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

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

FORM 10-Q/A

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

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2000

Commission File Number 1-10537

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

DELAWARE  
(State or other jurisdiction of  
incorporation or organization)

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

1021 MAIN STREET, SUITE 2100  
HOUSTON, TEXAS  
(Address of Principal Executive Offices)

77002  
(Zip Code)

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

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

Yes  No

As of May 10, 2000, the number of outstanding shares of the Registrant's common stock was 17,600,635.

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NUEVO ENERGY COMPANY

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

ASSETS

	March 31, 2000	December
	-----	-----
	(Unaudited)	
CURRENT ASSETS:		
Cash and cash equivalents.....	\$ 3,746	\$ 10
Accounts receivable.....	35,070	45
Product inventory.....	6,082	4
Prepaid expenses and other.....	3,690	6
	-----	-----
Total current assets.....	48,588	66
	-----	-----
PROPERTY AND EQUIPMENT, AT COST:		
Land.....	51,017	51
Oil and gas properties (successful efforts method).....	1,015,432	1,002
Gas plant facilities.....	12,020	12
Other facilities.....	12,271	11

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	-----	-----
	1,090,740	1,077
Accumulated depreciation, depletion and amortization.....	(445,588)	(429
	-----	-----
	645,152	648
	-----	-----
DEFERRED TAX ASSETS, NET.....	23,415	24
OTHER ASSETS.....	20,715	21
	-----	-----
	\$ 737,870	\$ 760
	=====	=====

See accompanying notes to condensed consolidated financial statements.

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

LIABILITIES AND STOCKHOLDERS' EQUITY

	March 31, 2000	December
	-----	-----
	(Unaudited)	
CURRENT LIABILITIES:		
Accounts payable .....	\$ 13,195	\$ 20,
Accrued interest.....	8,431	2,
Accrued liabilities.....	28,677	37,
Current maturities of long-term debt.....	375	
	-----	-----
Total current liabilities.....	50,678	61,
	-----	-----
LONG-TERM DEBT, NET OF CURRENT MATURITIES.....	338,752	340,
OTHER LONG-TERM LIABILITIES.....	8,914	9,
CONTINGENCIES		
COMPANY-OBLIGATED MANDATORILY REDEEMABLE CONVERTIBLE PREFERRED SECURITIES OF NUEVO FINANCING I.....	115,000	115,
STOCKHOLDERS' EQUITY:		
Common stock, \$.01 par value, 50,000,000 shares authorized, 20,548,271 and 20,437,371 shares issued and 17,430,793 and 17,931,393 shares outstanding at March		

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31, 2000 and December 31, 1999, respectively .....	205	
Additional paid-in capital.....	359,761	357,
Treasury stock, at cost, 2,961,996 and 2,430,074 shares, at March 31, 2000 and December 31, 1999, respectively.....	(61,120)	(49,
Stock held by benefit trust, 155,482 and 75,904 shares, at March 31, 2000 and December 31, 1999, respectively.....	(3,283)	(3,
Deferred stock compensation.....	(266)	(
Accumulated deficit.....	(70,771)	(71,
	-----	-----
Total stockholders' equity.....	224,526	233,
	-----	-----
	\$737,870	\$760,
	=====	=====

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended March	
	2000	1999
<b>REVENUES:</b>		
Oil and gas revenues.....	\$70,729	\$ 43,4
Gain on sale of assets, net.....	140	81,6
Interest and other income.....	626	1,4
	-----	-----
	71,495	126,6
	-----	-----
<b>COSTS AND EXPENSES:</b>		
Lease operating expenses.....	31,111	29,9
Exploration costs.....	3,254	2,1
Depreciation, depletion and amortization.....	16,241	23,3
General and administrative expenses.....	5,372	3,8
Outsourcing fees.....	3,333	3,2
Interest expense.....	8,290	7,9
Dividends on Guaranteed Preferred Beneficial Interests in Company's Convertible Debentures (TECONS).....	1,653	1,6
Other expense.....	1,160	2,5
	-----	-----
	70,414	74,5
	-----	-----
Income before income taxes.....	1,081	52,0
Provision for income taxes.....	436	20,7

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NET INCOME.....	\$ 645	\$ 31,3
EARNINGS PER SHARE:		
BASIC:		
Earnings per common share.....	\$ 0.04	\$ 1.
Weighted average common shares outstanding.....	17,814	19,8
DILUTED:		
Earnings per common share.....	\$ 0.04	\$ 1.
Weighted average common and dilutive potential common shares outstanding.....	18,209	19,8

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended March 31,	
	2000	1999
	-----	-----
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income .....	\$ 645	\$ 31,342
Adjustments to reconcile net income to net cash provided by/(used in) operating activities:		
Depreciation, depletion and amortization .....	16,241	23,320
Gain on sale of assets, net .....	(140)	(81,699)
Dry hole costs .....	(44)	827
Amortization of other costs .....	444	405
Deferred taxes .....	796	14,626
Appreciation of deferred compensation plan .....	432	152
Mark to market of liability management swap ....	781	--
Other .....	33	--
	-----	-----
	19,188	(11,027)
Changes in assets and liabilities:		
Accounts receivable .....	9,934	334
Accounts payable and accrued liabilities .....	(10,297)	(4,287)
Other .....	(251)	4,548
	-----	-----
NET CASH PROVIDED BY/(USED IN) OPERATING ACTIVITIES .....	18,574	(10,432)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to oil and gas properties .....	(12,223)	(15,630)
Additions to gas plant facilities .....	(126)	(494)
Additions to other facilities .....	(398)	(1,057)
Proceeds from sales of properties .....	--	192,583
	-----	-----

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NET CASH (USED IN)/PROVIDED BY INVESTING ACTIVITIES .....	(12,747)	175,402
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from borrowings .....	8,025	86,590
Payments of long-term debt .....	(10,398)	(140,415)
Treasury stock purchases .....	(11,614)	--
Proceeds from issuance of common stock .....	1,618	--
	-----	-----
NET CASH USED IN FINANCING ACTIVITIES .....	(12,369)	(53,825)
	-----	-----
Net (decrease)/increase in cash and cash equivalents ..	(6,542)	111,145
Cash and cash equivalents at beginning of		
period .....	10,288	7,403
	-----	-----
CASH AND CASH EQUIVALENTS AT END OF PERIOD .....	\$ 3,746	\$ 118,548
	=====	=====
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest (net of amounts capitalized) .....	\$ 1,769	\$ 2,306
Income taxes .....	\$ --	\$ --

See accompanying notes to condensed consolidated financial statements.

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

#### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission and, therefore, do not include all disclosures required by generally accepted accounting principles. However, in the opinion of management, these statements include all adjustments, which are of a normal recurring nature, necessary to present fairly the financial position at March 31, 2000 and December 31, 1999 and the results of operations and changes in cash flows for the periods ended March 31, 2000 and 1999. These financial statements should be read in conjunction with the financial statements and notes to financial statements in the 1999 Form 10-K of Nuevo Energy Company (the "Company").

#### USE OF ESTIMATES

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.

#### COMPREHENSIVE INCOME

Comprehensive income includes net income and all changes in other comprehensive income including, among other things, foreign currency

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translation adjustments, and unrealized gains and losses on certain investments in debt and equity securities. There are no differences between comprehensive income and net income for the periods presented.

### 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 March 31, 2000 or December 31, 1999. 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 \$26.5 million and increased by \$0.2 million in the first quarter of 2000 and 1999, respectively.

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% Senior Subordinated Notes due 2008 ("Notes") to a variable LIBOR-based rate. On February 25, 2000, this arrangement was extended through February 26, 2001. Amounts paid to enter into these arrangements were insignificant. Based on LIBOR rates in effect at March 31, 2000, this amounted to a net reduction in the carrying cost of the Notes

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

from 9 1/2% to 6.13%, or 337 basis points. In addition, the swap arrangement also effectively hedges the price at which these Notes can be repurchased by the Company. For the three months ended March 31, 2000, the Company recorded an unrealized loss of \$781,000 related to the change in the fair value of the Notes.

For 2000, the Company entered into swap contracts on 16,500 barrels of oil per day ("BOPD"), at an average West Texas Intermediate ("WTI") price

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of \$17.94 per barrel. The Company also entered into 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. 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 March 31, 2000, the market value of the hedge positions was a loss of approximately \$48.0 million. In May 2000, in connection with the sale of certain non-core California oil and gas properties (see Note 9), the Company unwound the \$21.21 per barrel ceiling on 2,800 BOPD for the period May 2000 through December 2000. The settlement loss of approximately \$3.0 million related to the unwinding of the ceiling was recognized as an adjustment to the gain on the sale of the non-core California oil and gas properties, for which the ceiling was designated as a hedge of production. The Company re-designated the remaining floors of 2,800 BOPD for the period May 2000 through December 2000, as a hedge of other California production.

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 per barrel, for the second quarter on 25,000 BOPD at an average WTI price of \$19.54 per barrel, and for the third quarter on 20,000 BOPD at an average WTI price of \$21.22 per barrel. At March 31, 2000, the market value of these swaps was a loss of \$24.6 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.

### 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. The Company has not yet determined the impact of this statement on its financial condition or results of operations.

### RECLASSIFICATIONS

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

## 2. PROPERTY AND EQUIPMENT

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

Unproved leasehold costs are capitalized pending the results of exploration efforts. Significant unproved leasehold costs are reviewed periodically and a loss is recognized to the extent, if any, that the



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cost of the property has been impaired. Exploration costs, including geological and geophysical expenses, exploratory dry holes and delay rentals, are charged to expense as incurred.

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

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 available market information in its estimate of future net revenues.

#### 3. DEFERRED TAX ASSETS

The Company has deferred tax assets, net of valuation allowances, of \$23.4 million and \$24.0 million as of March 31, 2000 and December 31, 1999, respectively. The Company believes that sufficient future taxable income will be generated and has concluded that these net deferred tax assets will more likely than not be realized.

#### 4. INDUSTRY SEGMENT INFORMATION

As of March 31, 2000, the Company's oil and gas exploration and production operations were concentrated primarily in two geographic regions: domestically, onshore and offshore California, and internationally, offshore the Republic of Congo in West Africa (the "Congo").

For the Three Months End

-----  
2000

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	-----	
Sales to unaffiliated customers:		
Oil and gas - Domestic.....	\$59,549	\$
Oil and gas - International.....	11,180	
	-----	
Total sales.....	70,729	
Gain on sale of assets, net.....	140	
Other revenues.....	626	
	-----	
Total revenues.....	\$71,495	\$
	=====	=
Operating profit before income taxes:		
Oil and gas - Domestic (a).....	\$17,879	\$
Oil and gas - International.....	2,751	
	-----	
	20,630	
Unallocated corporate expenses.....	9,606	
Interest expense.....	8,290	
Dividends on TECONS.....	1,653	
	-----	
Income before income taxes.....	\$ 1,081	\$
	=====	=
Depreciation, depletion and amortization:		
Oil and gas - Domestic.....	\$13,705	\$
Oil and gas - International.....	2,169	
Other.....	367	
	-----	
	\$16,241	\$
	=====	=

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

(a) Includes an \$80.3 million gain on sale of the East Texas gas properties for the three months ended March 31, 1999.

5. LONG-TERM DEBT

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

	March 31,
	2000
	-----
9 1/2% Senior Subordinated Notes due 2008.....	\$257,310
9 1/2% Senior Subordinated Notes due 2006.....	2,417
Bank credit facility (a).....	79,025
OPIC credit facility.....	375
	-----
Total debt.....	339,127
Less: current maturities.....	(375)

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Long-term debt..... \$338,752  
=====

(a) Nuevo's Restated Credit 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. In October 1999 and April 2000, the borrowing base on the Company's credit facility was determined to be \$300.0 million. The Company was in compliance with all covenants as of March 31, 2000, and does not anticipate any issues of non-compliance arising in the foreseeable future. At March 31, 2000, outstanding borrowings under the revolving credit agreement were \$71.0 million. Accordingly, \$229.0 million of committed revolving credit capacity was unused and available at March 31, 2000. Additionally, Nuevo had \$8.0 million of outstanding borrowings under an uncommitted line of credit.

In May 2000, the Company announced that it has reached an agreement with a group of nine major U.S. and international banks to amend and restate its credit facility, in order to make structural changes that increase the value of the facility to the Company. This amendment is expected to be finalized in the second quarter of 2000.

6. EARNINGS PER SHARE COMPUTATION

SFAS No. 128 requires a reconciliation of the numerator (income) and denominator (shares) of the basic earnings per share ("EPS") computation to the numerator and denominator of the diluted EPS computation. In the three-month period ended March 31, 1999, there were no potential dilutive common shares. The Company's reconciliation is as follows:

	For the Three Months Ended Ma		
	2000		19
	Income	Shares	Income
Earnings per Common share - Basic.....	\$645	17,814	\$31,342
Effect of dilutive securities:			
Stock options.....	--	395	--
Earnings per Common share - Diluted.....	\$645	18,209	\$31,342

7. CONTINGENCIES AND OTHER MATTERS

The Company has been named as a defendant in Gloria Garcia Lopez and Husband, Hector S. Lopez, Individually, and as successors to Galo Land & Cattle Company v. Mobil Producing Texas & New Mexico, et

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

al. in the 79th Judicial District Court of Brooks County, Texas. The plaintiffs, based on pleadings and deposition testimony, allege: i) underpayment of royalties and claim damages, on a gross basis, based on the most recent estimate of \$56.5 million, including interest; ii) that their production was improperly commingled with gas produced from an adjoining lease, resulting in damages, including interest based on the most recent estimate of \$40.8 million (gross); iii) failure to develop claiming damages including interest based on the most recent estimate of \$106.3 million (gross); and iv) numerous other claims 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 final outcome of this matter will have a material adverse impact on the Company's operating results, financial condition or liquidity. As of March 31, 2000 and December 31, 1999, management believes that the estimated ultimate resolution of this matter is adequately reflected in the condensed 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 present 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, \$1.6 million in 1999 and the remainder in 1998, 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, less the Company's deductibles, which in total are \$120,000. Repairs were completed by the end of 1997, and production recommenced in December 1997. The Company also has exposure to costs that may not be recoverable from insurance, including certain fines, penalties, and damages. 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

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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 Republic of Congo in West Africa ("Congo") is insured through political risk insurance provided by the Overseas Private Investment Corporation ("OPIC"). The political risk insurance through OPIC covers up to \$25.0 million relating to expropriation and political violence, which is the maximum coverage available through OPIC. The Company has no deductible for this insurance. The Company will consider its options for political risk insurance in the Republic of Ghana in West Africa ("Ghana") as it evaluates business opportunities.

In connection with their respective February 1995 acquisitions of two subsidiaries owning interests in the Yombo field offshore West Africa (each a "Congo subsidiary"), the Company and a wholly-owned subsidiary of CMS NOMECO Oil & Gas Co. ("CMS") agreed with the seller not to claim certain tax losses incurred by such subsidiaries prior to the acquisitions. Under the tax law in the Congo, as it existed when this acquisition

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

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 these tax losses utilized by the seller in years prior to the acquisitions if certain triggering events occur. A triggering event will not occur if a subsequent purchaser enters into certain agreements specified in the consolidated return regulations intended to ensure that such 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'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.

#### 8. CONTINGENT PAYMENT AND PRICE SHARING AGREEMENTS

In connection with the acquisition from Unocal in 1996 of the properties located in California, 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.

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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 ad valorem and production 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 are reduced to reflect the field level price by subtracting a fixed differential established for each field. The reduction was established at 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 the contingent payment when prices are \$.50 per Bbl or more below the minimum price. The Company computes this calculation annually and had accumulated \$30.8 million in price credits as of December 31, 1999, which will be used to reduce future amounts owed under the contingent payment. The Company expects that it will still have an accumulated credit balance at the end of 2000 to offset future payments under this agreement. A continuation of higher than normal oil price realizations would, however, trigger payments under this agreement beginning in March of 2002.

In connection with the acquisition of the Congo properties in 1995, the Company entered into a price sharing agreement with the seller. 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 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 is entitled to receive the pricing upside above \$15.19 per Bbl on approximately 56% of its Congo production.

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 Energy Advisors Inc. ("Torch") in 1996. The Company is entitled to all revenue proceeds up to \$9.00 per Bbl, with the excess over \$9.00 per barrel, 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 is entitled to receive the pricing upside above \$9.00 per Bbl on approximately 28% of the Point Pedernales production.

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

9. SUBSEQUENT EVENT

In May 2000, the Company sold its working interest in the Las Cienegas field in California for proceeds of approximately \$4.6 million. The Company reclassified these assets to assets held for sale during the third quarter of 1999, at which time it discontinued depleting and depreciating these assets. No impairment charge was recorded upon reclassification to assets held for sale. In connection with this sale, the Company unwound hedges of 2,800 BOPD for the period May 2000 through December 2000 (see Note 1) and will record a net gain on sale of approximately \$740,000.

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### 10. SHARE REPURCHASES

In August 1999, the Company implemented a share repurchase program, pursuant to the Board of Directors' authorizations to repurchase up to a total of 3,616,600 shares at times and at prices deemed attractive by management. As of March 31, 2000, the Company has repurchased 2,610,600 shares of its common stock in open market transactions at an average purchase price, including commissions, of \$16.75 per share.

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

#### ITEM 2.

##### FORWARD LOOKING STATEMENTS

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

##### CAPITAL RESOURCES AND LIQUIDITY

Since inception, the Company has expanded its operations through a series of disciplined, low-cost acquisitions of oil and gas properties and the subsequent exploitation and development of these properties. The Company has complemented these efforts with 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 (used in) operating activities was \$18.6 million and \$(10.4) million for the three months ended March 31, 2000 and 1999, respectively. The Company invested \$12.2 million and \$15.6 million in oil and gas properties for the three months ended March 31, 2000 and 1999, respectively.

The current borrowing base on the Company's credit facility is \$300.0 million. At March 31, 2000, outstanding borrowings under the revolving credit agreement were \$71.0 million. Accordingly, \$229.0 million of

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committed revolving credit capacity was unused and available at March 31, 2000. Additionally, Nuevo had \$8.0 million of outstanding borrowings under an uncommitted line of credit. At March 31, 2000, the Company had a working capital deficit of \$2.1 million.

In May 2000, the Company announced that it has reached an agreement with a group of nine major U.S. and international banks to amend and restate its credit facility in order to make structural changes that increase the value of the facility to the Company. The banks, led by Bank of America, agreed to an amended facility with a face amount of \$410 million. The amount can be expanded at Nuevo's option to an amount not to exceed \$800 million, with increased commitments from existing banks, or with new commitments from additional banks. Concurrently, the bank group approved a \$300.0 million borrowing base governing the availability under this new bank facility through October 2000. Subsequent semi-annual borrowing base redeterminations will require the consent of banks holding 60% of the total facility commitments, while an increase in the borrowing base will require the consent of banks holding 66 2/3% of the total facility commitments. The adjustments to the agreement include adding two years to the current three-year term, relaxing certain limitations on restricted payments, streamlining the borrowing base determination process and simplifying the administration of the facility with fewer banks.

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

### CAPITAL EXPENDITURES

The Company anticipates spending an additional \$96.0 million on development activities and an additional \$28.0 million on exploration activities and other capital projects during the remainder of the year.

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

Exploration and development expenditures, including amounts expensed under the successful efforts method, for the first three months of 2000 and 1999 are as follows (amounts in thousands):

	For the Three Months Ended	
	March 31,	
	2000	1999
	-----	-----
Domestic	\$12,400	\$ 5,838
International	3,506	10,580
	-----	-----
Total	\$15,906	\$16,418
	=====	=====



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The following is a description of significant exploration and development activity during the first three months of 2000.

### Exploration Activity

#### Domestic

There was no significant activity during the first quarter of 2000.

#### International

On February 16, 2000, the Company completed its acquisition of the 3-D seismic survey across the Eastern portion of its Accra-Keta concession offshore the Republic of Ghana in West Africa ("Ghana"). The Company's costs of the 3-D seismic survey acquisition and processing were approximately \$3.0 million. This survey extends from the outer shelf, across the slope, and into the deepwater regions of the block. The Company is currently interpreting the data, which is expected to be complete by the end of the second quarter. The Company currently plans to drill its first exploratory well on the concession late this year. Estimated costs to drill this well are approximately \$12.5 million, on a gross basis.

### Development Activity

#### Domestic

The Company drilled a total of 50 development wells in the first quarter of 2000, most of which relate to the interests acquired from Texaco in 1999. The Company completed the first phase of its development drilling program on its Cymric lease acquired from Texaco. This first phase included drilling 40 wells, all of which are currently producing at a combined rate of 3,200 barrels of oil per day ("BOPD"). The Company plans to begin the second phase of this development program in June 2000, which includes drilling an additional 60 wells. The Company expects this program to be completed by the end of the year. In addition to the development activity at Cymric, the Company successfully drilled two offshore wells at its Huntington Beach property. These two wells should be completed and placed in production in the second quarter of 2000.

A significant facility expansion is underway at the Brea Olinda field. The Company had flared approximately 2.5 MMCF of natural gas per day, due to the lack of a gas market. In the first quarter of 2000, the Company completed the installation of its first cogeneration unit, which utilizes the gas and converts it to electricity to supply all of the field electrical needs as well as provides excess electricity for sale. The completion of the cogeneration project cost approximately \$4.5 million and should result in significant cost savings of approximately \$450,000 per year plus an additional \$1.7 million per year in electricity sales for the Brea Olinda property. Also, the Company is currently beginning construction of a water plant at its Cymric Field that will provide a long-term source of water to be used in the Company's steam operations and help reduce expenses in the long-term. The water plant is expected to cost approximately \$6.2 million to construct.

#### International

There was no significant activity during the first quarter of 2000.

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

#### 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 March 31, 2000 or December 31, 1999. 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 \$26.5 million and increased by \$0.2 million in the first quarter of 2000 and 1999, respectively.

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% Senior Subordinated Notes due 2008 ("Notes") to a variable LIBOR-based rate. On February 25, 2000, this arrangement was extended through February 26, 2001. Amounts paid to enter into these arrangements were insignificant. Based on LIBOR rates in effect at March 31, 2000, this amounted to a net reduction in the carrying cost of the Notes from 9 1/2% to 6.13%, or 337 basis points. In addition, the swap arrangement also effectively hedges the price at which these Notes can be repurchased by the Company. For the three months ended March 31, 2000, the Company recorded an unrealized loss of \$781,000 related to the change in the fair value of the Notes.

For 2000, the Company entered into swap contracts on 16,500 BOPD, at an average West Texas Intermediate ("WTI") price of \$17.94 per barrel. The Company also entered into 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. 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 March 31, 2000, the market value of the hedge positions was a loss of approximately \$48.0 million. In May 2000, in connection with the sale of

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certain non-core California oil and gas properties (see Note 9), the Company unwound the \$21.21 per barrel ceiling on 2,800 BOPD for the period May 2000 through December 2000. The settlement loss of approximately \$3.0 million related to the unwinding of the ceiling was recognized as an adjustment to the gain on the sale of the non-core California oil and gas properties, for which the ceiling was designated as a hedge of production. The Company re-designated the remaining floors of 2,800 BOPD for the period May 2000 through December 2000, as a hedge of other California production.

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 per barrel, for the second quarter on 25,000 BOPD at an average WTI price of \$19.54 per barrel, and for the third quarter on 20,000 BOPD at an average WTI price of \$21.22 per barrel. At March 31, 2000, the market value of these swaps was a loss of \$24.6 million. These agreements expose the Company to

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

counterparty credit risk to the extent that the counterparty is unable to meet its settlement commitments to the Company.

#### CONTINGENT PAYMENT AND PRICE SHARING AGREEMENTS

In connection with the acquisition from Unocal in 1996 of the properties located in California, 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 ad valorem and production 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 are reduced to reflect the field level price by subtracting a fixed differential established for each field. The reduction was established at 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 the contingent payment when prices are \$.50 per Bbl or more below the minimum price. The Company computes this calculation annually and had accumulated \$30.8 million in price credits as of December 31, 1999, which will be used to reduce future amounts owed under the contingent payment. The Company expects that it will still have an accumulated credit balance at the end of 2000 to offset future payments under this agreement. A continuation of higher than normal oil price realizations would, however, trigger payments under this agreement beginning in March of 2002.

In connection with the acquisition of the Congo properties in 1995, the Company entered into a price sharing agreement with the seller. Under the terms of the agreement, if the average price received for the oil production during the year is greater than the benchmark price

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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 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 is entitled to receive the pricing upside above \$15.19 per Bbl on approximately 56% of its Congo production.

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 Energy Advisors Inc. ("Torch") in 1996. The Company is entitled to all revenue proceeds up to \$9.00 per Bbl, with the excess over \$9.00 per barrel, 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 is entitled to receive the pricing upside above \$9.00 per Bbl on approximately 28% of the Point Pedernales production.

### 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. The Company has not yet determined the impact of this statement on its financial condition or results of operations.

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

#### SHARE REPURCHASES

In August 1999, the Company implemented a share repurchase program, pursuant to the Board of Directors' authorizations to repurchase up to a total of 3,616,600 shares at times and at prices deemed attractive by management. As of March 31, 2000, the Company has repurchased 2,610,600 shares of its common stock in open market transactions at an average purchase price, including commissions, of \$16.75 per share.

#### DEFERRED INCOME TAXES

The Company has deferred tax assets, net of valuation allowances, of \$23.4 million and \$24.0 million as of March 31, 2000 and December 31, 1999, respectively. The Company believes that sufficient future taxable income will be generated and has concluded that these net deferred tax assets will more likely than not be realized.

#### 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

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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 Y2K 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.

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

RESULTS OF OPERATIONS (THREE MONTHS ENDED MARCH 31, 2000 AND 1999)

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

	Three Months Ended March 31,	
	2000	1999
	----	----
<b>Production:</b>		
Oil and condensate - Domestic (MBBLS).....	3,714	3,985
Oil and condensate - International (MBBLS).....	501	389
	4,215	4,374
Oil and condensate - Total (MBBLS).....		
Natural gas - Domestic/Total (MMCF).....	3,995	4,092
Natural gas liquids - Domestic/Total (MBBLS).....	41	43
Equivalent barrels of production - Domestic (MBOE).....	4,421	4,710
Equivalent barrels of production - International (MBOE)...	501	389
	4,922	5,099
Equivalent barrels of production - Total (MBOE).....		
<b>Average Sales Price:</b>		
Oil and condensate - Domestic.....	\$13.13	\$ 7.84
Oil and condensate - International.....	\$22.32	\$ 9.46
Oil and condensate - Total.....	\$14.22	\$ 7.99
Natural gas - Domestic/Total.....	\$ 2.42	\$ 1.83
<b>Lease Operating Expense:</b>		
Average unit production cost (1) per BOE - Domestic.....	\$ 6.28	\$ 5.72
Average unit production cost (1) per BOE - International...	\$ 6.69	\$ 7.64
Average unit production cost (1) per BOE - Total.....	\$ 6.32	\$ 5.87

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

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### Revenues

#### Oil and Gas Revenues:

Oil and gas revenues for the three months ended March 31, 2000, were \$70.7 million, or 63% higher than oil and gas revenues for the same period in 1999. This increase is primarily due to a 78% increase in realized oil prices and a 32% increase in realized gas prices. These increases were partially offset by a decrease in production, which was primarily attributable to less capital spending in 1999. First quarter 2000 oil price realizations reflect hedging losses of \$26.5 million, or \$6.29 per barrel.

Domestic: Oil and gas revenues for the three months ended March 31, 2000, were 50% higher than oil and gas revenues for the same period in 1999. This increase is primarily due to a 67% improvement in average realized oil prices and a 32% improvement in average realized gas prices, partially offset by a 6% decrease in total production as a result of reduced capital spending in 1999. The realized oil price of \$13.13 per barrel for the first quarter of 2000 includes negative hedging results of \$7.50 per barrel of oil.

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

International: Oil revenues for the three months ended March 31, 2000, more than tripled as compared to the same period in 1999. This significant increase resulted from a 136% increase in oil price realizations to \$22.32 per barrel, coupled with a 29% increase in oil production. The realized oil price for the first quarter of 2000 includes hedging gains of \$2.70 per barrel of oil, compared to hedging gains of \$0.49 per barrel in the first quarter of 1999.

#### Gain on Sale of Assets, net:

Gain on sale of assets for the three months ended March 31, 2000, was \$140,000, representing positive revisions for accounting adjustments in connection with the Company's sale of certain oil and gas properties in 1999. Gain on sale of assets for the three months ended March 31, 1999, was \$81.7 million, resulting from the Company's sale of its East Texas natural gas properties in January 1999.

#### Interest and Other Income:

Interest and other income for the three months ended March 31, 2000, is comprised of several individually insignificant items. Interest and other income for the three months ended March 31, 1999, includes \$1.3 million associated with interest earned on an escrow account for the \$100.0 million representing a portion of the proceeds from the sale of the East Texas natural gas properties, as well as several individually insignificant items.

### Expenses

#### Lease Operating Expenses:

Lease operating expenses for the three months ended March 31, 2000, were \$31.1 million, or 4% higher than for the three months ended March 31, 1999. Lease operating expenses per barrel of oil equivalent were \$6.32 in the first quarter of 2000, compared to \$5.87 in the same period in 1999. The per barrel increase

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is primarily due to the 3% decrease in total production, an increase in steam and workover costs, and a change in asset mix resulting from the June 1999 purchase of the Texaco properties, which have relatively higher operating costs.

Domestic: Lease operating expenses per barrel of oil equivalent ("BOE") were \$6.28 in the first quarter of 2000, compared to \$5.72 in the same period in 1999. Decreased production and higher steam and workover costs contributed to the higher lease operating expenses quarter over quarter.

International: Lease operating expenses per BOE were \$6.69 in the first quarter of 2000, compared to \$7.64 in the same period in 1999. The decrease in lease operating expenses per BOE is primarily attributable to the 29% increase in production.

### Exploration Costs:

Exploration costs, including geological and geophysical ("G&G") costs, dry hole costs, delay rentals and expensed project costs, were \$3.3 million and \$2.1 million for the three months ended March 31, 2000 and 1999, respectively. For the three months ended March 31, 2000, exploration costs were comprised of \$3.2 million in G&G (primarily for 3-D seismic acquisition and processing in the Accra-Keta prospect offshore Ghana), and \$0.1 million in delay rentals. For the three months ended March 31, 1999, exploration costs were comprised of \$0.8 million of dry hole costs, \$0.8 million in G&G, \$0.2 million in delay rentals and \$0.3 million of other project costs.

### Depreciation, Depletion and Amortization:

Depreciation, depletion and amortization for the three months ended March 31, 2000, reflects a 30% decrease from the same period in 1999, due to a lower depletion rate, which primarily resulted from a significant increase in reserve estimates at year-end 1999 versus year-end 1998.

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

### General and Administrative Expenses:

General and administrative expenses were \$5.4 million and \$3.8 million in the three months ended March 31, 2000 and 1999, respectively. The 40% increase is due primarily to a \$0.7 million increase in bonus accruals, as bonuses were not projected or accrued in the first quarter of 1999 and a \$0.3 million increase in the fair market value of securities in the Company's deferred compensation plan. The remaining increase is made up of individually insignificant items.

### Interest Expense:

Interest expense of \$8.3 million for the three months ended March 31, 2000, increased 4% as compared to interest expense in the same period in 1999. The increase is primarily attributable to higher interest rates as the Company exchanged its 8 7/8% Senior Subordinated Notes for 9 -1/2% Senior Subordinated Notes due 2008 in the third quarter of 1999.

### Other Expense:

The 54% decrease in other expense from the first quarter of 1999 to the first quarter of 2000 is primarily due to fraud charges incurred in the first quarter

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of 1999. 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 the first quarter of 1999, that were intended for international exploration. This decrease was partially offset by a negative mark to market adjustment of \$781,000 related to the Company's liability management swap (see Note 1 to the Notes to Condensed Consolidated Financial Statements) in the first quarter of 2000.

### Net Income

Net income of \$645,000 million, \$0.04 per common share - basic and diluted, was reported for the three months ended March 31, 2000, as compared to net income of \$31.3 million, \$1.58 per common share - basic and diluted, reported for the same period in 1999.

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### NUEVO ENERGY COMPANY QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

#### ITEM 3.

#### QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information contained in Item 3 updates, and should be read in conjunction with, information set forth in Part II, Item 7a in Nuevo's Annual Report on Form 10-K for the year ended December 31, 1999, in addition to the interim condensed consolidated financial statements and accompanying notes presented in Items 1 and 2 of this Form 10-Q.

There are no material changes in market risks faced by the Company from those reported in Nuevo's Annual Report on Form 10-K for the year ended December 31, 1999.

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### NUEVO ENERGY COMPANY PART II. OTHER INFORMATION

#### ITEM 1. LEGAL PROCEEDINGS

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

On April 5, 2000, the Company filed a lawsuit against ExxonMobil Corporation in the United States District Court for the Central District of California, Western Division. The Company and ExxonMobil each own a 50% interest in the Sacate Field, offshore Santa Barbara County, California, which can only be accessed from an existing ExxonMobil platform. The Company has alleged that by grossly inflating the fee that ExxonMobil insists the Company must pay to use an existing ExxonMobil platform and production infrastructure, ExxonMobil failed to submit a proposal for the development of the Sacate field consistent with the Unit Operating Agreement. The Company therefore believes that it has been denied a reasonable opportunity to exercise its rights under the Unit Operating Agreement. ExxonMobil contends that Nuevo had not consented to the operation and therefore cannot receive its share



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of production from Sacate until ExxonMobil has first recovered certain costs and fees. As a result, Nuevo has neither received revenues nor incurred operating expenses related to Sacate. The Company has alleged that ExxonMobil's actions breach the Unit Operating Agreement and the covenant of good faith and fair dealing. The Company is seeking damages and a declaratory judgment as to the payment that must be made to access ExxonMobil's platform and facilities. The Company's capitalized costs associated with Sacate are insignificant.

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

#### (a) EXHIBITS

27. Financial Data Schedule

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

- 1) A Current Report on Form 8-K, dated February 23, 2000, reporting Item 5. Other Events and Item 7. Financial Statements and Exhibits were filed on February 23, 2000.
- 2) A Current Report on Form 8-K, dated February 4, 2000, reporting Item 5. Other Events and Item 7. Financial Statements and Exhibits were filed on March 6, 2000.

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### 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 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

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reservoirs under existing economic and operating conditions.

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

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

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

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

(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,

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gilsonite and other such sources.

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

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

- Royalty interest -- A real property interest entitling the owner to receive a specified portion of the gross proceeds of the sale of oil and natural gas production or, if the conveyance creating the interest provides, a specific portion of oil and natural gas produced, without any deduction for the costs to explore for,

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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.

### 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.

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PART II. OTHER INFORMATION (CONTINUED)

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

NUEVO ENERGY COMPANY  
(Registrant)

Date: May 15, 2000  
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By:/s/ Douglas L. Foshee  
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Douglas L. Foshee  
Chairman, President and  
Chief Executive Officer

Date: May 15, 2000  
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By:/s/ Robert M. King  
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Robert M. King  
Senior Vice President and  
Chief Financial Officer