(35,179)
	-----	-----	-----	-----
TOTAL PROPERTIES	254,345	143,579	278,275	\$ 821,498
	=====	=====	=====	=====

* includes natural gas liquids

** pre-tax

Acreage

The following table sets forth the acres of developed and undeveloped oil and gas properties in which the Company held an interest as of December 31, 1999. Undeveloped acreage is considered to be those leased acres on which wells have not been drilled or completed to a point that would permit the production of commercial quantities of oil and gas, regardless of whether or not such acreage contains proved reserves. A gross acre in the following table refers to the number of acres in which a working interest is owned directly by the Company. The number of net acres is the sum of the fractional ownership of working interests owned directly by the Company in the gross acres expressed as a whole number and percentages thereof. A "net acre" is deemed to exist when the sum of fractional ownership of working interests in gross acres equals one.

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	Gross -----	Net -----
Developed Acreage	184,877	115,790
Undeveloped Acreage	5,710,074	4,301,168
	-----	-----
Total	5,894,951	4,416,958
	=====	=====

The following table sets forth the Company's undeveloped acreage as of December 31, 1999:

	Gross -----	Net -----
California	232,455	111,381
Texas	37,955	14,144
Congo, West Africa:		
Marine 1 Permit	38,000	19,000
Ghana, West Africa:		
East Cape Three Points	1,700,000*	1,275,000*
Accra-Keta	2,700,000	2,700,000
Tunisia, North Africa	976,540	170,895
Other	25,124	10,748
	-----	-----
Total	5,710,074	4,301,168
	=====	=====

* Relinquished in February 2000

Productive Wells

The following table sets forth the Company's gross and net interests in productive oil and gas wells as of December 31, 1999. Productive wells are producing wells and wells capable of production.

	Gross -----	Net -----
Oil Wells	2,361	1,743
Gas Wells	110	66
	-----	-----
Total	2,471	1,809
	=====	=====

Production

The Company's principal production volumes for the year ended December 31, 1999, were from California and the Congo.

Data relating to production volumes, average sales prices, average unit production costs and oil and gas reserve information appears in Note 17 to the

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Notes to Consolidated Financial Statements.

Drilling Activity and Present Activities

During the three year period ended December 31, 1999, the Company's principal drilling activities occurred in the continental United States and offshore in state and Federal waters, and offshore the Congo in West Africa.

The Company believes that its demonstrated ability to reduce operating costs to levels well below those of the larger oil and gas companies from which acquisitions have been made allows it to compete successfully in an industry characterized by fluctuating commodity prices.

Between the date of the California Properties acquisition, April 9, 1996, and the end of 1999, the Company drilled 248 wells in the Cymric field in central California, which contained 26% of the Company's total estimated net proved equivalent reserves at December 31, 1999, and anticipates drilling approximately 120 wells during 2000. In the Midway-Sunset field in central California, which contained 13% of the total estimated net proved equivalent

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reserves at December 31, 1999, the Company drilled 10 wells during 1999, and plans to drill approximately 45 wells in 2000.

In 1997, the Company drilled an exploration well to evaluate the Lower Sendji and subsalt sections underlying the Masseko structure located several miles to the west of the Yombo field in the Congo, as well as to further delineate the Upper Sendji and Tchala zones, which were discovered but not developed by the previous operator. This well tested at rates over 3,000 gross barrels per day from a newly discovered middle Sendji section. Platform design and development plans are being formulated for Masseko. Other potential exploration features are being evaluated for possible future drilling. Additionally, the Company initiated a waterflood project in the Yombo field to enhance production from existing Upper Sendji and Tchala zones. Plans for 2000 include performing a study to evaluate waterflood performance and to convert up to three wells to water injectors.

The Company's most significant discoveries in 1998 were: (i) four successful wells at Four Isle Dome in Louisiana, which helped increase net production from 0.6 MMCFPD and 35 BOPD at the beginning of 1998 to 7.9 MMCFPD and 170 BOPD at the end of 1998; (ii) two successful wells at Weeks Island, Louisiana, which each resulted in completions producing in excess of 700 BOPD; and (iii) successful extension to the south and east at the Monument Junction reservoir in the Cymric Field in California. In 1997, the Company's exploration program resulted in nine successful wells out of 14 drilled. Discoveries in 1997 included: the Masseko structure offshore Congo, the Monument Junction reservoir in Cymric field, California and Tranquillon Ridge, offshore California.

The Company had nine gross (nine net) wells in progress at December 31, 1999. The following table sets forth the results of drilling activity by the Company, net to its interest, for the last three calendar years. Gross wells, as it applies to wells in the following tables, refers to the number of wells in which a working interest is owned directly by the Company. The number of net wells is the sum of the fractional ownership of working interests owned directly by the Company in gross wells expressed as whole numbers and percentages thereof.

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Exploratory Wells

	Gross			Net		
	Productive	Dry Holes	Total	Productive	Dry Holes	Total
1997	9	5	14	6.63	2.33	8.96
1998	8	6	14	4.09	3.58	7.67
1999	--	4	4	--	2.33	2.33

Development Wells

	Gross			Net		
	Productive	Dry Holes	Total	Productive	Dry Holes	Total
1997	236	1	237	217.52	1.00	218.52
1998	155	--	155	134.43	--	134.43
1999	44	1	45	40.21	0.33	40.54

Exit Cost Liabilities

With respect to the Company's offshore oil and gas operations in California, the Company has significant exit cost liabilities. These liabilities include costs for dismantlement, rehabilitation and abandonment. As of December 31, 1999, the Company's net liability for these exit costs were approximately \$99 million. The Company is not indemnified for any part of these exit costs.

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Gas Plant, Pipelines and Other Facilities

As of December 31, 1999, the Company owned interests in the following gas plant facilities:

Facility	State	Operator	Capacity MMCFD	1999 Throughput MMCFD	Other
Stearns Gas Plant	California	Nuevo Energy Company	5	3.2	
HS&P Gas Plant	California	Nuevo Energy Company	13	3.7	

In December 1999, the Company sold the Santa Clara Valley Gas Plant, which is located east of Ventura, California, in connection with the Company's

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sale of its interest in the non-core properties onshore California.

In December 1997, the Company announced its intention to dispose of the remainder of its non-core gas gathering, pipeline and storage assets during 1998. Such assets included: the Company's 48.5% interest in the Richfield Gas Storage facility, which was sold in February 1998 for proceeds of \$2.1 million; an 80% interest in Bright Star Gathering, Inc., which was sold in July 1998 for proceeds of \$1.7 million; and the Illini pipeline, which was sold in November 1999 for proceeds of \$10.0 million. An agreement to sell the Illini Pipeline was reached in April 1998; however, the approval of the sale was not received from the Illinois Commerce Commission until November 1999. No gains or losses were recognized in connection with these sales. In the Company recorded a non-cash, pre-tax charge to fourth quarter 1997 earnings of \$23.9 million, reflecting the estimated loss on the disposition of these assets. A positive revision to this charge was made in the fourth quarter of 1998 in the amount of \$3.7 million to reflect the current estimated fair value of the Illini pipeline. The Company's results of operations included operating results from these assets through the disposition date, as applicable; however, these assets were not depreciated subsequent to 1997. The Company retained its remaining two California gas plants, as these plants are strategic assets for the Company's oil and gas activities in California.

On May 2, 1997, Nuevo Liquids, a wholly-owned subsidiary of the Company, sold its 95% interest in the NuStar Joint Venture, which held the Company's investment in the Benedum Plant System, for proceeds of \$25.0 million. The Company recognized a pre-tax gain of \$2.3 million on this sale. The effective date of this sale was January 1, 1997.

Risk Factors

Recently Low Oil Prices

The Company's financial condition, operating results, future growth and the carrying value of its oil and gas properties are substantially dependent on prevailing oil and gas prices. The Company's ability to maintain or increase its borrowing capacity and to obtain additional capital on attractive terms is also substantially dependent upon oil and gas prices. Beginning in late 1997 and continuing through early 1999, oil prices were very low compared with prices received for oil historically. Oil prices improved significantly during 1999, however, these low prices adversely affected the Company's revenues and operating cash flows during 1998 and early 1999. Any substantial or extended decline in future oil prices would have a material adverse effect on the Company in the future.

Volatility of Oil and Gas Prices

Prices for oil and gas are subject to large fluctuations in response to relatively minor changes in the supply of and demand for oil and gas, market uncertainty and a variety of additional factors beyond the control of the Company. These factors include weather conditions in the United States, the condition of the United States economy, the actions of the Organization of Petroleum Exporting Countries ("OPEC"), governmental regulation, political stability in the Middle East and elsewhere, the foreign supply of oil and gas, the price of foreign oil imports and the availability of alternate fuel sources. Any substantial and extended decline in the price of oil or gas would

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have an adverse effect on the Company's carrying value of its proved reserves, borrowing capacity, the Company's ability to obtain additional capital, and its revenues, profitability and cash flows from operations.

Volatile oil and gas prices make it difficult to estimate the value of producing properties for acquisition and often cause disruption in the market for oil and gas producing properties, as buyers and sellers have difficulty agreeing on such value. Price volatility also makes it difficult to budget for and project the return on acquisitions and development and exploitation projects.

Pricing of Heavy Oil Production

A portion of the Company's production is California heavy oil. The market price for California heavy oil differs substantially from the established market indices for oil and gas, due principally to the higher transportation and refining costs associated with heavy oil. As a result, the price received for heavy oil is generally lower than the price for medium and light oil, and the production costs associated with heavy oil are relatively higher than for lighter grades. The margin (sales price minus production costs) on heavy oil sales is generally less than for lighter oil, and the effect of material price decreases will more adversely affect the profitability of heavy oil production compared with lighter grades of oil. (See "Hedging" below for discussion of 15-year crude oil contract).

Reserve Replacement Risks

The Company's future performance depends upon its ability to find, develop and acquire additional oil and gas reserves that are economically recoverable. Without successful exploration, exploitation or acquisition activities, the Company's reserves and revenues will decline. No assurances can be given that the Company will be able to find and develop or acquire additional reserves at an acceptable cost.

The successful acquisition and development of oil and gas properties requires an assessment of recoverable reserves, future oil and gas prices and operating costs, potential environmental and other liabilities and other factors. Such assessments are necessarily inexact and their accuracy inherently uncertain. In addition, no assurances can be given that the Company's exploitation and development activities will result in any increases in reserves. The Company's operations may be curtailed, delayed or canceled as a result of lack of adequate capital and other factors, such as title problems, weather, compliance with governmental regulations or price controls, mechanical difficulties or shortages or delays in the delivery of equipment. In addition, the costs of exploitation and development may materially exceed initial estimates.

Substantial Capital Requirements

The Company makes, and will continue to make, substantial capital expenditures for the exploitation, exploration, acquisition and production of oil and gas reserves. Historically, the Company has financed these expenditures primarily with cash generated by operations, proceeds from bank borrowings and the proceeds of debt and equity issuances. The Company believes that it will have sufficient cash provided by operating activities and borrowings under its bank credit facility to fund planned capital expenditures. If revenues or the Company's borrowing base decreases as a result of lower oil and gas prices, operating difficulties or declines in reserves, the Company may have limited ability to expend the capital necessary to undertake or complete future drilling programs. There can be no assurance that additional debt or equity financing or cash generated by operations will be available to meet these requirements.

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Uncertainty of Estimates of Reserves and Future Net Cash Flows

Estimates of economically recoverable oil and gas reserves and of future net cash flows are based upon a number of variable factors and assumptions, all of which are to some degree speculative and may vary considerably from actual results. Therefore, actual production, revenues, taxes, and development and operating expenditures may not occur as estimated. Future results of operations of the Company will depend upon its ability to develop, produce and sell its oil and gas reserves. The reserve data included herein are estimates only and are subject to many uncertainties. Actual quantities of oil and gas may differ considerably from the amounts set forth herein. In

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addition, different reserve engineers may make different estimates of reserve quantities and cash flows based upon the same available data.

Operating Risks

Nuevo's operations are subject to risks inherent in the oil and gas industry, such as blowouts, cratering, explosions, uncontrollable flows of oil, gas or well fluids, fires, pollution, earthquakes and other environmental risks. These risks could result in substantial losses to the Company due to injury and loss of life, severe damage to and destruction of property and equipment, pollution and other environmental damage and suspension of operations. Moreover, offshore operations are subject to a variety of operating risks peculiar to the marine environment, such as hurricanes or other adverse weather conditions, to more extensive governmental regulation, including regulations that may, in certain circumstances, impose strict liability for pollution damage, and to interruption or termination of operations by governmental authorities based on environmental or other considerations. The Company's operations could result in liability for personal injuries, property damage, oil spills, discharge of hazardous materials, remediation and clean-up costs and other environmental damages. The Company could be liable for environmental damages caused by previous property owners. As a result, substantial liabilities to third parties or governmental entities may be incurred, the payment of which could have a material adverse effect on the Company's financial condition and results of operations. The Company maintains insurance coverage for its operations, including limited coverage for sudden environmental damages, but does not believe that insurance coverage for environmental damages that occur over time is available at a reasonable cost. Moreover, the Company does not believe that insurance coverage for the full potential liability that could be caused by sudden environmental damages is available at a reasonable cost. Accordingly, the Company may be subject to liability or may lose substantial portions of its properties in the event of certain environmental damages.

Foreign Investments

The Company's foreign investments involve risks typically associated with investments in emerging markets such as uncertain political, economic, legal and tax environments and expropriation and nationalization of assets. 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 the Company will be successful in protecting against such risks.

The Company's international assets and operations are subject to various political, economic and other uncertainties, including, among other

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things, the risks of war, expropriation, nationalization, renegotiation or nullification of existing contracts, taxation policies, foreign exchange restrictions, changing political conditions, international monetary fluctuations, currency controls and foreign governmental regulations that favor or require the awarding of drilling contracts to local contractors or require foreign contractors to employ citizens of, or purchase supplies from, a particular jurisdiction. In addition, if a dispute arises with foreign operations, the Company may be subject to the exclusive jurisdiction of foreign courts or may not be successful in subjecting foreign persons, especially foreign oil ministries and national oil companies, to the jurisdiction of the United States.

The Company's private ownership of oil and gas reserves under oil and gas leases in the United States differs distinctly from its ownership of foreign oil and gas properties. In the foreign countries in which the Company does business, the state generally retains ownership of the minerals and consequently retains control of (and in many cases, participates in) the exploration and production of hydrocarbon reserves. Accordingly, operations outside the United States, and estimates of reserves attributable to properties located outside the United States, may be materially affected by host governments through royalty payments, export taxes and regulations, surcharges, value added taxes, production bonuses and other charges.

Hedging

During 1999, the Company formalized its policies regarding the management of oil price risk to ensure the Company's ability to optimally manage its portfolio of investment opportunities. In a typical swap transaction, the Company will have the right to receive from the counterparty to the hedge the excess of the fixed price specified in the hedge contract and a floating price based on a market index, multiplied by the quantity hedged. If the floating

price exceeds the fixed price, the Company is required to pay the counterparty the difference. The Company would be required to pay the counterparty the difference between such prices regardless of whether the Company's production was sufficient to cover the quantities specified in the hedge. In addition, the index used to calculate the floating price in a hedge is frequently not the same as the prices actually received for the production hedged. The difference (referred to as basis differential) may be material, and may reduce the benefit or increase the detriment caused by a particular hedge. There is not an established pricing index for hedges of California heavy crude oil production, and the cash market for heavy oil production in California tends to vary widely from index prices typically used in oil hedges. Consequently, prior to 2000, hedging California heavy crude oil was particularly subject to the risks associated with volatile basis differentials. In February 2000, the Company entered into a 15-year contract, effective January 1, 2000, to sell substantially all of its current and future California crude oil production to Tosco Corporation. The contract provides pricing based on a fixed percentage of the NYMEX crude oil price for each type of crude oil that Nuevo produces in California. Therefore, the actual price received as a percentage of NYMEX will vary with the Company's production mix. Based on the Company's current production mix, the price received by Nuevo for its California production is expected to average at approximately 72% of WTI. While the contract does not reduce the Company's exposure to price volatility, it does effectively eliminate the basis differential risk between the NYMEX price and the field price of the Company's California oil production, thereby facilitating Nuevo's ability to

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hedge its realized prices.

As a result of hedging transactions, oil and gas revenues were reduced by \$44.9 million in 1999, increased by \$0.6 million in 1998 and reduced by \$6.0 million in 1997. For 2000, the Company has entered into swap contracts on 16,500 barrels of oil per day ("BOPD"), at an average West Texas Intermediate ("WTI") price of \$17.94 per barrel. The Company has also entered into cost-less collars on an additional 16,500 BOPD, with a floor of \$16.00 per barrel and ceiling of \$21.21 per barrel. This production is hedged based on a fixed NYMEX price for each type of crude oil that the Company produces in California. As a result of the TOSCO contract, (see Note 13 to the Notes to Consolidated Financial Statements), which fixes the price of the Company's California production at approximately 72% of the NYMEX price effective January 1, 2000, these hedge transactions have the effect on a price basis of hedging substantially all of the Company's current production for the year 2000. Also for the year 2000, the Company has entered into basis swaps on 3,000 BOPD of its production in the Congo, hedging the basis differential between No. 6 fuel oil and WTI at an average differential of \$1.88 per barrel. See Item 7a. "Quantitative and Qualitative Disclosures About Market Risk".

Hedge Policy

The Board of Directors adopted a Commodity Hedging Policy which is implemented by management and is periodically assessed by the Governance Committee of the Board. The Company's policy is designed to meet the following goals, during periods with abnormally low commodity prices: (i) assure the Company can generate sufficient operating cash flow to replace reserves that are produced and (ii) to assure compliance with restrictive debt covenants that would otherwise limit the Company's ability to incur additional debt. It is also the Company's policy that significant capital investments whose rates of return are sensitive to future oil and gas prices be protected from exposure to extreme price volatility.

The Company's hedging policy is based on the view that oil prices revert to a mean price over the long term. To the extent that future markets over a forward 18 month period are significantly higher than long term norms, the Company will hedge so much of its production as is necessary to meet its policy goals for that period. Variations from this approach require Board approval. The Company prohibits hedging activity that is speculative or otherwise increases the Company's risk. The Company recognizes the risks inherent in price management. In order to minimize such risk, the Company has instituted a set of controls addressing approval authority, trading limits and other control procedures. All hedging activity is the responsibility of the Chief Financial Officer. In addition, Internal Audit, which independently reports to the Audit Committee, reviews the Company's price management activity. Competition/Markets for Production

The Company operates in the highly competitive areas of oil and gas exploration, exploitation, development and production. The availability of funds and information relating to a property, the standards established by the Company for the minimum projected return on investment, the availability of alternate fuel

sources and the intermediate transportation of gas are factors which affect the Company's ability to compete in the marketplace. The Company's competitors include major integrated oil companies and a substantial number of independent

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energy companies, many of which possess greater financial and other resources than the Company.

The Company's heavy crude oil production in California requires special treatment available only from a limited number of refineries. Substantial damage to such a refinery or closures or reduction in capacity due to financial or other factors could adversely affect the market for the Company's heavy crude oil production.

Environmental and Other Regulation

The Company's operations are subject to numerous laws and regulations governing the discharge of materials into the environment or otherwise relating to environmental protection. These laws and regulations require the acquisition of a permit before drilling commences, restrict the types, quantities and concentration of various substances that can be released into the environment in connection with drilling and production activities, limit or prohibit drilling activities on certain lands lying within wilderness, wetlands and other protected areas, and impose substantial liabilities for pollution which might result from the Company's operations. Moreover, the recent trend toward stricter standards in environmental legislation and regulation is likely to continue. For instance, legislation has been proposed in Congress from time to time that would reclassify certain oil and gas exploration and production wastes as "hazardous wastes" which would make the reclassified wastes subject to much more stringent handling, disposal and cleanup requirements. If such legislation were to be enacted, it could have a significant impact on the operating costs of the Company, as well as the oil and gas industry in general. Initiatives to further regulate the disposal of oil and gas wastes are also pending in certain states, and these various initiatives could have a similar impact on the Company. The Company could incur substantial costs to comply with environmental laws and regulations.

The OPA imposes a variety of regulations on "responsible parties" related to the prevention of oil spills. The implementation of new, or the modification of existing, environmental laws or regulations, including regulations promulgated pursuant to the OPA, could have a material adverse impact on the Company.

ITEM 3. LEGAL PROCEEDINGS

The Company has been named as a defendant in the lawsuit Gloria Garcia Lopez and Husband, Hector S. Lopez, Individually, and as successors to Galo Land & Cattle Company v. Mobil Producing Texas & New Mexico, et al. currently pending in the 79th Judicial District Court of Brooks County, Texas (the "Lopez Case"). The plaintiffs, based on pleadings and deposition testimony, allege: i) underpayment of royalties and claim damages, on a gross basis against all working interest owners, of \$56.5 million, including interest for the period from 1985 to date; ii) that their production was improperly commingled with gas produced from an adjoining lease, resulting in damages, including interest, of \$40.8 million, on a gross basis; (iii) failure to develop, claiming damages and interest of \$106.3 million (gross) for interest in the alleged failure to develop; and iv) numerous other claims, including claims for drainage, breach of the implied covenant to reasonably develop the lease, conversion, fraud, emotional distress, lease termination and exemplary damages, that may result in unspecified damages. Nuevo's working interest in these properties is 20%. The Company, along with the other defendants in this case, denies these allegations

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and is vigorously contesting 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 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.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

There were no matters submitted to a vote of security holders during the fourth quarter of 1999.

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NUEVO ENERGY COMPANY

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The principal market on which the Company's Common Stock is traded is the New York Stock Exchange (Symbol: NEV). On March 22, 2000, Nuevo had 17,560,829 shares of common stock outstanding and had reserved 1,936,830 shares of common stock for issuance upon conversion of the TECONS and 2,524,829 shares for issuance pursuant to employee stock options. There were approximately 1,160 stockholders of record and approximately 4,936 additional beneficial owners as of March 22, 2000. The Company has not paid dividends on its Common Stock and does not anticipate the payment of cash dividends in the immediate future as it contemplates the use of cash flows for expansion of its operations. In addition, certain restrictions contained in the Company's financing arrangements restrict the payment of dividends (See Management's Discussion and Analysis of Financial Condition and Results of Operations - Capital Resources and Liquidity and Note 10 to the Notes to Consolidated Financial Statements). The high and low recorded prices of the Company's Common Stock during 1999 and 1998 are presented in the following table:

	Market Price	
	High	Low
Quarter Ended:		
March 31, 1999.....	\$ 16.38	\$ 6.13
June 30, 1999.....	\$ 18.19	\$ 11.63
September 30, 1999.....	\$ 18.13	\$ 13.50
December 31, 1999.....	\$ 19.50	\$ 13.63
March 31, 1998.....	\$ 40.56	\$ 30.19
June 30, 1998.....	\$ 37.81	\$ 30.25

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September 30, 1998.....	\$ 32.75	\$ 15.50
December 31, 1998.....	\$ 23.50	\$ 9.94

Treasury Stock Repurchases

Since December 1997, the Board of Directors of the Company authorized the open market repurchase of up to 3,616,600 shares of outstanding Common Stock at times and at prices deemed appropriate by management. As of December 31, 1999, the Company had repurchased 1,999,100 shares of its Common Stock in open market transactions at an average purchase price, including commissions, of \$16.50 per share. As of March 22, 2000, the Company had repurchased 2,610,600 shares at an average purchase price of \$16.75 per share, including commissions.

In March 1997, the Board of Directors authorized the open market repurchase of up to 1,000,000 shares of outstanding Common Stock during 1997, at times and prices deemed attractive by management. During April 1997, the Company repurchased 500,000 shares of Common Stock in open market transactions, at an average purchase price of \$38.94 per share, plus 42,491 shares acquired from the cancellation of warrants issued during 1996.

Put Options

In May 1997, the Company sold put options on its Common Stock to a third party. The options gave the purchaser the right to sell to the Company 500,000 shares of its Common Stock at prices ranging from \$40.26 to \$41.04 per share through December 31, 1997. The contract gave the Company the choice of net cash, net shares, or physical settlement. Any repurchased shares would have been treated as Treasury Stock. The Company generated \$1.6 million in option premium from these transactions, which is reflected in additional paid-in capital on the balance sheet. As of December 31, 1997, 400,000 of these options had expired with the Company's share prices

above the strike price, and 100,000 of these options were settled on December 31, 1997, for a nominal amount of net cash.

Shareholder Rights Plan

In March 1997, the Company adopted a Shareholder Rights Plan to protect the Company's shareholders from coercive or unfair takeover tactics. Under the Shareholder Rights Plan, each outstanding share and each share of subsequently issued Common Stock has attached to it one Right. Generally, in the event a person or group ("Acquiring Person") acquires or announces an intention to acquire beneficial ownership of 15% or more of the outstanding shares of Common Stock without the prior consent of the Company, or the Company is acquired in a merger or other business combination, or 50% or more of its assets or earning power is sold, each holder of a Right will have the right to receive, upon exercise of the Right, that number of shares of common stock of the acquiring company, which at the time of such transaction will have a market price of two times the exercise price of the Right. The Company may redeem the Right for \$.01 at any time before a person or group becomes an Acquiring Person without prior approval. The Rights will expire on March 21, 2007, subject to earlier redemption by the Board of Directors of the Company.

On January 10, 2000, the Company amended the Shareholder Rights Plan to provide that if the Company receives and consummates a transaction pursuant to a

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Qualifying Offer, the provisions of the Shareholder Rights Plan are not triggered. In general, a Qualifying Offer is an all cash, fully-funded tender offer for all outstanding Common Shares by a person who, at the commencement of the offer, beneficially owns less than five percent of the outstanding Common Shares. A Qualifying Offer must remain open for at least 120 days, must be conditioned on the person commencing the Qualifying Offer acquiring at least 75% of the outstanding Common Shares and the per share consideration must exceed the greater of (1) 135% of the highest closing price of the Common Shares during the one-year period prior to the commencement of the Qualifying Offer or (2) 150% of the average closing price of the Common Shares during the 20 day period prior to the commencement of the Qualifying Offer.

Executive Compensation Plan

During July 1997, the Board of Directors of the Company adopted a plan to encourage senior executives to personally invest in the shares of the Company, and to regularly review executives' ownership versus targeted ownership objectives. These incentives include a deferred compensation plan (the "Plan") that gives key executives the ability to defer all or a portion of their salaries and bonuses and invest in Common Stock of the Company at a discount to market prices or make other investments at the employee's discretion. Stock acquired at a discount will be held in a benefit trust and restricted for a two-year period, and the Plan does not permit investment in a diversified equity portfolio until and unless targeted levels of Common Stock ownership in the Company are achieved and maintained. Target levels of ownership are based on multiples of base salary and are administered by the Compensation Committee of the Board of Directors. The Plan applies to all executives at a level of Vice-President and above.

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NUEVO ENERGY COMPANY

ITEM 6. SELECTED FINANCIAL DATA

The following selected financial data with respect to the Company should be read in conjunction with the consolidated financial statements and supplementary information included in Item 8 (amounts in thousands, except per share data).

	As of and for the Years ended December 31			
	1999	1998	1997 (4)	1996 (4)
Oil and gas revenues.....	\$ 239,306	\$ 240,010	\$ 331,973	\$ 279,8
Gas plant revenues.....	2,968	2,665	14,826	34,8
Pipeline and other revenues.....	4	2,700	5,772	6,7
Gain on sale of assets, net.....	85,294	5,768	1,372	6,0
Interest and other income.....	4,663	1,560	3,335	1,6
	332,235	252,703	357,278	329,0
Total revenues.....				
Total costs and expenses before extraordinary item (including income taxes and minority interest) (3).....	300,793	346,975	367,954	294,7
Extraordinary loss on early extinguishment of debt.....	--	--	3,024	

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Net income (loss) (1) (5).....	\$ 31,442	\$ (94,272)	\$ (13,700)	\$ 34,2
Net income (loss) attributable to Common stockholders.....	\$ 31,442	\$ (94,272)	\$ (13,700)	\$ 33,3
Earnings (loss) per Common Share - Basic(2).....	\$ 1.62	\$ (4.76)	\$ (0.69)	\$ 1.
Earnings (loss) per Common share - Diluted(2).....	\$ 1.61	\$ (4.76)	\$ (0.69)	\$ 1.
Total Assets.....	\$ 760,030	\$ 817,685	\$ 804,286	\$ 817,6
Long-term debt, net of current maturities.....	\$ 340,750	\$ 419,150	\$ 305,940	\$ 287,0
Company-obligated Mandatorily Redeemable Convertible Preferred Securities of Nuevo Financing I.....	\$ 115,000	\$ 115,000	\$ 115,000	\$ 115,0

(1) No Common Stock dividends have been declared since the formation of the Company. See Note 10 to the Notes to Consolidated Financial Statements concerning restrictions on the payment of Common Stock dividends.

(2) Retroactively restated to reflect the adoption of Statement of Financial Accounting Standards (SFAS) No. 128, "Earnings per Share". (See Note 2 to the Notes to Consolidated Financial Statements).

(3) Results for the years ended 1998 and 1997 include impairments of oil and gas properties of \$68.9 million and \$30.0 million, respectively, and (revision to) provision for impairment on assets held for sale of (\$3.7) million and \$23.9 million, respectively.

(4) Retroactively restated to reflect the Company's January 1, 1998 conversion from the full cost method to the successful efforts method of accounting for its investments in oil and gas properties. (See Note 2 to the Notes to Consolidated Financial Statements).

(5) The year ended December 31, 1996, includes activity of the California Properties from the date of acquisition (April 9, 1996).

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

Nuevo, headquartered in Houston, Texas, is primarily engaged in the exploration for, and the acquisition, exploitation, development and production of crude oil and natural gas. The Company's strategy to differentiate itself from its numerous peer group competitors and to generate long term shareholder value consists of: (i) a unique management philosophy that frames all important decisions in terms of anticipated impact on per share (rather than absolute) growth of reserves, production, cash flow and net asset value; (ii) a contrarian investment and financing orientation; (iii) the outsourcing of non-strategic functions; (iv) the alignment of employee compensation structures with shareholder objectives; and (v) a commitment to an exemplary governance

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structure which reinforces the overarching view of Nuevo as a conduit for shareholders to achieve superior long term capital gains.

Nuevo is an independent energy company. Since its inception in 1990, Nuevo 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 strategic divestitures and an opportunistic exploration program, which provides exposure to high-potential prospects. The Company's primary strengths are its track record of rapid reserve growth on a per share basis, achieved at extremely low cost relative to industry averages; its large inventory of exploitation projects in its core areas of operation, which the Company believes will support future growth in reserves and production per share; its demonstrated ability to significantly reduce operating costs from levels experienced by prior operators; its ability to identify and acquire, at attractive prices, long-lived producing properties, which have significant potential for further exploration, exploitation and development; a capital structure supportive of a growing investment program and future acquisitions; and a price risk management policy designed to protect the Company's ability to generate self-sustaining cash flow and to meet the interest coverage tests under the Company's bond indentures.

The Company's results of operations have been significantly affected by fluctuations in oil and gas prices. The Company's success in acquiring oil and gas properties and its ability to maintain or increase production through its exploitation activities have also significantly affected the Company's results. The following table reflects the Company's oil and gas production and its average oil and gas prices (inclusive of crude oil and natural gas price swaps), by oil and gas segment and in total, for the periods presented:

	Year Ended December 31,		
	1999	1998	1997
PRODUCTION:			
Oil (MBBLS):			
East.....	413	838	878
West.....	15,272	16,284	14,694
Foreign.....	1,835	1,461	1,555
Total.....	17,520	18,583	17,127
Natural gas (MMCF):			
East.....	3,224	18,816	20,831
West.....	14,396	13,705	14,794
Total.....	17,620	32,521	35,625
Natural gas liquids (MBBLS):			
East.....	62	67	76
West.....	145	156	206
Total.....	207	223	282

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	Year Ended December 31,		
	1999	1998	1997
AVERAGE SALES PRICE:			
Oil (per barrel):			
East.....	\$ 15.25	\$ 12.63	\$ 18.95
West.....	\$ 10.44	\$ 8.98	\$ 14.73
Foreign.....	\$ 16.69	\$ 10.82	\$ 14.66
Total - exclusive of hedges.....	\$ 13.82	\$ 9.26	\$ 14.94
Total - hedge effect.....	\$ (2.61)	\$ (0.01)	\$ (0.08)
Total - net of hedge effect.....	\$ 11.21	\$ 9.25	\$ 14.86
Natural gas (per MCF):			
East.....	\$ 2.00	\$ 1.80	\$ 2.08
West.....	\$ 2.33	\$ 2.21	\$ 2.06
Total - exclusive of hedges.....	\$ 2.27	\$ 1.98	\$ 2.19
Total - hedge effect.....	\$ --	\$ 0.02	\$ (0.13)
Total - net of hedge effect.....	\$ 2.27	\$ 2.00	\$ 2.06
AVERAGE UNIT PRODUCTION COST PER EQUIVALENT BARREL (6 MCF EQUAL 1 BARREL):			
East.....	\$ 2.45	\$ 2.88	\$ 2.71
West.....	\$ 6.28	\$ 5.94	\$ 5.53
Foreign.....	\$ 7.01	\$ 8.14	\$ 7.70
Total.....	\$ 6.15	\$ 5.56	\$ 5.14

Effective January 1, 1998, the Company elected to convert from the full cost method to the successful efforts method of accounting for its investments in oil and gas properties. The Company believes that the successful efforts method of accounting is preferable, as it will provide a fair presentation of the Company's development activities in its core California business and the drilling success of its selective exploration activities, and reflect an impairment in the carrying value of its oil and gas properties only when there has been a permanent decline in their fair value. Accordingly, all prior year financial statements have been restated to conform to successful efforts accounting. The effect, after tax, of the change in accounting method as of December 31, 1997, was a reduction to retained earnings of \$64.1 million, primarily attributable to a decrease in net property and equipment and the deferred tax liability of \$99.2 million and \$38.0 million, respectively. The change in accounting method resulted in a decrease in net income of \$32.5 million (\$1.64 per share - basic and diluted) during 1997.

Under the successful efforts method of accounting, 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

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gain or loss is recognized. When an entire interest in an unproved property is sold for cash or cash equivalent, a 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. An impairment of unproved leasehold costs of \$8.1 million was recognized as of December 31, 1998. No such impairment was recognized for the years ended December 31, 1999 or 1997. Exploration costs, including geological and geophysical expenses, exploratory dry holes and delay rentals, are charged to expense as incurred.

Costs of productive wells, development dry holes and productive 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's independent reserve engineers and are included when calculating depreciation and depletion using the unit-of-production method.

The Company reviews proved oil and gas properties on a depletable unit basis whenever events or circumstances indicate that the carrying value of those assets may not be recoverable. For each depletable unit determined to be impaired, an impairment loss equal to the difference between the carrying value and the fair value of the depletable unit is recognized. Fair value, on a depletable unit basis, is estimated to be the value of the undiscounted expected future net revenues computed by application of estimated future oil and gas prices, production and expenses, as determined by management, to estimated future production of oil and gas reserves over the economic life of the reserves. If the carrying value exceeds the undiscounted future net revenues, an impairment is recognized equal to the difference between the carrying value and the discounted estimated future net revenues of that depletable unit. The Company considers all proved reserves and commodity pricing based on market information available at year-end in its estimate of future net revenues. During 1998, the Company recorded a fair value impairment totaling \$60.8 million on its East Coalinga, Las Cienegas, Beta, Point Pedernales and South Mountain fields and certain other insignificant oil and gas properties due to the significant, sustained decline in domestic oil prices during the year from an average Company realized price of \$14.86 per barrel for 1997 to an average realized price of \$9.25 per barrel in 1998. During 1997, the Company recorded a fair value impairment totaling \$30.0 million on its Brea Olinda field and certain other insignificant oil and gas properties due to decreases in the fair value of the depletable units attributable to a decline in domestic oil prices. No such impairment was recognized during 1999.

Interest costs associated with non-producing leases and exploration and development projects are capitalized only for the period that activities are in progress to bring these projects to their intended use. The capitalization rates are based on the Company's weighted average cost of funds used to finance expenditures.

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Any reference to oil and gas reserve information in the Notes to Consolidated Financial Statements is unaudited.

Financing Activities

The Company had \$341.5 million in outstanding indebtedness at December 31, 1999, which is scheduled to mature as follows (amounts in thousands):

2000.....	\$	750
2001.....		--
2002.....		--
2003.....		81,000
2004.....		--
Thereafter.....		259,750

	\$	341,500
		=====

In July 1999, the Company authorized a new issuance of \$260.0 million of 9 1/2% senior subordinated notes due June 1, 2008 ("9 1/2% Notes"). The Company offered to exchange the new notes for its outstanding \$160.0 million of 9 1/2% senior subordinated notes due 2006 ("Old 9 1/2% Notes") and \$100.0 million of 8 7/8% senior subordinated notes due 2008 ("8 7/8% Notes"). In August 1999, the Company received tenders to exchange \$157.46 million of its Old 9 1/2% Notes and \$99.85 million of the 8 7/8% Notes. In connection with the exchange offers, the Company solicited consents to proposed amendments to the indentures under which the old notes were issued. These amendments streamline the Company's covenant structure and provide the Company with additional flexibility to pursue its operating strategy. The exchange was accounted for as a debt modification. As such, the consideration that the Company paid to the holders of the Old 9 1/2% Notes who tendered in the exchange offer (equal to 3% of the outstanding principal amount of the Old 9 1/2% Notes exchanged) was accounted for as deferred financing costs. Also in connection with this exchange offer, the Company incurred a total of \$3.1 million in third-party fees during the third and fourth quarters of 1999, which are included in other expense.

Interest on the 9 1/2% Notes accrues at the rate of 9 1/2% per annum and is payable semi-annually in arrears on June 1 and December 1. The 9 1/2% Notes are redeemable, in whole or in part, at the option of the Company, on or after June 1, 2003, under certain conditions. The Company is not required to make mandatory redemption or sinking fund payments with respect to the 9 1/2% Notes. The indenture contains covenants that, among other things, limit the Company's ability to incur additional indebtedness, limit restricted payments, limit issuances and sales of capital stock by restricted subsidiaries, limit dispositions of proceeds of asset sales, limit dividends and other payment restrictions affecting restricted subsidiaries, and restrict mergers, consolidations or sales of assets. The 9 1/2% Notes are not currently guaranteed by Nuevo's subsidiaries but are required to be guaranteed by any subsidiary that guarantees indebtedness ranking equal as to right of payment to the 9 1/2% Notes or subordinated indebtedness. The 9 1/2% Notes are unsecured general obligations of the Company, and are subordinated in right of payment to all existing and future senior indebtedness of the Company. In the event of a defined change in control, the Company will be required to make an offer to

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repurchase all outstanding 9 1/2% Notes at 101% of the principal amount thereof, plus accrued and unpaid interest to the date of redemption.

In June 1998, the Company issued \$100.0 million, 8 7/8% Notes. In August 1999, most of the 8 7/8% Notes, except for \$150,000, were exchanged for 9 1/2% Notes. The remaining \$150,000 were retired in December 1999. No significant costs were incurred in connection with this early retirement of debt.

Nuevo's Amended and Restated Credit Agreement, (the "Agreement"), dated June 30, 1999, provides for secured revolving credit availability of up to \$400.0 million (subject to a semi-annual borrowing base determination) from a bank group led by Bank of America, N.A. and Morgan Guaranty Trust Company of New York, until its expiration on April 1, 2003.

The borrowing base determination establishes the maximum borrowings that may be outstanding under the credit facility, and is determined by a two-thirds vote of the banks (three-fourths in the event of an increase in the borrowing base), each of which bases its judgement on (i) the present value of the Company's oil and gas reserves based on its own assumptions regarding future prices, production, costs, risk factors and discount rates, and (ii) on projected cash flow coverage ratios calculated under varying scenarios. If amounts outstanding under the credit facility exceed the borrowing base, as redetermined from time to time, the Company would be required to repay such excess over a defined period of time.

The borrowing base was reduced from \$380.0 million to \$200.0 million in January 1999, reflecting the sale on that date of the Company's East Texas natural gas reserves, and also reflecting a significant decline in projected oil prices since the previous determination. The borrowing base was subsequently increased in October 1999 to \$300.0 million, as a result of the significant increase in commodity prices and the inclusion of recently acquired oil and gas properties in California (see Note 3 to the Notes to Consolidated Financial Statements).

Amounts outstanding under the credit facility bear interest at a rate equal to the London Interbank Offered Rate ("LIBOR") plus an amount which increases as borrowing base utilization increases. At December 31, 1999, the Company's interest rate under the credit facility was LIBOR plus .625%, or 7.13%. Outstandings under this facility at December 31, 1999 were \$81.0 million.

The Credit Agreement has customary covenants including, but not limited to, covenants with respect to the following matters: (i) limitations on certain restricted payments and investments; (ii) limitations on guarantees and indebtedness; (iii) limitations on prepayments of subordinated and certain other indebtedness; (iv) limitations on mergers and consolidations, on certain types of acquisitions and on the issuance of certain securities by subsidiaries; (v) limitations on liens; (vi) limitations on sales of properties; (vii) limitations on transactions with affiliates; (viii) limitations on derivative contracts; and (ix) limitations on debt in subsidiaries. The Company is also required to maintain certain financial ratios and conditions, including without limitation an EBITDAX (earnings before interest, taxes, depreciation, depletion, amortization and exploration expenses) to fixed charge coverage ratio and a funded debt to capitalization ratio. As a result of reduced revenues in 1998 due to falling oil prices, the Company obtained amendments for relief from the EBITDAX fixed charge coverage test through March 31, 2000. The Company was in compliance with this test and all other covenants of the Agreement at December 31, 1999, and does not anticipate any issues of non-compliance arising in the foreseeable future.

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On July 24, 1992, the Company closed the sale of \$75.0 million aggregate principal amount of 12 1/2% Senior Subordinated Notes (the "Notes") due June 15, 2002. In June 1997, the Company redeemed the Notes at a total cost of \$78.0 million, representing \$75.0 million face value of the debt plus a 4% premium of \$3.0 million. In addition to the premium, the Company wrote off approximately \$2.0 million of unamortized discount and deferred financing costs. The redemption resulted in an extraordinary loss on early extinguishment of debt of \$3.0 million, net of the related tax benefit of \$2.0 million. The Company used proceeds from the Credit Facility to fund the redemption.

In February 1995, in connection with the purchase of the stock of the Amoco Congo Petroleum Company, the Company negotiated with the Overseas Private Investment Corporation ("OPIC") and an agent bank for a non-recourse credit facility in the amount of \$25.0 million. The credit facility expired in June 1999. The initial drawdown on the facility was \$8.8 million to finance a portion of the purchase price. A portion of the remaining outstanding commitment, \$6.0 million, was drawn down in January 1996 to fund the first phase of the development drilling program in the Congo. The interest rate associated with such credit facility is LIBOR plus 20 basis points and a guaranty fee of 2.75% of the outstanding loan balance, all of which is payable quarterly. At December 31, 1999, the interest rate was 5.8%, plus the 2.75% guaranty fee. The loan agreement requires a sixteen-quarter repayment period and will be fully paid in April 2000.

At present, there is no plan to pay dividends on Common Stock. The Company maintains a policy of reinvesting its discretionary cash flows for the expansion of its business and operations.

Other Matters

Year 2000

In 1998, the Company and its outside service provider, Torch Energy Advisers Incorporated ("Torch"), jointly developed a plan to address Nuevo's risks associated with the Year 2000 issues ("Y2K.") The plan grouped the risks associated with Y2K into three general areas: i) financial and administrative systems, ii) embedded systems in field process control units, and iii) third party exposures. The Company did not encounter any critical financial and administrative system or embedded system failures during the date roll over to the Year 2000, and has not experienced any disruptions of business activities as a result of Year 2000 failures encountered by third parties (customers, suppliers and service providers.) To date, the Company has not incurred, and does not expect to incur, any material expenditures in connection with identifying, assessing or remediating Y2K compliance issues.

Results of Operations

Revenues

The Company has experienced significant oil and gas revenue volatility in recent years. Beginning in late 1997 and continuing through early 1999, oil prices were very low compared with historical prices. Oil prices improved significantly during 1999. During this three-year period, the volatility of oil and gas prices directly impacted revenues. For the purpose of reducing exposure to decreases in oil and gas prices, the Company utilizes derivative financial instruments in accordance with its price risk management policy, which was adopted in 1999. As a result of such hedging transactions, oil and gas revenues were reduced by \$44.9 million in 1999, increased by \$0.6 million in 1998, and

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reduced by \$6.0 million in 1997.

Oil and gas revenues for 1999 were relatively flat as compared to 1998, however the factors driving oil and gas revenues for each period were different. The 15% decrease in oil and gas production from 1998 to 1999 was almost entirely offset by higher commodity prices received in 1999. Oil volumes decreased 6% from 1998 to 1999 primarily as a result of reduced capital spending during 1999. This decrease was partially offset by the production from the California properties acquired from Texaco in June 1999. Gas volumes decreased 46% from 1998 to 1999 principally due to the January 1999 sale of the East Texas natural gas assets, and to a lesser extent, natural field declines in California. Offsetting these production declines, oil and gas price realizations increased 21% and 14%, respectively, from 1998 to 1999.

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Oil and gas revenues for 1998 were 28% lower than 1997 oil and gas revenues primarily due to a 38% decrease in average realized oil prices from 1997 to 1998. Also contributing to this decline in oil and gas revenues were decreases in natural gas production and realized gas prices. The Company's gas production decreased 9% from 1997 to 1998, and average realized gas prices decreased 3% from 1997 to 1998. The decline in oil and gas revenues was partially offset by a 9% increase in the Company's oil production from 1997 to 1998.

Gas plant revenues were 11% higher in 1999 as compared to 1998, primarily due to a 27% increase in natural gas liquids price realizations. Gas plant revenues in 1998 were 82% lower than 1997 revenues due to the sale of the Company's interest in the Benedum Plant System in May 1997. The Company recognized a \$2.3 million pre-tax gain on the sale in 1997.

Pipeline and other revenues decreased 100% from 1998 to 1999 and 53% from 1997 to 1998. These decreases are due to the sale of the Company's interests in the Richfield Gas Storage facility in February 1998 and Bright Star Gathering, Inc. in July 1998.

The net gain on sale of assets for 1999 was \$85.3 million, which is comprised of: (i) an \$80.2 million gain on the sale of the Company's East Texas natural gas assets in January 1999, (ii) a \$5.4 million gain on the sale of the Company's interest in 13 onshore fields and a gas processing plant located in Ventura County, California, in December 1999, and (iii) a \$0.3 million net loss on the sale of other non-core properties. Gain on sale of assets for 1998 was \$5.8 million. This gain on sale of assets includes a \$4.1 million gain on the sale of the Company's interest in the Sansinena field in California in the third quarter of 1998 and a \$1.7 million gain on the sale of the Company's interest in the Coke field in Chapel Hill, Texas in the first quarter of 1998. The net gain on sale of assets for 1997 was \$1.4 million, which is comprised of: (i) a \$1.4 million gain on the sale of the Company's interest in Second Bayou, Weeks Island, Louisiana; (ii) a \$2.3 million gain on the Company's interest in the Benedum Plant System; (iii) a \$1.6 million loss on the sale of the Company's interest in the South Timbalier field; and (iv) a \$0.7 million loss on the sale of other non-core properties.

Interest and other income for the year ended December 31, 1999 includes \$2.4 million associated with interest earned on the \$100.0 million in proceeds from the sale of the East Texas natural gas properties funded into an escrow account to provide "like-kind exchange" tax treatment in the event the Company acquired domestic producing oil and gas properties in the first half of 1999.

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The escrow account was liquidated in June 1999, in connection with the Company's June 1999 acquisition of certain California oil and gas properties from Texaco, Inc. and the repayment of a portion of bank debt. Also included in interest and other income in 1999 is \$0.6 million related to the sale of an unconsolidated subsidiary.

Expenses

Lease operating expenses ("LOE") for 1999 totaled \$127.2 million, as compared to \$134.7 million and \$120.0 million for 1998 and 1997, respectively. The 6% decrease in LOE from 1998 to 1999 is primarily due to the Company's sale of the East Texas natural gas assets in January 1999. Even though total LOE decreased in 1999, LOE per barrel of oil equivalent ("BOE") increased 11% from 1998 to 1999. This increase relates to two main factors: (i) the East Texas assets that were sold in January 1999 had relatively low LOE/BOE rates, and (ii) the cost of natural gas used in the Company's thermal operations in California increased. The annual LOE increase of 12% in 1998, as compared to 1997, is generally reflective of higher production and costs associated with the California Properties, which constituted 77% and 73% of total production in 1998 and 1997, respectively. In 1998, the Company experienced an increase in workovers of \$11.2 million as compared to the same period in 1997, as well as poor weather conditions in the first quarter of 1998 in California that caused landslides and power outages, which resulted in \$2.3 million of incremental, unusual costs.

Gas plant operating expenses in 1999 increased 6% as compared to 1998 as a result of higher ad valorem taxes. Gas plant operating expenses in 1998 decreased 76% from 1997, due to the sale of the Company's investment in the Benedum Plant System in May 1997.

Pipeline and other operating expenses for 1999 totaled \$0.3 million, as compared to \$2.0 million and \$5.2 million in 1998 and 1997, respectively. The 86% decrease in 1999 and the 61% decrease in 1998 are primarily due

to the sale of the Company's interests in the Richfield Gas Storage facility in February 1998 and Bright Star Gathering, Inc. in July 1998.

Exploration costs, including geological and geophysical (G&G) costs, dry hole costs and delay rentals, were \$14.0 million, \$16.6 million and \$11.1 million for the years ended December 31, 1999, 1998 and 1997, respectively. Exploration costs for the year ended 1999 included: \$8.1 million of dry hole costs (\$7.2 million of which relates to onshore California), \$3.6 million of G&G costs (\$2.1 of which relates to Ghana), \$0.8 million of delay rentals and \$1.5 million of other exploration costs. Exploration costs for the year ended 1998 included: \$13.0 million of dry hole costs (\$7.3 million of which relates to Ghana), \$2.1 million of G&G costs (\$1.5 million of which relates to Ghana), \$0.9 million of delay rentals and \$0.6 million of other exploration costs. Exploration costs for the year ended 1997 included: \$9.3 million of dry hole costs, \$0.7 million of G&G costs, \$1.0 million of delay rentals and \$0.1 million of other exploration costs.

Depreciation, depletion and amortization decreased 5% in 1999 as compared to 1998. This decrease is primarily due to the impairment of oil and gas properties of \$60.8 million recognized in the fourth quarter of 1998, which reduced the capitalized costs to be depleted in 1999. Also, the East Texas properties were depleted for the first six months in 1998. The Company

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discontinued depleting these assets in the third quarter of 1998, when it was decided to sell these properties. The 5% decrease was partially offset by higher international depletion due to increased production. Depreciation, depletion and amortization in 1998 decreased 17% from 1997. The decrease in 1998 is primarily due to the year-end 1997 impairment of \$30.0 million related to the excess of capitalized costs over future net revenues, as well as the reclassification of the East Texas properties to assets held for sale as of July 1, 1998, at which point the properties were no longer depleted.

The Company recorded provisions for impairment of oil and gas properties in 1998 and 1997 in the amounts of \$68.9 million (\$60.8 million of fair value impairments plus \$8.1 million of unproved leasehold cost impairments) and \$30.0 million, respectively. These impairments were recorded as a result of declines in the price of oil, which caused capitalized costs to be in excess of future net revenues. No such impairment was recognized during 1999.

In December 1997, the Company recorded a \$23.9 million provision for impairment on assets held for sale, in connection with its plans to dispose of its non-core gas gathering, pipeline and gas storage assets during 1998, including all such assets except its California gas plants. (See Note 4 to the Notes to Consolidated Financial Statements.) A positive revision to this charge was made in the fourth quarter of 1998 in the amount of \$3.7 million to reflect the estimated current fair market value of the Illini pipeline.

General and administrative expenses ("G&A") were up \$4.5 million in 1999 versus 1998. The 33% increase is mainly comprised of a \$1.9 million increase in bonuses paid to employees, as no bonuses were paid in 1998, and a \$1.9 million increase in the market value of the Company's obligation for the executive compensation plan. G&A decreased 22% from 1997 to 1998 due to no employee bonuses in 1998 and a \$1.7 million severance expense incurred in the third quarter of 1997 associated with the resignation of the Company's President and Chief Executive Officer. These decreases were offset in part by non-recurring costs incurred in 1998 associated with outside engineering costs and third-party consulting studies associated with the re-negotiation of the Company's outsourcing agreements.

Interest expense for 1999 increased slightly from 1998, however, the components of interest expense changed from year to year. The Company issued \$100.0 million of 8 7/8% Senior Subordinated Notes in June 1998, which were exchanged for 9 1/2% Senior Subordinated Notes in July 1999. This increase was significantly offset by lower interest expense on the Company's bank debt as a result of lower average borrowings outstanding during 1999. Interest expense increased 19% from 1997 to 1998, primarily as a result of additional borrowings under the Company's Credit Facility and the issuance in June 1998 of \$100.0 million of 8 7/8% Notes.

Other expense in 1999 includes \$3.1 million in third-party charges incurred in connection with the July 1999 exchange offer (see Note 10 to the Notes to Consolidated Financial Statements), \$1.6 million relating to the fraud discussed below, \$1.3 million for scientific information technology consulting, and other miscellaneous charges. In March 1999, the Company discovered that a non-officer employee had fraudulently authorized and

diverted for personal use Company funds totaling \$5.9 million, \$4.3 million in 1998 and the remainder in 1999, that were intended for international exploration. The Board of Directors engaged a Certified Fraud Examiner to

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conduct an in-depth review of the fraudulent transactions. The investigation confirmed that only one employee was involved in the matter and that all misappropriated funds were identified. The Company has reviewed and, where appropriate, strengthened its internal control procedures. The Company is attempting to recoup the loss, however, there is no certainty that any of the funds will be recovered.

Dividends on the TECONS were \$6.6 million in 1999, 1998 and 1997. The TECONS pay dividends at a rate of 5.75% and were issued in December 1996. (See Note 9 to the Notes to Consolidated Financial Statements.)

An income tax benefit of \$5.4 million was recognized in 1999, compared to a benefit of \$32.6 million in 1998 and \$6.7 million in 1997. The Company's effective income tax rate was (20.5)%, (25.7)% and (38.8)% in 1999, 1998 and 1997, respectively. At December 31, 1998, the Company determined that it was more likely than not that a portion of the deferred tax assets would not be realized and the valuation allowance was increased by \$16.9 million to a total valuation allowance of \$17.6 million. At December 31, 1999, however, the Company determined that it was more likely than not that most of the deferred tax assets would be realized, based on commodity prices at year-end 1999, and the valuation allowance was decreased by \$15.9 million.

Extraordinary Item

In June 1997, the Company recorded an extraordinary loss on the early extinguishment of its 12 1/2% Notes in the amount of \$3.0 million, net of the related tax benefit of \$2.0 million. No extraordinary items were recorded in 1999 or 1998.

Net Income (Loss)

Net income of \$31.4 million was reported in 1999, as compared to a net loss of \$94.3 million in 1998 and \$13.7 million in 1997.

Capital Resources and Liquidity

Since its inception, the Company has grown and diversified 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 strategic divestitures and an opportunistic exploration program, which provides exposure to prospects that have the potential to add substantially to the growth of the Company. The funding of these activities has historically been provided by operating cash flows, bank financing, private and public placements of debt and equity securities, property divestitures and joint ventures with industry participants. Net cash provided by operating activities was \$24.0 million, \$35.8 million, and \$165.5 million in 1999, 1998 and 1997, respectively. The Company invested \$125.9 million, \$157.4 million and \$195.1 million in oil and gas properties in 1999, 1998 and 1997, respectively. Additionally, the Company spent \$10.2 million, \$2.8 million and \$1.7 million on gas plant and other facilities in 1999, 1998 and 1997, respectively. In June 1999, the Company acquired oil and gas properties located onshore and offshore California for \$61.4 million from Texaco, Inc. To purchase these assets, the Company used funds from a \$100.0 million interest-bearing escrow account that was created with proceeds from the Company's January 1999 sale of its East Texas natural gas assets. Following the Texaco transaction, the \$41.0 million remaining in the escrow account, which included \$2.4 million of interest income, was used to repay a portion of outstanding bank debt in early July 1999.

The Company believes its working capital, 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 budget through 2000.

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The Company had an unused commitment under the Credit Facility of \$219.0 million at December 31, 1999. The Borrowing Base was redetermined in connection with the Company's sale of its East Texas natural gas assets. As a result of this sale and the low oil price environment in early 1999, the Borrowing Base was reduced to \$200.0 million effective January 6, 1999. In October 1999, the Borrowing Base was increased to \$300.0 million, as a result of the significant increase in commodity prices and the inclusion of recently acquired oil and gas assets in California. At December 31, 1999, maturities of long-term debt for the next five years totaled \$81.8 million.

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Outlook

The Company's revenues, cash flows, results of operations and liquidity are highly dependent on oil and gas prices, as is its ability to acquire financing for its operations. Approximately 85% of the Company's production for 1999 was oil. Oil prices during 1998 and the first part of 1999 were very low compared to historical prices. As a result, the Company's 1998 revenues, earnings and cash flows were materially reduced compared to 1997, even though production levels increased during 1998. During 1999, crude oil prices increased significantly and, in March 2000, reached a ten-year high.

In 1999, the Company's Board of Directors adopted a Commodity Hedging Policy which is implemented by management and is periodically assessed by the Governance Committee of the Board. The Company's policy is designed to meet the following goals, during periods with abnormally low commodity prices: (i) assure the Company can generate sufficient operating cash flow to replace reserves that are produced and to (ii) assure compliance with restrictive debt covenants that would otherwise limit the Company's ability to incur additional debt. It is also the Company's policy that significant capital investments whose rates of return are sensitive to future oil and gas prices be protected from exposure to extreme price volatility.

The Company's hedging policy is based on the view that oil prices revert to a mean price over the long term. To the extent that future markets over a forward 18 month period are significantly higher than long term norms, the Company will hedge so much of its production as is necessary to meet its policy goals for that period. Variations from this approach require Board approval. The Company prohibits hedging activity that is speculative or otherwise increases the Company's risk. The Company recognizes the risks inherent in price management. In order to minimize such risk, the Company has instituted a set of controls addressing approval authority, trading limits and other control procedures. All hedging activity is the responsibility of the Chief Financial Officer. In addition, Internal Audit, which independently reports to the Audit Committee, reviews the Company's price management activity.

For 2000, the Company has entered into swap contracts on 16,500 barrels of oil per day ("BOPD"), at an average West Texas Intermediate ("WTI") price of \$17.94 per barrel. The Company has also entered into cost-less collars on an additional 16,500 BOPD, with a floor of \$16.00 per barrel and ceiling of \$21.21 per barrel. This production is hedged based on a fixed NYMEX price for each type of crude oil that the Company produces in California. As a result of the TOSCO contract, (see Note 13 to the Notes to Consolidated Financial Statements), which fixes the price of the Company's California production at approximately 72% of the NYMEX price effective January 1, 2000, these hedge transactions have the effect on a price basis of hedging substantially all of the Company's current production for the year 2000. Also for the year 2000, the Company has entered

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into basis swaps on 3,000 BOPD of its production in the Congo, hedging the basis differential between No. 6 fuel oil and WTI at an average differential of \$1.88 per barrel. At December 31, 1999, the market value of the hedge positions was a loss of approximately \$35.7 million. A 10% increase in the underlying commodity prices would increase this loss by \$18.8 million.

For 2001, the Company has entered into swap arrangements on 26,000 BOPD for the first quarter at an average WTI price of \$19.52, for the second quarter on 25,000 BOPD at an average WTI price of \$19.54, and for the third quarter on 20,000 BOPD at an average WTI price of \$21.22. At December 31, 1999, the market value of these swaps was a gain of \$0.5 million.

On February 26, 1999, the Company entered into a swap arrangement with a major financial institution that effectively converts the interest rate on \$16.4 million notional amount of the 9 1/2% Notes to a variable LIBOR-based rate through February 25, 2000. Based on LIBOR rates in effect at December 1, 1999, this amounted to a net reduction in the carrying cost of the 9 1/2% Notes from 9.5% to 7.09%, or 241 basis points. In addition, the swap arrangement also effectively hedges the price at which these Notes can be repurchased by the Company. At December 31, 1999, the Company recorded an unrealized gain of \$131,000 related to the fair value of the notes.

The Company set a base level capital spending budget for 2000 of approximately \$110.0 million, plus up to an additional \$30.0 million depending on the level of crude oil prices. In the Company's 2000 base level capital

budget, approximately \$77.0 million is allocated to exploitation and development projects and approximately \$33.0 million is directed to exploration and business development. Exploitation spending is anticipated to consist of \$74.0 million in California (\$68.0 million of which is for proved undeveloped reserves), \$1.0 million in the Gulf Coast region, and \$2.0 million internationally. If the crude oil forward strip remains above \$20.00 per BBL, the California exploitation budget will increase to approximately \$104.0 million. Of the total California exploitation budget, the Company expects to spend approximately \$52.0 million to drill and complete 120 wells and on related facilities at the Company's Cymric field. Exploration spending is planned to be allocated \$11.0 million in California, and \$8.0 million internationally. The remaining \$14.0 million is allocated to business development and other capital projects. The Company believes that its cash flows from operations and available borrowings under its Credit Facility will be sufficient to finance this capital budget. The Company has not prepared a capital budget for periods after 2000.

The Company plans to sell certain of its surface real estate assets in Orange County, California, during 2000 to help fund the 2000 capital program. In addition, the Company believes its working capital, cash provided by operating activities, property divestitures, project financing resources and the Credit Facility are sufficient to meet these capital commitments.

Estimates of future net cash flows from proved reserves of oil, gas, condensate and natural gas liquids were made in accordance with SFAS No. 69, "Disclosures about Oil and Gas Producing Activities." (See Note 17 to the Notes to Consolidated Financial Statements). The estimates are based on realized prices at year-end 1999 of \$18.97 per barrel of oil (including hedge effect) and \$2.31 per MCF of gas. Significant changes can occur in these estimates based on prices currently in effect. The results of these disclosures should not be construed to represent the fair market value of the Company's oil and gas

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properties. A market value determination would include many additional factors including: (i) anticipated future increases or decreases in oil and gas prices and production and development costs; (ii) an allowance for return on investment; (iii) the value of additional reserves, not considered proved at the present, which may be recovered as a result of further exploration and development activities; and (iv) other business risks.

Inflation has not had a material impact on the Company and is not expected to have a material impact on the Company in the future.

Recent Accounting Pronouncements

In June 1998, the Financial Accounting Standards Board ("FASB") issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities". This statement, as amended by SFAS No. 137, 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 is effective for the Company beginning January 1, 2001; however, early adoption is permitted. The Company has not yet determined the impact of this statement on its financial condition or results of operations or whether it will adopt the statement early.

Contingencies and Other Matters

The Company has been named as a defendant in the Lopez case. The plaintiffs allege, among other things, underpayment of royalties and that their production was improperly commingled with gas produced from an adjoining lease. See "Legal Proceedings" and Note 14 to the Notes to Consolidated Financial Statements. The Company, along with the other defendants in this case, denies these allegations and is vigorously contesting 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 March 1999, the Company discovered that a non-officer employee had fraudulently authorized and diverted for personal use Company funds totaling \$5.9 million that were intended for international exploration. The Board of Directors engaged a Certified Fraud Examiner to conduct an in-depth review of the fraudulent transactions. The investigation confirmed that only one employee was involved in the matter and that all misappropriated funds were identified. The Company has reviewed and, where appropriate, strengthened its internal control procedures. The Company is attempting to recoup the loss, however, there is no certainty that any of the funds will be recovered.

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. The costs of the clean-up and the cost to repair the pipeline either have been or are expected to be covered by insurance

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held by the Company, less the Company's deductibles of \$120,000. The Company incurred clean-up and repair costs of \$0.5 million, and \$3.2 million during 1999, 1998, and 1997, respectively. As of December 31, 1999, the Company had received insurance reimbursements of \$3.7 million, with a remaining insurance receivable of \$1.4 million. For amounts not covered by insurance, including the \$120,000 deductible, the Company recorded lease operating expenses of \$0.4 million, \$0.5 million, and \$0.1 million during 1999, 1998, and 1997, respectively. Repairs were completed by the end of 1997, and production recommenced in December 1997. Additionally, the Company has exposure to certain costs are expected to be recoverable from insurance, including certain fines, penalties, and damages, for which the Company accrued \$0.7 million as of December 31, 1999. Although, the Company may have additional exposure, 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 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.

The Company and its partners underwent a tax examination related to their ownership interests in the Yombo field offshore Congo for the years 1994 through 1997. In June 1999, the Company and its partners settled this tax assessment for a total of \$1.0 million, of which the Company's share was \$400,000.

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 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

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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 \$48.5 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 \$64.1 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.

During 1997, a new government was established in the Congo. Although the political situation in the Congo has not to date had a material adverse effect on the Company's operations in the Congo, no assurances can be made that continued political unrest in West Africa will not have a material adverse effect on the Company and its operation in the Congo in the future.

In 1996, the previous Congo government requested that the convention governing the Marine I Exploitation Permit be converted to a Production Sharing Agreement ("PSA"). Preliminary discussions were held with the government in early 1997. Nuevo is under no obligation to convert to a PSA, and its existing convention is valid and protected by law. The Company's position is that any conversion to a PSA would have no detrimental impact to Nuevo, otherwise, Nuevo will not agree to any such conversion. In late 1997, a new government was established in the Congo. The new government has recently begun discussions with Nuevo and its partner concerning the conversion to a PSA. Discussions with the new government are ongoing and, to date, no agreement has been reached concerning conversion to a PSA.

Contingent Payment and Price Sharing Agreements

In connection with the acquisition of the properties located in California from Unocal in 1996, the Company is obligated to make a contingent payment for the years 1998 through 2004 if oil prices exceed thresholds set forth in the agreement with Unocal. Any contingent payment will be accounted for as a purchase price adjustment to oil and gas properties. The contingent payment will equal 50% of the difference between the actual average annual price received on a field-by-field basis (capped by a maximum price) and a minimum price, less taxes, multiplied by the actual number of barrels of oil sold during the respective year. The minimum price of \$17.75 per Bbl under the agreement (determined based on near month of delivery of WTI crude oil on the NYMEX) is escalated at 3% per year and the maximum price of \$21.75 per Bbl on the NYMEX is escalated at 3% per year. Minimum and maximum prices will be netted down to the field level using a fixed differential equal to approximately the differential between actual sales prices and NYMEX prices in effect in 1995 (\$4.34 per Bbl weighted average for all the properties acquired from Unocal). The Company accumulates credits to offset future, possible contingent payment when prices are \$.50 per Bbl or more below the minimum price. As of December 31, 1999, the Company had accumulated \$30.8 million in price credits since the inception of the agreement. These accumulated credits will be used to reduce future amounts owed under the contingent payment.

In connection with the acquisition of the Congo properties in 1995, the Company entered into a price sharing agreement with the seller. There is no

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termination date associated with this agreement. Under the terms of the agreement, if the average price received for the oil production during the year is greater than the benchmark price established by the agreement, then the Company is obligated to pay the seller 50% of the difference between the benchmark price and the actual price received, for all the barrels associated with this acquisition. The benchmark price for 1999 was \$14.79 per Bbl, and the benchmark price for 2000 is \$15.19 per Bbl. The benchmark price increases each year, based on the increase in the Consumer Price Index. For 2000, the effect of this agreement is that Nuevo only owns upside above \$15.19 per Bbl on approximately 44% of its Congo production. In 1997, the Company paid the seller \$845,000 pursuant to this price sharing agreement. This payment was accounted for as a reduction in oil revenues. No such payments were due in 1998 or 1999.

The Company acquired a 12% working interest in the Point Pedernales oil field from Unocal in 1994 and the remainder of its interest from Torch in 1996. The realized oil price on these properties is capped at \$9.00 per Bbl, with the excess field price over the realized price, if any, shared among the Company and the original owners from whom Torch acquired its interest. For 2000, the effect of this agreement is that Nuevo only owns upside above \$9.00 per Bbl on approximately 28% of the Point Pedernales production.

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NUEVO ENERGY COMPANY

ITEM 7a. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is exposed to market risk, including adverse changes in commodity prices and interest rates.

Commodity Price Risk - The Company produces and sells crude oil, natural gas and natural gas liquids. As a result, the Company's operating results can be significantly affected by fluctuations in commodity prices caused by changing market forces. The Company reduces its exposure to price volatility by hedging its production through swaps, options and other commodity derivative instruments. In a typical swap transaction, the Company will have the right to receive from the counterparty to the hedge the excess of the fixed price specified in the hedge contract and a floating price based on a market index, multiplied by the quantity hedged. If the floating price exceeds the fixed price, the Company is required to pay the counterparty the difference. In a typical option contract, the Company purchases the right to receive from the counterparty the difference, if any, between a fixed price specified in the option less a floating market price. If the floating price is above the fixed price, the Company is not entitled to a payment. The Company uses hedge accounting for these instruments, and settlements of gains or losses on these contracts are reported as a component of oil and gas revenues and operating cash flows in the period realized. 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.

During 1999, the Company formalized its policies regarding the management of oil price risk to ensure the Company's ability to optimally manage its portfolio of investment opportunities. To accomplish this, the policy requires that derivative financial instruments must be entered into at least 18 months in advance of the effective period. For 2000, the Company has entered into swap contracts on 16,500 barrels of oil per day ("BOPD"), at an average West Texas Intermediate ("WTI") price of \$17.94 per barrel. The Company has also entered into cost-less collars on an additional 16,500 BOPD, with a floor of \$16.00 per barrel and ceiling of \$21.21 per barrel. This production is hedged based on a fixed NYMEX price for each type of crude oil that the Company

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produces in California. As a result of the TOSCO contract, (see Note 13 to the Notes to Consolidated Financial Statements), which fixes the price of the Company's California production at approximately 72% of the NYMEX price effective January 1, 2000, these hedge transactions have the effect on a price basis of hedging substantially all of the Company's current production for the year 2000. Also for the year 2000, the Company has entered into basis swaps on 3,000 BOPD of its production in the Congo, hedging the basis differential between No. 6 fuel oil and WTI at an average differential of \$1.88 per barrel. At December 31, 1999, the market value of the hedge positions was a loss of approximately \$35.7 million. A 10% increase in the underlying commodity prices would increase this loss by \$18.8 million.

For 2001, the Company has entered into swap arrangements on 26,000 BOPD for the first quarter at an average WTI price of \$19.52, for the second quarter on 25,000 BOPD at an average WTI price of \$19.54, and for the third quarter on 20,000 BOPD at an average WTI price of \$21.22. At December 31, 1999, the market value of these swaps was a gain of \$0.5 million. The Company has not hedged in excess of its anticipated 2001 production. 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.

Interest Rate Risk - The Company may enter into financial instruments such as interest rate swaps to manage the impact of changes in interest rates. On February 26, 1999, the Company entered into a swap agreement, with a notional amount of \$16.4 million, which hedges the price at which the Company may repurchase a portion of its fixed rate debt and effectively converts such debt to a floating rate exposure for a period of 364 days. This agreement is not held for trading purposes. As the swap provider is a major financial institution, the Company does not anticipate non-performance by the provider. In addition, the swap arrangement also effectively hedges the price at which these notes can be repurchased by the Company. At December 31, 1999, the Company recorded an unrealized gain adjustment of \$131,000 related to the fair value of the notes.

The Company's exposure to changes in interest rates primarily results from its short-term and long-term debt with both fixed and floating interest rates. The following table presents principal amounts (stated in thousands) and the related average interest rates by year of maturity for the Company's debt obligations at December 31, 1999:

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NUEVO ENERGY COMPANY

	2000	2001	2002	2003	Thereafter	Total
	----	----	----	----	-----	-----
Long-term debt, including current maturities:						
Variable rate	\$750	--	--	\$81,000	--	\$81,750
Average interest rate	5.8%	--	--	7.13%	--	7.12
Fixed rate	--	--	--	--	\$259,750	\$259,750
Average interest rate	--	--	--	--	9.5%	9.5

NUEVO ENERGY COMPANY

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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NUEVO ENERGY COMPANY

INDEPENDENT AUDITORS' REPORT

The Board of Directors
Nuevo Energy Company:

We have audited the accompanying consolidated balance sheets of Nuevo Energy Company and subsidiaries as of December 31, 1999 and 1998, and the related consolidated statements of operations, changes in stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 1999. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these

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consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Nuevo Energy Company and subsidiaries as of December 31, 1999 and 1998, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 1999, in conformity with generally accepted accounting principles.

KPMG LLP

Houston, Texas
February 10, 2000

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NUEVO ENERGY COMPANY

CONSOLIDATED BALANCE SHEETS

(AMOUNTS IN THOUSANDS, EXCEPT SHARE DATA)

		De
		----- 1999 -----
ASSETS		

CURRENT ASSETS:		
Cash and cash equivalents	\$	10,288
Accounts receivable		45,004
Product inventory		4,610
Assets held for sale		--
Prepaid expenses and other		6,389

Total current assets		66,291

PROPERTY AND EQUIPMENT, at cost:		
Land		51,017
Oil and gas properties (successful efforts method)		1,002,779
Gas plant facilities		12,140
Other facilities		11,874

		1,077,810
Accumulated depreciation, depletion and amortization		(429,349)

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	648,461
DEFERRED TAX ASSETS, net	24,005
OTHER ASSETS	21,273
	\$ 760,030
=====	
LIABILITIES AND STOCKHOLDERS' EQUITY	

CURRENT LIABILITIES:	
Accounts payable	\$ 20,492
Accrued interest	2,353
Accrued drilling costs	13,242
Accrued lease operating costs	13,956
Other accrued liabilities	10,557
Current maturities of long-term debt	750

Total current liabilities	61,350

LONG-TERM DEBT, NET OF CURRENT MATURITIES	340,750
OTHER LONG-TERM LIABILITIES	9,292
COMPANY-OBLIGATED MANDATORILY REDEEMABLE	
Convertible preferred securities of Nuevo Financing I	115,000
CONTINGENCIES (Note 14)	
STOCKHOLDERS' EQUITY:	
Preferred stock, \$1.00 par value, 10,000,000 shares authorized; 7% Cumulative Convertible Preferred Stock, none issued and outstanding at December 31, 1999 and 1998	--
Common stock, \$0.01 par value, 50,000,000 shares authorized, 20,437,371 and 20,308,462 shares issued and 17,931,393 and 19,786,827 shares outstanding at December 31, 1999 and 1998, respectively	204,371
Additional paid-in capital	357,855
Treasury stock, at cost, 2,430,074 and 473,876 shares, at December 31, 1999 and 1998, respectively	(49,605)
Stock held by benefit trust, 75,904 and 47,759 shares, at December 31, 1999 and 1998, respectively	(3,184)
Deferred stock compensation	(216)
Accumulated deficit	(71,416)

Total stockholders' equity	233,638

	\$ 760,030
	=====

See Notes to Consolidated Financial Statements.

NUEVO ENERGY COMPANY

CONSOLIDATED STATEMENTS OF OPERATIONS

(AMOUNTS IN THOUSANDS, EXCEPT PER SHARE DATA)

Ye

1999

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REVENUES:	
Oil and gas revenues	\$ 239,306
Gas plant revenues	2,968
Pipeline and other revenues	4
Gain on sale of assets, net	85,294
Interest and other income	4,663

	332,235

COSTS AND EXPENSES:	
Lease operating expenses	127,164
Gas plant operating expenses	3,385
Pipeline and other operating costs	286
Exploration costs	14,017
(Revision of) provision for impairment on assets held for sale	--
Provision for impairment of oil and gas properties	--
General and administrative expenses	18,137
Outsourcing fees	14,129
Depreciation, depletion and amortization	80,652
Interest expense	33,110
Dividends on Guaranteed Preferred Beneficial Interests in Company's Convertible Debentures (TECONS)	6,613
Other expense	8,659

	306,152

Income (loss) before income taxes, minority interest and extraordinary item	26,083
Income tax benefit	5,359
Minority interest in loss of subsidiary	--

Income (loss) before extraordinary item	31,442
Extraordinary loss on early extinguishment of debt, net of income tax benefit of \$2,037	--

Net income (loss)	\$ 31,442
	=====
Earnings (loss) per Common share -- Basic:	
Income (loss) before extraordinary item (net of dividends on preferred stock)	\$ 1.62
Extraordinary loss on early extinguishment of debt, net of income tax benefit	--

Net income (loss)	\$ 1.62
	=====
Weighted average Common shares outstanding	19,418
	=====
Earnings (loss) per Common share -- Diluted:	
Income (loss) before extraordinary item	\$ 1.61
Extraordinary loss on early extinguishment of debt, net of income tax benefit	--

Net income (loss)	\$ 1.61
	=====
Weighted average Common and dilutive potential Common shares outstanding	19,571
	=====

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* Restated

See Notes to Consolidated Financial Statements.

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NUEVO ENERGY COMPANY

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

(AMOUNTS IN THOUSANDS)

	Common Stock		Additional Paid-In Capital	Treasury Stock	Stock held by Benefit Trust	De Comp
	Shares	Amount				
January 1, 1997	19,852	\$ 199	\$ 340,126	\$ --	\$ --	\$
Exercise of stock options and related tax benefit	386	3	11,332	--	--	
Stock put options	--	--	1,630	--	--	
Employee stock awards	--	--	1,208	--	--	
Purchase of Treasury Shares ...	(542)	--	--	(21,173)	--	
Stock acquired by benefit trust	--	--	--	1,244	(1,244)	
Net loss*	--	--	--	--	--	
December 31, 1997*	19,696	202	354,296	(19,929)	(1,244)	
Exercise of stock options and related tax benefit	70	1	1,304	--	--	
Stock acquired by benefit trust	--	--	--	488	(1,341)	
Withdrawal from benefit trust	18	--	--	--	853	
Sale of Treasury Shares	3	--	--	106	--	
Net loss	--	--	--	--	--	
December 31, 1998	19,787	203	355,600	(19,335)	(1,732)	
Exercise of stock options and related tax benefit	129	1	1,810	--	--	
Stock acquired by benefit trust	--	--	--	1,850	(1,850)	
Issuance of warrants and other	--	--	120	--	--	
Withdrawal from benefit trust	14	--	--	--	398	
Purchase of Treasury Shares ...	(1,999)	--	--	(32,120)	--	
Deferred stock compensation ...	--	--	325	--	--	
Net income	--	--	--	--	--	
December 31, 1999	17,931	\$ 204	\$ 357,855	\$ (49,605)	\$ (3,184)	\$

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 * Restated

See Notes to Consolidated Financial Statements.

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NUEVO ENERGY COMPANY
 CONSOLIDATED STATEMENTS OF CASH FLOWS
 (AMOUNTS IN THOUSANDS)

	Ye ----- 1999 -----
CASH FLOWS FROM OPERATING ACTIVITIES:	
Net income (loss)	\$ 31,442
Adjustments to reconcile net income (loss) to net cash provided by operating activities:	
Depreciation, depletion and amortization	80,652
Dry hole costs	8,051
Amortization of debt financing costs	1,696
Amortization of deferred revenue	--
(Revision of) provision for impairment on assets held for sale	--
Provision for impairment of oil and gas properties	--
Gain on sale of assets, net	(85,294)
Loss on early extinguishment of debt	--
Stock awards	109
Deferred taxes	(6,559)
Appreciation (depreciation) of deferred compensation liability	801
Debt modification costs	3,064
Other	120

	34,082
Changes in assets and liabilities, net of acquisition effects:	
Accounts receivable	(20,461)
Gas imbalances	(92)
Accounts payable	(4,527)
Accrued liabilities	17,901
Other	(2,879)

NET CASH FLOWS PROVIDED BY OPERATING ACTIVITIES	24,024

CASH FLOWS FROM INVESTING ACTIVITIES:	
Additions to oil and gas properties	(125,919)
Proceeds from sale of gas plant	--
Proceeds from sales of properties	234,312
Additions to gas plant and other facilities	(10,247)

NET CASH FLOWS PROVIDED BY (USED IN) INVESTING ACTIVITIES	98,146

CASH FLOWS FROM FINANCING ACTIVITIES:	
Proceeds from borrowings	142,590
Debt issuance and modification costs	(8,053)
Payments of long-term debt	(223,392)
Proceeds from exercise of stock options	1,690
Premium on early extinguishment of debt	--

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Proceeds from sale of stock put options	--
Proceeds from sale of treasury stock	--
Purchase of treasury shares	(32,120)
NET CASH FLOWS (USED IN) PROVIDED BY FINANCING ACTIVITIES	(119,285)
Net increase (decrease) in cash and cash equivalents	2,885
Cash and cash equivalents at beginning of year	7,403
Cash and cash equivalents at end of year	\$ 10,288

* Restated

See Notes to Consolidated Financial Statements.

NUEVO ENERGY COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. ORGANIZATION

Nuevo Energy Company ("Nuevo") was formed as a Delaware corporation on March 2, 1990, to acquire the businesses of certain public and private partnerships (collectively "Predecessor Partnerships"). On July 9, 1990, the plan of consolidation ("Plan of Consolidation") was approved by limited partners owning a majority of units of limited partner interests in the partnerships whereby the net assets of the Predecessor Partnerships, which were subject to such Plan of Consolidation, were exchanged for Common Stock of Nuevo ("Common Stock"). All references to the "Company" include Nuevo and its majority and wholly-owned subsidiaries, unless otherwise indicated or the context indicates otherwise.

The Company is primarily engaged in the exploration for, and the acquisition, exploitation, development and production of crude oil and natural gas. The Company's principal oil and gas properties are located domestically onshore and offshore California and the onshore Gulf Coast region; and internationally offshore West Africa.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of Nuevo and its majority and wholly-owned subsidiaries. The Company's 48.5% general partner interest in Richfield Gas Storage Partnership was pro rata consolidated through February 1998, at which time the Company's interest was sold. The consolidated financial statements also include Bright Star Gathering, Inc., which was 80% owned by the Company until it was sold in July 1998. NuStar Joint Venture and its 66.7% investment in the Benedum Plant System, of which the Company owned a 95% interest, was pro rata consolidated through May 2, 1997, at which time the Company's interest was sold. Minority interests have been deducted from results of operations and stockholders' equity in the appropriate periods. All significant intercompany accounts and transactions have been eliminated in consolidation.

Change in Accounting Method

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Effective January 1, 1998, the Company elected to convert from the full cost method to the successful efforts method of accounting for its investments in oil and gas properties. The Company believes that the successful efforts method of accounting is preferable, as it will provide a fair presentation of the Company's development activities in its core California business and the drilling success of its selective exploration activities, and reflect an impairment in the carrying value of its oil and gas properties only when there has been a permanent decline in their fair value. Accordingly, all prior year financial statements have been restated to conform with successful efforts accounting. The effect, after tax, of the change in accounting method as of December 31, 1997, was a reduction to retained earnings of \$64.1 million, primarily attributable to a decrease in net property and equipment and the deferred tax liability of \$99.2 million and \$38.0 million, respectively. The change in accounting method resulted in a decrease in net income of \$32.5 million (\$1.64 per share - basic and diluted) during 1997.

Oil and Gas Properties

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.

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NUEVO ENERGY COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(CONTINUED)

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. An impairment of unproved leasehold costs of \$8.1 million was recognized as of December 31, 1998. No such impairment was recognized for the years ended December 31, 1999 or 1997. Exploration costs, including geological and geophysical expenses, exploratory dry holes and delay rentals, are charged to expense as incurred.

Costs of productive wells, development dry holes and productive 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. Total estimated costs of approximately \$99.0 million (net of salvage value) for future dismantlement, abandonment and site remediation are computed by the Company's independent reserve engineers and are included when calculating depreciation and depletion using the unit-of-production method. At December 31, 1999, the Company had recorded \$50.2 million as a component of accumulated depreciation, depletion and amortization.

The Company reviews proved oil and gas properties on a depletable unit basis whenever events or circumstances indicate that the carrying value of those assets may not be recoverable. For each depletable unit determined to be

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impaired, an impairment loss equal to the difference between the carrying value and the fair value of the depletable unit is recognized. Fair value, on a depletable unit basis, is estimated to be the value of the undiscounted expected future net revenues computed by application of estimated future oil and gas prices, production and expenses, as determined by management, to estimated future production of oil and gas reserves over the economic life of the reserves. If the carrying value exceeds the undiscounted future net revenues, an impairment is recognized equal to the difference between the carrying value and the discounted estimated future net revenues of that depletable unit. The Company considers all proved reserves and commodity pricing based on market information in its estimate of future net revenues. During 1998, the Company recorded a fair value impairment totaling \$60.8 million on its East Coalinga, Las Cienegas, Beta, Point Pedernales and South Mountain fields and certain other insignificant oil and gas properties due to the significant, sustained decline in domestic oil prices during the year from an average Company realized price of \$14.86 per barrel for 1997 to an average realized price of \$9.25 per barrel in 1998. During 1997, the Company recorded a fair value impairment totaling \$30.0 million on its Brea Olinda field and certain other insignificant oil and gas properties due to decreases in the fair value of the depletable units attributable to a decline in domestic oil prices. No such impairment was recognized during 1999.

Interest costs associated with non-producing leases and exploration and development projects are capitalized only for the period that activities are in progress to bring these projects to their intended use. The capitalization rates are based on the Company's weighted average cost of funds used to finance expenditures.

Any reference to oil and gas reserve information in the Notes to Consolidated Financial Statements is unaudited.

Environmental Liabilities

Environmental expenditures that relate to current or future revenues are expensed or capitalized as appropriate. Expenditures that relate to an existing condition caused by past operations, and do not contribute to current or future revenue generation, are expensed. Liabilities are recorded when environmental assessments and/or clean-ups are probable, and the costs can be reasonably estimated. Generally, the timing of these accruals coincides with the Company's commitment to a formal plan of action.

Gas Plant and Other Facilities

Gas plant and other facilities include the costs to acquire certain gas plant and other facilities and to secure rights-of-way. Capitalized costs associated with gas plant and other facilities are amortized primarily over the estimated useful lives of the various components of the facilities utilizing the straight-line method. The estimated

useful lives of such assets range from three to thirty years. The Company reviews these assets for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable.

Recent Accounting Pronouncements

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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, 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 is effective for the Company beginning January 1, 2001, however, early adoption is permitted. The Company has not yet determined the impact of this statement on its financial condition or results of operations or whether it will adopt the statement early.

Comprehensive Income

Comprehensive income includes net income and all changes in other comprehensive income including, among other things, foreign currency translation adjustments, and unrealized gains and losses on certain investments in debt and equity securities. There are no differences between comprehensive income (loss) and net income (loss) for the periods presented.

Recognition of Crude Oil and Natural Gas Revenue

The Company uses the entitlement method for recording sales of crude oil and natural gas from producing wells. Under the entitlement method, revenue is recorded based on the Company's net revenue interest in production. Deliveries of crude oil and natural gas in excess of the Company's net revenue interests are recorded as liabilities and under-deliveries are recorded as assets. Production imbalances are recorded at the lower of the sales price in effect at the time of production or the current market value. Substantially all such amounts are anticipated to be settled with production in future periods. The Company's imbalance position was not significant in terms of units or value at December 31, 1999 and 1998.

Derivative Financial Instruments

The Company utilizes derivative financial instruments to reduce its exposure to decreases in the market prices of crude oil and natural gas. Commodity derivatives utilized as hedges include futures, swap and option contracts, which are used to hedge crude oil and natural gas prices. Basis swaps are sometimes used to hedge the basis differential between the derivative financial instrument index price and the commodity field price. In order to qualify as a hedge, price movements in the underlying commodity derivative must be highly correlated with the hedged commodity. Settlement of gains and losses on price swap contracts are realized monthly, generally based upon the difference between the contract price and the average closing New York Mercantile Exchange ("NYMEX") price and are reported as a component of oil and gas revenues and operating cash flows in the period realized.

Gains and losses on option and futures contracts that qualify as a hedge of firmly committed or anticipated purchases and sales of oil and gas commodities are deferred on the balance sheet and recognized in income and operating cash flows when the related hedged transaction occurs. Premiums paid on option contracts are deferred in other assets and amortized into oil and gas revenues over the terms of the respective option contracts. Gains or losses attributable to the termination of a derivative financial instrument are deferred on the balance sheet and recognized in revenue when the hedged crude oil and natural gas is sold. There were no such deferred gains or losses at December 31, 1999 or 1998. Gains or losses on derivative financial instruments that do not qualify as a hedge are recognized in income currently.

As a result of hedging transactions, oil and gas revenues were reduced by \$44.9 million in 1999, increased by \$0.6 million in 1998 and reduced by \$6.0 million in 1997.

NUEVO ENERGY COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(CONTINUED)

Earnings per Share ("EPS")

Basic EPS is computed by dividing income available to common stockholders by the weighted-average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue Common Stock were exercised or converted into Common Stock or resulted in the issuance of Common Stock that then shared in the earnings of the entity. For the year ended December 31, 1999, the Company's potentially dilutive securities included dilutive stock options. For the years ended December 31, 1998 and 1997, the Company did not have any potentially dilutive securities, as net losses were incurred during these periods. Potential dilution may also occur in future periods due to the Company-Obligated Mandatorily Redeemable Convertible Preferred Securities of Nuevo Financing I ("TECONS").

Stock-Based Compensation

The Company applies the intrinsic value method for accounting for stock and stock-based compensation described by Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees". Had the Company applied the fair value method described by SFAS No. 123, "Accounting for Stock-Based Compensation", it would have incurred compensation expense for stock-based compensation in 1999, 1998 and 1997. (See Note 8 for the SFAS No. 123 pro forma effects on income and earnings per share.)

Income Taxes

Deferred taxes are accounted for under the asset and liability method of accounting for income taxes. Under this method, deferred income taxes are recognized for the tax consequences of "temporary differences" by applying enacted statutory tax rates applicable to future years to differences between the financial statement carrying amounts and the tax basis of existing assets and liabilities. The effect on deferred taxes of a change in tax rates is recognized in income in the period the change occurs.

Statements of Cash Flows

For cash flow presentation purposes, the Company considers all highly liquid money market instruments with an original maturity of three months or less to be cash equivalents. Interest paid in cash, net of amounts capitalized, for 1999, 1998 and 1997 was \$33.5 million, \$31.6 million and \$28.2 million, respectively. Net amounts paid (refunded) in cash for income taxes for 1999, 1998 and 1997 were \$2,250,000, \$1,332,000 and (\$45,000), respectively.

Product Inventory

Inventory relating to quantities of processed fuel oil and natural gas liquids in storage as of the balance sheet date is carried at current market pricing. Fuel oil in inventory is stated at year end market prices less transportation costs; the Company recognizes changes in the market value of inventory from one period to the next as oil revenues.

Use of Estimates

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In order to prepare these financial statements in conformity with generally accepted accounting principles, 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.

Reclassifications

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

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NUEVO ENERGY COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(CONTINUED)

3. ACQUISITIONS

In June 1999, the Company acquired working interests in oil and gas properties located onshore and offshore California for \$61.4 million from Texaco, Inc. The working interests in the acquired properties range from an additional 25% interest in properties already owned and operated by the Company to 100%. To purchase these assets, the Company used funds from a \$100.0 million interest-bearing escrow account that provided "like-kind exchange" tax treatment for the purchase of domestic oil and gas producing properties. The escrow account was created with proceeds from the Company's January 1999 sale of its East Texas natural gas assets (see discussion in Note 4). Following the Texaco transaction, the \$41.0 million remaining in the escrow account, which included \$2.4 million of interest income, was used to repay a portion of outstanding bank debt in early July 1999. The acquired properties had estimated net proved reserves at June 30, 1999, of 33.7 million barrels of oil equivalent ("BOE") and are either additional interests in the Company's existing properties or are located near its existing properties. The acquisition included interests in Cymric, East Coalinga, Dos Cuadras, Buena Vista Hills and other fields the Company operates.

In April 1998, the Company acquired an additional working interest in the Marine I Permit in the Republic of Congo, West Africa ("Congo") for \$7.8 million. This acquisition increased the Company's net working interest in the Congo from 43.75% to 50.0%.

4. DIVESTITURES

On December 31, 1999, the Company completed the sale of its working interests (ranging from 8% to 100%) in 13 onshore fields and a gas processing plant located in Ventura County, California, to Vintage Petroleum, Inc. The effective date of the sale was September 1, 1999. Accordingly, the Company reclassified these properties to assets held for sale and discontinued depleting and depreciating these assets during the third quarter of 1999. Revenues less costs for the period September 1, 1999, through December 31, 1999, and other adjustments resulted in an adjusted sales price of \$29.6 million at closing on December 31, 1999. A portion of the proceeds, \$4.5 million, was deposited in escrow to address possible remediation issues. The funds will remain in escrow until the Los Angeles Regional Water Quality Control Board approves completion of the remediation work. All or any portion of the funds not used in remediation shall be delivered to the Company. The remainder of the proceeds from the sale were used to repay a portion of the Company's outstanding bank debt. The assets accounted for approximately 3% of Nuevo's September 1, 1999 estimated proved

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reserves. Production from the properties for the year ended December 31, 1999, averaged 2,510 barrels of oil equivalent per day. The Company recorded a gain of \$5.3 million on the sale of these properties.

On January 6, 1999, the Company completed the sale of its East Texas natural gas assets to an affiliate of Samson Resources Company for an adjusted sales price of approximately \$191.0 million. Of the proceeds, \$100.0 million was set aside to fund an escrow account, as discussed in Note 3. The remainder of the proceeds were used to repay outstanding senior bank debt. The Company realized an \$80.2 million adjusted pre-tax gain on the sale of the East Texas natural gas assets resulting in the realization of \$14.6 million of the Company's deferred tax asset. A \$5.2 million gain on settled hedge transactions was realized in connection with the closing of this sale in 1999. The effective date of the sale was July 1, 1998. The Company reclassified these assets to assets held for sale and discontinued depleting these assets during the third quarter of 1998. Estimated net proved reserves associated with these properties totaled approximately 329.0 billion cubic feet of natural gas equivalent at January 1, 1999.

During the third quarter of 1998, the Company sold its 100% working interest in the Sansinena field in California for proceeds of \$4.2 million, and recorded a gain on the sale of \$4.1 million. During the first quarter of 1998, the Company sold its 100% working interest in the Coke field in Chapel Hill, Texas for proceeds of \$1.9 million, and recorded a \$1.7 million gain on this sale.

In December 1997, the Company announced its intention to dispose of the remainder of its non-core gas gathering, pipeline and storage assets during 1998. The decision was made to dispose of these assets as they did not directly contribute to the Company's core oil and gas operations. Such assets included: the Company's 48.5% interest in the Richfield Gas Storage facility, which was sold in February 1998 for proceeds of \$2.1 million; an

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

80% interest in Bright Star Gathering, Inc., which was sold in July 1998 for proceeds of \$1.7 million; and the Illini pipeline, which was sold in November 1999 for proceeds of \$10.0 million. An agreement to sell the Illini Pipeline was reached in April 1998; however, the approval of the sale was not received from the Illinois Commerce Commission until November 1999. No gains or losses were recognized in connection with these sales. The Company recorded a non-cash, pre-tax charge to fourth quarter 1997 earnings of \$23.9 million, reflecting the estimated loss on the disposition of these assets. A positive revision to this charge was made in the fourth quarter of 1998 in the amount of \$3.7 million to reflect the estimated current fair value of the Illini pipeline. The Company's results of operations included the operating results from these assets through the disposition date, as applicable. Such amounts were not significant relative to total revenues and net operating results for the Company. These assets were not depreciated subsequent to 1997. The Company retained its remaining two California gas plants, as these plants are strategic assets for the Company's oil and gas activities in California.

In May 1997, Nuevo Liquids, a wholly-owned subsidiary of the Company, sold its 95% interest in the NuStar Joint Venture, which held the Company's investment in the Benedum Plant System, for proceeds of \$25.0 million. The effective date of the sale was January 1, 1997. Proceeds from the sale were used to reduce outstanding debt under the Company's revolving credit facility, as

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well as project debt related to the Benedum Gas Plant in the amount of \$5.9 million. The Company recorded a pre-tax gain of \$2.3 million relating to the sale.

During the first quarter of 1997, the Company sold its 25% working interest in the Second Bayou field in Cameron Parish, Louisiana for proceeds of \$1.5 million, and recorded a gain of \$1.4 million. During the third quarter of 1997, the Company recognized a loss of \$1.6 million on the sale of its 80% working interest in South Timbalier Block 8. Proceeds for this sale were \$1.5 million. In addition, the Company recorded a negative revision of \$679,000 related to a gain on sale of properties in a prior period.

5. PRODUCTION PAYMENTS

In April 1994, the Company entered into a four-year commitment for a \$30.0 million volumetric production payment for the development of certain infill drilling locations in the Oak Hill field in East Texas. The proceeds from this agreement financed the capital expenditures for well drilling, fracturing and completing and for surface facility installations. The advance under the production payment obligated the Company to deliver a fixed volume of natural gas, based upon prevailing market conditions at the time of the advance as determined by the third-party. During 1994, the Company received \$18.4 million, committing the Company to deliver 10.7 BCF of natural gas through December 1998. The Company did not receive any other advances under this commitment. This commitment terminated on December 31, 1998.

6. OUTSOURCING SERVICES

Torch Energy Advisors Incorporated ("Torch"), the Company's outside service provider, is primarily in the business of providing management and advisory services relating to oil and gas assets for institutional and public investors and maintains a large technical, operating, accounting and administrative staff.

In early 1999, Nuevo signed new outsourcing agreements with Torch and its subsidiaries, effective January 1, 1999, to provide the following services: (i) oil and gas administration (accounting, information technology and land administration); (ii) human resources; (iii) corporate administration (legal, graphics, support, and corporate insurance); (iv) crude oil marketing; (v) natural gas marketing; (vi) land leasing, and (vii) field operations. Each of the new agreements is stand alone, with different terms ranging from one to four years. In addition, the Company executed a Master Services Agreement with Torch, which contains the overall terms and conditions governing each individual service agreement. Several functions that were previously outsourced, such as mergers and acquisitions and internal audit, were brought in-house during 1999.

The major components of compensation under each Torch agreement are as follows: (i) under the oil and gas administration agreement, Nuevo is charged a monthly base fee which is adjusted upward or downward to reflect the current number and type of properties for which services are provided; (ii) under the human resources agreement, Nuevo is charged a monthly base fee which is adjusted upward or downward to reflect changes in the total number of its employees; (iii) the corporate administrative services agreement and the land leasing agreement

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each provide for a monthly base which entitles Nuevo to a specified amount of services while incremental services are charged on a time and materials basis; (iv) both the crude oil and natural gas marketing agreements obligate Nuevo to pay a base charge and a variable charge based on the volume of crude oil and natural gas sold or marketed; and (v) under the field operation agreement, Nuevo is charged a base fee and pays performance based incentive fees related to, among other matters, regulatory compliance and cost control.

Prior to January 1, 1999, the Company's outsourcing services were governed by an agreement with Torch (the "Torch Agreement") whereby Torch administered certain business activities of the Company for a monthly fee. The Torch Agreement required Torch to administer the business activities of the Company for a monthly fee equal to the sum of one-twelfth of 2% on the first \$250 million of assets and one-twelfth of 1% on assets in excess of \$250 million, excluding certain gas plant facilities and cash, plus 2% of monthly operating cash flows (as defined) during the period in which the services were rendered. In addition, the Torch Agreement contained a provision whereby 20% of the overhead fees on Torch operated properties were credited against the monthly fee paid to Torch, as well as a provision whereby the monthly fee was credited for one-twelfth of \$900,000. For the years ended December 31, 1999, 1998 and 1997, outsourcing fees paid to Torch amounted to \$14.1 million, \$14.5 million and \$14.4 million, respectively.

A subsidiary of Torch markets oil, natural gas and natural gas liquids from certain oil and gas properties and gas plants in which the Company owns an interest. In 1999, 1998 and 1997, such marketing fees were \$1.2 million, \$2.0 million and \$2.9 million, respectively.

Torch operates certain oil and gas interests owned by the Company. The Company is charged, on the same basis as other third parties, for all customary expenses and cost reimbursements associated with these activities. Operator's fees charged for these activities for the years ended December 31, 1999, 1998 and 1997, were \$25.1 million, \$20.5 million and \$22.4 million, respectively.

7. RELATED PARTY TRANSACTIONS

On April 9, 1996, a broker's fee of 30,000 warrants was granted to a company, of which a director of the Company is a partner, for services associated with the acquisition of the Unocal Properties. These warrants had an exercise price of \$28.00 and were exercised in the first quarter of 1997. The warrants contained a settlement provision whereby the Company, at its election, could convert the warrants into shares of Common Stock based on the ratio of the market price of the Company's Common Stock on the date of conversion over the warrant exercise price, divided by the market price of the Company's Common Stock. Changes in the fair value of the warrants subsequent to their issuance were not recorded. During the first quarter of 1997, these warrants were converted into Common Stock based on the formula discussed above, resulting in no cash received by the Company in connection with the conversion. The market price on the date of conversion was \$50.25, resulting in the issuance of 13,284 shares of Common Stock.

Included in general and administrative expenses for 1997 was a \$1.7 million severance payment to the Company's former President and Chief Executive Officer.

8. STOCKHOLDERS' EQUITY

Common and Preferred Stock

The Certificate of Incorporation of the Company authorizes the issuance

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of up to 50,000,000 shares of Common Stock and 10,000,000 shares of Preferred Stock, the terms, preferences, rights and restrictions of which are established by the Board of Directors of the Company. All shares of Common Stock have equal voting rights of one vote per share on all matters to be voted upon by stockholders. Cumulative voting for the election of directors is not permitted. Certain restrictions contained in the Company's loan agreements limit the amount of dividends that may be declared. Under the terms of the most restrictive covenant in its indenture for the 9 1/2% Senior Subordinated Notes due 2008 described in Note 10, the Company and its restricted subsidiaries had \$25.7 million available for the payment of dividends and share repurchases at December 31, 1999. The Company has not paid dividends on its Common Stock and does not anticipate the payment of cash dividends in the immediate future.

NUEVO ENERGY COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

EPS Computation

SFAS No. 128, "Earnings per Share", requires a reconciliation of the numerator (income) and denominator (shares) of the basic EPS computation to the numerator and denominator of the diluted EPS computation. In 1998 and 1997, weighted average potential dilutive common shares of 331,000 and 670,000 are not included in the calculation of diluted loss per share due to their anti-dilutive effect. The Company's reconciliation is as follows (amounts in thousands):

	For the Year Ended December			
	1999		1998	
	Income	Shares	Loss	Shares
Earnings (loss) before extraordinary item per Common share -- Basic	\$ 31,442	19,418	\$ (94,272)	19,795
Effect of dilutive securities:				
Stock options	--	153	--	--
Earnings (loss) before extraordinary item per Common share -- Diluted	\$ 31,442	19,571	\$ (94,272)	19,795

* Restated

Treasury Stock Repurchases

In March 1997, the Board of Directors authorized the open market repurchase of up to 1,000,000 shares of outstanding Common Stock during 1997, at times and prices deemed attractive by management. During April 1997, the Company repurchased 542,491 shares of Common Stock, at an average purchase price of \$39.03 per share.

Since December 1997, the Board of Directors of the Company authorized the open market repurchase of up to 3,616,600 shares of outstanding Common Stock

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at times and at prices deemed appropriate by management. During 1999, the Company repurchased 1,999,100 shares of its Common Stock in open market transactions at an average purchase price, including commissions, of \$16.50 per share. No Common Stock was repurchased during 1998. As of March 22, 2000, the Company had repurchased 2,610,600 shares at an average purchase price of \$16.75 per share, including commissions, under the current share repurchase program.

Put Options

In May 1997, the Company sold put options on its Common Stock to a third party. The options gave the purchaser the right to sell to the Company 500,000 shares of its Common Stock at prices ranging from \$40.26 to \$41.04 per share through December 31, 1997. The contract gave the Company the choice of net cash, net shares, or physical settlement. Any repurchased shares would have been treated as Treasury Stock. The Company generated \$1.6 million in option premium from these transactions, which is reflected in additional paid-in capital on the balance sheet. As of December 31, 1997, 400,000 of these options had expired with the Company's share prices above the strike price, and 100,000 of these options were settled on December 31, 1997, for a nominal amount of net cash.

Shareholder Rights Plan

In March 1997, the Company adopted a Shareholder Rights Plan to protect the Company's shareholders from coercive or unfair takeover tactics. Under the Shareholder Rights Plan, each outstanding share and each share of subsequently issued Common Stock has attached to it one Right. Generally, in the event a person or group ("Acquiring Person") acquires or announces an intention to acquire beneficial ownership of 15% or more of the outstanding shares of Common Stock without the prior consent of the Company, or the Company is acquired in a merger or other business combination, or 50% or more of its assets or earning power is sold, each holder of a

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(CONTINUED)

Right will have the right to receive, upon exercise of the Right, that number of shares of common stock of the acquiring company, which at the time of such transaction will have a market price of two times the exercise price of the Right. The Company may redeem the Right for \$.01 at any time before a person or group becomes an Acquiring Person without prior approval. The Rights will expire on March 21, 2007, subject to earlier redemption by the Board of Directors of the Company.

On January 10, 2000, the Company amended the Shareholder Rights Plan to provide that if the Company receives and consummates a transaction pursuant to a Qualifying Offer, the provisions of the Shareholder Rights Plan are not triggered. In general, a Qualifying Offer is an all cash, fully-funded tender offer for all outstanding Common Shares by a person who, at the commencement of the offer, beneficially owns less than five percent of the outstanding Common Shares. A Qualifying Offer must remain open for at least 120 days, must be conditioned on the person commencing the Qualifying Offer acquiring at least 75% of the outstanding Common Shares and the per share consideration must exceed the greater of (1) 135% of the highest closing price of the Common Shares during the one-year period prior to the commencement of the Qualifying Offer or (2) 150% of the average closing price of the Common Shares during the 20 day period prior to the commencement of the Qualifying Offer.

Executive Compensation Plan

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During July 1997, the Board of Directors of the Company adopted a plan to encourage senior executives to personally invest in the shares of the Company, and to regularly review executives' ownership versus targeted ownership objectives. These incentives include a deferred compensation plan (the "Plan") that gives key executives the ability to defer all or a portion of their salaries and bonuses and invest in Common Stock of the Company at a discount to market prices or make other investments at the employee's discretion. Stock acquired at a discount will be held in a benefit trust and restricted for a two-year period. The stock held in the benefit trust (75,904 shares, 47,759 shares and 45,119 shares at December 31, 1999, 1998 and 1997, respectively) is accounted for as a liability of the Company and is marked-to-market, with any necessary adjustment to general and administrative expense. The Company recorded total expenses related to deferred compensation of \$1.7 million in 1999, a net benefit of \$0.6 million in 1998 and expenses of \$0.8 million in 1997. The Plan does not permit investment in a diversified equity portfolio until and unless targeted levels of Common Stock ownership in the Company are achieved and maintained. Target levels of ownership are based on multiples of base salary and are administered by the Compensation Committee of the Board of Directors. Upon withdrawal from the Plan, the obligation to the employee can be settled by the Company in cash or Common Stock, at the option of the employee. The Plan applies to all executives at a level of Vice-President and above.

Director Compensation

In May 1999, the Compensation Committee of the Board of Directors implemented changes to the compensation of the Company's non-employee directors based on a Towers Perrin report. Non-employee directors may elect to receive all or part of the annual cash retainer of \$30,000 in restricted shares of the Company's Common Stock at a 33% increase in value. The election must be made in increments of 25% (\$7,500). Therefore, for each \$7,500 of compensation for which the election is exercised, the director would receive \$9,975 in restricted stock. Each non-employee director also receives a semi-annual grant of 1,750 ten-year options to purchase the Company's Common Stock at the market price of the stock on the date of the grant. Non-employee directors also receive a semi-annual grant of 1,250 restricted shares of the Company's common stock. All restricted shares are subject to a three-year restricted period. Directors have the option of deferring delivery of restricted shares beyond the three-year period.

Stock Incentive Plan

In 1990, the Company established its 1990 Stock Option Plan with respect to its Common Stock; in 1993, the Board of Directors adopted the Nuevo Energy Company 1993 Stock Incentive Plan; and in 1999, the Board of Directors adopted the Nuevo Energy Company 1999 Stock Incentive Plan (collectively, the "Stock Incentive Plans"). The purpose of the Stock Incentive Plans is to provide directors and key employees of the Company performance incentives and to provide a means of encouraging stock ownership in the Company by such persons.

The total maximum number of shares subject to options under the Stock Incentive Plans is 5,000,000 shares. Options are granted under the Stock Incentive Plans on the basis of the optionee's contribution to the Company. No option may exceed a term of more than ten years. Options granted under the Stock Incentive Plans may be either incentive stock options or options that do not

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qualify as incentive stock options. The Company's compensation committee is authorized to designate the recipients of options, the dates of grants, the number of shares subject to options, the option price, the terms of payment upon exercise of the options, and the time during which the options may be exercised. Options granted are exercisable, in full, six months following the date of the grant.

A summary of activity in the stock option plans during the three years ended 1999 is set forth below:

	Options -----	Weighted- Average Exercise Price -----
Outstanding at January 1, 1997.....	1,766,138	\$24.24
Granted.....	652,875	\$41.89
Exercised.....	(328,550)	\$18.59
Canceled.....	(1,000)	\$47.88

Outstanding at December 31, 1997.....	2,089,463	\$30.61
Granted.....	1,124,800 *	\$16.27
Exercised.....	(70,925)	\$18.35
Canceled.....	(466,975)*	\$36.19

Outstanding at December 31, 1998.....	2,676,363	\$23.94
Granted.....	481,225	\$16.02
Exercised.....	(128,909)	\$14.16
Canceled.....	(411,500)	\$25.52

Outstanding at December 31, 1999.....	2,617,179	\$22.72
	=====	

*Reflects the cancellation and re-issuance of 401,850 non-executive employee stock options on December 14, 1998.

The Company had 2,202,454 options and 1,756,263 options exercisable at December 31, 1999 and 1998, respectively. Detail of stock options outstanding and options exercisable at December 31, 1999 follows:

	Outstanding			Exercisable	
	Number	Weighted- Average Remaining Life (Years)	Weighted- Average Exercise Price	Number	Weighted Average Exercise Price
Range of Exercise Prices -----	-----	-----	-----	-----	-----
\$10.31 to \$13.69.....	711,025	8.74	\$11.33	711,025	\$11.33
\$15.50 to \$19.63.....	769,204	7.39	\$16.80	354,479	\$17.77
\$20.38 to \$29.88.....	489,450	6.91	\$23.19	489,450	\$23.19
\$34.00 to \$47.88.....	647,500	7.66	\$41.94	647,500	\$41.94
	-----			-----	
Total.....	2,617,179			2,202,454	
	=====			=====	

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The weighted-average fair value of options granted during 1999, 1998 and 1997, was \$11.38, \$7.55 and \$12.89, respectively. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions: expected stock price volatility of 55.7% in 1999, 50.9% in 1998 and 35.2% in 1997; risk free interest of 6% in 1999, 5% in 1998, and 5.75% in 1997, and average expected option lives of five years in 1999 and 1998 and three years in 1997. Had compensation expense for stock-based compensation been determined based on the fair value at the date of grant, the Company's net income, earnings available to Common Stockholders and earnings per share would have been reduced to the pro

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NUEVO ENERGY COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(CONTINUED)

forma amounts indicated below (amounts in thousands, except per share data):

		Year
		----- 1999 -----
Net income (loss).....	As reported	\$ 31,442
	Pro forma	\$ 24,673
Earnings (loss) per Common share -- Basic.....	As reported	\$ 1.62
	Pro forma	\$ 1.27
Earnings (loss) per Common share -- Diluted.....	As reported	\$ 1.61
	Pro forma	\$ 1.26

* Restated

9. COMPANY-OBLIGATED MANDATORILY REDEEMABLE CONVERTIBLE PREFERRED SECURITIES OF NUEVO FINANCING I

On December 23, 1996, the Company and Nuevo Financing I, a statutory business trust formed under the laws of the state of Delaware, (the "Trust"), closed the offering of 2,300,000 Term Convertible Securities, Series A, ("TECONS") on behalf of the Trust. The price to the public of the TECONS was \$50.00 per TECONS. Distributions on the TECONS began to accumulate from December 23, 1996, and are payable quarterly on March 15, June 15, September 15, and December 15, at an annual rate of \$2.875 per TECONS. Each TECONS is convertible at any time prior to the close of business on December 15, 2026, at the option of the holder into shares of Common Stock at the rate of .8421 shares of Common Stock for each TECONS, subject to adjustment. The sole asset of the Trust as the obligor on the TECONS is \$115.0 million aggregate principal amount of 5.75% Convertible Subordinated Debentures ("Debentures") of the Company due December 15, 2026. The Debentures were issued by Nuevo to the Trust to facilitate the offering of the TECONS. The TECONS must be redeemed for \$50.00 per TECON plus accrued and unpaid dividends on December 15, 2026.

10. LONG-TERM DEBT

Long-term debt is comprised of the following at December 31, 1999 and 1998 (amounts in thousands):

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9-1/2% Senior Subordinated Notes due 2008(a)	
8-7/8% Senior Subordinated Notes(a) (b)	
9-1/2% Senior Subordinated Notes due 2006(a) (c)	
OPIC credit facility (at 5.8% and 5.55% at December 31, 1999 and 1998, respectively, plus a guaranty fee of 2.75%) (d)	
Bank credit facility (at 7.13% and 5.94% at December 31, 1999 and 1998, respectively) (e)	
 Total debt	
Less current maturities	
 Long-term debt	

(a) In July 1999, the Company authorized a new issuance of \$260.0 million of 9-1/2% Senior Subordinated Notes due June 1, 2008 ("9-1/2% Notes"). The Company offered to exchange the new notes for its outstanding \$160.0 million of 9-1/2% Senior Subordinated Notes due 2006 ("Old 9-1/2% Notes") and \$100.0 million of 8-7/8% Senior Subordinated Notes due 2008 ("8-7/8% Notes"). In August 1999, the Company received tenders to exchange \$157,460,000 of its Old 9-1/2% Notes and \$99,850,000 of the 8-7/8% Notes. In connection with the exchange offers, the Company solicited consents to proposed amendments to the indentures under which the old notes were issued. These amendments streamline the Company's covenant structure and provide the Company with additional flexibility to pursue its operating strategy. The exchange was accounted for as a debt modification. As such, the consideration that the Company paid to the holders of the Old 9-1/2% Notes who tendered in the exchange offer (equal to 3% of the outstanding principal amount of the Old 9-1/2% Notes

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(CONTINUED)

exchanged, or \$4.7 million) was accounted for as deferred financing costs. Also in connection with this exchange offer, the Company incurred a total of \$3.1 million in third-party fees during the third and fourth quarters of 1999, which are included in other expense.

Interest on the 9 1/2% Notes accrues at the rate of 9 1/2% per annum and is payable semi-annually in arrears on June 1 and December 1. The 9 1/2% Notes are redeemable, in whole or in part, at the option of the Company, on or after June 1, 2003, under certain conditions. The Company is not required to make mandatory redemption or sinking fund payments with respect to the 9 1/2% Notes. The indenture contains covenants that, among other things, limit the Company's ability to incur additional indebtedness, limit restricted payments, limit issuances and sales of capital stock by restricted subsidiaries, limit dispositions of proceeds of asset sales, limit dividends and other payment restrictions affecting restricted subsidiaries, and restrict mergers, consolidations or sales of

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assets. The 9 1/2% Notes are not currently guaranteed by Nuevo's subsidiaries but are required to be guaranteed by any subsidiary that guarantees pari passu or subordinated indebtedness. The 9 1/2% Notes are unsecured general obligations of the Company, and are subordinated in right of payment to all existing and future senior indebtedness of the Company. In the event of a defined change in control, the Company will be required to make an offer to repurchase all outstanding 9 1/2% Notes at 101% of the principal amount thereof, plus accrued and unpaid interest to the date of redemption.

- (b) In June 1998, the Company issued \$100.0 million, 8 7/8% Notes. In August 1999, most of the 8 7/8% Notes, except for \$150,000, were exchanged for 9 1/2% Notes. The remaining \$150,000 were retired in December 1999. No significant costs were incurred in connection with this early retirement of debt.
- (c) In April 1996, the Company financed a portion of the purchase price of the Unocal Properties with proceeds from the sale to the public of a principal amount of \$160.0 million, Old 9 1/2% Notes. In August 1999, most of the Old 9 1/2% Notes, except for \$2,540,000, were exchanged for 9 1/2% Notes. In October 1999, the Company purchased \$100,000 of the remaining Old 9 1/2% Notes. No significant costs were incurred in connection with the early retirement of the \$100,000 notes. Interest on the Old 9 1/2% Notes accrues at the rate of 9 1/2% per annum and is payable semi-annually in arrears on April 15 and October 15. The Old 9 1/2% Notes are redeemable, in whole or in part, at the option of the Company, on or after April 15, 2001, under certain conditions. The Company is not required to make mandatory redemption or sinking fund payments with respect to the Old 9 1/2% Notes. The Old 9 1/2% Notes were guaranteed by certain of Nuevo's subsidiaries until February 1998, at which time such subsidiaries were released as guarantors. The Old 9 1/2% Notes are unsecured general obligations of the Company, and are subordinated in right of payment to all existing and future senior indebtedness of the Company.
- (d) In February 1995, in connection with the purchase of the stock of Amoco Congo Production Company, the Company negotiated with the Overseas Private Investment Corporation ("OPIC") and an agent bank for a non-recourse credit facility in the amount of \$25.0 million. The security for such facility is the assets and stock of the Nuevo Congo Company ("NCC"). The credit facility expired in June 1999. The initial drawdown on the facility was \$8.8 million to finance a portion of the purchase price. A portion of the remaining outstanding commitment, \$6.0 million, was drawn down in January 1996 to fund the first phase of the development drilling program in the Congo. The interest rate associated with such credit facility is the London Interbank Offered Rate ("LIBOR") plus 20 basis points and a guaranty fee of 2.75% of the outstanding loan balance, payable quarterly. At December 31, 1999, the interest rate was 5.8%, plus the guaranty fee of 2.75%. The loan agreement requires a sixteen-quarter repayment period and will be fully paid in April 2000.
- (e) Nuevo's Amended and Restated Credit Agreement, (the "Agreement"), dated June 30, 1999, provides for secured revolving credit availability of up to \$400.0 million (subject to a semi-annual borrowing base determination) from a bank group led by Bank of America, N.A. and Morgan Guaranty Trust Company of New York, until its expiration on April 1, 2003.

The borrowing base determination establishes the maximum borrowings that may be outstanding under the credit facility, and is determined by a two-thirds vote of the banks (three-fourths in the event of an increase in the borrowing base), each of which bases its judgement on (i) the present value of the Company's oil and gas

NUEVO ENERGY COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(CONTINUED)

reserves based on its own assumptions regarding future prices, production, costs, risk factors and discount rates, and (ii) on projected cash flow coverage ratios calculated under varying scenarios. If amounts outstanding under the credit facility exceed the borrowing base, as redetermined from time to time, the Company would be required to repay such excess over a defined period of time.

During 1999, the borrowing base was reduced from \$380.0 million to \$200.0 million in January 1999, reflecting the January sale of the Company's East Texas natural gas reserves, and also reflecting a significant decline in projected oil prices since the previous determination. The borrowing base was subsequently increased in October 1999, to \$300.0 million, as a result of the significant increase in commodity prices and the inclusion of recently acquired oil and gas properties in California (see Note 3).

Amounts outstanding under the credit facility bear interest at a rate equal to the London Interbank Offered Rate ("LIBOR") plus an amount which increases as borrowing base utilization increases. At December 31, 1999 the Company's interest rate under the credit facility was LIBOR plus .625%, or 7.13%. Outstanding borrowings under this facility at December 31, 1999 were \$81.0 million.

The Credit Agreement has customary covenants including, but not limited to, covenants with respect to the following matters: (i) limitations on certain restricted payments and investments; (ii) limitations on guarantees and indebtedness; (iii) limitations on prepayments of subordinated and certain other indebtedness; (iv) limitations on mergers and consolidations, on certain types of acquisitions and on the issuance of certain securities by subsidiaries; (v) limitations on liens; (vi) limitations on sales of properties; (vii) limitations on transactions with affiliates; (viii) limitations on derivative contracts; and (ix) limitations on debt in subsidiaries. The Company is also required to maintain certain financial ratios and conditions, including without limitation an EBITDAX (earnings before interest, taxes, depreciation, depletion, amortization and exploration expenses) to fixed charge coverage ratio and a funded debt to capitalization ratio. As a result of reduced revenues in 1998 due to falling oil prices, the Company obtained amendments for relief from the EBITDAX fixed charge coverage test through March 31, 2000. The Company was in compliance with all covenants of the Agreement at December 31, 1999, and does not anticipate any issues of non-compliance arising in the foreseeable future.

In June 1997, the Company redeemed its 12-1/2% Senior Subordinated Notes at a total cost of \$78.0 million, representing \$75.0 million face value of the debt plus a 4% premium of \$3.0 million. In addition to the premium, the Company wrote off approximately \$2.0 million of unamortized discount and deferred financing costs. The redemption resulted in an extraordinary loss on early extinguishment of debt in the amount of \$3.0 million, net of the related tax benefit of \$2.0 million. The Company used proceeds from its bank facility to fund the redemption.

The amount of scheduled debt maturities during the next five years and thereafter is as follows (amounts in thousands):

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2000
2001
2002
2003
2004
Thereafter
Total debt

Based upon the quoted market price, the fair value of the 9-1/2% Notes was estimated to be \$254.6 million at December 31, 1999, the fair value of the Old 9-1/2% Notes was estimated to be \$2.4 million and \$160.2 million at December 31, 1999 and 1998, respectively, and the fair value of the 8-7/8% Notes was estimated to be \$90.6 million at December 31, 1998. For the OPIC credit facility and other debt, for which no quoted prices are available, management believes the carrying value of the debt materially represents the fair value of the debt at December 31, 1999 and 1998.

NUEVO ENERGY COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(CONTINUED)

11. CONDENSED CONSOLIDATING FINANCIAL STATEMENTS

NCC is a U.S. corporation with foreign branch operations in the Congo. The functional currency of NCC is the U.S. Dollar and its income is taxed in the United States. The Company's Congo investment involves risks typically associated with investments in emerging markets such as an uncertain political, economic, legal and tax environment, and expropriation and nationalization of assets. The Company's investment is insured through political risk insurance provided by OPIC.

The OPIC credit facility, discussed in Note 10, requires the Company to provide consolidating financial statements that separately show NCC. Also shown separately is Nuevo Congo LTD. ("NCL") which is the company that holds Nuevo's additional interest in the Yombo field in the Congo (see Note 3) that was acquired in 1998. These condensed consolidating financial statements are presented below:

CONDENSED CONSOLIDATED BALANCE SHEET

AS OF DECEMBER 31, 1999
(AMOUNTS IN THOUSANDS)

	Nuevo	NCC	NC
	-----	-----	-----
Total current assets	\$ 50,408	\$ 13,893	\$ 1,
Net property and equipment	588,416	49,175	10,
Deferred tax assets, net	23,348	657	
Total other assets	21,273	--	
	-----	-----	-----

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Total assets	\$683,445	\$ 63,725	\$ 12,
	=====	=====	=====
Total current liabilities	\$ 25,589	\$ 36,500	\$ (
Long-term debt	340,750	--	
Other long-term liabilities	9,292	--	
Mandatorily Redeemable Convertible Preferred Securities of Nuevo Financing I	115,000	--	
Total stockholders' equity	192,814	27,225	13,
	-----	-----	-----
Total liabilities and stockholders' equity	\$683,445	\$ 63,725	\$ 12,
	=====	=====	=====

CONDENSED CONSOLIDATED BALANCE SHEET

AS OF DECEMBER 31, 1998
(AMOUNTS IN THOUSANDS)

	Nuevo	NCC	NC
	-----	-----	-----
Total current assets	\$145,906	\$ 12,870	\$ 2,
Net property and equipment	568,509	39,112	8,
Deferred tax assets, net	27,059	475	
Total other assets	12,308	19	
	-----	-----	-----
Total assets	\$753,782	\$ 52,476	\$ 11,
	=====	=====	=====
Total current liabilities	\$ 18,006	\$ 31,163	\$
Long-term debt	418,400	750	
Other long-term liabilities	2,034	--	
Mandatorily Redeemable Convertible Preferred Securities of Nuevo Financing I	115,000	--	
Total stockholders' equity	200,342	20,563	10,
	-----	-----	-----
Total liabilities and stockholders' equity	\$753,782	\$ 52,476	\$ 11,
	=====	=====	=====

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NUEVO ENERGY COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(CONTINUED)

CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS

FOR THE YEAR ENDED DECEMBER 31, 1999
(AMOUNTS IN THOUSANDS)

	Nuevo	NCC	NCL	Consolidated
	-----	-----	-----	-----
Revenues	\$ 301,135	\$ 26,460	\$ 4,640	\$ 332,235
Expenses	284,161	19,879	2,112	306,152

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	-----	-----	-----	-----
Income before income taxes.....	16,974	6,581	2,528	26,083
Income tax benefit	(5,177)	(182)	--	(5,359)
Net income	<u>\$ 22,151</u>	<u>\$ 6,763</u>	<u>\$ 2,528</u>	<u>\$ 31,442</u>

CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS

FOR YEAR ENDED DECEMBER 31, 1998

(AMOUNTS IN THOUSANDS)

	Nuevo	NCC	NCL	Consolidated
	-----	-----	-----	-----
Revenues	\$ 236,758	\$ 14,607	\$ 1,338	\$ 252,703
Expenses	362,103	16,279	1,218	379,600
(Loss) income before income taxes.....	(125,345)	(1,672)	120	(126,897)
Income tax benefit	(31,935)	(690)	--	(32,625)
Net (loss) income	<u>\$ (93,410)</u>	<u>\$ (982)</u>	<u>\$ 120</u>	<u>\$ (94,272)</u>

CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS

FOR THE YEAR ENDED DECEMBER 31, 1997

(AMOUNTS IN THOUSANDS)

	Nuevo*	NO
	-----	-----
Revenues	\$ 334,446	\$ 22
Expenses	358,079	16
(Loss) income before income taxes and extraordinary item	(23,633)	6
Income tax (benefit) expense	(6,883)	
(Loss) income before extraordinary item	(16,750)	6
Extraordinary loss on early extinguishment of debt, net of tax benefit.....	3,024	
Net (loss) income	<u>\$ (19,774)</u>	<u>\$ 6</u>

* Restated

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(CONTINUED)

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 1999
(AMOUNTS IN THOUSANDS)

	Nuevo	NCC
	-----	-----
Cash flows from operating activities:		
Net (loss) income	\$ 22,151	\$ 6,763
Non-cash adjustments	(5,594)	7,595
Change in assets and liabilities	(12,436)	4,036
	-----	-----
Net cash provided by operating activities	4,121	18,394
	-----	-----
Cash flows from investing activities:		
Additions to oil and gas properties	(105,515)	(17,840)
Proceeds from sale of properties	234,312	--
Additions to other properties and other	(10,247)	--
	-----	-----
Net cash provided by (used in) investing activities.....	118,550	(17,840)
	-----	-----
Cash flows from financing activities:		
Proceeds from borrowings	142,590	--
Payments of long-term debt	(220,240)	(3,152)
Other	(38,483)	--
	-----	-----
Net cash used in financing activities	(116,133)	(3,152)
	-----	-----
Net increase (decrease) in cash & cash equivalents	6,538	(2,598)
Cash and cash equivalents at beginning of year	600	5,339
	-----	-----
Cash and cash equivalents at end of year	\$ 7,138	\$ 2,741
	=====	=====

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 1998
(AMOUNTS IN THOUSANDS)

	Nuevo	NCC
	-----	-----
Cash flows from operating activities:		
Net (loss) income	\$ (93,410)	\$ (982)
Non-cash adjustments	119,473	4,281
Change in assets and liabilities	(8,015)	14,923
	-----	-----
Net cash provided by (used in) operating activities.....	18,048	18,222
	-----	-----
Cash flows from investing activities:		

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Additions to oil and gas properties	(137,430)	(10,971)
Proceeds from sale of properties	11,830	--
Additions to other properties and other	(2,813)	--
	-----	-----
Net cash used in investing activities	(128,413)	(10,971)
	-----	-----
Cash flows from financing activities:		
Proceeds from borrowings	240,900	--
Payments of long-term debt	(124,551)	(3,703)
Contribution to (from) Nuevo	(10,852)	--
Other	(1,949)	--
	-----	-----
Net cash provided by (used in) financing activities.....	103,548	(3,703)
	-----	-----
Net increase (decrease) in cash & cash equivalents	(6,817)	3,548
Cash and cash equivalents at beginning of year	7,417	1,791
	-----	-----
Cash and cash equivalents at end of year	\$ 600	\$ 5,339
	=====	=====

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NUEVO ENERGY COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(CONTINUED)

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 1997

(AMOUNTS IN THOUSANDS)

	Nuevo*	NCC*
	-----	-----
Cash flows from operating activities:		
Net (loss) income	\$ (19,774)	\$ 6,074
Non-cash adjustments	155,749	3,612
Change in assets and liabilities	12,846	6,955
	-----	-----
Net cash provided by operating activities	148,821	16,641
	-----	-----
Cash flows from investing activities:		
Additions to oil and gas properties	(182,261)	(12,847)
Proceeds from sale of properties	27,377	--
Additions to other properties and other	(1,747)	--
	-----	-----
Net cash used in investing activities	(156,631)	(12,847)
	-----	-----
Cash flows from financing activities:		
Proceeds from borrowings	234,000	--
Payments of long-term debt	(213,800)	(3,703)
Other	(16,909)	--
	-----	-----
Net cash provided by (used in) financing		

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activities	3,291	(3,703)
	-----	-----
Net (decrease) increase in cash and cash equivalents	(4,519)	91
Cash and cash equivalents at beginning of year	11,936	1,700
	-----	-----
Cash and cash equivalents at end of year	\$ 7,417	\$ 1,791
	=====	=====

12. INCOME TAXES

Income tax (benefit) expense is summarized as follows (amounts in thousands):

	Year Ended December 31,		
	1999	1998	1997*
	-----	-----	-----
Current			
Federal	\$ 1,012	\$ (105)	\$ 135
State	188	--	421
	-----	-----	-----
	1,200	(105)	556
	-----	-----	-----
Deferred			
Federal	(8,457)	(24,172)	(7,449)
State	1,898	(8,348)	(1,800)
	-----	-----	-----
	(6,559)	(32,520)	(9,249)
	-----	-----	-----
Total income tax benefit	\$ (5,359)	\$ (32,625)	\$ (8,693)
	=====	=====	=====

A deferred tax benefit related to the exercise of employee stock options of approximately \$0.2 million and \$5.3 million was allocated directly to additional paid-in capital in 1999 and 1997, respectively. A current tax benefit of \$2.0 million was allocated to the extraordinary loss in 1997.

*Restated

Total income tax benefit differs from the amount computed by applying the Federal income tax rate to income (loss) before income taxes, minority interest and extraordinary item. The reasons for these differences are as follows:

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	----- 1999 -----	----- 1 -----
Statutory Federal income tax rate	35.0%	(
(Decrease) increase in tax rate resulting from:		
State income taxes, net of Federal benefit	5.2	
Non-realization of tax benefits related to provision for impairment on assets held for sale	--	
(Decrease) increase in valuation allowance	(60.8)	
Nondeductible travel and entertainment and other	0.1	
	-----	-----
	(20.5)%	(
	=====	=====

* Restated

The tax effects of temporary differences that result in significant portions of the deferred income tax assets and liabilities and a description of the financial statement items creating these differences are as follows (amounts in thousands):

	As of December 31, -----	
	1999	1998
	-----	-----
Net operating loss carryforwards	\$ 41,814	\$ 45,610
Alternative minimum tax credit carryforwards.....	2,066	1,054
State income taxes	--	1,520
Capital loss carryforwards	2,426	2,365
	-----	-----
Total deferred income tax assets	46,306	50,549
Less: valuation allowance	(1,777)	(17,646)
	-----	-----
Net deferred income tax assets	44,529	32,903
	-----	-----
Property and equipment	(19,881)	(5,369)
State income taxes	(643)	--
	-----	-----
Total deferred income tax liabilities.....	(20,524)	(5,369)
	-----	-----
Net deferred income tax asset	\$ 24,005	\$ 27,534
	=====	=====

At December 31, 1999, the Company had a net operating loss carryforward for regular tax of approximately \$119.5 million, which will expire in 2018. The alternative minimum tax credit carryforward of \$2.1 million does not expire and may be applied to reduce regular income tax to an amount not less than the alternative minimum tax payable in any one year. At December 31, 1998, the Company determined that it was more likely than not that a portion of the deferred tax assets would not be realized and the valuation allowance was increased by \$16.9 million to a total valuation allowance of \$17.6 million. At December 31, 1999, however, the Company determined that it was more likely than not that most of the deferred tax assets would be realized, based on current projections of taxable income due to higher commodity prices at year-end 1999, and the valuation allowance was decreased by \$15.9 million to a total valuation

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allowance of \$1.8 million. The decrease in the valuation allowance was accounted for as a reduction in 1999 deferred income tax expense.

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NUEVO ENERGY COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(CONTINUED)

13. INDUSTRY SEGMENT INFORMATION

The Company's operations are concentrated primarily in two segments: exploration and production of oil and natural gas, and gas plant and other facilities.

	As of and For the Year Ended December 31,		
	1999	1998	1997*
	(Amounts in thousands)		
Sales to unaffiliated customers:			
Oil and gas -- East	\$ 13,282	\$ 46,885	\$ 61,456
Oil and gas -- West	195,397	177,315	247,723
Oil and gas -- Foreign	30,627	15,810	22,794
Gas plant, pipeline and other facilities ...	2,972	5,365	20,598
	-----	-----	-----
Total sales	242,278	245,375	352,571
Gain on sale of assets, net	85,294	5,768	1,372
Interest and other income	4,663	1,560	3,335
	-----	-----	-----
Total revenues	\$ 332,235	\$ 252,703	\$ 357,278
	=====	=====	=====
Operating profit (loss) before income taxes:			
Oil and gas -- East(2)	\$ 81,171	\$ 22,608	\$ 24,745
Oil and gas -- West	17,716	(67,677)	40,369
Oil and gas -- Foreign	5,208	(12,849)	6,172
Gas plant, pipeline and other facilities(1)	(1,242)	3,063	(22,478)
	-----	-----	-----
	102,853	(54,855)	48,808
Unallocated corporate expenses	37,047	32,958	32,170
Interest expense	33,110	32,471	27,357
Dividends on TECONS	6,613	6,613	6,613
Minority interest in loss of subsidiary	--	--	8
	-----	-----	-----
Operating profit (loss) before income taxes	\$ 26,083	\$ (126,897)	\$ (17,340)
	=====	=====	=====
Identifiable assets:			
Oil and gas -- Domestic	\$ 566,256	\$ 748,695	\$ 671,603
Oil and gas -- Foreign	82,074	40,700	40,139
Gas plant and other facilities	12,297	14,893	17,387
	-----	-----	-----

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	660,627	804,288	729,129
Corporate assets and investments	99,403	13,397	75,157
	-----	-----	-----
Total	\$ 760,030	\$ 817,685	\$ 804,286
	=====	=====	=====
Capital expenditures:			
Oil and gas -- East	\$ 5,941	\$ 36,597	\$ 32,857
Oil and gas -- West	100,130	96,179	148,927
Oil and gas -- Foreign	24,570	30,498	14,111
	-----	-----	-----
Oil and gas capital expenditures.....	130,641	163,274	195,895
Less: Geological & geophysical, delay rentals and other expenses.....	(4,722)	(5,922)	(787)
	-----	-----	-----
Additions to oil and gas properties per Statement of Cash Flows.....	\$ 125,919	\$ 157,352	\$ 195,108
	=====	=====	=====
Gas plant and other facilities	\$ 10,247	\$ 2,813	\$ 1,747
	=====	=====	=====
Depreciation, depletion and amortization:			
Oil and gas -- East	\$ 7,805	\$ 10,391	\$ 14,252
Oil and gas -- West	62,219	68,164	81,011
Oil and gas -- Foreign	9,177	4,971	3,385
Gas plant and other facilities	666	812	2,830
Corporate	785	698	680
	-----	-----	-----
	\$ 80,652	\$ 85,036	\$ 102,158
	=====	=====	=====

* Restated

NUEVO ENERGY COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(CONTINUED)

- (1) Gas plant and other facilities operations for 1998 include a positive revision to a prior period charge of \$3.7 million and for 1997 include a charge for \$23.9 million to record an impairment on assets held for sale and a \$2.3 million gain on sale. See Note 4.
- (2) Includes gain on sale of the East Texas natural gas asset of \$80.2 million for the year ended 1999. In 1999, 1998 and 1997, the Company had one customer that accounted for 79%, 60%, and 62% of oil and gas revenues, respectively. In 1999 and 1998, the Company had another customer that accounted for 12% and 10% of oil and gas revenues, respectively.

In February 2000, the Company entered into a 15-year contract, effective January 1, 2000, to sell substantially all of its current and future California crude oil production to Tosco Corporation. The contract provides pricing based on a fixed percentage of the NYMEX crude oil price for each type of crude oil that Nuevo produces in California. Therefore, the actual price received as a percentage of NYMEX will vary with the Company's production mix. Based on the Company's current production mix, the price received by Nuevo for its California production is expected to average at approximately 72% of WTI. While the contract does not reduce the Company's exposure to price volatility,

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it does effectively eliminate the basis differential risk between the NYMEX price and the field price of the Company's California oil production.

14. CONTINGENCIES AND OTHER MATTERS

In August 1996, the Company was named as a defendant in the lawsuit Gloria Garcia Lopez and Husband, Hector S. Lopez, Individually, and as successors to Galo Land & Cattle Company v. Mobil Producing Texas & New Mexico, et al. currently pending in the 79th Judicial District Court of Brooks County, Texas (the "Lopez Case"). The plaintiffs, based on pleadings and deposition testimony, allege: i) underpayment of royalties and claim damages, on a gross basis against all working interest owners, of \$56.5 million, including interest for the period from 1985 to date; ii) that their production was improperly commingled with gas produced from an adjoining lease, resulting in damages, including interest, of \$40.8 million, on a gross basis; (iii) failure to develop, claiming damages and interest of \$106.3 million (gross) for interest in the alleged failure to develop; and iv) numerous other claims, including claims for drainage, breach of the implied covenant to reasonably develop the lease, conversion, fraud, emotional distress, lease termination and exemplary damages, that may result in unspecified damages. Nuevo's working interest in these properties is 20%. The Company, along with the other defendants in this case, denies these allegations and is vigorously contesting 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. As of December 31, 1999, management believes that the estimated ultimate resolution of this matter is adequately reflected in the consolidated financial statements.

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 March 1999, the Company discovered that a non-officer employee had fraudulently authorized and diverted for personal use Company funds totaling \$5.9 million, \$4.3 million in 1998 and the remainder in 1999, that were intended for international exploration. Such amounts are included in other expense during the respective periods. The Board of Directors engaged a Certified Fraud Examiner to conduct an in-depth review of the fraudulent transactions. The investigation confirmed that only one employee was involved in the matter and that all misappropriated funds were identified. The Company has reviewed and, where appropriate, strengthened its internal control procedures. The Company is attempting to recoup the loss, however, there is no certainty that any of the funds will be recovered.

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. 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. The Company incurred clean-up and repair costs of \$0.5 million, , and \$3.2 million during 1999, 1998, and 1997,

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respectively. As of December 31, 1999, the Company had received insurance reimbursements of \$3.7 million, with a remaining insurance receivable of \$1.4 million. For amounts not covered by insurance, including the \$120,000 deductible, the Company recorded lease operating expenses of \$0.4 million, \$0.5 million, and \$0.1 million during 1999, 1998, and 1997, respectively. Repairs were completed by the end of 1997, and production recommenced in December 1997. 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 December 31, 1999. Although, the Company may have additional exposure, 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 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.

The Company and its partners underwent a tax examination related to their ownership interests in the Yombo field offshore Congo for the years 1994 through 1997. In June 1999, the Company and its partners settled this tax assessment for a total of \$1.0 million, of which the Company's share was \$400,000.

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 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 \$48.5 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 \$64.1 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.

During 1997, a new government was established in the Congo. Although the political situation in the Congo has not to date had a material adverse effect on the Company's operations in the Congo, no assurances can be made that continued political unrest in West Africa will not have a material adverse effect on the Company and its operations in the Congo in the future.

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NUEVO ENERGY COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(CONTINUED)

15. FINANCIAL INSTRUMENTS

During 1999, the Company formalized its policies regarding the management of oil price risk to ensure the Company's ability to optimally manage its portfolio of investment opportunities. To accomplish this, the policy requires that derivative financial instruments must be entered into at least 18 months in advance of the effective period. To the extent that future markets over a forward 18 month period are significantly higher than long term norms, the Company will hedge so much of its production as is necessary to meet its policy goals for that period. For 2000, the Company has entered into swap contracts on 16,500 barrels of oil per day ("BOPD"), at an average West Texas Intermediate ("WTI") price of \$17.94 per barrel. The Company has also entered into cost-less collars on an additional 16,500 BOPD, with a floor of \$16.00 per barrel and ceiling of \$21.21 per barrel. On a physical volume basis, these hedges cover 64% of the Company's estimated 2000 oil production. This production is hedged based on a fixed NYMEX price for each type of crude oil that the Company produces in California. As a result of the TOSCO contract, (see Note 13 to the Notes to Consolidated Financial Statements), which fixes the price of the Company's California production at approximately 72% of the NYMEX price effective January 1, 2000, these hedge transactions have the effect on a price basis of hedging substantially all of the Company's current production for the year 2000. Also for the year 2000, the Company has entered into basis swaps on 3,000 BOPD of its production in the Congo, hedging the basis differential between No. 6 fuel oil and WTI at an average differential of \$1.88 per barrel. At December 31, 1999, the market value of the hedge positions was a loss of approximately \$35.7 million.

For 2001, the Company has entered into swap arrangements on 26,000 BOPD for the first quarter at an average WTI price of \$19.52, for the second quarter on 25,000 BOPD at an average WTI price of \$19.54, and for the third quarter on 20,000 BOPD at an average WTI price of \$21.22. On a physical volume basis, these hedges cover 32% of the Company's estimated 2001 oil production. On a price basis, the Company has not hedged in excess of its anticipated 2001 production. At December 31, 1999, the market value of these swaps was a gain of \$0.5 million. 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.

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On February 26, 1999, the Company entered into a swap arrangement with a major financial institution that effectively converts the interest rate on \$16.4 million notional amount of the 9 1/2% Notes to a variable LIBOR-based rate through February 25, 2000. Based on LIBOR rates in effect at December 1, 1999, this amounted to a net reduction in the carrying cost of the 9 1/2% Notes from 9.5% to 7.09%, or 241 basis points. In addition, the swap arrangement also effectively hedges the price at which these Notes can be repurchased by the Company. At December 31, 1999, the Company recorded an unrealized gain of \$131,000 related to the fair value of the notes.

Determination of Fair Values of Financial Instruments

Fair value for cash, short-term investments, receivables and payables approximates carrying value. The following table details the carrying values and approximate fair values of the Company's other investments, derivative financial instruments and long-term debt at December 31, 1999 and 1998.

	December 31, 1999		December 31, 1998	
	Carrying Value	Approximate Fair Value	Carrying Value	Approximate Fair Value
Other investments	\$ 78	\$ 78	\$ 80	\$ 80
Derivative Instruments:				
Option premium	--	--	292	241
Commodity price swaps...	--	(35,244)	--	(2,636)
Long-term debt (see Note 10) ..	340,750	337,972	419,150	409,938
TECONS	115,000	62,675	115,000	71,875

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NUEVO ENERGY COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(CONTINUED)

16. CONTINGENT PAYMENT AND PRICE SHARING AGREEMENTS

In connection with the acquisition of the properties located in California from Unocal in 1996, the Company is obligated to make a contingent payment for the years 1998 through 2004 if oil prices exceed thresholds set forth in the agreement with Unocal. Any contingent payment will be accounted for as a purchase price adjustment to oil and gas properties. The contingent payment will equal 50% of the difference between the actual average annual price received on a field-by-field basis (capped by a maximum price) and a minimum price, less taxes, multiplied by the actual number of barrels of oil sold during the respective year. The minimum price of \$17.75 per Bbl under the agreement (determined based on near month of delivery of WTI crude oil on the NYMEX) is escalated at 3% per year and the maximum price of \$21.75 per Bbl on the NYMEX is escalated at 3% per year. Minimum and maximum prices will be netted down to the field level using a fixed differential equal to approximately the differential between actual sales prices and NYMEX prices in effect in 1995 (\$4.34 per Bbl weighted average for all the properties acquired from Unocal). The Company accumulates credits to offset future, possible contingent payment when prices are \$.50 per Bbl or more below the minimum price. As of December 31, 1999, the

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Company had accumulated \$30.8 million in price credits since the inception of the agreement. These cumulative credits will be used to reduce future amounts owed under the contingent payment, if any. The cumulative credit of \$30.8 million has not been recognized in the consolidated financial statements as it is only available to offset future payments. There is no value attributable to this credit other than to offset future payments. At the end of 2004, if the Company still maintains a credit position with respect to this agreement, the credit will expire worthless. As of December 31, 1999, the Company has never been obligated under the terms of the agreement to make a payment to Unocal.

In connection with the acquisition of the Congo properties in 1995, the Company entered into a price sharing agreement with the seller. There is no termination date associated with this agreement. Under the terms of the agreement, if the average price received for the oil production during the year is greater than the benchmark price established by the agreement, then the Company is obligated to pay the seller 50% of the difference between the benchmark price and the actual price received, for all the barrels associated with this acquisition. The benchmark price for 1999 was \$14.79 per Bbl, and the benchmark price for 2000 is \$15.19 per Bbl. The benchmark price increases each year, based on the increase in the Consumer Price Index. For 2000, the effect of this agreement is that Nuevo only owns upside above \$15.19 per Bbl on approximately 44% of its Congo production. In 1997, the Company paid the seller \$845,000 pursuant to this price sharing agreement. This payment was accounted for as a reduction in oil revenues. No such payments were due in 1998 or 1999.

The Company acquired a 12% working interest in the Point Pedernales oil field from Unocal in 1994 and the remainder of its 80.3% working interest from Torch in 1996. The realized oil price on these properties is capped at \$9.00 per Bbl, with the excess field price over the realized price, if any, shared among the Company and the original owners from whom Torch acquired its interest. For 2000, the effect of this agreement is that Nuevo only owns upside above \$9.00 per Bbl on approximately 28% of the Point Pedernales production. Amounts below \$9.00 per Bbl are owned by the Company and the other working interest owners based on their respective ownership interests. As of December 31, 1999, the Company had \$5.1 million accrued as its obligation under this agreement, which was paid in the first quarter of 2000.

17. SUPPLEMENTAL INFORMATION - (UNAUDITED)

Oil and Gas Producing Activities:

Included herein is information with respect to oil and gas acquisition, exploration, development and production activities, which is based on estimates of year-end oil and gas reserve quantities and estimates of future development costs and production schedules. Reserve quantities and future production as of December 31, 1999 are based primarily on reserve reports prepared by the independent petroleum engineering firm of Ryder Scott Company. Reserve quantities and future production for previous years are based primarily upon reserve reports prepared by Ryder Scott Company. These estimates are inherently imprecise and subject to substantial revision.

Estimates of future net cash flows from proved reserves of gas, oil, condensate and natural gas liquids ("NGL") were made in accordance with SFAS No. 69, "Disclosures about Oil and Gas Producing Activities". The estimates are

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based on realized prices at year-end 1999, of \$18.97 per BBL (including hedge effect) and \$2.31 per thousand cubic feet of gas ("MCF"), and are adjusted for the effects of hedging and contractual agreements with Unocal and Amoco in connection with the California and Congo property acquisitions (see Note 16). Estimated future cash inflows are reduced by estimated future development and production costs based on year-end cost levels, assuming continuation of existing economic conditions, and by estimated future income tax expense. Tax expense is calculated by applying the existing statutory tax rates, including any known future changes, to the pre-tax net cash flows, less depreciation of the tax basis of the properties and depletion allowances applicable to the gas, oil, condensate and NGL production. Because the disclosure requirements are standardized, significant changes can occur in these estimates based upon oil and gas prices currently in effect. The results of these disclosures should not be construed to represent the fair market value of the Company's oil and gas properties. A market value determination would include many additional factors including: (i) anticipated future increases or decreases in oil and gas prices and production and development costs; (ii) an allowance for return on investment; (iii) the value of additional reserves, not considered proved at the present, which may be recovered as a result of further exploration and development activities; and (iv) other business risks.

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NUEVO ENERGY COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(CONTINUED)

Costs incurred (amounts in thousands)-

The following table sets forth the costs incurred in property acquisition and development activities:

	Year Ended December 31,		
	1999	1998	1997*
	-----	-----	-----
DOMESTIC			
Property acquisition:			
Proved properties	\$ 62,300	\$ 200	\$ 10,206
Unproved properties...	520	1,320	--
Exploration	4,973	26,706	18,474
Development (1):			
Proved reserves	2,906	2,525	13,927
Unproved reserves	35,372	102,025	139,177
	-----	-----	-----
	\$106,071	\$132,776	\$181,784
	=====	=====	=====
FOREIGN			
Property acquisition:			
Proved properties	\$ --	\$ 7,809	\$ --
Unproved properties...	424	1,404	--
Exploration	3,742	9,204	10,887
Development:			
Proved reserves	--	1,273	--
Unproved reserves	20,404	10,808	3,224
	-----	-----	-----

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	\$ 24,570	\$ 30,498	\$ 14,111
	=====	=====	=====
TOTAL			
Property acquisition:			
Proved properties	\$ 62,300	\$ 8,009	\$ 10,206
Unproved properties...	944	2,724	--
Exploration	8,715	35,910	29,361
Development:			
Proved reserves	2,906	3,798	13,927
Unproved reserves	55,776	112,833	142,401
	-----	-----	-----
	\$130,641	\$163,274	\$195,895
	=====	=====	=====

(1) Includes capitalized interest directly related to development activities of \$0.3 million in 1999, \$0.6 million in 1998 and \$2.4 million in 1997.

* Restated

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NUEVO ENERGY COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(CONTINUED)

Capitalized costs (amounts in thousands)-

The following table sets forth the capitalized costs relating to oil and gas activities and the associated accumulated depreciation, depletion and amortization:

	Year Ended December 31,		
	1999	1998	1997
	-----	-----	-----
DOMESTIC			
Proved properties	\$ 898,032	\$ 877,230	\$ 900,000
Unproved properties	21,756	20,984	4,000
	-----	-----	-----
Total capitalized costs	919,788	898,214	904,000
Accumulated depreciation, depletion and amortization	(403,727)	(401,139)	(310,000)
	-----	-----	-----
Net capitalized costs	\$ 516,061	\$ 497,075	\$ 594,000
	=====	=====	=====
FOREIGN			
Proved properties	\$ 80,374	\$ 59,774	\$ 30,000
Unproved properties	2,618	1,360	0
	-----	-----	-----
Total capitalized costs	82,992	61,134	30,000
Accumulated depreciation, depletion and amortization	(20,901)	(11,724)	(0)
	-----	-----	-----
Net capitalized costs	\$ 62,091	\$ 49,410	\$ 30,000
	=====	=====	=====

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Net capitalized costs	----- \$ 62,091 =====	----- \$ 49,410 =====	----- \$ 3 =====
TOTAL			
Proved properties	\$ 978,406	\$ 937,004	\$ 94
Unproved properties	24,374	22,344	4
	-----	-----	-----
Total capitalized costs	1,002,780	959,348	98
Accumulated depreciation, depletion and amortization	(424,628)	(412,863)	(32)
	-----	-----	-----
Net capitalized costs	\$ 578,152 =====	\$ 546,485 =====	\$ 66 =====

* Restated

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NUEVO ENERGY COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(CONTINUED)

Results of operations for producing activities (amounts in thousands) --

	Year Ended Decem	
	1999	1998
	-----	-----
DOMESTIC		
Revenues from oil and gas producing activities	\$ 208,679	\$ 224,200
Production costs	(114,295)	(122,816)
Exploration costs	(10,643)	(5,137)
Depreciation, depletion and amortization	(71,475)	(78,555)
Provision for impairment of oil and gas properties	--	(68,529)
Income tax (provision) benefit	(2,515)	13,234
	-----	-----
Results of operations from producing activities (excluding corporate overhead and interest costs)	\$ 9,751 =====	\$ (37,603) =====
FOREIGN		
Revenues from oil and gas producing activities	\$ 30,627	\$ 15,810
Production costs	(12,869)	(11,888)
Exploration costs	(3,374)	(11,425)
Depreciation, depletion and amortization	(9,177)	(4,971)
Provision for impairment of oil and gas properties	--	(375)
Income tax (provision) benefit	(1,067)	3,174
	-----	-----
Results of operations from producing activities (excluding corporate overhead and interest costs)	\$ 4,140 =====	\$ (9,675) =====
TOTAL		
Revenues from oil and gas producing activities	\$ 239,306	\$ 240,010
Production costs	(127,164)	(134,704)
Exploration costs	(14,017)	(16,562)

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Depreciation, depletion and amortization	(80,652)	(83,526)
Provision for impairment of oil and gas properties	--	(68,904)
Income tax (provision) benefit	(3,582)	16,408
	-----	-----
Results of operations from producing activities (excluding corporate overhead and interest costs)	\$ 13,891	\$ (47,278)
	=====	=====

* Restated

Per unit sales prices and costs:

	Year Ended December 31,		
	1999	1998	1997
	-----	-----	-----
DOMESTIC			
Average sales price:			
Oil (per barrel)	\$ 10.57	\$ 9.10	\$ 14.88
Gas (per MCF)	\$ 2.27	\$ 2.00	\$ 2.06
Average production cost per equivalent barrel ..	\$ 6.07	\$ 5.33	\$ 4.96
FOREIGN			
Average sales price:			
Oil (per barrel)	\$ 16.69	\$ 10.82	\$ 14.66
Average production cost per equivalent barrel ..	\$ 7.01	\$ 8.14	\$ 7.70
TOTAL			
Average sales price:			
Oil (per barrel) - exclusive of hedges	\$ 13.82	\$ 9.26	\$ 14.94
Oil (per barrel) - hedge effect	\$ (2.61)	\$ (0.01)	\$ (0.08)
	-----	-----	-----
Oil (per barrel) - net of hedge effect	\$ 11.21	\$ 9.25	\$ 14.86
	=====	=====	=====
Gas (per MCF) - exclusive of hedges	\$ 2.27	\$ 1.98	\$ 2.19
Gas (per MCF) - hedge effect	\$ --	\$ 0.02	\$ (0.13)
	-----	-----	-----
Gas (per MCF) - net of hedge effect	\$ 2.27	\$ 2.00	\$ 2.06
	=====	=====	=====
Average production cost per equivalent barrel ..	\$ 6.15	\$ 5.56	\$ 5.14

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(CONTINUED)

The Company's estimated total proved and proved developed reserves of oil and gas are as follows:

For the Year Ended December 31,	
1999	1998
-----	-----

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	Oil* (Mbbl)	Gas (Mmcf)	Oil* (Mbbl)	Gas (Mmcf)
	-----	-----	-----	-----
DOMESTIC				
Proved reserves at beginning of year	164,300	403,256	202,771	390,691
Revisions of previous estimates	61,168	56,097	(41,399)	(8,953)
Extensions and discoveries	10,795	11,800	17,694	55,575
Production	(15,892)	(17,620)	(17,345)	(32,521)
Sales of reserves in-place	(10,270)	(335,927)	(1,595)	(1,536)
Purchase of reserves in-place	29,089	27,519	4,174	--
	-----	-----	-----	-----
Proved reserves at end of year	239,190	145,125	164,300	403,256
	=====	=====	=====	=====
Proved developed reserves --				
Beginning of year	123,077	308,667	143,486	266,179
	=====	=====	=====	=====
End of year	174,846	112,204	123,077	308,667
	=====	=====	=====	=====
FOREIGN				
Proved reserves at beginning of year	25,841	--	24,493	--
Revisions of previous estimates	2,042	--	(420)	--
Extensions and discoveries	--	--	--	--
Production	(1,835)	--	(1,461)	--
Sales of reserves in-place	--	--	--	--
Purchase of reserves in-place	--	--	3,229	--
	-----	-----	-----	-----
Proved reserves at end of year	26,048	--	25,841	--
	=====	=====	=====	=====
Proved developed reserves --				
Beginning of year	10,242	--	9,526	--
	=====	=====	=====	=====
End of year	13,749	--	10,242	--
	=====	=====	=====	=====
TOTAL				
Proved reserves at beginning of year	190,141	403,256	227,264	390,691
Revisions of previous estimates	63,210	56,097	(41,819)	(8,953)
Extensions and discoveries	10,795	11,800	17,694	55,575
Production	(17,727)	(17,620)	(18,806)	(32,521)
Sales of reserves in-place	(10,270)	(335,927)	(1,595)	(1,536)
Purchase of reserves in-place	29,089	27,519	7,403	--
	-----	-----	-----	-----
Proved reserves at end of year	265,238	145,125	190,141	403,256
	=====	=====	=====	=====
Proved developed reserves --				
Beginning of year	133,319	308,667	153,012	266,179
	=====	=====	=====	=====
End of year	188,595	112,204	133,319	308,667
	=====	=====	=====	=====

* Includes estimated NGL reserves.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(CONTINUED)

Discounted future net cash flows (amounts in thousands) --

The standardized measure of discounted future net cash flows and changes therein are shown below:

	Year Ended December 31,		
	1999	1998	
DOMESTIC			
Future cash inflows	\$ 4,823,952	\$ 1,989,898	\$
Future production costs	(2,132,655)	(1,061,638)	(
Future development costs	(357,708)	(289,686)	
	-----	-----	
Future net inflows before income tax	2,333,589	638,574	
Future income taxes	(704,236)	--	
	-----	-----	
Future net cash flows	1,629,353	638,574	
10% discount factor	(739,181)	(360,611)	
	-----	-----	
Standardized measure of discounted future net cash flows	\$ 890,172	\$ 277,963	\$
	=====	=====	==
FOREIGN			
Future cash inflows	\$ 469,327	\$ 260,627	\$
Future production costs	(177,150)	(134,549)	(
Future development costs	(46,750)	(66,715)	
	-----	-----	
Future net inflows before income tax	245,427	59,363	
Future income taxes	(66,971)	--	
	-----	-----	
Future net cash flows	178,456	59,363	
10% discount factor	(61,455)	(37,393)	
	-----	-----	
Standardized measure of discounted future net cash flows	\$ 117,001	\$ 21,970	\$
	=====	=====	==
TOTAL			
Future cash inflows	\$ 5,293,279	\$ 2,250,525	\$
Future production costs	(2,309,805)	(1,196,187)	(
Future development costs	(404,458)	(356,401)	
	-----	-----	
Future net inflows before income tax	2,579,016	697,937	
Future income taxes	(771,207)	--	
	-----	-----	
Future net cash flows	1,807,809	697,937	
10% discount factor	(800,636)	(398,004)	
	-----	-----	
Standardized measure of discounted future net cash flows	\$ 1,007,173	\$ 299,933	\$
	=====	=====	==

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The following are the principal sources of change in the standardized measure of discounted future net cash flows:

	Year Ended December 31,	
	1999	1998
	-----	-----
DOMESTIC		
Standardized measure -- beginning of year	\$ 277,963	\$ 711,038
Sales, net of production costs	(94,384)	(101,383)
Purchases of reserves in-place	224,251	2,278
Net change in prices and production costs	439,615	(466,018)
Extensions, discoveries and improved recovery, net of future production and development costs	59,873	46,713
Changes in estimated future development costs	(12,375)	(14,956)
Incurred development costs	32,380	94,366
Revisions of quantity estimates	276,965	(86,459)
Accretion of discount	27,796	83,281
Net change in income taxes	(211,448)	121,770
Sales of reserves in-place	(151,348)	(356)
Changes in production rates and other	20,884	(112,311)
	-----	-----
Standardized measure -- end of year	\$ 890,172	\$ 277,963
	=====	=====
FOREIGN		
Standardized measure -- beginning of year	\$ 21,970	\$ 53,747
Sales, net of production costs	(17,759)	(3,923)
Purchases of reserves in-place	--	2,750
Net change in prices and production costs	59,641	(56,690)
Extensions, discoveries and improved recovery, net of future production and development costs	--	--
Changes in estimated future development costs	12,711	(3,091)
Incurred development costs	7,175	12,081
Revisions of quantity estimates	8,479	(750)
Accretion of discount	2,197	6,830
Net change in income taxes	(26,001)	14,552
Changes in production rates and other	48,588	(3,536)
	-----	-----
Standardized measure -- end of year	\$ 117,001	\$ 21,970
	=====	=====
TOTAL		
Standardized measure -- beginning of year	\$ 299,933	\$ 764,785
Sales, net of production costs	(112,143)	(105,306)
Purchases of reserves in-place	224,251	5,028
Net change in prices and production costs	499,256	(522,708)
Extensions, discoveries and improved recovery, net of future production and development costs	59,873	46,713
Changes in estimated future development costs	336	(18,047)
Incurred development costs	39,555	106,447
Revisions of quantity estimates	285,444	(87,209)
Accretion of discount	29,993	90,111
Net change in income taxes	(237,449)	136,322
Sales of reserves in-place	(151,348)	(356)
Changes in production rates and other	69,472	(115,847)
	-----	-----
Standardized measure -- end of year	\$ 1,007,173	\$ 299,933
	=====	=====

NUEVO ENERGY COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(CONTINUED)

SELECTED QUARTERLY FINANCIAL DATA (AMOUNTS IN THOUSANDS, EXCEPT PER SHARE DATA)
(UNAUDITED) :

	Quarter Ended(2)			
	March 31, 1999	June 30, 1999	September 30, 1999	December 1999
Revenues	\$ 126,643	\$ 52,860	\$ 70,248	\$82,48
Operating (loss) earnings	\$ (11,803)	\$ (8,125)	\$ 15,554	\$21,94
Net income (loss) (4)	\$ 31,342	\$ (15,558)	\$ (2,756)	\$18,41
Earnings (loss) per Common share -- Basic	\$ 1.58	\$ (0.78)	\$ (0.14)	\$ 1.0
Earnings (loss) per Common share -- Diluted...	\$ 1.58	\$ (0.78)	\$ (0.14)	\$ 0.9

	Quarter Ended(2)			
	March 31, 1998	June 30, 1998	September 30, 1998	December 1998
Revenues	\$ 67,661	\$ 61,512	\$ 65,966	\$ 57,56
Operating earnings (loss) (1)	\$ 4,011	\$ 3,317	\$ (5,369)	\$ (66,85
Net loss(1) (3)	\$ (6,582)	\$ (7,622)	\$ (11,245)	\$ (68,82
Loss per Common share -- Basic	\$ (0.33)	\$ (0.39)	\$ (0.57)	\$ (3.4
Loss per Common share -- Diluted.....	\$ (0.33)	\$ (0.39)	\$ (0.57)	\$ (3.4

-
- (1) Includes a fourth quarter charge of \$68.9 million to record an impairment of oil and gas properties and a fourth quarter \$3.7 million positive revision to a prior period impairment on assets held for sale.
 - (2) Certain reclassifications of prior period amounts have been made to conform with the current presentation.
 - (3) Includes a fourth quarter increase in the deferred tax asset valuation allowance of \$16.9 million.
 - (4) Includes a fourth quarter decrease in the deferred tax asset valuation allowance of \$15.9 million.

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ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

On March 29, 2000, the Company and Relational Investors, LLC agreed to terminate that Letter Agreement of March 1, 1999, and release each other from future obligations and duties set out therein, all of which is more particularly described in Exhibit 99(i).

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information required by this item will be included in a definitive proxy statement, pursuant to Regulation 14A, to be filed not later than 120 days after December 31, 1999. Such information is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this item will be included in a definitive proxy statement, pursuant to Regulation 14A, to be filed not later than 120 days after December 31, 1999. Such information is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required by this item will be included in a definitive proxy statement, pursuant to Regulation 14A, to be filed not later than 120 days after December 31, 1999. Such information is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this item will be included in a definitive proxy statement, pursuant to Regulation 14A, to be filed not later than 120 days after December 31, 1999. Such information is incorporated herein by reference.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a) 1. and 2. Financial Statements:

See index to Consolidated Financial Statements and Supplemental Information in Item 8, which information is incorporated herein by reference.

3. Exhibits

(3) Articles of Incorporation and bylaws.

- 3.1 Certificate of Incorporation of Nuevo Energy Company (Incorporated by reference from Exhibit 3.1 to Quarterly Report on Form 10-Q for the quarterly period ended June 30, 1999).
- 3.2 Certificate of Amendment to the Certificate of Incorporation of Nuevo Energy Company (Incorporated by reference from Exhibit 3.2 to Quarterly Report on Form 10-Q for the quarterly period ended June 30, 1999).
- 3.3 Bylaws of Nuevo Energy Company (Incorporated by reference from

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Exhibit 3.3 to Quarterly Report on Form 10-Q for the quarterly period ended June 30, 1999).

- 3.4 Amendment to section 3.1 of the Bylaws of Nuevo Energy Company (Incorporated by reference from Exhibit 3.4 to Quarterly Report on Form 10-Q for the quarterly period ended June 30, 1999).

(4) Instruments defining the rights of security holders, including indentures.

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NUEVO ENERGY COMPANY

- 4.1 Specimen Stock Certificate (Incorporated by reference to Exhibit 4.1 to Registration Statement on Form S-4 (No. 33-33873) filed under the Securities Act of 1933).
- 4.2 Indenture dated April 1, 1996 among Nuevo Energy Company as Issuer, various Subsidiaries as the Guarantors, and State Street Bank and Trust Company as the Trustee - 9 1/2% Senior Subordinated Notes due 2006. (Incorporated by reference from Form S-3 (No. 333-1504).
- 4.3 Form of Amended and Restated Declaration of Trust dated December 23, 1996, among the Company, as Sponsor, Wilmington Trust Company, as Institutional Trustee and Delaware Trustee, and Michael D. Watford, Robert L. Gerry, III and Robert M. King, as Regular Trustees. (Incorporated by reference from Exhibit 4.1 to Form 8-K filed on December 23, 1996).
- 4.4 Form of Subordinated Indenture dated as of November 25, 1996, between the Company and Wilmington Trust Company, as Indenture Trustee. (Incorporated by reference from Exhibit 4.2 to Form 8-K filed on December 23, 1996).
- 4.5 Form of First Supplemental Indenture dated December 23, 1996, between the Company and Wilmington Trust Company, as Indenture Trustee. (Incorporated by reference from Exhibit 4.3 to Form 8-K filed on December 23, 1996).
- 4.6 Form of Preferred Securities Guarantee Agreement dated as of December 23, 1996, between the Company and Wilmington Trust Company, as Guarantee Trustee. (Incorporated by reference from Exhibit 4.4 to Form 8-K filed on December 23, 1996).
- 4.7 Form of Certificate representing TECONS. (Incorporated by reference from Exhibit 4.5 to Form 8-K filed on December 23, 1996).
- 4.8 Shareholder Rights Plan, dated March 5, 1997, between Nuevo Energy Company and American Stock Transfer & Trust Company, as Rights Agent (incorporated by reference to Exhibit 1 to the Company's Form 8-A filed on April 1, 1997).
- 4.9 Release and Termination of Subsidiary Guarantees with respect to the 9 1/2% Senior Subordinated Notes due 2006. (Incorporated by reference to Exhibit 4.11 of Form 10-K for

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the year ended December 31, 1997.)

- 4.10 Second Supplemental Indenture to the Indenture dated April 1, 1996, dated August 9, 1999 between Nuevo Energy Company and State Street Bank and Trust Company - 9 1/2% Senior Subordinated Notes due 2006 (Incorporated by reference from Exhibit 4.10 to Registration Statement on Form S-4 (No. 333-90235) filed on November 3, 1999).
- 4.11 Indenture, dated as of August 20, 1999 between Nuevo Energy Company and State Street Bank Trust Company, as Trustee (Incorporated by reference from Exhibit 4.11 to Registration Statement on Form S-4 (No. 333-90235) filed on November 3, 1999).
- 4.12 Registration Agreement dated August 20, 1999, between Nuevo Energy Company, Banc of America Securities LLC and Salomon Smith Barney Inc. (Incorporated by reference from Exhibit 4.12 to Registration Statement on Form S-4 (No. 333-90235) filed on November 3, 1999).

(10) Material Contracts.

- 10.1 Second Restated Credit Agreement dated June 30, 1999 between Nuevo Energy Company (Borrower) and Bank of America N.A., formerly NationsBank, N.A. (Administrative Agent), Morgan Guaranty Trust Company of New York (Documentation Agent), Banc of America

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NUEVO ENERGY COMPANY

Securities LLC (Lead Arranger and Sole Book Manager) and certain lenders (Incorporated by reference from Exhibit 10.1 to Quarterly Report on Form 10-Q for the quarterly period ended June 30, 1999).

- 10.2 1990 Stock Option Plan of the Company, as amended (Incorporated by reference from Exhibit 10.8 to Registration Statement on Form S-1 dated July 13, 1992).
- 10.3 1993 Stock Incentive Plan, as amended (Incorporated by reference from Exhibit 4.2 to Registration Statement on Form S-8 (No. 333-21063) filed on February 4, 1997).
- 10.4 1999 Stock Incentive Plan (Incorporated by reference from Exhibit 99.1) to Registration Statement on Form S-8 (No. 333-87899) filed on September 28, 1999).
- 10.5 Nuevo Energy Company Deferred Compensation Plan (Incorporated by reference from Exhibit 99 to Registration Statement on Form S-8 (No. 333-51217) filed on April 28, 1998).
- 10.6 Stock Purchase Agreement, dated as of June 30, 1994, among Amoco Production Company ("APC"), Walter International Inc. ("Walter"), Walter Congo Holdings, Inc. ("Walter Holdings"), Walter International Congo, Inc. (before the merger "Walter Congo" and after the merger "Old Walter Congo"), Nuevo, Nuevo Holding and The Nuevo Congo Company (before the merger, "Nuevo

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Congo" and after the merger, "Old Nuevo Congo"). (Incorporated by reference from Exhibit 2.1 to Form 8-K dated March 10, 1995).

- 10.7 Amendment to Stock Purchase Agreement dated as of September 19, 1994, among APC, Walter Congo, Nuevo Congo, Walter Holdings, Nuevo Holding, Walter and Nuevo. (Incorporated by reference from Exhibit 2.2 to Form 8-K dated March 10, 1995).
- 10.8 Second Amendment to Stock Purchase Agreement dated as of October 15, 1994, among APC, Walter Congo, Nuevo Congo, Walter Holdings, Nuevo Holding, Walter and Nuevo. (Incorporated by reference from Exhibit 2.3 to Form 8-K dated March 10, 1995).
- 10.9 Third Amendment to Stock Purchase Agreement dated as of December 2, 1994, among APC, Walter Congo, Nuevo Congo, Walter Holdings, Nuevo Holding, Walter and Nuevo. (Incorporated by reference from Exhibit 2.4 to Form 8-K dated March 10, 1995).
- 10.10 Fourth Amendment to Stock Purchase Agreement dated as of February 23, 1995, among APC, Walter Congo, Nuevo Congo, Walter Holdings, Nuevo Holding, Walter and Nuevo. (Incorporated by reference from Exhibit 2.5 to Form 8-K dated March 10, 1995).
- 10.11 Tax Agreement dated as of February 23, 1995, executed by APC, Amoco Congo Exploration Company ("ACEC"), Amoco Congo Production Company ("ACPC"), Walter, Walter Holdings, Walter Congo, Nuevo, Nuevo Holding and Nuevo Congo. (Incorporated by reference from Exhibit 2.6 to Form 8-K dated March 10, 1995).
- 10.12 Agreement and Plan of Merger executed by Nuevo Congo, Nuevo Holding and APC dated February 24, 1995. (Incorporated by reference from Exhibit 2.7 to Form 8-K dated March 10, 1995).
- 10.13 Finance Agreement dated as of December 28, 1994, among Nuevo Holding, Nuevo Congo and The Overseas Private Investment Corporation ("OPIC"). (Incorporated by reference from Exhibit 2.8 to Form 8-K dated March 10, 1995).
- 10.14 Subordination Agreement dated December 28, 1994, among Nuevo Congo, Nuevo Holding, Walter Congo, Walter Holdings and APC. (Incorporated by reference from Exhibit 2.9 to Form 8-K dated March 10, 1995).

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NUEVO ENERGY COMPANY

- 10.15 Guaranty covering the obligations of Nuevo Congo and Walter Congo under the Stock Purchase Agreement dated February 24, 1995, executed by Walter and Nuevo. (Incorporated by reference from Exhibit 2.10 to Form 8-K dated March 10, 1995).
- 10.16 Inter-Purchaser Agreement dated as of December 28, 1994, among Walter, Old Walter Congo, Walter Holdings, Nuevo, Old Nuevo Congo and Nuevo Holding. (Incorporated by reference from Exhibit 2.11 to Form 8-K dated March 10, 1995).
- 10.17 Latent ORRI Contract dated February 25, 1995, among Walter,

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Walter Holdings, Walter Congo, Nuevo, Nuevo Holding and Nuevo Congo. (Incorporated by reference from Exhibit 2.12 to Form 8-K dated March 10, 1995).

- 10.18 Latent Working Interest Contract dated February 25, 1995, among Walter, Walter Holdings, Walter Congo, Nuevo, Nuevo Holding and Nuevo Congo. (Incorporated by reference form Exhibit 2.13 to Form 8-K dated March 10, 1995).
- 10.19 Asset Purchase Agreement dated as of February 16, 1996 between Nuevo Energy Company, the Purchaser, and Union Oil Company of California as Seller. (Incorporated by reference from Exhibit 2.1 to Form S-3 (No. 333-1504).
- 10.20 Asset Purchase Agreement dated as of April 4, 1997, by and among Torch California Company and Express Acquisition Company, as Sellers, and Nuevo Energy Company, as Purchaser. (Incorporated by reference from Exhibit 2.2 to Form S-3 (No. 333-1504)).
- 10.21 Employment Agreement with Douglas L. Foshee. (Incorporated by reference to Exhibit 10.23 to Form 10-K for the year ended December 31, 1997.)
- 10.22 Employment Agreement with Robert M. King. (Incorporated by Reference from Exhibit 10.24 to Form 10-K for the year ended December 31, 1998).
- 10.23 Employment Agreement with Dennis Hammond. (Incorporated by reference to Exhibit 10.26 to Form 10-K for the year ended December 31, 1997.)
- 10.24 Employment Agreement with Michael P. Darden. (Incorporated by reference from Exhibit 10.1 to Form 10-Q filed November 13, 1998).
- 10.25 Purchase and sale agreement dated October 16, 1998 between Nuevo Energy Company (Seller) and Samson Lone Star Limited Partnership (Buyer). (Incorporated by reference from Exhibit 10.28 to Form 10-K for the year ended December 31, 1998).
- 10.26 Master Services Agreement among the Company and Torch Energy Advisors Incorporated, Torch Operating Company, Torch Energy Marketing, Inc., and Novistar, Inc. dated January 1, 1999. (Incorporated by reference from Exhibit 10.29 to Form 10-K for the year ended December 31, 1998).
- 10.27 Employment Agreement with Bruce Murchison dated June 1, 1999. (Incorporated by reference from Exhibit 10.27 to Form 10-Q for the quarter ended September 30, 1999).
- 10.28 Employment Agreement with John P. McGinnis dated July 15, 1999. (Incorporated by reference from Exhibit 10.28 to Form 10-Q for the quarter ended September 30, 1999).
- 10.29 Crude Oil Purchase Agreement dated February 4, 2000 between Nuevo Energy Company and Tosco Corporation. (Incorporated by reference from Exhibit 10.1 to Form 8-K dated March 23, 2000).

(21) Subsidiaries of the Registrant

NUEVO ENERGY COMPANY

- (23) Consents of experts and counsel:
 - 23.1 Consent of KPMG LLP
- (b) Reports on Form 8-K:
 - 1. A Current Report on Form 8-K, dated December 16, 1999, reporting Item 5. Other Events and Item 7. Financial Statements and Exhibits was filed on December 16, 1999.
 - 2. A Current Report on Form 8-K, dated December 20, 1999, reporting Item 5. Other Events and Item 7. Financial Statements and Exhibits was filed on December 21, 1999.
- (27) Financial Data Schedule
- (99) Additional Exhibits
 - (i) Termination of March 1, 1999 Letter Agreement, dated March 29, 2000, between the Company and Relational Investors, LLC.

NUEVO ENERGY COMPANY

GLOSSARY OF OIL AND GAS TERMS

TERMS USED TO DESCRIBE QUANTITIES OF OIL AND NATURAL GAS

- 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.
- 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.
- MBOE -- One thousand BOE.
- MMBOE -- One million BOE.

TERMS USED TO DESCRIBE THE COMPANY'S INTERESTS IN WELLS AND ACREAGE

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- Gross oil and gas wells or acres -- The Company's gross wells or gross acres represent the total number of wells or acres in which the Company owns a working interest.
- Net oil and gas wells or acres -- Determined by multiplying "gross" oil and natural gas wells or acres by the working interest that the Company owns in such wells or acres represented by the underlying properties.

TERMS USED TO ASSIGN A PRESENT VALUE TO THE COMPANY'S RESERVES

- Standard measure of proved reserves -- The present value, discounted at 10%, of the pre-tax future net cash flows attributable to estimated net proved reserves. The Company calculates this amount by assuming that it will sell the oil and gas production attributable to the proved reserves estimated in its independent engineer's reserve report for the prices it received for the production on the date of the report, unless it had a contract to sell the production for a different price. The Company also assumes that the cost to produce the reserves will remain constant at the costs prevailing on the date of the report. The assumed costs are subtracted from the assumed revenues resulting in a stream of future net cash flows. Estimated future income taxes using rates in effect on the date of the report are deducted from the net cash flow stream. The after-tax cash flows are discounted at 10% to result in the standardized measure of the Company's proved reserves. The standardized measure of the Company's proved reserves is disclosed in the Company's audited financial statements at note 16.
- Pre-tax discounted present value -- The discounted present value of proved reserves is identical to the standardized measure, except that estimated future income taxes are not deducted in calculating future net cash flows. The Company discloses the discounted present value without deducting estimated income taxes to provide what it believes is a better basis for comparison of its reserves to the producers who may have different tax rates.

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

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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.

(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 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 WHICH DESCRIBE THE COST TO ACQUIRE THE COMPANY'S RESERVES

- Finding costs -- The Company's finding costs compare the amount the Company spent to acquire, explore and develop its oil and gas properties, explore for oil and gas and to drill and complete wells during a period, with the increases in reserves during the period. This amount is calculated by dividing the net change in the Company's evaluated oil and property costs during a period by the change in proved reserves plus production over the same period. The Company's finding costs as of December 31 of any year represent the average finding costs over the three-year period ending December 31 of that year. The Company's finding costs as of June 30, 1999 represent average finding costs over a two and one half year period ending on June 30, 1999.

TERMS WHICH DESCRIBE THE PRODUCTIVE LIFE OF A PROPERTY OR GROUP OF PROPERTIES

- Reserve life index -- A measure of the productive life of an oil and gas property or a group of oil and gas properties, expressed in years. Reserve life index for the years ended December 31, 1996, 1997 or 1998 equal the estimated net proved reserves attributable to a property or group of properties divided by production from the property or group of properties for the four fiscal quarters preceding the date as of which the proved reserves were estimated. In order to reflect the divestiture of the East Texas properties and the Star acquisition, the Company's reserve life index for June 30, 1999 was calculated by dividing estimated

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net proved reserves at June 30, 1999 by the Company's annualized pro forma production for the first six months of 1999, assuming the Company closed the Star acquisition on January 1, 1999.

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NUEVO ENERGY COMPANY

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.

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.
- 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.

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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.
 - Upstream oil and gas properties - Upstream is a term used in describing operations performed before those at a point of reference. Production is an upstream operation and marketing is a downstream operation when the refinery is used as a point of reference. On a gas pipeline, gathering activities are considered to have ended when gas reaches a central point for delivery into a single line, and facilities used before this point of reference are upstream facilities used in gathering, whereas facilities employed after commingling at the central point and employed to make ultimate delivery of the gas are downstream facilities.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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: March 29, 2000

By: /s/Douglas L. Foshee

Douglas L. Foshee
Chairman of the Board of Directors,
President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report is signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By: /s/ Douglas L. Foshee

Douglas L. Foshee
Chairman of the Board of Directors,
President and Chief Executive Officer
(Principal Executive Officer)

Date: March 29, 2000

By: /s/ Robert M. King

Robert M. King
Senior Vice President and
Chief Financial Officer (Principal Financial Officer)

Date: March 29, 2000

By: /s/ Sandra D. Kraemer

Date: March 29, 2000

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Sandra D. Kraemer
Controller (Principal Accounting Officer)

By: /s/ Robert L. Gerry III

Robert L. Gerry III
Director

Date: March 29, 2000

By: /s/ Gary R. Petersen

Gary R. Petersen
Director

Date: March 29, 2000

By: /s/ Thomas D. Barrow

Thomas D. Barrow
Director

Date: March 29, 2000

By: /s/ Isaac Arnold, Jr.

Isaac Arnold, Jr.
Director

Date: March 29, 2000

By: /s/ David Ross III

David Ross III
Director

Date: March 29, 2000

By: /s/ Robert W. Shower

Robert W. Shower
Director

Date: March 29, 2000

By: /s/ Charles M. Elson

Charles M. Elson
Director

Date: March 29, 2000

By: /s/ David H. Batchelder

David H. Batchelder
Director

Date: March 29, 2000

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Index to Exhibits

Exhibit	Description
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21	Subsidiaries of the Registrant
23.1	Consent of KPMG LLP