

Edgar Filing: EEX CORP - Form 10-Q

EEX CORP
Form 10-Q
May 15, 2002

=====

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, 2002

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, 2002:
42,487,395

=====

PART I. FINANCIAL INFORMATION

Edgar Filing: EEX CORP - Form 10-Q

Item 1. Financial Statements

EEX CORPORATION CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS (UNAUDITED)

		Three Months March 31
		2002
		(In thousands per share amount)
Revenues:		
Natural gas.....	\$	36,331
Oil, condensate and natural gas liquids.....		2,083
Cogeneration operations.....		1,139
Other.....		958

Total.....		40,511

Costs and Expenses:		
Production and operating.....		6,238
Exploration.....		5,724
Depletion, depreciation and amortization.....		12,130
(Gain) Loss on sales of property, plant and equipment.....		(17)
Cogeneration operations.....		801
General, administrative and other.....		4,383
Taxes, other than income.....		1,857

Total.....		31,116

Operating Income (Loss) from Continuing Operations.....		9,395
Other Income--Net.....		28
Interest Income		529
Interest and Other Financing Costs		(6,162)

Income (Loss) from Continuing Operations Before Income Taxes.....		3,790
Income Taxes.....		--

Income (Loss) from Continuing Operations.....		3,790
Discontinued Operations:		
Income from Discontinued Operations, Net of Income Taxes.....		2,701

Net Income (Loss).....		6,491
Preferred Stock Dividends.....		3,799

Net Income (Loss) Applicable to Common Shareholders.....	\$	2,692
		=====
Basic and Diluted Earnings Per Share:		
Net Loss from Continuing Operations	\$	(0.00)
		=====
Net Income from Discontinued Operations.....	\$	0.06
		=====

Edgar Filing: EEX CORP - Form 10-Q

Total current liabilities.....	376,316
Secured Notes Payable.....	86,122
Gas Sales Obligation.....	52,463
Other Liabilities.....	11,759
Minority Interest Third Party.....	5,000
Shareholders' Equity:	
Preferred stock (10,000 shares authorized; 1,937 and 1,899 shares issued; Liquidation preference of \$193,745 and \$189,946).....	19
Common stock (\$0.01 par value; 150,000 shares authorized; 42,487 and 42,496 shares issued).....	432
Paid in capital.....	764,282
Retained (deficit).....	(602,920)
Unamortized restricted stock compensation.....	(1,144)
Other comprehensive income.....	3,749
Treasury stock, at cost (826 and 817 shares).....	(9,086)
Total shareholders' equity.....	155,332
Total.....	\$ 686,992

See accompanying notes.

3

EEX CORPORATION
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
(UNAUDITED)

	Three M Ma
	2002
	(In th
OPERATING ACTIVITIES	
Net Income (Loss).....	\$ 6,491
Less: Income from discontinued operations	2,701
Income (Loss) from continuing operations.....	3,790
Adjustments to reconcile net income to net cash provided by operating activities:	
Dry hole cost.....	(6)
Depletion, depreciation and amortization.....	12,130
Impairment of undeveloped leasehold.....	2,400
(Gain) Loss on sales of property, plant and equipment.....	(17)
Other	(1,937)
Changes in current operating assets and liabilities:	
Accounts receivable.....	3,071
Other current assets.....	(1,625)
Accounts payable.....	(7,324)
Other current liabilities.....	(3,992)
Net cash flows provided by operating activities.....	6,490

Edgar Filing: EEX CORP - Form 10-Q

INVESTING ACTIVITIES	
Additions of property, plant and equipment.....	(17,560)
Proceeds from dispositions of property, plant and equipment.....	10,955
Other (changes in accruals).....	(5,748)

Net cash flows used in investing activities.....	(12,353)

FINANCING ACTIVITIES	
Borrowings under bank revolving credit agreement.....	--
Repayment of borrowings under bank revolving credit agreement.....	--
Deliveries under the gas sales obligation.....	(7,474)
Payments of secured notes payable.....	(13,579)
Payments of capital lease obligations.....	--

Net cash flows (used in) provided by financing activities.....	(21,053)

Cash (Used In) Provided By Discontinued Operations	(675)
Net (Decrease) Increase in Cash and Cash Equivalents.....	(27,591)
Cash and Cash Equivalents at Beginning of Period.....	136,638

Cash and Cash Equivalents at End of Period.....	109,047
Less: Cash and Cash Equivalents of Discontinued Operations	20

Cash and Cash Equivalents from Continuing Operations	\$ 109,027
=====	

See accompanying notes.

EEX CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

- The accompanying unaudited consolidated financial statements present the financial position, results of operations and cash flows of EEX Corporation and its subsidiaries ("EEX" or the "Company"). These consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission governing interim financial disclosures. These consolidated financial statements reflect all adjustments (consisting of only normal recurring adjustments) that, in the opinion of management, are necessary to fairly present the Company's financial position as of March 31, 2002 and December 31, 2001, and the results of operations and cash flows for the three months ended March 31, 2002 and 2001. Operating results for the three months ended March 31, 2002 are not necessarily indicative of the results that may be expected for the year ending December 31, 2002.

In the fourth quarter of 2001, the Company began marketing all of its Indonesian assets. As a result, the results of operations of the Indonesian subsidiaries (International segment) are presented as a discontinued operation in accordance with Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS No. 144"). The historical financial statements have been restated to

Edgar Filing: EEX CORP - Form 10-Q

give effect to this treatment.

These consolidated financial statements should be read in conjunction with the audited consolidated financial statements and accompanying notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2001.

2. The Company's consolidated financial statements have been presented on the basis that it is a going concern, which contemplates the realization of assets and satisfaction of liabilities in the normal course of business. The Company has incurred recurring net losses and has a substantial working capital deficiency as of March 31, 2002. In addition, there are uncertainties relating to the Company's ability to meet future expenditures and cash flow requirements. These conditions raise substantial doubt about the Company's ability to continue as a going concern. The financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from the outcome of these uncertainties.

The Company is seeking to alleviate these conditions by renegotiating its current revolving credit agreement that matures on June 27, 2002. The Company exceeded the debt to capital ratio under the current revolving credit agreement at March 31, 2002. Exceeding the debt to capital ratio and the independent auditors' modification of their opinion on the financial statements for the year ended December 31, 2001 as to the uncertainty regarding EEX's ability to continue as a going concern are covenant breaches under the current revolving credit agreement. One or more defaults will allow the lenders to accelerate the maturity and declare all borrowings under the current revolving credit agreement immediately payable.

EEX is exploring various other options including the raising of additional capital, the sale or merger of the Company or a sale of a significant portion of its assets to repay the loan. No assurances can be provided that the Company will be able to conclude a new credit agreement, obtain additional waivers of covenant breaches, raise additional capital, or sell or merge the Company. In the event these efforts are unsuccessful, EEX may seek protection from its creditors and reorganization under the Federal bankruptcy laws. In either case, EEX may not be able to continue its business as presently constituted and planned. A liquidation of assets to retire debt and preferred securities may result in minimal to no funds remaining for the common shareholders.

The New York Stock Exchange may delist EEX's common stock, which could result in decreased liquidity for the common shareholders. EEX currently exceeds the minimum quantitative criteria of the Exchange for continued listing, however, no assurances can be given that the Company will continue to meet these criteria, or that the Exchange will not use other criteria or information in considering whether to institute delisting proceedings.

3. On January 1, 2002, the Company adopted SFAS No. 144. Consequently, the Indonesian operations are held for sale and presented as discontinued operations. The assets and liabilities specifically related to this segment have been classified as held for sale in the accompanying consolidated balance sheets, which include working capital and fixed assets. These assets have been recorded at their estimated fair market values and the effect of any adjustments have been reflected in the net income from discontinued operations.

Edgar Filing: EEX CORP - Form 10-Q

EEX CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

In the fourth quarter of 2001, the Company began marketing all of its Indonesian assets. In March 2002, the Company negotiated and signed two stock purchase agreements subject to certain conditions to closing. On April 26, 2002, the Company closed the sale of all of the shares of a subsidiary that owns a 25% interest in the Tuban Concession, onshore Java, to PT Medco Energi Internasional. The sale of the other Indonesian subsidiary that owns a 15% interest in the Asahan Concession, offshore Sumatra, is expected to close at a later date. Below is a summary of the assets and liabilities held for sale (in thousands):

	March 31 2002
Assets held for sale:	
Cash.....	\$ 20
Accounts receivable--trade.....	6,583
Inventory.....	2,715
Other	6,365
Total current assets held for sale.....	\$ 15,683
Liabilities held for sale:	
Accounts payable--trade.....	\$ 3,500

Refer to Footnote 8 - Segment Information - International segment for results of operations for the three months ended March 31, 2002 compared to March 31, 2001.

4. 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 and the liquidation preference on the preferred stock is as follows:

Date	Amount of Dividends (In millions)	Number of Preferred Shares Issued
March 31, 2002	\$3.8	37,990

5. Payments under the gas sales obligation are amortized using the interest method through final pay out using an interest rate of 9.5%. Payments made during the first quarter of 2002 related to this obligation were \$7

Edgar Filing: EEX CORP - Form 10-Q

million.

6. The Statement of Cash Flows for the three months ended March 31, 2002 reflects approximately \$2 million related to the early settlement of several hedges as a non-cash transaction. This amount was reclassified from other comprehensive income and recognized as revenues to match the underlying sales transaction being hedged. In addition, the Statement of Cash Flows also reflects the net change in the fair value of derivative financial instruments which results in a non-cash decrease of approximately \$30 million to shareholders' equity.
7. 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

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

8. Segment information has been prepared in accordance with Statement of Financial Accounting Standards No. 131, Disclosures About Segments of an Enterprise and Related Information. EEX has determined that its reportable segments are those that are based on the Company's method of internal reporting. EEX has four reportable segments, which are primarily in the business of natural gas and crude oil exploration and production: Onshore, Deepwater Operations, Deepwater FPS/Pipelines, and International. The accounting policies of the segments are the same as those described in the summary of significant accounting policies (See Note 3 to the Consolidated Financial Statements in Item 8 of EEX's 2001 Annual Report on Form 10-K). EEX's reportable segments are managed separately because of their geographic locations.

In the fourth quarter of 2001, the Company began marketing all of its Indonesian assets. As a result, the results of operations of the Indonesian subsidiaries (International segment) are presented as a discontinued operation in accordance with SFAS No. 144. Historical segment information has been restated to give effect to this treatment.

Financial information by operating segment is presented below (in thousands):

	Deepwater			
Onshore	Operations	FPS/Pipelines	Other (

Edgar Filing: EEX CORP - Form 10-Q

Three months ended March 31, 2002:				
Total revenues.....	\$ 27,994	\$ --	\$ --	\$ 12,5
Production and operating costs.....	5,589	353	296	
Exploration costs.....	2,878	2,846	--	
Depletion, depreciation and amortization.....	10,580	--	1,059	4
Impairment of producing oil and gas properties as required per SFAS 144.....	--	--	--	
Other costs.....	1,898 (b)	--	--	5,1
Operating Income (Loss).....	7,049	(3,199)	(1,355)	6,9
Interest Income.....	--	--	--	5
Interest and other financing costs...	(1,364)	--	(1,926)	(2,8
Income (Loss) before income taxes....	\$ 5,685	\$ (3,199)	\$ (3,281)	\$ 4,5
Long-Lived Assets.....	\$377,836	\$ 72,971	\$ 69,111	\$ 2,6
Additions to Long-Lived Assets.....	\$ 10,876	\$ 6,524	\$ 115	\$
Three months ended March 31, 2001:				
Total revenues.....	\$ 51,523	\$ --	\$ --	\$ (5,9
Production and operating costs.....	4,793	--	149	
Exploration costs.....	4,324	15,270	--	1
Depletion, depreciation and amortization.....	9,674	--	1,314	4
Other costs.....	5,662 (b)	--	3	5,3
Operating Income (Loss).....	27,070	(15,270)	(1,466)	(11,8
Interest Income.....	--	--	--	3
Interest and other financing costs...	(1,992)	--	(3,398)	(2,4
Income (Loss) before income taxes....	\$ 25,078	\$ (15,270)	\$ (4,864)	\$ (13,8
Long-Lived Assets.....	\$386,414	\$ 92,497	\$ 144,778	\$ 4,2
Additions to Long-Lived Assets.....	\$ 33,970	\$ 3,733	\$ --	\$

(a) Includes primarily Cogeneration Plant Operations, General and Administrative, gains/loss on hedging and sale of assets.

(b) Includes taxes other than income.

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

9. The Company addresses market risk by selecting instruments whose value fluctuations correlate strongly with the underlying commodity being hedged.

Edgar Filing: EEX CORP - Form 10-Q

The Company enters into swaps, options, collars and other derivative contracts to hedge the price risks associated with a portion of anticipated future oil and gas production. While the use of hedging arrangements limits the downside risk of adverse price movements, it may also limit future gains from favorable movements. Under these agreements, payments are received or made based on the differential between a fixed and a variable product price. These agreements are settled in cash at expiration or exchanged for physical delivery contracts. The Company enters into the majority of its hedging transactions with one counterparty and a netting agreement is in place with that counterparty. The Company does not obtain collateral to support the agreements but monitors the financial viability of counter-parties and believes its credit risk is minimal on these transactions. In the event of nonperformance, the Company would be exposed to price risk. The Company has some risk of accounting loss since the price received for the product at the actual physical delivery point may differ from the prevailing price at the delivery point required for settlement of the hedging transaction.

The net gain related to financial hedging activities that was reclassified to revenues to match the underlying sales transaction being hedged was approximately \$11 million for the quarter ended March 31, 2002, compared to a loss of \$8 million for the same period of 2001.

At March 31, 2002, EEX had outstanding natural gas swaps that were entered into as hedges extending through December 31, 2003, to exchange payments on 36,590 BBTu of natural gas. At March 31, 2002, the weighted average strike price and market price per MMBtu of natural gas were \$3.48 and \$3.57, respectively. At March 31, 2002, the Company estimated, using a NYMEX price strip as of that date, that the fair market value represented a net current liability of approximately \$0.2 million and a net noncurrent liability of \$2.4 million and accumulated other comprehensive loss of approximately \$2.6 million. The Company realized no ineffectiveness in the first quarter of 2002.

At March 31, 2002, EEX had outstanding natural gas collars that were entered into as hedges extending through October 2002 to exchange payments on approximately 2 Bcf of natural gas. At March 31, 2002, the weighted average floor and ceiling strike prices and market price per MMBtu of natural gas were \$2.95, \$4.37 and \$3.35, respectively. At March 31, 2002, the Company estimated, using a NYMEX price strip as of that date, that the fair market value represented a net current liability of approximately \$0.5 million and accumulated other comprehensive loss of approximately \$0.5 million. The Company recognized no ineffectiveness in the first quarter of 2002.

The Company may from time to time settle early derivative transactions. Gains or losses are included in accumulated other comprehensive income until they are recognized in revenues to match the underlying sales transaction being hedged. In addition, the Company terminated several financial hedges with Enron North America Corp. in December 2001. During the first quarter of 2002, the Company reclassified approximately \$2 million from accumulated other comprehensive income to revenues related to these transactions. As of March 31, 2002, approximately \$4 million remains to be reclassified from other comprehensive income to revenues in 2002 and approximately \$3 million remains to be reclassified from other comprehensive income to revenues in 2003.

Edgar Filing: EEX CORP - Form 10-Q

Management's Discussion and Analysis of Financial Condition and Results of Operations and all accompanying information should be read in conjunction with the consolidated financial statements, accompanying notes and other financial information included in this Quarterly Report on Form 10-Q and in the Company's most recent Annual Report on Form 10-K for the year ended December 31, 2001.

Certain statements in this report, including statements of EEX 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. 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, the risks, uncertainties and critical accounting policies and estimates described in the Company's Annual Report on Form 10-K for the year ended December 31, 2001, and described from time to time in EEX's other documents and reports filed with the Securities and Exchange Commission. The following discussion should be read in conjunction with Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations--Risks, Uncertainties and Critical Accounting Policies and Estimates," in the Company's Annual Report on Form 10-K for the year ended December 31, 2001.

RESULTS OF OPERATIONS

EEX Corporation reported first quarter 2002 net income of approximately \$3 million, or \$0.06 per share, compared to a net loss of approximately \$8 million, or (\$0.19) per share for the first quarter of 2001. The current quarter's results include approximately \$3 million in net income generated from the Mudi Field in the Tuban Block in Indonesia, which is reported as a discontinued operation under newly-adopted Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment of Long-Lived Assets," ("SFAS No. 144"). The financial statements have been restated in accordance with SFAS No. 144 to eliminate the impact of the discontinued Indonesian operations from continuing operations. A discussion of results of continuing operations for the three months ended March 31, 2002, compared to the three months ended March 31, 2001 follows:

RESULTS OF CONTINUING OPERATIONS

For the first quarter of 2002, EEX's results from continuing operations were approximately break even, versus a net loss of approximately \$12 million (\$0.30 per share) for the same period in 2001.

For the first quarter of 2002, total revenues were \$41 million, 11% lower than total revenues in the first quarter of 2001. Natural gas revenues for the first quarter of 2002 were 8% lower than the same quarter of 2001. This decrease was due to a 12% decrease in the average natural gas sales price offset by a 5% increase in production. Natural gas production for the first quarter of 2002 was approximately 11 billion cubic feet ("Bcf"), compared with 10 Bcf in the same period of 2001. The average natural gas sales price per thousand cubic feet ("Mcf") was \$3.42 in the first quarter of 2002, compared with \$3.90 in the same period of 2001. The average natural gas sales price for the first quarter 2002 includes hedging gains of \$11 million and 2,811 billion British thermal units ("BBtu") delivered under the gas sales obligation at an average price of \$2.59 per million British thermal units ("MMBtu"). The average natural gas sales price of \$3.90 per Mcf for the first quarter 2001 includes hedging losses of \$8 million and 5,117 BBtu delivered under fixed-price delivery contracts and the gas sales obligation at an average price of \$2.93 per MMBtu. Oil revenues for the first quarter of 2002 decreased 36% from the same quarter of 2001. This decrease was primarily due to a 31% decrease in the average oil sales price and a 7% decrease in production. The average oil price per barrel during the first

Edgar Filing: EEX CORP - Form 10-Q

quarter of 2002 was \$19.08 compared to \$27.69 for the same period of 2001.

Costs and expenses for the first quarter of 2002 were \$31 million, compared with \$47 million in the same period of 2001. Operating expenses (production and operating, general, administrative and other, and taxes other than income) were \$12 million in the current quarter, 10% lower than the first quarter of 2001. Production and operating increased primarily due to increased workovers, and general, administrative and other also increased. This increase was offset by a decrease in taxes, other than income primarily due to lower gas prices. Exploration expenses for the first quarter of 2002 were \$6 million, compared to \$20 million for the same period of 2001. The first quarter of 2001 contained approximately \$14 million in costs associated with stacking of the Arctic I rig and recognition of the net costs associated with the assignment of the Arctic 1 contract through May 2001. Depletion, depreciation and amortization for the first quarter of 2002 was \$12 million, \$1 million higher than the same period of 2001.

9

Total interest and other financing costs for the first quarter of 2002, including interest income, preferred stock dividends and other income, were \$9 million, a \$2 million decrease from the same period of 2001. This decrease is primarily due to lower interest expense related to the debt associated with the FPS and pipelines and the gas sales obligation offset slightly by higher interest expense associated with increased borrowings under the revolving credit agreement.

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

	Three Months En March 31
	2002
Sales volume	
Natural gas (Bcf) (a).....	10.6
Oil, condensate and natural gas liquids (MMBbls) (d).....	0.1
Total volumes (Bcfe) (a).....	11.3
Average sales price (b)	
Natural gas (per Mcf) (c).....	\$ 3.42
Oil, condensate and natural gas liquids (per Bbl).....	17.80
Total (per Mcfe) (c).....	3.39
Average costs and expenses (per Mcfe) (c)	
Production and operating (b).....	\$ 0.55
Exploration.....	0.51
Depletion, depreciation and amortization.....	1.07
General, administrative and other.....	0.39
Taxes, other than income.....	0.16

(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.

Edgar Filing: EEX CORP - Form 10-Q

- (b) Before related production, severance and ad valorem taxes.
- (c) One thousand cubic feet or one thousand cubic feet equivalent, as 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.

RESULTS OF DISCONTINUED OPERATIONS

For the first quarter of 2002, EEX reported net income from discontinued Indonesian operations (International segment), net of tax, of approximately \$3 million, \$0.06 per share, versus net income of approximately \$5 million, \$0.11 per share, for the same period of 2001.

For the first quarter of 2002, oil revenues were \$10 million, 24% lower than oil revenues in the first quarter 2001. The average oil price per barrel during the first quarter 2002 was \$20.57 compared to \$24.66 for the same period of 2001, a decrease of approximately 17%. Oil production for the first quarter 2002 decreased 9%, compared to the same period in 2001. In accordance with SFAS No. 144, an impairment of approximately \$4 million, net of tax, was recorded in the first quarter of 2002, which represents the Company's current estimate of the difference between the book value and the fair value of the assets held for sale. In accordance with SFAS No. 144, depletion was suspended in the first quarter of 2002. Depletion for the first quarter of 2001 was \$5 million.

Net cash flows used for discontinued operations were \$0.7 million during the first quarter 2002, compared to net cash flows provided by discontinued operations of \$11 million for the same period 2001. This is primarily a result of the timing and collection of receivables and payment of cash calls to the operator.

10

LIQUIDITY AND CAPITAL RESOURCES

Cash and Cash Equivalents and Cash Flows from Continuing Operations

The following summary table reflects the Company's cash flows from continuing operations (in thousands):

	Three Months Ended March 31	
	2002	2001
Net cash provided by operating activities.....	\$ 6	\$ (4)
Net cash (used in) investing activities.....	(12)	(4)
Net cash (used in) provided by financing activities.....	(21)	3

As of March 31, 2002, the cash and cash equivalents balance was \$109 million.

Net cash flows provided by operating activities from continuing operations for the three months ended March 31, 2002 were approximately \$6 million, an increase of approximately \$3 million over the same period of 2001. This increase was due to full utilization of the Arctic I rig during the first quarter 2002.

Net cash flows used in investing activities for continuing operations for the

Edgar Filing: EEX CORP - Form 10-Q

three months ended March 31, 2002 were approximately \$12 million, a \$32 million decrease from cash flows used in investing activities for the same period of 2001. The decrease in investing activities is primarily due to lower capital expenditures in 2002. The decrease is due to the completion of the Encogen obligation in the first half of 2001 and reduced onshore spending due to capital constraints. In addition, in January 2002, the Company received \$11 million from the sale of a part of the production payment associated with the Encogen obligation.

Net cash flows used in financing activities for continuing operations for the three months ended March 31, 2002 were approximately \$21 million, compared to net cash flows provided by financing activities of \$35 million for the same period of 2001. During the first quarter 2001, the Company borrowed \$50 million.

Financing Activities

EEX has a \$325 million revolving credit facility with a group of banks that matures on June 27, 2002, of which \$325 million was outstanding at March 31, 2002, all of which is classified as a current liability. The interest rate ranges from the London Inter-Bank Offered Rate, or 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. The revolving credit agreement limits, at all times, total debt, as defined in the agreement, to the lesser of 60% (72% from December 31, 2001 through April 30, 2002) of capitalization, as defined, or \$1 billion, and prohibits liens on property except under certain circumstances. As of March 31, 2002, the debt to capital ratio under the revolving credit agreement was approximately 74%, exceeding the debt to capital ratio limitation. The opinion of the independent auditors on the financial statements in the Company's Annual Report on Form 10-K for the year ended December 31, 2001 contains a report modification for a going concern uncertainty. As a result of exceeding the permitted ratio and the going concern report modification, the Company is in default under the revolving credit agreement. As of May 15, 2002, the lenders have not accelerated the maturity of the facility. In addition, the default under the revolving credit agreement may trigger cross-defaults under other agreements to which the Company is a party. The default under the revolving credit agreement or any cross-defaults triggered as a result thereof could materially and adversely affect the Company's financial condition and its results of operations.

The Company has reached agreement on the terms of a new credit agreement with its agent banks. However, the terms are currently being circulated among, but have not been approved by, the other lenders who are all parties to the existing revolving credit agreement. Once approved by all of the lenders, the new credit agreement will be subject to negotiation and execution of definitive documentation.

If the current revolving credit agreement is not replaced with another borrowing facility, EEX would be required to repay the amount outstanding under the revolving credit agreement on June 27, 2002, or earlier if the lenders accelerate the maturity because of an existing or future default. EEX is exploring various other options including the raising of additional capital, the sale or merger of the Company or a sale of a significant portion of its assets to repay the loan. In the event these efforts are unsuccessful, EEX may seek protection from its creditors and reorganization under the Federal bankruptcy laws. No assurances can be given that EEX will be successful in completing an acceptable financing plan or a sale or merger of the Company.

Future Capital Requirements

Edgar Filing: EEX CORP - Form 10-Q

Capital expenditures for continuing operations for the three months ended March 31, 2002, were \$18 million compared to \$38 million for the three months ended March 31, 2001. This decrease in capital spending during the first three months of 2002 is primarily due to the completion of the Encogen obligation in the first half of 2001 and reduced onshore spending due to capital constraints. Capital expenditures for the remainder of 2002 are expected to be approximately \$32 million. The 2002 capital program assumes that a new credit agreement is executed. If a new credit agreement is not obtained, the capital budget could be curtailed.

Sources of Capital and Liquidity

Until EEX is able to secure a new credit agreement (of which no assurances can be given), raise additional capital, sell or merge the Company, or sell a significant portion of its assets, it will have no sources of funds except cash and cash equivalents on hand, operating cash flows and proceeds from assets sales to fund capital and operating expenses.

In April 2002, the Company received approximately \$26 million from the sale of the shares of a subsidiary that owns a 25% interest in the Tuban Concession. The sale of another Indonesian subsidiary that owns a 15% interest in the Asahan Concession is expected to close at a later date. The proceeds of this expected sale will be less than \$1 million.

EEX's access to public and private equity or debt markets may be limited by general market conditions, volatility of the markets, general conditions affecting the oil and gas industry, or 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 is required to sell assets to repay the revolving credit agreement, operating cash flows will be significantly reduced and may be insufficient to meet current expenses. If such a sale is conducted under distressed conditions, EEX may not receive the same amount for the assets that would be obtained in an orderly sale.

12

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Hedging activity for the three months ended March 31, 2002 resulted in a gain of approximately \$11 million for natural gas. The table below provides information about EEX's hedging instruments as of March 31, 2002. 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 2002 - June 2002.....	1,820	\$3.13	\$4.93
July 2002 - September 2002.....	460	2.40	2.73

Edgar Filing: EEX CORP - Form 10-Q

October 2002	155	2.40	2.73

Total.....	2,435		
	=====		
	Notional Amount (BBtu) (1)	Average Swap Price (Per MMBtu) (2)	
	-----	-----	
Natural Gas Swaps:			
April 2002 - June 2002.....	5,460	\$3.15	
July 2002 - September 2002.....	5,980	3.47	
October 2002 - December 2002.....	5,980	3.99	
January 2003 - March 2003.....	4,500	3.22	
April 2003 - June 2003.....	4,550	2.99	
July 2003 - September 2003.....	5,060	3.60	
October 2003 - December 2003.....	5,060	3.90	

Total.....	36,590		
	=====		

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

13

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 March 7, 2002 and dated February 22, 2002 (news releases dated February 22 and February 26, 2002 concerning fourth quarter and annual results and summary of conference call on results).

14

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)

Edgar Filing: EEX CORP - Form 10-Q

Dated: May 15, 2002

By: /s/ R. S. Langdon

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