

Edgar Filing: EEX CORP - Form 10-Q

EEX CORP
Form 10-Q
May 09, 2001

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

FORM 10-Q

(MARK ONE)

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

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2001

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 NO. 1-12905

EEX CORPORATION

(Exact name of Registrant as specified in its charter)

TEXAS
(State or other jurisdiction of
incorporation or organization)

75-2421863
(I.R.S. Employer
Identification No.)

2500 CITYWEST BLVD.
SUITE 1400
HOUSTON, TEXAS
(Address of principal executive office)

77042
(Zip Code)

(713) 243-3100
(Registrant's telephone number, including Area Code)

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 twelve 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

Number of shares of Common Stock of Registrant outstanding as of April 30, 2001:
42,220,393

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

EEX CORPORATION
CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS

Edgar Filing: EEX CORP - Form 10-Q

(UNAUDITED)

	Three Months March
	2001
	(In thousands per share)
Revenues:	
Natural gas.....	\$39,486
Oil, condensate and natural gas liquids.....	16,927
Cogeneration operations.....	2,045
Other.....	804

Total.....	59,262

Costs and Expenses:	
Production and operating.....	8,500
Exploration.....	20,147
Depletion, depreciation and amortization.....	16,426
Loss on sales of property, plant and equipment.....	302
Cogeneration operations.....	1,875
General, administrative and other.....	3,313
Taxes, other than income.....	5,545

Total.....	56,108

Operating Income.....	3,154
Other Income--Net.....	13
Interest Income.....	396
Interest and Other Financing Costs.....	(7,812)

Income (Loss) Before Income Taxes.....	(4,249)
Income Taxes.....	--
Minority Interest Third Party.....	--

Net Income (Loss).....	(4,249)
Preferred Stock Dividends.....	3,510

Net Income (Loss) Applicable to Common Shareholders.....	\$ (7,759)

Net Income (Loss) Per Share Available to Common Shareholders:	
Basic.....	\$ (0.19)

Diluted.....	\$ (0.19)

Weighted Average Shares Outstanding:	
Basic.....	41,648

Diluted.....	41,648

See accompanying notes.

Edgar Filing: EEX CORP - Form 10-Q

2

EEX CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEET
(UNAUDITED)

March 31
2001

ASSETS

Current Assets:	
Cash and cash equivalents.....	\$ 23,729
Accounts receivable--trade (net of allowance of \$2,462 and \$2,270).....	39,689
Other.....	16,862

Total current assets.....	80,280

Property, Plant and Equipment (at cost):	
Oil and gas properties (successful efforts method).....	954,857
Other.....	8,183

Total.....	963,040
Less accumulated depletion, depreciation and amortization.....	301,986

Net property, plant and equipment.....	661,054

Deferred Income Tax Assets.....	19,846
Other Assets.....	8,029

Total.....	\$ 769,209
	=====

LIABILITIES AND SHAREHOLDERS' EQUITY

Current Liabilities:	
Accounts payable--trade.....	\$ 65,408
Current portion of capital lease obligations.....	20,964
Other.....	6,384

Total current liabilities.....	92,756

Bank Revolving Credit Agreement.....	125,000
Capital Lease Obligations.....	176,865
Gas Sales Obligation.....	76,367
Other Liabilities.....	14,730
Minority Interest Third Party.....	5,000
Shareholders' Equity:	
Preferred stock (10,000 shares authorized; 1,790 and 1,755 shares issued; Liquidation preference of \$178,990 and \$175,481).....	18
Common stock (\$0.01 par value; 150,000 shares authorized; 42,222 and 42,256 shares issued).....	429
Paid in capital.....	748,324
Retained (deficit).....	(452,925)
Unamortized restricted stock compensation.....	(951)
Unearned compensation.....	(24)
Other comprehensive income.....	(7,334)
Treasury stock, at cost (808 and 808 shares).....	(9,046)

Total shareholders' equity.....	278,491

Edgar Filing: EEX CORP - Form 10-Q

Total.....	----- \$ 769,209 =====
------------	------------------------------

See accompanying notes.

3

EEX CORPORATION
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
(UNAUDITED)

	Three M ----- 2001 ----- (In
OPERATING ACTIVITIES	
Net Income (Loss).....	\$ (4,249)
Dry hole cost.....	54
Depletion, depreciation and amortization.....	16,426
Impairment of undeveloped leasehold.....	1,950
Deferred income taxes.....	-
Loss on sales of property, plant and equipment.....	302
Other.....	(10,365)
Changes in current operating assets and liabilities:	
Accounts receivable.....	17,850
Other current assets.....	5,616
Accounts payable.....	(12,043)
Other current liabilities.....	391
Net cash flows provided by operating activities.....	----- 15,932 -----
INVESTING ACTIVITIES	
Additions of property, plant and equipment.....	(40,366)
Proceeds from dispositions of property, plant and equipment.....	182
Other (changes in accruals).....	(6,882)
Net cash flows used in investing activities.....	----- (47,066) -----
FINANCING ACTIVITIES	
Borrowings under bank revolving credit agreement.....	60,000
Repayment of borrowings under bank revolving credit agreement.....	(10,000)
Borrowings under short-term financing agreement.....	-
Repayment of borrowings under short-term financing agreement.....	-
Deliveries under the gas sales obligation.....	(7,123)
Minority interest third party.....	-
Payments of capital lease obligations.....	(7,805)
Net cash flows provided by financing activities.....	----- 35,072 -----
Net Increase (Decrease) in Cash and Cash Equivalents.....	3,938
Cash and Cash Equivalents at Beginning of Period.....	19,791
Cash and Cash Equivalents at End of Period.....	----- \$ 23,729 -----

See accompanying notes.

4

EEX CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. In the opinion of management, all adjustments (consisting only of normal recurring accruals) necessary for a fair presentation of the financial position, results of operations and cash flows for the interim periods included herein have been made.
2. The preferred stock has a stated value of \$100 and a current dividend rate of 8% per year, payable quarterly. The 8% dividend rate will be adjusted to a market rate, not to exceed 18%, in January 2006 or upon the earlier occurrence of certain events, including a change of control. Prior to any such adjustment of the dividend rate, EEX may, at its option, accrue dividends or pay them in cash, shares of preferred stock or shares of common stock. After any adjustment of the dividend rate, dividends must be paid in cash.

EEX paid dividends in-kind on the preferred stock as follows:

Date	Amount of Dividends (In millions)	Number of Preferred Shares Issued
----	-----	-----
March 31, 2001	\$3.5	35,096

3. Payments under the gas sales obligation are amortized using the interest method through final pay out. Payments made during the first quarter of 2001 related to this obligation were \$7.1 million.
4. The Statement of Cash Flows for the three months ended March 31, 2001 reflects the impact of the adoption of SFAS No. 133, which resulted in a \$7.3 million non-cash reduction in shareholders' equity.
5. EEX is involved in a number of legal and administrative proceedings incident to the ordinary course of its business. In the opinion of management, based on the advice of counsel and current assessment, any liability to EEX relative to these ordinary course proceedings will not have a material adverse effect on EEX's operations or financial condition.

The operations and financial position of EEX continue to be affected from time to time in varying degrees by domestic and foreign political developments as well as legislation and regulations pertaining to restrictions on oil and gas production, imports and exports, natural gas regulation, tax increases, environmental regulations and cancellation of contract rights. Both the likelihood and overall effect of such occurrences on EEX vary greatly and are not predictable.

EEX has taken and will continue to take into account uncertainties and potential exposures in legal and administrative proceedings in periodically establishing accounting reserves.

6. Earnings Per Share - The reconciliation between basic and diluted earnings per common share is 34,000 shares related to the dilutive effect of stock

Edgar Filing: EEX CORP - Form 10-Q

options for the three months ended March 31, 2000.

5

EEX CORPORATION NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

7. Segment information has been prepared in accordance with Statement of Financial Accounting Standards ("SFAS") No. 131, "Disclosures About Segments of an Enterprise and Related Information." EEX has determined that its reportable segments are those that are based on EEX's method of internal reporting and are consistent with its business strategy. EEX has four reportable segments, which are primarily in the business of natural gas and crude oil exploration and production: Deepwater Operations, Deepwater FPS/Pipelines, Onshore/Shelf and International. The accounting policies of the segments are the same as those described in the summary of significant accounting policies (See Note 2 to the Consolidated Financial Statements in Item 8 of EEX's 2000 Annual Report on Form 10-K). Financial information by operating segment is presented below (in thousands):

	DEEPWATER			
	OPERATIONS	FPS/PIPELINES	ONSHORE/SHELF	IN
THREE MONTHS ENDED MARCH 31, 2001:				
<hr style="border-top: 1px dashed black;"/>				
Total Revenues.....	\$ -	\$ -	\$ 51,523	\$
Production and operating costs.....	-	149	4,793	
Exploration costs.....	15,270	-	4,324	
Depletion, depreciation and amortization.....	-	1,314	9,674	
Other costs.....	-	3	5,662 (b)	
	<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>	
Operating Income (Loss).....	(15,270)	(1,466)	27,070	
Interest Income and other.....	-	-	-	
Interest and other financing costs.....	-	(3,398)	(1,992)	
	<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>	
Income (Loss) before income taxes.....	\$ (15,270)	\$ (4,864)	\$ 25,078	\$
	<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>	
Long-Lived Assets.....	\$ 92,497	\$144,778	\$386,414	\$
	<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>	
Additions to Long-Lived Assets.....	\$ 3,733	\$ -	\$ 33,970	\$
	<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>	
THREE MONTHS ENDED MARCH 31, 2000:				
<hr style="border-top: 1px dashed black;"/>				
Total Revenues.....	\$ -	\$ -	\$ 43,149	\$
Production and operating costs.....	-	198	7,009	
Exploration costs.....	2,088	-	2,040	
Depletion, depreciation and amortization.....	-	900	16,988	
Other costs.....	-	-	1,777 (b)	
	<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>	
Operating Income (Loss).....	(2,088)	(1,098)	15,335	
Interest Income and other.....	-	-	-	
Interest and other financing costs.....	-	(3,489)	(2,704)	
	<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>	
Income (Loss) before income taxes.....	\$ (2,088)	\$ (4,587)	\$ 12,631	\$
	<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>	
Long-Lived Assets.....	\$ 52,410	\$147,847	\$428,953	\$

Edgar Filing: EEX CORP - Form 10-Q

	=====	=====	=====
Additions to Long-Lived Assets.....	\$ 7,615	\$ 4,597	\$ 22,213
	=====	=====	=====

-
- (a) Includes primarily Cogeneration Plant Operations, General and Administrative, gains/loss on hedging and sale of assets.
 - (b) Includes taxes other than income.

8. SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," was adopted January 1, 2001. This statement requires companies to record derivatives on the balance sheet as assets and liabilities, measured at fair value. Gains or losses resulting from changes in the values of those derivatives are accounted for depending on the use of the derivative and whether it qualifies for hedge accounting. The effect of adoption on January 1, 2001 was a decrease to shareholders' equity of approximately \$20 million. As of March 31, 2001, shareholders' equity decreased by \$7.3 million in accordance with the standard. The change from \$20 million to \$7.3 million was due to the realization of \$8 million of hedging contracts during the current quarter and \$4.7 million related to changes in the fair value of hedging contracts due to changes in commodity prices.

6

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

Certain statements in this report, including statements of EEX's and management's expectations, intentions, plans and beliefs, are "forward-looking statements," within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, that are subject to certain events, risks and uncertainties that may be outside EEX's control. See "Forward-Looking Statements--Uncertainties and Risks."

RESULTS OF OPERATIONS

For the first quarter of 2001, EEX reported a net loss applicable to common shareholders of approximately \$8 million (\$0.19 per share), versus net income applicable to common shareholders of \$1 million (\$0.02 per share) for the same period in 2000.

For the first quarter of 2001, total revenues were \$59 million, 3% lower than total revenues in the first quarter of 2000. Natural gas revenues for the first quarter of 2001 were 5% higher than the same quarter of 2000. This increase was due to a 52% increase in the average natural gas sales price offset by a 31% decrease in production. The average natural gas sales price per Mcf was \$3.90 for the first quarter of 2001, compared to \$2.57 per Mcf for the same period 2000. The average gas sales price of \$3.90 per Mcf for the first quarter 2001 includes hedging losses of \$8 million and 5,117 billions of british thermal units ("BBtu") delivered under fixed-price physical delivery contracts and the gas sales obligation at an average price of \$2.93 per MMBtu. The average natural gas sales price of \$2.57 per Mcf for the first quarter 2000 includes hedging gains of \$2 million and 3,513 BBtu delivered under the gas sales obligation at an average price of \$2.71 per MMBtu. Natural gas production for the first quarter of 2001 was 10 billion cubic feet ("Bcf"), compared with 15 Bcf in the same period of 2000. This 31% decrease in production is primarily a result of the sale of the offshore shelf properties in the fourth quarter of 2000. Oil revenues decreased 19% from the same period in 2000 due to a 12% decrease in

Edgar Filing: EEX CORP - Form 10-Q

production, primarily as a result of the sale of the offshore shelf properties and an 8% decrease in the average price to \$25.16 from \$27.26.

Costs and expenses for the first quarter of 2001 were \$56 million, compared with \$46 million in 2000. Exploration expenses for the first quarter of 2001 increased to \$20 million, compared to \$5 million for the same period of 2000. The increase was primarily due to \$14 million in costs for stacking the Arctic I rig and recognition of the net cost associated with the assignment of the rig contract through May 2001. Depletion, depreciation and amortization for the first quarter of 2001 was \$16 million, \$5 million lower than the same period of 2000, primarily due to the sale of the offshore shelf properties in the fourth quarter of 2000, offset by an increased rate on the Mudi Field. Operating expenses (production and operating, general, administrative and other, and taxes other than income) were \$17 million in the current quarter, 6% lower than the same period of 2000. Lower production and operating expense and general, administrative and other costs were offset by higher taxes other than income, primarily severance taxes.

Total interest and other financing costs for the first quarter of 2001, including interest income, preferred stock dividends and other income, were \$11 million, unchanged from the same period of 2000.

7

EEX CORPORATION
 SUMMARY OF SELECTED OPERATING DATA
 FOR OIL AND GAS PRODUCING ACTIVITIES
 (UNAUDITED)

Sales volume		
Natural gas (Bcf) (a)	.....
Oil, condensate and natural gas liquids (MMBbls) (d)	.....
Total volumes (Bcfe) (a)	.....
Average sales price (b)		
Natural gas (per Mcf) (c)	.....	\$
Oil, condensate and natural gas liquids (per Bbl)	.....	2
Total (per Mcfe) (c)	.....
Average costs and expenses (per Mcfe) (c)		
Production and operating (b)	.....	\$
Exploration	.....
Depletion, depreciation and amortization	.....
General, administrative and other	.....
Taxes, other than income	.....

-
- (a) Billion cubic feet or billion cubic feet equivalent, as applicable. Ratio of six Mcf of natural gas to one barrel of crude oil, condensate or natural gas liquids.
 - (b) Before related production, severance and ad valorem taxes.
 - (c) One thousand cubic feet or one thousand cubic feet equivalent, as

Edgar Filing: EEX CORP - Form 10-Q

applicable. Ratio of six Mcf of natural gas to one barrel of crude oil, condensate or natural gas liquids.

(d) One million barrels of crude oil or other liquid hydrocarbons.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flows

Net cash flows provided by operating activities in 2001 were \$16 million, an increase of \$12 million over the same period of 2000, primarily due to decreases in receivables and a favorable change in other liabilities, offset by expenses associated with stacking the Arctic I rig and the assignment of the rig contract during the first quarter 2001. Net cash flows used in investing activities in 2001 were \$47 million, a \$13 million decrease from cash flows used in investing activities for the same period of 2000. Capital spending decreased \$4 million and changes in accruals decreased \$15 million during the first quarter 2001. These were offset by a decrease in proceeds from dispositions of property, plant and equipment of \$5 million. Net cash flows provided by financing activities in 2001 were \$35 million, compared to \$52 million for the same period of 2000, due to lower borrowings during the first quarter 2001.

Capital Budget

Planned 2001 capital expenditures are estimated to be approximately \$145 million, compared with actual expenditures of \$181 million in 2000. Capital expenditures for the first quarter of 2001 were \$40 million. This program is in excess of the Company's expected operating cash flows for 2001. The Company expects to fund this capital program from operating cash flows, proceeds from asset sales, increased borrowings under the revolving credit agreement and/or additional funds from public and private equity or debt markets. In order to continue its anticipated capital program, including appraisal and development of the Llano complex, EEX will require substantial additional capital resources.

EEX's access to public or private equity or debt markets may be limited by general market conditions in or volatility of the markets, general conditions affecting the oil and gas industry, or by EEX's financial condition. No assurances can be given that EEX will be able to secure funds in these markets when necessary, or that such funds will be obtained on terms favorable to it. If EEX were unable to secure funds when required for its activities, its liquidity and ability to make capital investments would become impaired. See "Forward-Looking Statements--Uncertainties and Risks" below.

8

Liquidity

EEX has a \$350 million revolving credit line with a group of banks that matures on June 27, 2002, of which \$125 million was outstanding at March 31, 2001. The revolving credit agreement limits, at all times, total debt, as defined in the credit agreement, to the lesser of 60% of capitalization, as defined, or \$1 billion, and prohibits liens on property except under certain circumstances. As of March 31, 2001, the debt to capital ratio under the revolving credit agreement was 54% and unused available credit was approximately \$90 million. The interest rate ranges from the London Inter-Bank Offered Rate (LIBOR) plus 0.55% to 1.30% per annum, plus a facility fee of 0.20% to 0.45% per annum, depending upon the debt to capital ratio. As of April 30, 2001, the Company had approximately \$135 million outstanding under the revolving credit agreement.

As described in EEX's 2000 Annual Report on Form 10-K, preserving liquidity under EEX's current revolving credit agreement, renewing or extending the

Edgar Filing: EEX CORP - Form 10-Q

letters of credit and converting to the borrowing base facility involve many risks and uncertainties in addition to those associated with access to public and private equity and debt markets and described under "Capital Budget" above. These risks and uncertainties are described in "Forward-Looking Statements--Uncertainties and Risks" below. A significant adverse financial impact resulting from the occurrence of any or all of these factors prior to EEX obtaining additional equity or capital would severely impact EEX's liquidity and its ability to carryout its planned activities. In the absence of such additional equity or capital, EEX may choose to sell a substantial portion of its assets to execute its financing plans. For a more detailed discussion, see Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations--Liquidity and Capital Resources--Liquidity" in EEX's 2000 Annual Report on Form 10-K.

FORWARD-LOOKING STATEMENTS--UNCERTAINTIES AND RISKS

Certain statements in this report, including statements of EEX's and management's expectations, intentions, plans and beliefs, are "forward-looking statements," within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, and are subject to certain events, risks and uncertainties that may be outside EEX's control. These forward-looking statements include statements of management's plans and objectives for EEX's future operations and statements of future economic performance; information regarding drilling schedules, expected or planned production, future production levels of international and domestic fields, EEX's capital budget and future capital requirements, EEX's meeting its future capital needs, the level of future expenditures for environmental costs and the outcome of regulatory and litigation matters; and the assumptions underlying such forward-looking statements. Actual results and developments could differ materially from those expressed in or implied by such statements due to a number of factors, including, without limitation, those described in the context of such forward-looking statements and the risk factors set forth below and described from time to time in EEX's other documents and reports filed with the Securities and Exchange Commission.

Capital Liquidity and Funding Risk--EEX is exposed to many risks in preserving liquidity under its existing revolving credit agreement, executing its plan to raise additional capital to fund its investment plans (see the discussion in Item 7, "Liquidity and Capital Resources--Capital Budget" in EEX's 2000 Annual Report on Form 10-K), and converting from its revolving credit agreement to a borrowing base loan in June 2002, a credit facility based on the value of its proved reserves. The amount available under the revolving credit agreement is limited by a debt to capital ratio; therefore, any event that decreases equity will reduce liquidity. The principle risks associated with these plans and to liquidity are described in additional detail below. Any decreases in capitalization through losses incurred from dry hole expense, asset write-downs, loss on sales or other reasons, or increases in borrowings or debt (as defined in the revolving credit agreement) will increase the debt to capital ratio and further limit available borrowings. If EEX is unable to secure additional equity and capital expenditures continue at currently planned levels, available borrowings under the revolving credit agreement may become severely limited or unavailable.

FPS and Pipeline Marketing Risk--See the discussion under Item 1, "Strategy--Realize Value from the Cooper Floating Production System ("FPS") and Pipelines" and "U.S. Exploration and Development--Offshore--Cooper Floating Production System ("FPS") and Pipelines" and Note 11 to Consolidated Financial Statements in Item 8 of EEX's 2000 Annual Report on Form 10-K. Sale of the FPS and/or Pipelines would result in a significant change in EEX's debt structure due to the termination of the capital lease obligations associated with those assets. EEX would also incur substantial early termination costs that would adversely

Edgar Filing: EEX CORP - Form 10-Q

affect net income and reduce borrowing capacity. A disposition of the capital lease would reduce the debt used in computing the debt to capital ratio and increase the amount of funds available to EEX to borrow under its revolving credit agreement. While management believes that it can realize the value of the FPS and Pipelines in a development in the Llano complex or by sale, there can be no assurance that this can be accomplished in the near term, or on favorable financial terms.

9

Development of Greater Llano Complex--The value of EEX's investment in the Llano complex and the Pipelines is dependent upon development of its Llano Field, Jason discovery or other exploration success on its Llano complex leases. A reduction in value of these assets due to adverse drilling results, limited development plans or delays in development, reductions in estimated reserve quantities, or adverse economic conditions, would reduce the capitalization used in computing the debt to capital ratio which would decrease the amount of funds available to EEX to borrow under its revolving credit agreement.

Arctic I - Rig Commitment--The majority of the commitment associated with the Arctic I rig (See Note 17 to Consolidated Financial Statements in Item 8 and the discussion under "U.S. Exploration and Development--Offshore, Deepwater Gulf of Mexico Exploration" of EEX's 2000 Annual Report on Form 10-K) has been assumed, for budget and planning purposes, to be funded by EEX's joint venture partners in its Llano development and Llano complex appraisal program. Upon conclusion of the current assignment to a third party, EEX intends to continue drilling in the Llano complex with partners. If the joint venture partners elect not to participate in these projects, and EEX cannot find other participants to share the costs of drilling, EEX would incur expenditures greater than forecast and be exposed to potentially higher dry hole cost. EEX currently has no firm commitment from joint venture partners for the use of the rig. EEX may also pursue additional subsidized contract assignments or stack the rig.

Effect of Adoption of SFAS No. 133--In January 2001, EEX adopted SFAS No. 133 (see the discussion in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations--Other Matters--New Accounting Standard" of EEX's 2000 Annual Report on Form 10-K). This accounting standard requires that EEX mark to market its hedge positions and report the result as an adjustment to shareholders' equity as other comprehensive income. If future gas prices are generally higher than EEX's contractual hedge prices, the resulting decrease to shareholders' equity would decrease available credit under the revolving credit agreement. To mitigate this potential loss of credit availability, in December 2000, EEX converted a portion of its then existing hedge positions into fixed-price physical delivery contracts.

Replacement of Revolving Credit Agreement--There can be no assurance that EEX will be able to secure a new loan in June 2002 on favorable terms or that its proved reserve value at the time will support the borrowings then outstanding. In addition, conversion to a borrowing base may cause EEX to incur additional costs associated with early termination of the Gas Sales Obligation and Minority Interest Ownership associated with the acquisition of the Tesoro properties. (See the discussion in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations--Liquidity and Capital Resources--Liquidity" and Notes 6 and 10 to Consolidated Financial Statements in Item 8 of EEX's 2000 Annual Report on Form 10-K).

Expiration of Letters of Credit--There can be no assurance that EEX will be able to renew or extend its letters of credit that support a portion of the capital lease obligations for the FPS and Pipelines and may incur significantly increased short term debt obligations should it fail to do so. (See the discussion in Item 7, "Management's Discussion and Analysis of Financial

Edgar Filing: EEX CORP - Form 10-Q

Condition and Results of Operations--Liquidity and Capital Resources--Liquidity" in EEX's 2000 Annual Report on Form 10-K).

Encogen Obligation--In January 2002, the obligor of a production payment due to EEX may elect to purchase a portion of the obligation (See the discussion in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations--Impairment of Assets" in EEX's 2000 Annual Report on Form 10-K). If the obligor purchases this portion of the asset, or such purchase becomes probable, in the opinion of management, then the Company would realize a loss on the sale of approximately \$18 million. Based upon available information, management cannot predict at this time the likelihood that the obligor will elect to purchase the additional volumes.

Exploration Risk--Exploration for oil and gas in the Deepwater Gulf of Mexico and unexplored frontier areas has inherent and historically high risk. EEX is focusing on exploration opportunities in onshore, offshore and international areas. Future reserve increases and production will be dependent on EEX's success in these exploration efforts and no assurances can be given of such success. Exploration may involve unprofitable efforts, not only with respect to dry wells, but also with respect to wells that are productive but do not produce sufficient net revenues to return a profit after drilling, operating and other costs.

Operational Risks and Hazards--EEX's operations are subject to the risks and uncertainties associated with finding, acquiring and developing oil and gas properties, and producing, transporting and selling oil and gas. Operations may be materially curtailed, delayed or canceled as a result of numerous factors, such as accidents, weather conditions, compliance with governmental requirements and shortages or delays in the delivery of equipment. Operating hazards such as fires, explosions, blow-outs, equipment failures, abnormally pressured formations and environmental accidents may have a material adverse effect on EEX's operations or financial condition. EEX's ability to sell its oil and gas production is dependent on the availability and capacity of gathering systems, pipelines and other forms of transportation.

10

Offshore Risks--EEX's Gulf of Mexico oil and gas reserves and exploration prospects include properties located in water depths greater than 2,000 feet where operations are by their nature more difficult than drilling operations conducted on land in established producing areas. Deepwater drilling and operations require the application of more advanced technologies that involve a higher risk of mechanical failure and can result in significantly higher drilling and operating costs which, in turn, can require greater capital investment than anticipated and materially change the expected future value of offshore development projects. The size of oil and gas reserves determined through exploration and confirmation drilling operations must ultimately be significant enough to justify the additional capital required to construct and install production and transportation systems and drill development wells. Development of any discoveries made pursuant to EEX's Deepwater exploration program may not return any profit to it and could result in an economic loss. Furthermore, offshore operations require a significant amount of time between the discovery and the time the gas or oil is actually marketed, increasing the market risk involved with such operations.

Volatility of Oil and Gas Markets--EEX's operations are highly dependent upon the prices of, and demand for, oil and gas. These prices have been, and are likely to continue to be, volatile. Prices are subject to fluctuations in response to a variety of factors that are beyond the control of EEX, such as worldwide economic and political conditions as they affect actions of OPEC and Middle East and other producing countries, and the price and availability of

Edgar Filing: EEX CORP - Form 10-Q

alternative fuels. EEX's hedging activities with respect to some of its projected oil and gas production, which are designed to protect against price declines, may prevent EEX from realizing the benefits of price increases above the levels of the hedges.

Estimating Reserves and Future Net Cash Flows--Uncertainties are inherent in estimating quantities and values of reserves and in projecting rates of production, net revenues and the timing of development expenditures. Reserve data represent estimates only of the recovery of hydrocarbons from underground accumulations and are often different from the quantities ultimately recovered. Downward adjustments in reserve estimates could adversely affect EEX. Also, any substantial decline in projected net revenues resulting from production of reserves could have a material adverse effect on EEX's financial position and results of operations.

Government Regulation--EEX's business is subject to certain federal, state and local laws and regulations relating to the drilling for and the production of oil and gas, as well as environmental and safety matters. Enforcement of or changes to these regulations could have a material impact on EEX's operations, financial condition and results of operations.

International Operations--EEX's interests in properties in countries outside the United States are subject to the various risks inherent in foreign operations. These risks may include, among other things, loss of property and equipment as a result of expropriation, nationalization, war, insurrection and other political risks, risks of increases in taxes and governmental royalties, renegotiations of contracts with governmental entities, changes in laws and policies governing operations of foreign-based companies and other uncertainties arising out of foreign government sovereignty over EEX's international operations. EEX's international operations may also be adversely affected by laws and policies of the United States affecting foreign trade, taxation and investment. In addition, in the event of a dispute arising from foreign operations, EEX may be subject to the exclusive jurisdiction of foreign courts or may not be successful in subjecting foreign persons to the jurisdiction of the courts of the United States.

11

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Hedging activity for the first quarter ended March 31, 2001, resulted in a loss of \$8 million for natural gas. The table below provides information about EEX's hedging instruments as of March 31, 2001. The Notional Amount is equal to the volumetric hedge position of EEX during the periods. The fair values of the hedging instruments, which have been recorded in other comprehensive income, are based on the difference between the applicable strike price and the New York Mercantile Exchange future prices for the applicable trading months.

	NOTIONAL AMOUNT (BBTU) (1)	AVERAGE STRIKE PRICE (PER MMBTU) (2)	
	-----	-----	-----
		FLOOR	CEILING
		-----	-----
Natural Gas Collars:			
April 2001 - June 2001.....	1,365	\$2.517	\$3.277
July 2001 - September 2001.....	2,760	3.210	4.723
October 2001 - December 2001.....	2,760	3.242	4.962

Edgar Filing: EEX CORP - Form 10-Q

January 2002 - March 2002.....	1,350	3.854	6.137
April 2002 - June 2002.....	1,365	3.374	5.658

Total.....	9,600		
	=====		

- (1) Billions of British Thermal Units.
(2) Millions of British Thermal Units.

12

PART II. OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

None

(b) Reports on Form 8-K

Current Report on Form 8-K filed January 16, 2001 and dated December 19, 2000. (News Release dated December 19, 2000: EEX Drills Successful Well at Jason Prospect; and News Release dated December 19, 2000: EEX to Sell Shelf Properties in the Gulf of Mexico.)

13

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

EEX CORPORATION
(Registrant)

Dated: May 9, 2001

By: /s/ R. S. Langdon

R. S. Langdon
Executive Vice President,
Finance and Administration,
and Chief Financial Officer

14