EEX CORP
Form 10-Q
August 03, 2001

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

FORM 10-Q

(MARK ONE)

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

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 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	75-2421863
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

2500 CITYWEST BLVD. SUITE 1400 HOUSTON, TEXAS	77042
(Address of principal executive office)	(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 X No ____

Number of shares of Common Stock of Registrant outstanding as of July 31, 2001: 42,505,512

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

EEX CORPORATION
CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS
(UNAUDITED)

	Three Months Ended June 30	
	2001	2000
	(In thousands, except per s	
Revenues:		
Natural gas	$33,051	$ 40,637
Oil, condensate and natural gas liquids	17,040	18,705
Cogeneration operations	1,843	2,339
Other	223	598
Total	52,157	62,279
Costs and Expenses:		
Production and operating	8,911	8,784
Exploration	8,259	9,506
Depletion, depreciation and amortization	16,168	25,162
Impairment of producing oil and gas properties	--	12,200
Loss on sales of property, plant and equipment	33	1,729
Cogeneration operations	1,593	2,034
General, administrative and other	3,188	4,865
Taxes, other than income	4,121	2,208
Total	42,273	66,488
Operating Income (Loss)	9,884	(4,209)
Other Income--Net	58	22
Interest Income	205	149
Interest and Other Financing Costs	(7,765)	(8,278)
Income (Loss) Before Income Taxes	2,382	(12,316)
Income Taxes	--	--
Minority Interest Third Party	--	563
Net Income (Loss)	2,382	(12,879)
Preferred Stock Dividends	3,579	3,308
Net (Loss) Applicable to Common Shareholders	$(1,197)	$(16,187)
Net (Loss) Per Share Available to Common Shareholders:		
Basic	$(0.03)	$(0.38)
Diluted	$(0.03)	$(0.38)
Weighted Average Shares Outstanding:		

Basic	41,664	42,202	
Diluted	41,664	42,202	

See accompanying notes.

EEX CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEET
(UNAUDITED)

	June 30 2001
	(In
ASSETS	
Current Assets:	
Cash and cash equivalents	$ 2,202
Accounts receivable--trade (net of allowance of $2,329 and $2,270)	56,300
Other	18,908
Total current assets	77,410
Property, Plant and Equipment (at cost):	
Oil and gas properties (successful efforts method)	1,013,071
Other	8,531
Total	1,021,602
Less accumulated depletion, depreciation and amortization	319,060
Net property, plant and equipment	702,542
Deferred Income Tax Assets	19,846
Other Assets	10,376
Total	$ 810,174
LIABILITIES AND SHAREHOLDERS' EQUITY	
Current Liabilities:	
Accounts payable--trade	$ 66,012
Bank revolving credit agreement	207,000
Capital lease obligations	--
Secured notes payable	22,618
Other	4,510
Total current liabilities	300,140

Bank Revolving Credit Agreement	--
Capital Lease Obligations	--
Secured Notes Payable	120,795
Gas Sales Obligation	69,406
Other Liabilities	12,123
Minority Interest Third Party	5,000
Shareholders' Equity:	
Preferred stock (10,000 shares authorized; 1,826 and 1,755 shares issued; Liquidation preference of $182,570 and $175,481)	18
Common stock ($0.01 par value; 150,000 shares authorized; 42,510 and 42,256 shares issued)	432
Paid in capital	753,156
Retained (deficit)	(454,122
Unamortized restricted stock compensation	(2,027
Unearned compensation	--
Other comprehensive income	14,305
Treasury stock, at cost (810 and 808 shares)	(9,052
Total shareholders' equity	302,710
Total	$ 810,174

See accompanying notes.

EEX CORPORATION
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
(UNAUDITED)

	Six
	2001
	(In th
OPERATING ACTIVITIES	
Net (Loss)	$ (1,867)
Dry hole cost	853
Depletion, depreciation and amortization	32,594
Impairment of producing oil and gas properties	--
Impairment of undeveloped leasehold	3,900
Deferred income taxes	--
Loss on sales of property, plant and equipment	335
Other	(11,118)
Changes in current operating assets and liabilities:	
Accounts receivable	11,521
Other current assets	3,570
Restricted cash	--
Accounts payable	(15,298)
Other current liabilities	(1,483)

Net cash flows provided by operating activities	23,007
INVESTING ACTIVITIES	
Additions of property, plant and equipment	(100,780)
Proceeds from dispositions of property, plant and equipment	184
Other (changes in accruals)	4,311
Net cash flows used in investing activities	(96,285)
FINANCING ACTIVITIES	
Borrowings under bank revolving credit agreement	145,000
Repayment of borrowings under bank revolving credit agreement	(13,000)
Borrowings under short-term financing agreement	--
Repayment of borrowings under short-term financing agreement	--
Deliveries under the gas sales obligation	(14,084)
Purchase of treasury stock	(6)
Purchase of lessor's equity interest in capital lease	(54,416)
Minority interest third party	--
Payments of capital lease obligations	(7,805)
Net cash flows provided by financing activities	55,689
Net Decrease in Cash and Cash Equivalents	(17,589)
Cash and Cash Equivalents at Beginning of Period	19,791
Cash and Cash Equivalents at End of Period	$ 2,202

See accompanying notes.

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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)	

June 30, 2001	$3.6
March 31, 2001	$3.5

3. Payments under the gas sales obligation are amortized using the interest method through final pay out. Payments made during the second quarter of 2001 related to this obligation were $7.0 million. Payments made during the first quarter of 2001 related to this obligation were $7.1 million.

4. During the second quarter 2001, EEX terminated its capital lease obligation and assumed directly notes payable secured by the FPS and Pipelines as part of the expiration of the letters of credit and purchasing the lessor's equity interest in the capital lease. The annual interest rate on the assumed secured notes is 7.54%. After a July 2, 2001 payment, the principal payments under the secured notes are payable in annual installments due January 2 of each year (except 2006) with the final installment due in 2009. Prepayment of the notes prior to 2006 may require EEX to pay make-whole premiums.

   Principal payments under the secured notes are as follows (in thousands):

2001	$ 6,340
2002	16,278
2003	17,553
2004	18,928
2005	17,790
Thereafter	66,524
Total	$143,413

5. The termination of the capital lease and assumption of the notes is reflected as a non-cash transaction in the Statement of Cash Flows for the six months ended June 30, 2001.

   The Statement of Cash Flows for the six months ended June 30, 2001 also reflects the impact of the adoption of SFAS No. 133, which resulted in a $14 million non-cash increase in shareholders' equity.

6. 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.

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	INT
THREE MONTHS ENDED JUNE 30, 2001:				
Total Revenues	$ --	$ --	$ 38,399	$
Production and operating costs	--	155	5,289	
Exploration costs	1,921	--	5,761	
Depletion, depreciation and amortization	--	1,314	9,769	
Other costs	--	--	4,104 (b)	
Operating Income (Loss)	(1,921)	(1,469)	13,476	
Interest Income and other	--	--	--	
Interest and other financing costs	--	(3,401)	(1,820)	
Income (Loss) before income taxes	$(1,921)	$ (4,870)	$ 11,656	$
Long-Lived Assets	$95,196	$157,091	$415,233	$
Additions to Long-Lived Assets	$ 2,411	$ 13,517	$ 41,733	$
THREE MONTHS ENDED JUNE 30, 2000:				
Total Revenues	$ --	$ --	$ 50,538	$
Production and operating costs	--	51	4,197	
Exploration costs	2,078	--	6,829	
Depletion, depreciation and amortization	--	1,146	15,159	
Impairment of producing oil and gas properties	--	--	200	
Other costs	--	--	2,797 (b)	
Operating Income (Loss)	(2,078)	(1,197)	21,356	
Interest Income and other	--	--	--	
Interest and other financing costs	--	(3,539)	(2,540)	
Income (Loss) before income taxes	$(2,078)	$ (4,736)	$ 18,816	$
Long-Lived Assets	$61,909	$149,312	$428,963	$

Additions to Long-Lived Assets	$ 6,917	$ 2,611	$ 27,395	$

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

	DEEPWATER			
	OPERATIONS	FPS/PIPELINES	ONSHORE/SHELF	INT
SIX MONTHS ENDED JUNE 30, 2001:				
Total Revenues	$ --	$ --	$ 89,922	
Production and operating costs	--	304	10,082	
Exploration costs	17,191	--	10,085	
Depletion, depreciation and amortization	--	2,628	19,443	
Other costs	--	3	9,766 (b)	
Operating Income (Loss)	(17,191)	(2,935)	40,546	
Interest Income and other	--	--	--	
Interest and other financing costs	--	(6,799)	(3,812)	
Income (Loss) before income taxes	$(17,191)	$ (9,734)	$ 36,734	
Long-Lived Assets	$ 95,196	$157,091	$415,233	
Additions to Long-Lived Assets	$ 6,144	$ 13,517	$ 75,703	
SIX MONTHS ENDED JUNE 30, 2000:				
Total Revenues	$ --	$ --	$ 93,687	
Production and operating costs	--	249	11,206	
Exploration costs	4,166	--	8,869	
Depletion, depreciation and amortization	--	2,046	32,147	
Impairment of producing oil and gas properties	--	--	200	
Other costs	--	--	4,574 (b)	
Operating Income (Loss)	(4,166)	(2,295)	36,691	
Interest Income and other	--	--	--	
Interest and other financing costs	--	(7,028)	(5,244)	
Income (Loss) before income taxes	$ (4,166)	$ (9,323)	$ 31,447	
Long-Lived Assets	$ 61,909	$149,312	$428,963	
Additions to Long-Lived Assets	$ 14,532	$ 7,208	$ 49,608	

(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 June 30, 2001, shareholders' equity increased by $14 million in accordance with the standard.

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 second quarter of 2001, EEX reported a net loss applicable to common shareholders of $1 million ($0.03 per share), versus a net loss applicable to common shareholders of $16 million ($0.38 per share) for the same period in 2000.

QUARTERS ENDED JUNE 30, 2001 AND 2000

For the second quarter of 2001, total revenues were $52 million, 16% lower than total revenues in the second quarter of 2000. Natural gas revenues for the second quarter of 2001 were 19% lower than the same quarter of 2000. This decrease was due to a 23% decrease in production offset by a 6% increase in the average natural gas sales price. Natural gas production for the second quarter of 2001 was 11 billion cubic feet ("Bcf"), compared with 14 Bcf in the same period of 2000. The decrease in production is primarily a result of the sale of the offshore shelf properties in December 2000. The average natural gas sales price per thousand cubic feet ("Mcf") was $3.13 in the second quarter of 2001, compared with $2.94 in the same period of 2000. The average gas sales price of $3.13 per Mcf for the second quarter 2001 includes hedging losses of $2 million and 5,730 billions of british thermal units ("BBtu") delivered under fixed-price physical delivery contracts and the gas sales obligation at an average price of $2.54 per millions of british thermal units ("MMBtu"). The average natural gas sales price of $2.94 per Mcf for the second quarter 2000 includes hedging losses of $3 million and 3,237 BBtu delivered under the gas sales obligation at an average price of $2.38 per MMBtu. Oil revenues for the second quarter of 2001 decreased 9% from the same quarter of 2000. Production declined 8% primarily due to the sale of the offshore shelf properties. The average oil price during the second quarter of 2001 remained constant from quarter to quarter.

Costs and expenses for the second quarter of 2001 were $42 million, compared with $66 million in 2000. Operating expenses (production and operating, general and administrative and taxes other than income) were $16 million in the current quarter, 2% higher than the same period of 2000. Increased taxes, other than income were offset by lower general, administrative and other expenses. Production and operating costs remained flat. The decrease in production and operating costs associated with the sale of the offshore shelf properties was offset by an increase in workover expense during the second quarter 2001. Exploration expenses for the second quarter of 2001 were $8 million, compared to $10 million for the same period of 2000. This decrease was primarily due to lower geological and geophysical purchases during 2001 compared to 2000. Depletion, depreciation and amortization for the second quarter of 2001 was $16 million, $9 million lower than the same period of 2000, primarily due to the sale of the offshore shelf properties. The second quarter of 2000 includes a $12 million charge from the reduction of the carrying value of the Mudi Field per SFAS 121.

Total interest and other financing costs for the second quarter of 2001, including interest income, preferred stock dividends and other income, were $11 million remaining constant from quarter to quarter.

SIX MONTHS ENDED JUNE 30, 2001 AND 2000

For the six months ended June 30, 2001, total revenues were $111 million, 10% lower than total revenues for the six months ended June 30, 2000. Natural gas revenues for the first six months of 2001 were 7% lower than the first six months of 2000. This decrease was due to a 27% decrease in production, offset by a 27% increase in average natural gas sales prices. The average natural gas sales price per thousand cubic feet ("Mcf") was $3.50 for the first six months of 2001, compared with $2.75 in the same period of 2000. Natural gas production for the first six months of 2001 was 21 billion cubic feet ("Bcf"), compared with 28 Bcf in the same period of 2000. The decrease in production is primarily due to the sale of the offshore shelf properties. Oil revenues decreased 14%, due to decreased production, primarily due to the sale of the offshore shelf properties and a decline in average prices. The average oil price during the first six months of 2001 decreased to $26.15 from $27.40.

Costs and expenses for the first six months of 2001 were $98 million, compared with $113 million for the same period of 2000. Operating expenses (production and operating, general and administrative and taxes other than income) remained flat from period to period. General, administrative and other costs and production and operating costs were lower, offset by increased taxes, other than income. Production and operating costs were lower primarily as a result of the sale of the offshore shelf properties, offset by an increase in workover expense. Exploration expenses for the first six months of 2001 increased to $28 million, compared to $14 million for the same period of 2000. Exploration expense includes $14 million in costs associated with the stacking of the Arctic I rig and recognition of the net cost associated with the assignment of the Arctic I contract through May 2001. Depletion, depreciation and amortization for the first six months of 2001 was $33 million, $14 million lower than the same period of 2000, primarily due to the sale of the offshore shelf properties. The second quarter of 2000 includes a $12 million charge from the reduction of the carrying value of the Mudi Field per SFAS 121.

Total interest and other financing costs for the first six months of 2001, including interest income, preferred stock dividends and other income, were $22 million, remaining constant from period to period.

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

	Three Months Ended June 30	
	2001	2000
Sales volume		
Natural gas (Bcf) (a)	10.6	13.8
Oil, condensate and natural gas liquids (MMBbls) (d)	0.6	0.7
Total volumes (Bcfe) (a)	14.4	17.9
Average sales price (b)		
Natural gas (per Mcf) (c)	$ 3.13	$ 2.94
Oil, condensate and natural gas liquids (per Bbl)	26.79	27.23
Total (per Mcfe) (c)	3.48	3.31
Average costs and expenses (per Mcfe) (c)		
Production and operating (b)	$ 0.62	$ 0.49
Exploration	0.57	0.53
Depletion, depreciation and amortization	1.12	1.40
General, administrative and other	0.22	0.27
Taxes, other than income	0.29	0.12

(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 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 for the six months ended June 30, 2001 were $23 million, an increase of $8 million over the same period of 2000, largely 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 Arctic I contract during the first quarter 2001. Net cash flows used in investing activities for the six months ended June 30, 2001 were $96 million, a $6 million increase from cash flows used in investing activities for the same period of 2000. The increase in investing activities is primarily due to increased capital spending of $18 million and a decrease in proceeds from dispositions of property, plant and equipment of $12 million. This increase was offset by a favorable change in accruals of $23 million. Net cash flows provided by financing activities for the six months ended June 30, 2001 were $56 million, compared to $70 million for the same period of 2000.

Capital Budget

Capital expenditures during the first six months of 2001 were $101 million. The Onshore/Shelf segment invested $76 million in capital, including $25 million for the remainder of the gas delivery obligation to Encogen. Capital expenditures during the first six months of 2001 also include $14 million to purchase the lessor's equity interest. Capital expenditures for the remainder of 2001 are expected to be $60 million, for an estimated total of $161 million in 2001, compared to $181 million in 2000. The Onshore/Shelf segment is estimated to spend 70-75% of the remaining 2001 capital budget. Estimated capital expenditures for 2001 will exceed the Company's estimated operating cash flows by approximately $90 million. The Company intends to fund its remaining 2001 capital expenditures from operating cash flows, proceeds from asset sales, borrowings under the revolving credit agreement and/or additional funds from public and private debt offerings. See "Liquidity" and "Forward-Looking Statements--Uncertainties and Risks" below.

Liquidity

EEX has a $350 million revolving credit line with a group of banks that matures on June 27, 2002, of which $207 million was outstanding at June 30, 2001, all of which is classified in current liabilities at June 30, 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 June 30, 2001, the debt to capital ratio under the revolving credit agreement was 54% and unused available credit was approximately $100 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 July 31, 2001, the Company had approximately $237 million outstanding under the revolving credit agreement.

As previously reported in EEX's 2000 Annual Report on Form 10-K, EEX's letters of credit supporting the capital lease obligation expired in this quarter. EEX elected to not replace the letters of credit and to purchase the lessor's equity interest, terminate the leases and assume directly the debt secured by the FPS and Pipelines, as provided in the agreements. The purchase price of the undivided interest in the FPS, computed in accordance with the schedule attached to the agreements, was $69 million. EEX borrowed the $69 million under the revolving credit agreement. The remainder of the capital lease obligation, debt of approximately $143 million secured by the FPS and Pipelines, was assumed by EEX. The termination of the capital lease obligation and assumption of the debt resulted in an increase of approximately $14 million in EEX's total debt and a corresponding increase in the carrying value of the FPS and Pipelines.

EEX is considering options to simplify its capital structure and restructure its debt. EEX intends to complete such a restructuring by the end of 2001. The restructuring would include refinancing the borrowings under the revolving credit agreement through new debt arrangements, and may include sales of significant assets and repayment of the gas sales obligation. The gas sales obligation may be prepaid by paying a predetermined amount plus a make-whole for the hedges assumed by the purchaser. The refinancing would also include a new revolving credit agreement secured by oil and gas properties with borrowings limited to a borrowing base determined by the amount of reserves. (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). In the alternative, EEX may seek to renegotiate the terms of its current revolving credit facility. Such a renegotiation may include some or all of the elements of the restructuring described above.

As described above and in EEX's 2000 Annual Report on Form 10-K, preserving liquidity under EEX's current revolving credit agreement and restructuring its debt involve many risks and uncertainties. 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 achieving debt restructuring would significantly impact EEX's liquidity and its ability to carry out its planned activities. In the absence of such debt restructuring or renegotiation of the terms of its current revolving credit facility, EEX may choose to reduce capital spending and sell assets sufficient to meet its current obligations. 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 debt restructure and funding its investment plans (see the discussion above and in Item 7, "Liquidity and Capital Resources--Capital Budget" in EEX's 2000 Annual Report on Form 10-K). 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 principal risks to liquidity are described 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.

EEX's access to financial 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 restructure its debt or renegotiate the terms of its existing revolving credit agreement, it would be required to curtail capital spending and sell assets sufficient to repay borrowings under the revolving credit agreement and meet its current obligations.

FPS and Pipeline Valuation--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. The current carrying value of the FPS and Pipelines is based upon a development scenario in the greater Llano complex that utilizes these assets. Sale of the FPS and/or Pipelines would result in a required prepayment of the debt associated with the FPS and

Pipelines. Prepayment of the notes prior to 2006 may require EEX to pay make-whole premiums. A sale transaction may adversely affect net income and reduce borrowing capacity. While management believes that it can realize the value of the FPS and Pipelines in a development in the greater Llano complex, there can be no assurance that this can be accomplished in the near term, or on favorable financial terms.

Valuation of Greater Llano Complex--The value of EEX's investment in the greater Llano complex is dependent upon market conditions for the sale of assets in the deepwater Gulf of Mexico, development of its Llano Field or 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" in EEX's 2000 Annual Report on Form 10-K) has been assumed, for budget and planning purposes, to be funded by EEX's co-owners in its Llano development and Llano complex appraisal program. When the drilling of the Llano No. 4 well is completed, EEX intends to continue drilling in the greater Llano complex with other industry participants. If the co-owners 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 co-owners for the use of the rig after the Llano No. 4 well. EEX may also pursue 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" in 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.

Volatility of Oil and Gas Markets and Commodity Prices--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 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.

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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.

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.

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, whether due to lower volumes or prices, 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.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Hedging activity for the second quarter ended June 30, 2001 resulted in a loss of approximately $2 million for natural gas. For the six months ended June 30, 2001, the hedging loss was approximately $10 million. The table below provides information about EEX's hedging instruments as of June 30, 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:			
July 2001 - September 2001	2,760	$3.210	$4.723
October 2001 - December 2001	2,760	3.242	4.962
January 2002 - March 2002	1,350	3.854	6.137
April 2002 - June 2002	1,365	3.374	5.658
Total	8,235		

	NOTIONAL AMOUNT (BBTU) (1)	AVERAGE SWAP PRICE (PER MMBTU) (2)	FAI JUN (IN
Natural Gas Swaps:			
July 2001 - September 2001	1,840	$4.27	
October 2001 - December 2001	1,840	4.53	
January 2002 - March 2002	2,700	4.69	
April 2002 - June 2002	2,730	4.16	
July 2002 - September 2002	2,760	4.23	
October 2002 - December 2002	2,760	4.39	
Total	14,630		

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

PART II. OTHER INFORMATION

Item 4. Submission of Matters to a Vote of Security Holders

At the annual meeting of shareholders held on May 22, 2001, the shareholders elected two directors for terms expiring at the annual meeting in 2004, and ratified the appointment of Ernst & Young LLP as Independent Auditors for fiscal year 2001. In addition to the two directors elected at the meeting, Frederick S. Addy, B. A. Bridgewater, Jr., Michael P. Mallardi and Howard H. Newman continued their respective terms of office after the meeting. Below is the result of the vote.

Election of Directors:

Name	Votes for	Withheld	Abstentions and Broker Non-Votes
Thomas M Hamilton	45,723,214	600,688	--
Frederick M. Lowther	45,773,146	550,756	--

Appointment of Ernst & Young LLP as Independent Auditors:

For	Against	Abstentions and Broker Non-Votes
45,851,520	426,571	45,811

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 May 23, 2001 and dated May 8, 2001 (news releases dated May 8 and May 17, 2001 concerning update of operations and change of operator of Llano field).

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: August 3, 2001

By: /s/ R. S. Langdon

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