

Edgar Filing: EOG RESOURCES INC - Form 8-K

EOG RESOURCES INC
Form 8-K
February 28, 2002

=====

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

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report: February 27, 2002

EOG RESOURCES, INC.

(Exact name of registrant as specified in its charter)

DELAWARE	1-9743	47-0684736
(State or other jurisdiction of incorporation or organization)	(Commission File Number)	(I.R.S. Employer Identification No.)

333 CLAY STREET	
SUITE 4200	
HOUSTON, TEXAS	77002
(Address of principal executive offices)	(Zip code)

713/651-7000
(Registrant's telephone number, including area code)

Edgar Filing: EOG RESOURCES INC - Form 8-K

Item 7. Financial Statements and Exhibits.

(a) Financial Statements of EOG Resources, Inc.

Financial Statements of EOG Resources, Inc. and its Consolidated Subsidiaries for the fiscal year ended December 31, 2001, including Report of Arthur Andersen LLP, Independent Public Accountants.

(b) Exhibits.

23.1 Consent of DeGolyer and MacNaughton.

23.2 Opinion of DeGolyer and MacNaughton dated January 25, 2002.

23.3 Consent of Arthur Andersen LLP.

SIGNATURES

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

EOG RESOURCES, INC.
(Registrant)

Date: February 27, 2002

By: /s/ TIMOTHY K. DRIGGERS

Timothy K. Driggers
Vice President, Accounting
& Land Administration
(Principal Accounting Officer)

3

EOG RESOURCES, INC.

TABLE OF CONTENTS

	Page No.
Management's Discussion and Analysis of Financial Condition and Results of Operations.....	4
Management's Responsibility for Financial Reporting.....	13
Report of Independent Public Accountants.....	14
Consolidated Statements of Income and Comprehensive Income for the years ended December 31, 2001, 2000 and 1999.....	15
Consolidated Balance Sheets, December 31, 2001 and 2000.....	16

Edgar Filing: EOG RESOURCES INC - Form 8-K

Consolidated Statements of Shareholders' Equity for the years ended December 31, 2001, 2000 and 1999.....	17
Consolidated Statements of Cash Flows for the years ended December 31, 2001, 2000 and 1999.....	18
Notes to Consolidated Financial Statements.....	19
Supplemental Information to Consolidated Financial Statements.....	36
Exhibits	
Exhibit 23.1 - Consent of DeGolyer and MacNaughton.....	45
Exhibit 23.2 - Opinion of DeGolyer and MacNaughton dated January 25, 2002.....	46
Exhibit 23.3 - Consent of Arthur Andersen LLP.....	48

4

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Management's Discussion and Analysis of Financial Condition and Results of Operations

The following review of operations for each of the three years in the period ended December 31, 2001 should be read in conjunction with the consolidated financial statements of EOG Resources, Inc. ("EOG") and notes thereto beginning with page 15.

Results of Operations

 Net Operating Revenues. Wellhead volume and price statistics for the specified years were as follows:

	Year Ended December 31,		
	2001	2000	1999
	-----	-----	-----
Natural Gas Volumes (MMcf per day) (1)			
United States.....	680	654	654
Canada.....	126	129	115
Trinidad.....	115	125	123
India (2).....	-	-	46
	-----	-----	-----
Total.....	921	908	938
	=====	=====	=====

Edgar Filing: EOG RESOURCES INC - Form 8-K

Average Natural Gas Prices (\$/Mcf) (3)			
United States.....	\$4.26	\$3.96	\$2.20
Canada.....	3.78	3.33	1.88
Trinidad.....	1.22	1.17	1.08
India (2).....	-	-	2.09
Composite.....	3.81	3.49	2.01
Crude Oil and Condensate Volumes (MBbl per day) (1)			
United States.....	22.0	22.8	14.4
Canada.....	1.7	2.1	2.6
Trinidad.....	2.1	2.6	2.4
India (2).....	-	-	4.1
	-----	-----	-----
Total.....	25.8	27.5	23.5
	=====	=====	=====
Average Crude Oil and Condensate Prices (\$/Bbl) (3)			
United States.....	\$25.06	\$29.68	\$18.55
Canada.....	22.70	27.76	16.77
Trinidad.....	24.14	30.14	16.21
India (2).....	-	-	12.80
Composite.....	24.83	29.57	17.12
Natural Gas Liquids Volumes (MBbl per day) (1)			
United States.....	3.5	4.0	2.6
Canada.....	0.5	0.7	0.8
	-----	-----	-----
Total.....	4.0	4.7	3.4
	=====	=====	=====
Average Natural Gas Liquids Prices (\$/Bbl) (3)			
United States.....	\$17.17	\$20.45	\$13.41
Canada.....	15.05	16.75	8.23
Composite.....	16.89	19.87	12.24
Natural Gas Equivalent Volumes (MMcfe per day) (4)			
United States.....	833	814	757
Canada.....	139	146	134
Trinidad.....	128	141	138
India (2).....	-	-	70
	-----	-----	-----
Total.....	1,100	1,101	1,099
	=====	=====	=====
Total Bcfe(4) Deliveries.....			
	401	403	401

-
- (1) Million cubic feet per day or thousand barrels per day, as applicable.
 - (2) See Note 4 to the Consolidated Financial Statements regarding the Share Exchange Agreement with Enron Corp.
 - (3) Dollars per thousand cubic feet or per barrel, as applicable.
 - (4) Million cubic feet equivalent per day or billion cubic feet equivalent, as applicable; includes natural gas, crude oil, condensate and natural gas liquids.

2001 compared to 2000. During 2001, net operating revenues increased \$165 million to \$1,655 million. Total wellhead revenues of \$1,540 million increased by \$49 million, or 3%, as compared to 2000.

Edgar Filing: EOG RESOURCES INC - Form 8-K

Average wellhead natural gas prices for 2001 were approximately 9% higher than the comparable period in 2000, increasing net operating revenues by \$110 million. Average wellhead crude oil and condensate prices were 16% lower, decreasing net operating revenues by \$45 million. North America wellhead natural gas deliveries were approximately 3% higher than the comparable period in 2000. The increase in volumes was primarily due to increased production in the Midland and Pittsburgh divisions, partially offset by decreased production in the Denver and Corpus Christi divisions and the implementation of a production moderation strategy in late third quarter. Combined with reduced production in Trinidad, the overall natural gas production was 1% higher than the comparable period in 2000, increasing net operating revenues by \$14 million. Wellhead crude oil and condensate volumes were 6% lower than in 2000, decreasing net operating revenues by \$20 million. The decrease in wellhead crude oil and condensate volumes is primarily due to decreased deliveries worldwide. Natural gas liquids prices and deliveries were both approximately 15% lower than 2000, decreasing net operating revenues by \$4 million and \$5 million, respectively.

During 2001, EOG recognized mark-to-market gains on commodity contracts of \$98 million, of which \$62 million were realized gains.

Gains on sales of reserves and related assets and other, net totaled a gain of \$1 million during 2001 compared to a gain of \$9 million in 2000. The difference is due primarily to a \$7 million gain on sales of certain North America properties in 2000.

Other marketing activities associated with sales and purchases of natural gas transactions increased net operating revenue by \$16 million during 2001, compared to a \$10 million reduction in 2000.

2000 compared to 1999. During 2000, net operating revenues increased \$648 million to \$1,490 million. Total wellhead revenues of \$1,491 million increased by \$641 million, or 75%, as compared to 1999.

Average wellhead natural gas prices for 2000 were approximately 74% higher than the comparable period in 1999 increasing net operating revenues by approximately \$491 million. Average wellhead crude oil and condensate prices were up by 73% increasing net operating revenues by \$125 million. Wellhead natural gas volumes were approximately 3% lower than the comparable period in 1999 decreasing net operating revenues by nearly \$20 million. The decrease in wellhead natural gas volumes is primarily due to the transfer of producing properties in connection with the Share Exchange described in Note 4 to the Consolidated Financial Statements, partially offset by increased deliveries in Canada and Trinidad. Wellhead crude oil and condensate volumes were 17% higher than in 1999, increasing net operating revenues by \$26 million. The increase in wellhead crude oil and condensate volumes is primarily due to increased deliveries in the United States and Trinidad, partially offset by the transfer of producing properties in the Share Exchange and decreased deliveries in Canada. Natural gas liquids prices and deliveries were approximately 62% and 39% higher than 1999, increasing net operating revenues by \$13 million and \$6 million, respectively.

Gains (losses) on sales of reserves and related assets and other, net totaled a gain of \$9 million during 2000 compared to a loss of nearly \$1 million in 1999. The difference is due primarily to a \$7 million gain on sales of certain North America properties in 2000.

Edgar Filing: EOG RESOURCES INC - Form 8-K

Other marketing activities associated with sales and purchases of natural gas transactions decreased net operating revenues by \$10 million during 2000, compared to a \$7 million reduction in 1999.

Operating Expenses

2001 compared to 2000. During 2001, operating expenses of \$980 million, which includes \$19 million of charges related to the Enron bankruptcies, were approximately \$187 million higher than the \$793 million incurred in 2000.

Lease and well expenses increased \$35 million to \$175 million primarily due to higher production costs, continually expanding operations and increases in production activity in North America. Exploration expenses of \$67 million remained essentially flat compared to 2000. Dry hole expenses of \$71 million increased \$54 million from 2000. Impairments increased \$33 million to \$79 million primarily as a result of write-down of assets in the United States. Depreciation, depletion and amortization ("DD&A") expense increased \$33 million to \$392 million primarily due to increased DD&A rates. General and administrative ("G&A") expenses increased \$13 million primarily due to expanded operations. Taxes other than income remained approximately the same as compared to 2000.

6

Total operating costs per unit of production, which include lease and well, DD&A, G&A, taxes other than income and interest expense, increased 9% to \$1.97 per thousand cubic feet equivalent ("Mcf") in 2001 from \$1.80 in 2000. This increase is primarily due to higher per unit rates of lease and well, DD&A and G&A expenses, partially offset by a lower per unit rate of interest expense.

During the fourth quarter of 2001, EOG recorded charges associated with Enron Corp. bankruptcy of \$19 million, of which \$17 million were related to 2001 and 2002 natural gas and oil derivative contracts.

Interest Expense. The decrease in net interest expense of \$16 million for 2001 as compared to 2000 is primarily due to lower long-term debt levels during the year.

2000 compared to 1999. During 2000, operating expenses of \$793 million were approximately \$31 million lower than the \$824 million incurred in 1999.

Lease and well expenses increased \$9 million to \$141 million primarily due to continually expanding operations and increases in production activity in North America. Exploration expenses of \$67 million and dry hole expenses of \$17 million increased \$14 million and \$5 million, respectively, from 1999 due to increased exploratory drilling activities. Impairments decreased \$115 million to \$46 million primarily due to charges of \$15 million pursuant to a change in EOG's strategy related to certain offshore operations in the second quarter of 1999, the impairment of various North America properties in the fourth quarter of 1999, and non-recurring charges of \$114 million related primarily to assets determined no longer central to EOG's business in the third quarter of 1999. DD&A expense increased \$30

Edgar Filing: EOG RESOURCES INC - Form 8-K

million primarily due to increased DD&A rates. G&A expenses decreased \$16 million primarily due to non-recurring costs in 1999 of \$14 million related to the Share Exchange, the potential sale of EOG and personnel expenses partially offset by savings resulting from the discontinuance of the India and China operations as a result of the Share Exchange. Taxes other than income increased \$42 million reflecting higher state severance taxes associated with higher taxable wellhead revenues resulting from higher average prices.

Total operating costs per unit of production, which include lease and well, DD&A, G&A, taxes other than income and interest expense, increased 10% to \$1.80 Mcfe in 2000 from \$1.64 in 1999. This increase is primarily due to higher per unit rates of lease and well, DD&A and taxes other than income, partially offset by a lower per unit rate of G&A expenses. Excluding the aforementioned 1999 charges of \$14 million in G&A expenses, the per unit operating costs for EOG were \$1.60 per Mcfe in 1999. The per unit operating costs in 2000 of \$1.80 was \$.20 higher than the adjusted per unit operating costs of 1999, primarily due to higher per unit rates of lease and well, DD&A and taxes other than income.

Other Income (Expense). Other income of \$611 million for 1999 included a \$575 million net gain from the Share Exchange, a \$59.6 million gain on the sale of 3.2 million options owned by EOG to purchase Enron Corp. common stock, and a \$19.4 million charge for estimated exit costs related to EOG's decision to dispose of certain international assets.

Income Taxes. Income tax provision increased approximately \$238 million for 2000 as compared to 1999 as a result of a higher pre-tax income year to year after removing the non-taxable gain on the Share Exchange in 1999.

Capital Resources and Liquidity

Cash Flow. The primary sources of cash for EOG during the three-year period ended December 31, 2001 included cash generated from operations, including realized gains from mark-to-market commodity derivative contracts, proceeds from the sales of other assets, selected oil and gas reserves and related assets and funds from new borrowings and proceeds from equity offerings. Primary cash outflows included funds used in operations, exploration and development expenditures, common stock repurchases, dividends paid to EOG shareholders, repayments of debt and cash contributed to transferred subsidiaries in the Share Exchange.

Net operating cash flows of \$1,197 million in 2001 increased approximately \$230 million as compared to 2000 primarily due to higher net operating revenues resulting from higher natural gas prices, net of increased cash operating expenses, and lower current income taxes, partially offset by a lower tax benefit from stock options exercised. Changes in working capital and other liabilities increased operating cash flows by \$75 million as compared to 2000 primarily due to changes in accounts receivable, accrued royalties payable and accrued production taxes caused by fluctuation of commodity prices at each yearend. Net investing cash outflows of \$1,088 million in 2001 increased by \$421 million as compared to 2000 due primarily to increased exploration and development expenditures of \$426 million (including producing property acquisitions) and decreased proceeds from sales of reserves and related assets, partially offset by decreased equity investments. Changes in components of working

Edgar Filing: EOG RESOURCES INC - Form 8-K

capital associated with investing activities included changes in

7

accounts payable associated with the accrual of exploration and development expenditures and changes in inventories which represent materials and equipment used in drilling and related activities. Cash used in financing activities in 2001 was \$127 million as compared to \$305 million in 2000. Financing activities in 2001 included repayments of debt of \$4 million, common stock repurchases of \$127 million and dividend payments of \$29 million, partially offset by proceeds from sales of treasury stock of \$31 million.

Net operating cash flows of \$967 million in 2000 increased approximately \$524 million as compared to 1999 due to higher net operating revenues resulting from higher prices, net of cash operating expenses, and higher tax benefits from stock options exercised partially offset by higher current income taxes. Changes in working capital and other liabilities decreased operating cash flows by \$16 million as compared to 1999 primarily due to changes in accounts receivable, accrued royalties payable and accrued production taxes caused by fluctuation of commodity prices at each yearend. Net investing cash outflows of \$667 million in 2000 increased by \$304 million as compared to 1999 due primarily to increased exploration and development expenditures of \$226 million (including producing property acquisitions), increased equity investments, and the non-recurrence of proceeds from sales of Enron Corp. options in 1999, partially offset by increased proceeds from sales of reserves and related assets. Changes in components of working capital associated with investing activities included changes in accounts payable associated with the accrual of exploration and development expenditures and changes in inventories which represent materials and equipment used in drilling and related activities. Cash used in financing activities in 2000 was \$305 million as compared to \$62 million in 1999. Financing activities in 2000 included repayments of debt of \$131 million, common stock repurchases of \$273 million and dividend payments of \$26 million, partially offset by proceeds from sales of treasury stock of \$127 million.

Discretionary cash flow available to common, a frequently used measure of performance for exploration and production companies, is generally derived by adjusting net income to include tax benefits on stock options exercised and to eliminate the effects of depreciation, depletion and amortization, impairments, deferred income taxes, gains on sales of oil and gas reserves and related assets, certain other non-cash amounts, except for amortization of deferred revenue and exploration and dry hole costs. EOG generated discretionary cash flow available to common of approximately \$1,162 million in 2001, \$1,007 million in 2000, \$477 million in 1999. Discretionary cash flow available to common should not be considered as an alternative to income from operations or to cash flows from operating activities (as determined in accordance with accounting principles generally accepted in the United States) and should not be construed as an indication of a company's operating performance or as a measure of liquidity.

Exploration and Development Expenditures. The table below sets

Edgar Filing: EOG RESOURCES INC - Form 8-K

out components of exploration and development expenditures for the years ended December 31, 2001, 2000 and 1999, along with the total budgeted for 2002, excluding acquisitions.

Expenditure Category ----- (In Millions)	Actual			1999 Excluding India and China Operations (1)	(exclu
	2001	2000	1999		
Capital					
Drilling and Facilities.....	\$ 722	\$ 443	\$ 319	\$ 293	
Leasehold Acquisitions.....	76	51	21	21	
Producing Property Acquisitions.....	168	102	45	43	
Capitalized Interest.....	9	7	11	8	
	-----	-----	-----	-----	
Subtotal.....	975	603	396	365	
Exploration Costs.....	67	67	53	51	
Dry Hole Costs.....	71	17	12	12	
	-----	-----	-----	-----	
Subtotal.....	1,113	687	461	428	
Deferred Income Taxes.....	50	23	-	-	
	-----	-----	-----	-----	
Total.....	\$1,163	\$ 710	\$ 461	\$ 428	
	=====	=====	=====	=====	

(1) See Note 4 to Consolidated Financial Statements.

Total exploration and development expenditures increased \$453 million in 2001 as compared to 2000 primarily due to increased exploration and development activities in North America and Trinidad, and acquisitions of oil and gas properties in North America.

8

Derivative Transactions. During 2001, EOG recognized mark-to-market gains on commodity derivative contracts of \$98 million, of which \$62 million were realized gains (see Note 12 to the Consolidated Financial Statements).

The following is a summary of EOG's price swap and physical contract positions at February 20, 2002:

(a) 2002 Price Swap Positions

- o Natural Gas Price Swaps - Tabulated below is a summary of EOG's 2002 natural gas price swap positions with prices expressed in dollars per million British thermal units (\$/MMBtu) and notional volumes in million British thermal units per day (MMBtud). EOG accounts for these swap contracts under mark-to-market accounting.

2002	Average Price (\$/MMBtu)	Volume (MMBtud)
January (closed)	\$ 3.21	140,000
February (closed)	\$ 3.13	190,000

Edgar Filing: EOG RESOURCES INC - Form 8-K

March	\$ 3.13	140,000
April and May	\$ 2.68	290,000
June	\$ 2.76	200,000
July through December	\$ 3.26	100,000

- o Crude Oil Price Swaps - Notional volumes of two thousand barrels of oil per day for the period March 2002 to December 2002 at an average price of \$21.50 per barrel. EOG accounts for these swap contracts under mark-to-market accounting.

(b) 2002 Natural Gas Physical Contracts

EOG had 2002 natural gas physical contracts for 95,000 MMBtud at an average price of \$3.03 per MMBtu for January and February 2002 in the U.S. and approximately 24,000 MMBtud at an average price of US\$3.35 per MMBtu for the period January through December 2002 in Canada.

Financing. EOG's long-term debt-to-total-capitalization ratio was 34% as of December 31, 2001 compared to 38% as of December 31, 2000.

During 2001, total long-term debt decreased slightly to \$856 million primarily due to higher cash flow from operations primarily resulting from slightly higher natural gas prices, partially offset by additions to oil and gas properties and significant share repurchases of common stock (see Note 2 to the Consolidated Financial Statements). The estimated fair value of EOG's long-term debt at December 31, 2001 and 2000 was \$838 million and \$831 million, respectively, based upon quoted market prices and, where such prices were not available, upon interest rates currently available to EOG at yearend. EOG's debt is primarily at fixed interest rates. At December 31, 2001, a 1% change in interest rates would result in a \$47 million change in the estimated fair value of the fixed rate obligations (see Note 12 to the Consolidated Financial Statements).

The following table summarizes EOG's contractual obligations at December 31, 2001 (in thousands):

Contractual Obligations(1)	Total	2002	2003 - 2005	2006 - 2007
-----	-----	-----	-----	-----
Long-Term Debt.....	\$855,969	\$ -	\$195,147	\$226,870
Non-cancelable Operating Leases.....	32,779	7,773	18,896	6,110
Drilling Rig Commitments.....	28,234	24,711	3,523	-
Transportation Service Commitments(2).....	49,473	16,377	17,541	10,427
	-----	-----	-----	-----
Total Contractual Obligations.....	\$966,455	\$ 48,861	\$235,107	\$243,407
	=====	=====	=====	=====

(1) See Notes 2 and 7 to Consolidated Financial Statements.

(2) Amounts shown are based on current transportation rates and foreign currency exchange rates as of December 31, 2001. Management does not believe that any future changes in these rates before expiration dates of these commitments will have a materially adverse effect on the financial condition or results of operations of EOG.

Shelf Registration. During the third quarter of 2000, EOG filed a shelf registration statement for the offer and sale from time to time of up to \$600 million of EOG debt securities, preferred stock and/or common stock. The registration statement was declared effective by the Securities and Exchange Commission on October 27, 2000. As of February 20, 2002, EOG had sold no securities pursuant to this shelf registration. When combined with the unused portion of a previously filed registration statement declared effective in January 1998, these registration statements provide for the offer and sale from time to time of EOG debt securities, preferred stock and/or common stock by EOG in an aggregate amount up to \$688 million.

Outlook. Natural gas prices historically have been volatile, and this volatility is expected to continue. Uncertainty continues to exist as to the direction of future North America natural gas and crude oil price trends, and there remains a rather wide divergence in the opinions held by some in the industry. This divergence in opinion is caused by various factors including the current industrial recession and economic downturn, improvements in the technology used in drilling and completing crude oil and natural gas wells, improvements being realized in the availability and utilization of natural gas storage capacity and warmer weather experienced in the latter part of 2001. However, the increasing recognition of natural gas as a more environmentally friendly source of energy along with the availability of significant domestically sourced supplies should result in increases in demand. Being primarily a natural gas producer, EOG is more significantly impacted by changes in natural gas prices than by changes in crude oil and condensate prices. At December 31, 2001, based on EOG's tax position and the portion of EOG's anticipated natural gas volumes for 2002 for which prices have not, in effect, been hedged using NYMEX-related commodity market transactions and long-term marketing contracts, EOG's price sensitivity for each \$0.10 per Mcf change in average wellhead natural gas prices is \$15 million (or \$0.13 per share) for net income and \$23 million for current operating cash flow. EOG is not impacted as significantly by changing crude oil prices for those volumes not otherwise hedged. EOG's price sensitivity for each \$1.00 per barrel change in average wellhead crude oil prices is \$5 million (or \$0.04 per share) for net income and \$8 million for current operating cash flow.

EOG plans to continue to focus a substantial portion of its exploration and development expenditures in its major producing areas in North America. However, in order to diversify its overall asset portfolio and as a result of its overall success realized in Trinidad, EOG anticipates expending a portion of its available funds in the further development of opportunities outside North America. In addition, EOG expects to conduct limited exploratory activity in other areas outside of North America and will continue to evaluate the potential for involvement in other exploitation type opportunities. Budgeted 2002 exploration and development expenditures, excluding acquisitions, are in the range of \$600 - \$750 million, addressing the continuing uncertainty with regard to the future of the North America natural gas and crude oil and condensate price environment. Budgeted expenditures for 2002 are structured to maintain the flexibility necessary under EOG's continuing strategy of funding North America exploration, exploitation, development and acquisition activities primarily from available internally generated cash flow.

The level of exploration and development expenditures may vary in

Edgar Filing: EOG RESOURCES INC - Form 8-K

2002 and will vary in future periods depending on energy market conditions and other related economic factors. Based upon existing economic and market conditions, EOG believes net operating cash flow and available financing alternatives in 2002 will be sufficient to fund its net investing cash requirements for the year. However, EOG has significant flexibility with respect to its financing alternatives and adjustment of its exploration, exploitation, development and acquisition expenditure plans if circumstances warrant. While EOG has certain continuing commitments associated with expenditure plans related to operations in Trinidad, such commitments are not anticipated to be material when considered in relation to the total financial capacity of EOG.

Environmental Regulations. Various federal, state and local laws and regulations covering the discharge of materials into the environment, or otherwise relating to protection of the environment, may affect EOG's operations and costs as a result of their effect on natural gas and crude oil exploration, exploitation, development and production operations. In addition, EOG has acquired certain oil and gas properties from third parties whose actions with respect to the management and disposal or release of hydrocarbons or other wastes were not under EOG's control. Under environmental laws and regulations, EOG could be required to remove or remediate wastes disposed of or released by prior owners or operators. EOG also has acquired or merged with companies that own and operate oil and gas properties. Any obligations or liabilities of these companies under environmental laws would continue as liabilities of the acquired company, or of EOG in the event of a merger, even if the obligations or liabilities resulted from actions that took place before the acquisition or merger. Compliance with such laws and regulations has not had a material adverse effect on EOG's operations or financial condition. It is not anticipated, based on current laws and regulations, that EOG will be required in the near future to expend amounts that are material in relation to its total exploration and development expenditure program by reason of environmental laws and regulations. However, inasmuch as such laws and regulations are frequently changed, EOG is unable to predict the ultimate cost of compliance.

10

EOG also could incur costs related to the clean up of sites to which it sent regulated substances for disposal and for damages to natural resources or other claims related to releases of regulated substances at such sites. In this regard, EOG has been named as a potentially responsible party in certain proceedings initiated pursuant to the Comprehensive Environmental Response, Compensation, and Liability Act and may be named as a potentially responsible party in other similar proceedings in the future. It is not anticipated that the costs incurred by EOG in connection with the presently pending proceedings will, individually or in the aggregate, have a materially adverse effect on the financial condition or results of operations of EOG.

Summary of Significant Accounting Policies

Principles of Consolidation. The consolidated financial statements of EOG, a Delaware corporation, include the accounts of all

Edgar Filing: EOG RESOURCES INC - Form 8-K

domestic and foreign subsidiaries. Investments in unconsolidated affiliates, in which EOG is able to exercise significant influence, are accounted for using the equity method. All material intercompany accounts and transactions have been eliminated.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Certain reclassifications have been made to prior period financial statements to conform with the current presentation. Beginning 2001, the "Impairment of Unproved Oil and Gas Properties" caption on the Consolidated Statements of Income was renamed "Impairments" to include the impairment loss of long-lived assets as described in Statement of Financial Accounting Standards ("SFAS") No. 121--"Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed of" ("SFAS 121 Impairments"). As a result, EOG reclassified all prior periods to reflect such SFAS 121 Impairments in Impairments, instead of Depreciation, Depletion and Amortization ("DD&A") as previously reported. SFAS 121 Impairments reclassified from DD&A to Impairments were \$11 million and \$133 million for 2000 and 1999, respectively.

Financial Instruments. EOG's financial instruments consist of cash and cash equivalents, marketable securities, accounts receivable, accounts payable and long-term debt. The carrying values of cash and cash equivalents, marketable securities, accounts receivable and accounts payable approximate fair value (see Note 2 "Long-Term Debt" for fair value of long-term debt).

Cash and Cash Equivalents. EOG records as cash equivalents all highly liquid short-term investments with original maturities of three months or less.

Oil and Gas Operations. EOG accounts for its natural gas and crude oil exploration and production activities under the successful efforts method of accounting.

Oil and gas lease acquisition costs are capitalized when incurred. Unproved properties with significant acquisition costs are assessed quarterly on a property-by-property basis, and any impairment in value is recognized. Unproved properties with acquisition costs that are not individually significant are aggregated, and the portion of such costs estimated to be nonproductive, based on historical experience, is amortized over the average holding period. If the unproved properties are determined to be productive, the appropriate related costs are transferred to proved oil and gas properties. Lease rentals are expensed as incurred.

Oil and gas exploration costs, other than the costs of drilling exploratory wells, are charged to expense as incurred. The costs of drilling exploratory wells are capitalized pending determination of whether they have discovered proved commercial reserves. If proved commercial reserves are not discovered, such drilling costs are expensed. Costs to develop proved reserves, including the costs of all development wells and related equipment used in the production of natural gas and crude oil, are capitalized.

Edgar Filing: EOG RESOURCES INC - Form 8-K

Depreciation, depletion and amortization of the cost of proved oil and gas properties is calculated using the unit-of-production method. Estimated future dismantlement, restoration and abandonment costs (classified as long-term liabilities), net of salvage values, are taken into account. Certain other assets are depreciated on a straight-line basis.

Periodically, or when circumstances indicate that an asset may be impaired, EOG compares expected undiscounted future cash flows at a producing field level to the unamortized capitalized cost of the asset. If the future undiscounted cash flows, based on EOG's estimate of future crude oil and natural gas prices and operating costs and anticipated production from proved

11

reserves are lower than the unamortized capitalized cost, the capitalized cost is reduced to fair value. Fair value is calculated by discounting the future cash flows at an appropriate risk-adjusted discount rate.

Inventories, consisting primarily of tubular goods and well equipment held for use in the exploration for, and development and production of natural gas and crude oil reserves, are carried at cost with adjustments made from time to time to recognize any reductions in value.

Natural gas revenues are recorded when production is delivered. EOG natural gas revenues are recorded on the entitlement method based on EOG's percentage ownership of current production. Each working interest owner in a well generally has the right to a specific percentage of production, although actual production sold may differ from an owner's ownership percentage. Under entitlement accounting, a receivable is recorded when underproduction occurs and a payable when overproduction occurs.

Gains and losses associated with the sale of in place natural gas and crude oil reserves and related assets are classified as net operating revenues in the consolidated statements of income and comprehensive income based on EOG's strategy of continuing such sales in order to maximize the economic value of its assets.

New Accounting Pronouncements. In June 1998, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 133--"Accounting for Derivative Instruments and Hedging Activities" effective for fiscal years beginning after June 15, 1999. SFAS No. 133, as amended by SFAS No. 137 and No. 138, cannot be applied retroactively. EOG adopted SFAS No. 133, as amended, on January 1, 2001 for the accounting periods which begin thereafter. The adoption of SFAS No. 133 did not have a material impact on EOG's financial statements.

In June 2001, the FASB issued SFAS No. 143--"Accounting for Asset Retirement Obligations" effective for fiscal years beginning after June 15, 2002. SFAS No.143 requires entities to record the fair value of a liability for legal obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. The fair value of the liability is added to the carrying amount of the associated asset and this additional carrying amount is depreciated over the life of the asset. If the obligation is settled for other

Edgar Filing: EOG RESOURCES INC - Form 8-K

than the carrying amount of the liability, a gain or loss is recognized on settlement. This statement will impact how EOG accounts for its abandonment liability related to its oil and gas wells. EOG is currently evaluating the effect of adopting SFAS No. 143 on its financial statements and has not yet determined the timing of adoption.

In August 2001, the FASB issued SFAS No. 144--"Accounting for the Impairment or Disposal of Long-Lived Assets" effective for fiscal years beginning after December 15, 2001. SFAS No. 144, which supersedes SFAS No. 121--"Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of," provides that long-lived assets to be disposed of by sale be measured at the lower of carrying amount or fair value less cost to sell. In addition, SFAS No. 144, which also supersedes the accounting and reporting provisions of Accounting Principles Board ("APB") Opinion No. 30--"Reporting the Results of Operations -- Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions," broadens the reporting of discontinued operations to include all components of an entity with operations that can be distinguished from the rest of the entity and that will be eliminated from the ongoing operations of the entity in a disposal transaction. EOG adopted the provisions of SFAS No. 144 on January 1, 2002. This statement will impact how EOG tests for long-lived asset impairments. EOG does not expect the impact of SFAS No. 144 to have a material effect on its financial position or results of operations.

Accounting for Price Risk Management Activities. EOG engages in price risk management activities from time to time. These activities are intended to manage EOG's exposure to fluctuations in commodity prices for natural gas and crude oil. EOG utilizes derivative financial instruments, primarily price swaps and costless collars, as the means to manage this price risk. EOG adopted SFAS No. 133--"Accounting for Derivative Instruments and Hedging Activities," as amended by SFAS No. 137 and No. 138, on January 1, 2001 for the accounting periods which begin thereafter. The statement establishes accounting and reporting standards requiring that every derivative instrument be recorded in the balance sheet as either an asset or liability measured at its fair value. The statement requires that changes in the derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met. Special accounting for qualifying hedges allows a derivative's gains and losses to offset related results on the hedged item in the statements of income and requires a company to formally document, designate and assess the effectiveness of transactions that receive hedge accounting treatment. The adoption of SFAS No. 133 did not have a material impact on EOG's financial statements. During 2001, EOG elected not to designate any of its price risk management activities as accounting hedges under SFAS No. 133, and accordingly, accounted for them using the mark-to-market accounting method. Under this accounting method, the changes in the market value of outstanding financial instruments are recognized as gains or losses in the period of change. The gains or losses are recorded in Mark-to-market

12

Gains (Losses) on Commodity Derivative Contracts in the Net Operating Revenues section of the Consolidated Statements of Income. The related cash flow impact is reflected as cash flows from operating

Edgar Filing: EOG RESOURCES INC - Form 8-K

activities in the Consolidated Statements of Cash Flows (see Note 12 "Prices and Interest Rate Risk Management Activities").

Capitalized Interest Costs. Certain interest costs have been capitalized as a part of the historical cost of unproved oil and gas properties and work in progress for development drilling and related facilities with significant cash outlays.

Income Taxes. EOG accounts for income taxes under the provisions of SFAS No. 109--"Accounting for Income Taxes." SFAS No. 109 requires the asset and liability approach for accounting for income taxes. Under this approach, deferred tax assets and liabilities are recognized based on anticipated future tax consequences attributable to differences between financial statement carrying amounts of assets and liabilities and their respective tax bases (see Note 5 "Income Taxes").

Foreign Currency Translation. For subsidiaries whose functional currency is deemed to be other than the U.S. dollar, asset and liability accounts are translated at year-end exchange rates and revenue and expenses are translated at average exchange rates prevailing during the year. Translation adjustments are included as a separate component of shareholders' equity. Any gains or losses on transactions or monetary assets or liabilities in currencies other than the functional currency are included in net income in the current period.

Net Income Per Share. In accordance with the provisions of SFAS No. 128--"Earnings per Share," basic net income per share is computed on the basis of the weighted-average number of common shares outstanding during the periods. Diluted net income per share is computed based upon the weighted-average number of common shares plus the assumed issuance of common shares for all potentially dilutive securities (see Note 8 "Net Income Per Share Available to Common" for additional information to reconcile the difference between the Average Number of Common Shares outstanding for basic and diluted net income per share).

Stock Option Plans. EOG accounts for stock options under the provisions and related interpretations of APB Opinion No. 25--"Accounting for Stock Issued to Employees." No compensation expense is recognized for such options. As allowed by SFAS No. 123--"Accounting for Stock-Based Compensation" issued in 1995, EOG has continued to apply APB Opinion No. 25 for purposes of determining net income and to present the pro forma disclosures required by SFAS No. 123.

Information Regarding Forward-Looking Statements

This Current Report on Form 8-K includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. All statements other than statements of historical facts, including, among others, statements regarding EOG's future financial position, business strategy, budgets, reserve information, projected levels of production, projected costs and plans and objectives of management for future operations, are forward-looking statements. EOG typically uses words such as "expect," "anticipate," "estimate," "strategy," "intend," "plan," "target" and "believe" or the negative of those terms or other variations of them or by comparable terminology to

Edgar Filing: EOG RESOURCES INC - Form 8-K

identify its forward-looking statements. In particular, statements, express or implied, concerning future operating results, the ability to increase reserves, or the ability to generate income or cash flows are forward-looking statements. Forward-looking statements are not guarantees of performance. Although EOG believes its expectations reflected in forward-looking statements are based on reasonable assumptions, no assurance can be given that these expectations will be achieved. Important factors that could cause actual results to differ materially from the expectations reflected in the forward-looking statements include, among others: the timing and extent of changes in commodity prices for crude oil, natural gas and related products and interest rates; the extent and effect of any hedging activities engaged in by EOG; the extent of EOG's success in discovering, developing, marketing and producing reserves and in acquiring oil and gas properties; the accuracy of reserve estimates, which by their nature involve the exercise of professional judgment and may therefore be imprecise; political developments around the world, including terrorist activities and responses to such activities; and financial market conditions. In light of these risks, uncertainties and assumptions, the events anticipated by EOG's forward-looking statements might not occur. EOG undertakes no obligations to update or revise its forward-looking statements, whether as a result of new information, future events or otherwise.

13

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The following consolidated financial statements of EOG Resources, Inc. and its subsidiaries ("EOG") were prepared by management, which is responsible for their integrity, objectivity and fair presentation. The statements have been prepared in conformity with accounting principles generally accepted in the United States and, accordingly, include some amounts that are based on the best estimates and judgments of management.

Arthur Andersen LLP, independent public accountants, was engaged to audit the consolidated financial statements of EOG and issue a report thereon. In the conduct of the audit, Arthur Andersen LLP was given unrestricted access to all financial records and related data including minutes of all meetings of shareholders, the Board of Directors and committees of the Board. Their audit was made in accordance with auditing standards generally accepted in the United States and included a review of the system of internal controls to the extent considered necessary to determine the audit procedures required to support their opinion on the consolidated financial statements. Management believes that all representations made to Arthur Andersen LLP during the audit were valid and appropriate.

The system of internal controls of EOG is designed to provide reasonable assurance as to the reliability of financial statements and the protection of assets from unauthorized acquisition, use or disposition. This system includes, but is not limited to, written policies and guidelines including a published code for the conduct of business affairs, conflicts of interest and compliance with laws regarding antitrust, antiboycott and foreign corrupt practices policies, the careful selection and training of qualified personnel,

Edgar Filing: EOG RESOURCES INC - Form 8-K

and a documented organizational structure outlining the separation of responsibilities among management representatives and staff groups.

The adequacy of financial controls of EOG and the accounting principles employed in financial reporting by EOG are under the general oversight of the Audit Committee of the Board of Directors. No member of this committee is an officer or employee of EOG. The independent public accountants and internal auditors have full, free, separate and direct access to the Audit Committee and meet with the committee from time to time to discuss accounting, auditing and financial reporting matters. It should be recognized that there are inherent limitations to the effectiveness of any system of internal control, including the possibility of human error and circumvention or override. Accordingly, even an effective system can provide only reasonable assurance with respect to the preparation of reliable financial statements and safeguarding of assets. Furthermore, the effectiveness of an internal control system can change with circumstances.

It is management's opinion that, considering the criteria for effective internal control over financial reporting and safeguarding of assets which consists of interrelated components including the control environment, risk assessment process, control activities, information and communication systems, and monitoring, EOG maintained an effective system of internal control as to the reliability of financial statements and the protection of assets against unauthorized acquisition, use or disposition during the year ended December 31, 2001.

MARK G. PAPA	EDMUND P. SEGNER, III	TIMOTHY K. DRIGGERS
Chairman and Chief Executive Officer	President and Chief of Staff	Vice President, Accounting and Land Administration

Houston, Texas
February 21, 2002

14

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To EOG Resources, Inc.:

We have audited the accompanying consolidated balance sheets of EOG Resources, Inc. (a Delaware corporation) and subsidiaries as of December 31, 2001 and 2000, and the related consolidated statements of income and comprehensive income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the

Edgar Filing: EOG RESOURCES INC - Form 8-K

amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of EOG Resources, Inc. and subsidiaries as of December 31, 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States.

ARTHUR ANDERSEN LLP

Houston, Texas
February 21, 2002

15

EOG RESOURCES, INC.
CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
(In Thousands, Except Per Share Amounts)

	Year Ended D	
	2001	2000
NET OPERATING REVENUES		
Natural Gas.....	\$1,298,102	\$1,155,000
Crude Oil, Condensate and Natural Gas Liquids.....	258,101	325,000
Mark-to-market Gains (Losses) on Commodity Derivative Contracts.....	97,750	(1,000)
Gains (Losses) on Sales of Reserves and Related Assets and Other, Net....	934	900
	1,654,887	1,489,000
OPERATING EXPENSES		
Lease and Well.....	175,446	140,000
Exploration Costs.....	67,467	67,000
Dry Hole Costs.....	71,360	17,000
Impairments.....	79,156	46,000
Depreciation, Depletion and Amortization.....	392,399	359,000
General and Administrative.....	79,963	66,000
Taxes Other Than Income.....	95,333	94,000
Charges Associated with Enron Bankruptcy.....	19,211	-
	980,335	793,000
OPERATING INCOME.....	674,552	696,000
OTHER INCOME (EXPENSE)		
Gain on Share Exchange.....	-	-
Other, Net.....	2,003	(2,000)
	2,003	(2,000)

Edgar Filing: EOG RESOURCES INC - Form 8-K

INCOME BEFORE INTEREST EXPENSE AND INCOME TAXES.....	676,555	694
INTEREST EXPENSE		
Incurred.....	53,756	67
Capitalized.....	(8,646)	(6)
Net Interest Expense.....	45,110	61
INCOME BEFORE INCOME TAXES.....	631,445	633
INCOME TAX PROVISION (BENEFIT).....	232,829	236
NET INCOME.....	398,616	396
PREFERRED STOCK DIVIDENDS.....	10,994	11
NET INCOME AVAILABLE TO COMMON.....	\$ 387,622	\$ 385
EARNINGS PER SHARE AVAILABLE TO COMMON		
Basic.....	\$ 3.35	\$
Diluted.....	\$ 3.30	\$
AVERAGE NUMBER OF COMMON SHARES		
Basic.....	115,765	116
Diluted.....	117,488	119
COMPREHENSIVE INCOME		
NET INCOME.....	\$ 398,616	\$ 396
OTHER COMPREHENSIVE INCOME (LOSS)		
Foreign Currency Translation Adjustment.....	(22,044)	(12)
Unrealized Gain (Loss) on Available-for-sale Security.....	(1,318)	
COMPREHENSIVE INCOME.....	\$ 375,254	\$ 384

The accompanying notes are an integral part of these consolidated financial statements

16

EOG RESOURCES, INC.
CONSOLIDATED BALANCE SHEETS
(In Thousands)

	At December 31	
ASSETS	2001	2000
CURRENT ASSETS		
Cash and Cash Equivalents.....	\$ 2,512	\$
Accounts Receivable, net.....	194,624	3

Edgar Filing: EOG RESOURCES INC - Form 8-K

Inventories.....	18,871	
Assets from Price Risk Management Activities.....	19,161	
Federal Income Tax Deposit.....	19,332	
Other.....	17,921	
	-----	-----
Total.....	272,421	3
OIL AND GAS PROPERTIES (Successful Efforts Method).....	6,065,603	5,1
Less: Accumulated Depreciation, Depletion and Amortization.....	(3,009,693)	(2,5
	-----	-----
Net Oil and Gas Properties.....	3,055,910	2,5
OTHER ASSETS.....	85,713	
	-----	-----
TOTAL ASSETS.....	\$ 3,414,044	\$ 3,0
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts Payable.....	\$ 219,561	\$ 2
Accrued Taxes Payable.....	40,219	
Dividends Payable.....	5,045	
Accrued Employee Benefits.....	16,345	
Other.....	29,677	
	-----	-----
Total.....	310,847	3
LONG-TERM DEBT.....	855,969	8
OTHER LIABILITIES.....	53,522	
DEFERRED INCOME TAXES.....	551,020	3
SHAREHOLDERS' EQUITY		
Preferred Stock, \$.01 Par, 10,000,000 Shares Authorized:		
Series B, 100,000 shares Issued, Cumulative,		
\$100,000,000 Liquidation Preference.....	98,116	
Series D, 500 shares Issued, Cumulative,		
\$50,000,000 Liquidation Preference.....	49,466	
Common Stock, \$.01 Par, 320,000,000 shares Authorized and		
124,730,000 shares Issued.....	201,247	2
Additional Paid In Capital.....	-	
Unearned Compensation.....	(14,953)	
Accumulated Other Comprehensive Loss.....	(55,118)	(
Retained Earnings.....	1,668,708	1,3
Common Stock Held in Treasury, 9,278,382 shares at December 31, 2001		
and 7,825,708 shares at December 31, 2000.....	(304,780)	(2
	-----	-----
Total Shareholders' Equity.....	1,642,686	1,3
	-----	-----
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY.....	\$ 3,414,044	\$ 3,0
	=====	=====

The accompanying notes are an integral part of these consolidated financial statements

Edgar Filing: EOG RESOURCES INC - Form 8-K

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(In Thousands, Except Per Share Amounts)

	Preferred Stock	Common Stock	Additional Paid In Capital	Unearned Compensation	Accumulated Other Comprehensive Income (Loss)	Retained Earnings
Balance at December 31, 1998....	\$ --	\$201,600	\$ 401,524	\$ (4,900)	\$ (35,848)	\$ 83,566
Net Income.....	--	--	--	--	--	56
Preferred Stock Issued.....	147,175	--	--	--	--	--
Amortization of Preferred Stock Discount.....	15	--	--	--	--	--
Common Stock Issued.....	--	270	577,662	--	--	--
Preferred Stock Dividends Paid/Declared.....	--	--	--	--	--	--
Common Stock Dividends Declared, \$.12 Per Share....	--	--	--	--	--	(16)
Translation Adjustment.....	--	--	--	--	16,038	--
Treasury Stock Purchased.....	--	--	--	--	--	--
Treasury Stock Received in Share Exchange.....	--	--	--	--	--	--
Common Stock Retired.....	--	(623)	(978,224)	--	--	(458)
Treasury Stock Issued Under Stock Option Plans.....	--	--	(2,274)	136	--	(1)
Tax Benefits from Stock Options Exercised.....	--	--	1,387	--	--	--
Amortization of Unearned Compensation.....	--	--	--	3,146	--	--
Other.....	--	--	(75)	--	--	--
Balance at December 31, 1999....	147,190	201,247	--	(1,618)	(19,810)	930,396
Net Income.....	--	--	--	--	--	396
Amortization of Preferred Stock Discount.....	419	--	--	--	--	--
Exchange Offer Fees.....	(445)	--	--	--	--	--
Preferred Stock Dividends Paid/Declared.....	--	--	--	--	--	(10)
Common Stock Dividends Declared, \$.14 Per Share....	--	--	--	--	--	(15)
Translation Adjustment.....	--	--	--	--	(12,338)	--
Unrealized Gain on Available- for-sale Security.....	--	--	--	--	392	--
Treasury Stock Purchased.....	--	--	--	--	--	--
Treasury Stock Issued Under Stock Option Plans.....	--	--	(36,701)	--	--	--
Tax Benefits from Stock Options Exercised.....	--	--	41,307	--	--	--
Restricted Stock and Units.....	--	--	2,805	(3,411)	--	--
Amortization of Unearned Compensation.....	--	--	--	1,273	--	--
Equity Derivative Transactions.	--	--	(3,190)	--	--	--
Other.....	--	--	--	--	--	--
Balance at December 31, 2000....	147,164	201,247	4,221	(3,756)	(31,756)	1,301,398
Net Income.....	--	--	--	--	--	398
Amortization of Preferred Stock Discount.....	418	--	--	--	--	--
Preferred Stock Dividends Paid/Declared.....	--	--	--	--	--	(10)
Common Stock Dividends	--	--	--	--	--	--

Edgar Filing: EOG RESOURCES INC - Form 8-K

Declared, \$.16 Per Share.....	--	--	--	--	--	(18)
Translation Adjustment.....	--	--	--	--	(22,044)	
Unrealized Loss on Available- for-sale Security.....	--	--	--	--	(1,318)	
Treasury Stock Purchased.....	--	--	--	--	--	
Treasury Stock Issued Under Stock Option Plans.....	--	--	(19,097)	--	--	(1)
Treasury Stock Issued Under Employee Stock Purchase Plan.	--	--	(104)	--	--	
Tax Benefits from Stock Options Exercised.....	--	--	7,332	--	--	
Restricted Stock and Units....	--	--	6,583	(14,467)	--	
Amortization of Unearned Compensation.....	--	--	--	3,270	--	
Equity Derivative Transactions.	--	--	1,201	--	--	
Other.....	--	--	(136)	--	--	
Balance at December 31, 2001....	\$147,582	\$201,247	\$ --	\$ (14,953)	\$ (55,118)	\$1,668

The accompanying notes are an integral part of these consolidated financial

18

EOG RESOURCES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Thousands)

	Year Ende	
	2001	2000
CASH FLOWS FROM OPERATING ACTIVITIES		
Reconciliation of Net Income to Net Operating Cash Inflows:		
Net Income.....	\$ 398,616	\$ 398,616
Items Not Requiring (Providing) Cash		
Depreciation, Depletion and Amortization.....	392,399	392,399
Impairments.....	79,156	79,156
Deferred Income Taxes.....	164,945	164,945
Charges Related to Enron Bankruptcy.....	19,211	19,211
Other, Net.....	10,423	10,423
Exploration Costs.....	67,467	67,467
Dry Hole Costs.....	71,360	71,360
Mark-to-market Commodity Derivative Contracts		
Total (Gains) Losses.....	(97,750)	(97,750)
Realized Gains (Losses).....	62,110	62,110
Losses (Gains) On Sales of Reserves and Related Assets and Other, Net.....	835	835
Gains on Sales of Other Assets.....	--	--
Gain on Share Exchange.....	--	--
Tax Benefits from Stock Options Exercised.....	7,332	7,332
Other, Net.....	(3,127)	(3,127)
Changes in Components of Working Capital and Other Liabilities		
Accounts Receivable.....	146,235	146,235
Inventories.....	(2,248)	(2,248)

Edgar Filing: EOG RESOURCES INC - Form 8-K

Accounts Payable.....	(26,949)	
Accrued Taxes Payable.....	(38,619)	
Other Liabilities.....	(3,422)	
Other, Net.....	(16,442)	
Changes in Components of Working Capital		
Associated with Investing and Financing Activities.....	(34,105)	
	-----	-----
NET OPERATING CASH INFLOWS.....	1,197,427	
INVESTING CASH FLOWS		
Additions to Oil and Gas Properties.....	(974,016)	
Exploration Costs.....	(67,467)	
Dry Hole Costs.....	(71,360)	
Proceeds from Sales of Reserves and Related Assets.....	8,032	
Proceeds from Sales of Other Assets.....	--	
Changes in Components of Working Capital		
Associated with Investing Activities.....	32,405	
Other, Net.....	(15,649)	
	-----	-----
NET INVESTING CASH OUTFLOWS.....	(1,088,055)	
FINANCING CASH FLOWS		
Long-Term Debt		
Third Party.....	(4,155)	
Affiliate.....	--	
Proceeds from Preferred Stock Issued.....	--	
Proceeds from Common Stock Issued.....	--	
Dividends Paid.....	(28,580)	
Treasury Stock Purchased.....	(126,769)	
Proceeds from Sales of Treasury Stock.....	30,805	
Equity Contribution to Transferred Subsidiaries.....	--	
Other, Net.....	1,687	
	-----	-----
NET FINANCING CASH OUTFLOWS.....	(127,012)	
	-----	-----
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS.....	(17,640)	
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR.....	20,152	
	-----	-----
CASH AND CASH EQUIVALENTS AT END OF YEAR.....	\$ 2,512	\$
	=====	=====

The accompanying notes are an integral part of these consolidated financial statements

19

EOG RESOURCES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

Principles of Consolidation. The consolidated financial statements of EOG Resources, Inc. ("EOG"), a Delaware corporation, include the accounts of all domestic and foreign subsidiaries. Investments in unconsolidated affiliates, in which EOG is able to exercise significant influence, are accounted for using the equity

Edgar Filing: EOG RESOURCES INC - Form 8-K

method. All material intercompany accounts and transactions have been eliminated.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Certain reclassifications have been made to prior period financial statements to conform with the current presentation. Beginning 2001, the "Impairment of Unproved Oil and Gas Properties" caption on the Consolidated Statements of Income was renamed "Impairments" to include the impairment loss of long-lived assets as described in Statement of Financial Accounting Standards ("SFAS") No. 121--"Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed of" ("SFAS 121 Impairments"). As a result, EOG reclassified all prior periods to reflect such SFAS 121 Impairments in Impairments, instead of Depreciation, Depletion and Amortization ("DD&A") as previously reported. SFAS 121 Impairments reclassified from DD&A to Impairments were \$11 million and \$133 million for 2000 and 1999, respectively.

Financial Instruments. EOG's financial instruments consist of cash and cash equivalents, marketable securities, accounts receivable, accounts payable and long-term debt. The carrying values of cash and cash equivalents, marketable securities, accounts receivable and accounts payable approximate fair value (see Note 2 "Long-Term Debt" for fair value of long-term debt).

Cash and Cash Equivalents. EOG records as cash equivalents all highly liquid short-term investments with original maturities of three months or less.

Oil and Gas Operations. EOG accounts for its natural gas and crude oil exploration and production activities under the successful efforts method of accounting.

Oil and gas lease acquisition costs are capitalized when incurred. Unproved properties with significant acquisition costs are assessed quarterly on a property-by-property basis, and any impairment in value is recognized. Unproved properties with acquisition costs that are not individually significant are aggregated, and the portion of such costs estimated to be nonproductive, based on historical experience, is amortized over the average holding period. If the unproved properties are determined to be productive, the appropriate related costs are transferred to proved oil and gas properties. Lease rentals are expensed as incurred.

Oil and gas exploration costs, other than the costs of drilling exploratory wells, are charged to expense as incurred. The costs of drilling exploratory wells are capitalized pending determination of whether they have discovered proved commercial reserves. If proved commercial reserves are not discovered, such drilling costs are expensed. Costs to develop proved reserves, including the costs of all development wells and related equipment used in the production of natural gas and crude oil, are capitalized.

Edgar Filing: EOG RESOURCES INC - Form 8-K

Depreciation, depletion and amortization of the cost of proved oil and gas properties is calculated using the unit-of-production method. Estimated future dismantlement, restoration and abandonment costs (classified as long-term liabilities), net of salvage values, are taken into account. Certain other assets are depreciated on a straight-line basis.

Periodically, or when circumstances indicate that an asset may be impaired, EOG compares expected undiscounted future cash flows at a producing field level to the unamortized capitalized cost of the asset. If the future undiscounted cash flows, based on EOG's estimate of future crude oil and natural gas prices and operating costs and anticipated production from proved reserves, are lower than the unamortized capitalized cost, the capitalized cost is reduced to fair value. Fair value is calculated by discounting the future cash flows at an appropriate risk-adjusted discount rate.

20

EOG RESOURCES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Inventories, consisting primarily of tubular goods and well equipment held for use in the exploration for, and development and production of natural gas and crude oil reserves, are carried at cost with adjustments made from time to time to recognize any reductions in value.

Natural gas and liquids revenues are recorded when production is delivered. Additionally, natural gas revenues are recorded on the entitlement method based on EOG's percentage ownership of current production. Each working interest owner in a well generally has the right to a specific percentage of production, although actual production sold may differ from an owner's ownership percentage. Under entitlement accounting, a receivable is recorded when underproduction occurs and a payable when overproduction occurs.

Gains and losses associated with the sale of in place natural gas and crude oil reserves and related assets are classified as net operating revenues in the consolidated statements of income and comprehensive income based on EOG's strategy of continuing such sales in order to maximize the economic value of its assets.

New Accounting Pronouncements. In June 1998, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 133--"Accounting for Derivative Instruments and Hedging Activities" effective for fiscal years beginning after June 15, 1999. SFAS No. 133, as amended by SFAS No. 137 and No. 138, cannot be applied retroactively. EOG adopted SFAS No. 133, as amended, on January 1, 2001 for the accounting periods which begin thereafter. The adoption of SFAS No. 133 did not have a material impact on EOG's financial statements.

In June 2001, the FASB issued SFAS No. 143--"Accounting for Asset Retirement Obligations" effective for fiscal years beginning after June 15, 2002. SFAS No. 143 requires entities to record the fair value of a liability for legal obligations associated with the retirement of tangible long-lived assets and the associated asset

Edgar Filing: EOG RESOURCES INC - Form 8-K

retirement costs. The fair value of the liability is added to the carrying amount of the associated asset and this additional carrying amount is depreciated over the life of the asset. If the obligation is settled for other than the carrying amount of the liability, a gain or loss is recognized on settlement. This statement will impact how EOG accounts for its abandonment liability related to its oil and gas wells. EOG is currently evaluating the effect of adopting SFAS No. 143 on its financial statements and has not yet determined the timing of adoption.

In August 2001, the FASB issued SFAS No. 144--"Accounting for the Impairment or Disposal of Long-Lived Assets" effective for fiscal years beginning after December 15, 2001. SFAS No. 144, which supersedes SFAS No. 121--"Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of," provides that long-lived assets to be disposed of by sale be measured at the lower of carrying amount or fair value less cost to sell. In addition, SFAS No. 144, which also supersedes the accounting and reporting provisions of Accounting Principles Board ("APB") Opinion No. 30--"Reporting the Results of Operations -- Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions," broadens the reporting of discontinued operations to include all components of an entity with operations that can be distinguished from the rest of the entity and that will be eliminated from the ongoing operations of the entity in a disposal transaction. EOG adopted the provisions of SFAS No. 144 on January 1, 2002. This statement will impact how EOG tests for long-lived asset impairments. EOG does not expect the impact of SFAS No. 144 to have a material effect on its financial position or results of operations.

Accounting for Price Risk Management Activities. EOG engages in price risk management activities from time to time. These activities are intended to manage EOG's exposure to fluctuations in commodity prices for natural gas and crude oil. EOG utilizes derivative financial instruments, primarily price swaps and costless collars, as the means to manage this price risk. EOG adopted SFAS No. 133--"Accounting for Derivative Instruments and Hedging Activities," as amended by SFAS No. 137 and No. 138, on January 1, 2001 for the accounting periods which begin thereafter. The statement establishes accounting and reporting standards requiring that every derivative instrument be recorded in the balance sheet as either an asset

21

EOG RESOURCES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

or liability measured at its fair value. The statement requires that changes in the derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met. Special accounting for qualifying hedges allows a derivative's gains and losses to offset related results on the hedged item in the statements of income and requires a company to formally document, designate and assess the effectiveness of transactions that receive hedge accounting treatment. The adoption of SFAS No. 133 did not have a material impact on EOG's financial statements. During 2001, EOG elected not to designate any of its price risk management activities as accounting hedges under SFAS No. 133, and accordingly, accounted

Edgar Filing: EOG RESOURCES INC - Form 8-K

for them using the mark-to-market accounting method. Under this accounting method, the changes in the market value of outstanding financial instruments are recognized as gains or losses in the period of change. The gains or losses are recorded in Mark-to-market Gains (Losses) on Commodity Derivative Contracts in the Net Operating Revenues section of the Consolidated Statements of Income. The related cash flow impact is reflected as cash flows from operating activities in the Consolidated Statements of Cash Flows (see Note 12 "Prices and Interest Rate Risk Management Activities").

Capitalized Interest Costs. Certain interest costs have been capitalized as a part of the historical cost of unproved oil and gas properties and work in progress for development drilling and related facilities with significant cash outlays.

Income Taxes. EOG accounts for income taxes under the provisions of SFAS No. 109--"Accounting for Income Taxes." SFAS No. 109 requires the asset and liability approach for accounting for income taxes. Under this approach, deferred tax assets and liabilities are recognized based on anticipated future tax consequences attributable to differences between financial statement carrying amounts of assets and liabilities and their respective tax bases (see Note 5 "Income Taxes").

Foreign Currency Translation. For subsidiaries whose functional currency is deemed to be other than the U.S. dollar, asset and liability accounts are translated at year-end exchange rates and revenue and expenses are translated at average exchange rates prevailing during the year. Translation adjustments are included as a separate component of shareholders' equity. Any gains or losses on transactions or monetary assets or liabilities in currencies other than the functional currency are included in net income in the current period.

Net Income Per Share. In accordance with the provisions of SFAS No. 128--"Earnings per Share," basic net income per share is computed on the basis of the weighted-average number of common shares outstanding during the periods. Diluted net income per share is computed based upon the weighted-average number of common shares plus the assumed issuance of common shares for all potentially dilutive securities (see Note 8 "Net Income Per Share Available to Common" for additional information to reconcile the difference between the Average Number of Common Shares outstanding for basic and diluted net income per share).

Stock Options Plans. EOG accounts for stock options under the provisions and related interpretations of APB Opinion No. 25--"Accounting for Stock Issued to Employees." No compensation expense is recognized for such options. As allowed by SFAS No. 123--"Accounting for Stock-Based Compensation" issued in 1995, EOG has continued to apply APB Opinion No. 25 for purposes of determining net income and to present the pro forma disclosures required by SFAS No. 123.

2. Long-Term Debt

Long-Term Debt at December 31 consisted of the following (in thousands):

	2001	2000
	-----	-----
Uncommitted Credit Facilities.....	\$ 95,147	\$ 38,800
6.50% Notes due 2004.....	100,000	100,000

Edgar Filing: EOG RESOURCES INC - Form 8-K

6.70% Notes due 2006.....	126,870	150,000
6.50% Notes due 2007.....	100,000	100,000
6.00% Notes due 2008.....	173,952	175,000
6.65% Notes due 2028.....	140,000	150,000
Subsidiary Debt due 2001.....	--	105,000
Subsidiary Debt due 2002.....	--	40,200
Subsidiary Debt due 2011.....	120,000	--
	-----	-----
Total.....	\$ 855,969	\$ 859,000
	=====	=====

22

EOG RESOURCES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

EOG maintains two credit facilities with different expiration dates. In July 2001, the \$375 million credit facility that was scheduled to expire was renewed for \$300 million and the \$400 million facility due to expire in 2004 was reduced to \$300 million, thereby reducing aggregate long-term committed credit from \$775 million to \$600 million. Credit facility expirations are as follows: \$300 million in July 2002 and \$300 million in July 2004. With respect to the \$300 million expiring in 2002, EOG may, at its option, extend the final maturity date of any advances made under the facility by one full year from the expiration date of the facility, effectively qualifying such debt as long term. Advances under both agreements bear interest, at the option of EOG, based upon a base rate or a Eurodollar rate. No amounts were borrowed on these committed credit facilities at December 31, 2001.

During 2001 and 2000, EOG utilized commercial paper and short-term funding from uncommitted credit facilities, bearing market interest rates, for various corporate financing purposes. Commercial paper and uncommitted credit borrowings are classified as long-term debt based on EOG's intent and ability to ultimately replace such amounts with other long-term debt.

The 6.00% to 6.70% Notes due 2004 to 2028 were issued through public offerings and have effective interest rates of 6.14% to 6.83%. The Subsidiary Debts due 2001 and 2002 were fully paid in 2001 by increased borrowings from commercial paper and uncommitted credit facilities. The Subsidiary Debt due 2011 bears interest at a fixed rate of 7% and is guaranteed by EOG.

At December 31, 2001, the aggregate annual maturities of long-term debt outstanding were none for 2002, none for 2003, \$100 million for 2004, none for 2005, and \$127 million in 2006.

EOG's credit facilities contain certain restrictive covenants, including a maximum debt-to-total capitalization ratio of 65% and a minimum ratio of EBITDAX (earnings before interest, taxes, DD&A, and exploration expense) to interest expense of at least three times. Other than these covenants, EOG does not have any other financial covenants in its financing agreements. EOG continues to comply with these two covenants and does not view them as materially restrictive.

Edgar Filing: EOG RESOURCES INC - Form 8-K

Shelf Registration. During the third quarter of 2000, EOG filed a shelf registration statement for the offer and sale from time to time of up to \$600 million of EOG debt securities, preferred stock and/or common stock. The registration statement was declared effective by the Securities and Exchange Commission on October 27, 2000. As of February 21, 2002, EOG had sold no securities pursuant to this shelf registration. When combined with the unused portion of a previously filed registration statement declared effective in January 1998, these registration statements provide for the offer and sale from time to time of EOG debt securities, preferred stock and/or common stock by EOG in an aggregate amount up to \$688 million.

Fair Value Of Long-Term Debt. At December 31, 2001 and 2000, EOG had \$856 million and \$859 million, respectively, of long-term debt which had fair values of approximately \$838 million and \$831 million, respectively. The fair value of long-term debt is the value EOG would have to pay to retire the debt, including any premium or discount to the debtholder for the differential between the stated interest rate and the year-end market rate. The fair value of long-term debt is based upon quoted market prices and, where such quotes were not available, upon interest rates available to EOG at yearend.

3. Shareholders' Equity

EOG purchases from time to time in the open market its common stock to be held in treasury for the purpose of, but not limited to, fulfilling any obligations arising under EOG's stock option plans and any other approved transactions or activities for which such common stock shall be required. In September 2001, the Board of Directors authorized the purchase of an aggregate maximum of 10 million shares of common stock of EOG which superseded all previous authorizations. At December 31, 2001, 8,617,000 shares remain available for repurchases under this authorization.

To supplement its share repurchase program, EOG enters into equity derivative transactions from time to time. These transactions are accounted for as equity transactions with premiums received recorded to Additional Paid In Capital in the Consolidated Balance Sheets. Settlement alternatives under all circumstances are at the option of EOG and include physical share, net share and net cash settlement. During the second quarter of 2001, EOG sold put options for \$1.2 million obligating EOG to purchase up to 0.6 million shares of its common stock at an average price of \$33.42 per share. These options expired unexercised in December 2001. During the first half of 2000, EOG entered into a series of equity derivative transactions receiving \$0.6 million. During the third quarter of 2000, EOG closed substantially all of its equity derivative contracts which were to expire in April 2001 by paying \$3.75 million. EOG had one million put options which it had written

Edgar Filing: EOG RESOURCES INC - Form 8-K

these options was \$18.00 per share, and they expired unexercised in April 2001.

On July 23, 1999, EOG filed a registration statement with the Securities and Exchange Commission for the public offering of 27,000,000 shares of EOG's common stock. The public offering was completed on August 16, 1999, and the portion of net proceeds received by EOG was used to repay short-term borrowings used to fund a significant portion of the cash capital contribution in connection with the Share Exchange Agreement ("Share Exchange") described in Note 4 "Transactions with Enron Corp." As a result of the public offering and the retirement of the 62,270,000 shares of EOG's common stock received from Enron Corp. in the Share Exchange transaction, the number of shares of EOG's common stock issued was reduced to 124,730,000 from 160,000,000 prior to the Share Exchange.

The following summarizes shares of common stock outstanding (in thousands):

	Common Shares		
	2001	2000	1999
Outstanding at January 1.....	116,904	119,105	153,724
Repurchased.....	(3,281)	(8,910)	(130)
Issued Pursuant to Stock Options and Stock Plans.....	1,829	6,709	781
Retired.....	-	-	(62,270)
Public Offering.....	-	-	27,000
Outstanding at December 31.....	115,452	116,904	119,105

Series A. On December 10, 1999, EOG issued 100,000 shares of Fixed Rate Cumulative Perpetual Senior Preferred Stock, Series A, with a \$1,000 Liquidation Preference per share, in a private transaction. Dividends will be payable on the shares only if declared by EOG's board of directors and will be cumulative. If declared, dividends will be payable at a rate of \$71.95 per share, per year on March 15, June 15, September 15, and December 15 of each year beginning March 15, 2000. EOG may redeem all or a part of the Series A preferred stock at any time beginning on December 15, 2009 at \$1,000 per share, plus accrued and unpaid dividends. The shares may also be redeemable, in whole but not in part, in the event that certain amendments are made to the Dividend Received Percentage. The Series A preferred shares are not convertible into, or exchangeable for, common stock of EOG.

Series C. On December 22, 1999, EOG issued 500 shares of Flexible Money Market Cumulative Preferred Stock, Series C, with a liquidation preference of \$100,000 per share, in a private transaction. Dividends will be payable on the shares only if declared by EOG's board of directors and will be cumulative. The initial dividend rate on the shares will be 6.84% until December 15, 2004 (the "Initial Period-End Dividend Payment Date"). Through the Initial Period-End Dividend Payment Date dividends will be payable, if declared, on March 15, June 15, September 15, and December 15 of each year beginning March 15, 2000. The cash dividend rate for each subsequent dividend period will be determined pursuant to periodic auctions conducted in accordance with certain auction procedures. The first auction date will be December 14, 2004. After December 15, 2004 (unless EOG has elected a "Non-Call Period" for a subsequent dividend period), EOG may redeem the shares, in whole or in part, on

Edgar Filing: EOG RESOURCES INC - Form 8-K

any dividend payment date at \$100,000 per share plus accumulated and unpaid dividends. The shares may also be redeemable, in whole but not in part, in the event that certain amendments are made to the Dividend Received Percentage. The Series C preferred shares are not convertible into, or exchangeable for, common stock of EOG.

During the third quarter of 2000, EOG completed two exchange offers for its preferred stock whereby shares of EOG's Series A preferred stock were exchanged for shares of EOG's Series B preferred stock, and shares of EOG's Series C preferred stock were exchanged for shares of EOG's Series D preferred stock. All preferred shares were validly tendered and not withdrawn prior to expiration of the offers. EOG accepted all of the tendered shares and issued the respective series in exchange. Both exchange offers were registered under the Securities Act of 1933. The Series B preferred stock has substantially the same terms as Series A and the Series D preferred stock has substantially the same terms as Series C.

On February 14, 2000, EOG's Board of Directors declared a dividend of one preferred share purchase right (a "Right," and the agreement governing the terms of such Rights, the "Rights Agreement") for each outstanding share of common stock, par value \$.01 per share. The Board of Directors has adopted this Rights Agreement to protect stockholders from coercive or otherwise unfair takeover tactics. The dividend was distributed to the stockholders of record on February 24, 2000. Each Right, expiring February 24, 2010, represents a right to buy from EOG one hundredth (1/100) of a share of Series E Junior Participating Preferred Stock ("Preferred Share") for \$90, once the Rights become exercisable. This portion of a Preferred Share will give the stockholder approximately the same dividend, voting, and liquidation rights as would one share of common

24

EOG RESOURCES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

stock. Prior to exercise, the Right does not give its holder any dividend, voting, or liquidation rights. If issued, each one hundredth (1/100) of a Preferred Share (i) will not be redeemable; (ii) will entitle holders to quarterly dividend payments of \$.01 per share, or an amount equal to the dividend paid on one share of common stock, whichever is greater; (iii) will entitle holders upon liquidation either to receive \$1 per share or an amount equal to the payment made on one share of common stock, whichever is greater; (iv) will have the same voting power as one share of common stock; and (v) if shares of EOG's common stock are exchanged via merger, consolidation, or a similar transaction, will entitle holders to a per share payment equal to the payment made on one share of common stock.

As amended on December 13, 2001, the Rights will not be exercisable until ten days after the public announcement that a person or group has become an acquiring person ("Acquiring Person") by obtaining beneficial ownership of 10% or more of EOG's common stock, or if earlier, ten business days (or a later date determined by EOG's Board of Directors before any person or group becomes an

Edgar Filing: EOG RESOURCES INC - Form 8-K

Acquiring Person) after a person or group begins a tender or exchange offer which, if consummated, would result in that person or group becoming an Acquiring Person.

If a person or group becomes an Acquiring Person, all holders of Rights except the Acquiring Person may, for \$90, purchase shares of EOG's common stock with a market value of \$180, based on the market price of the common stock prior to such acquisition. If EOG is later acquired in a merger or similar transaction after the Rights become exercisable, all holders of Rights except the Acquiring Person may, for \$90, purchase shares of the acquiring corporation with a market value of \$180 based on the market price of the acquiring corporation's stock, prior to such merger.

EOG's Board of Directors may redeem the Rights for \$.01 per Right at any time before any person or group becomes an Acquiring Person. If the Board of Directors redeems any Rights, it must redeem all of the Rights. Once the Rights are redeemed, the only right of the holders of Rights will be to receive the redemption price of \$.01 per Right. The redemption price will be adjusted if EOG has a stock split or stock dividends of EOG's common stock. After a person or group becomes an Acquiring Person, but before an Acquiring Person owns 50% or more of EOG's outstanding common stock, the Board of Directors may exchange the Rights for common stock or equivalent security at an exchange ratio of one share of common stock or an equivalent security for each such Right, other than Rights held by the Acquiring Person.

4. Transactions with Enron Corp.

Enron Corp. Bankruptcy. In December 2001, Enron Corp. and certain of its affiliates, including Enron North America Corp., filed voluntary petitions for reorganization under Chapter 11 of the United States Bankruptcy Code. EOG recorded \$19.2 million in charges associated with the Enron bankruptcies in the fourth quarter of 2001 related to certain contracts with Enron affiliates, including 2001 and 2002 natural gas and crude oil derivative contracts. EOG has other contractual relationships with Enron Corp. and certain of its affiliates. Based on EOG's review of these other matters, EOG believes that Enron Corp.'s Chapter 11 proceedings will not have a material adverse effect on EOG's financial position.

Share Exchange. On August 16, 1999, EOG and Enron Corp. completed the Share Exchange whereby EOG received 62,270,000 shares of EOG's common stock out of 82,270,000 shares owned by Enron Corp. in exchange for all the stock of EOG's subsidiary, EOGI-India, Inc. Prior to the Share Exchange, EOG made an indirect capital contribution of approximately \$600 million in cash, plus certain intercompany receivables, to EOGI-India, Inc. At the time of completion of this transaction, this subsidiary owned, through subsidiaries, all of EOG's assets and operations in India and China. EOG recognized a \$575 million tax-free gain on the Share Exchange based on the fair value of the shares received, net of transaction fees of \$14 million. Immediately following the Share Exchange, EOG retired the 62,270,000 shares of EOG's common stock received in the transaction. The weighted average basis in the treasury shares retired was first deducted from and fully eliminated existing additional paid in capital with the remaining value deducted from retained earnings. This transaction is a tax-free exchange to EOG. On August 30, 1999, EOG changed its corporate name to "EOG Resources, Inc." from "Enron Oil & Gas Company" and has since made similar changes to its subsidiaries' names.

EOG RESOURCES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Immediately prior to the closing of the Share Exchange, Enron Corp. owned 82,270,000 shares of EOG's common stock, representing approximately 53.5 percent of all of the shares of EOG's common stock that were issued and outstanding. As a result of the closing of the Share Exchange, the sale by Enron Corp. of 8,500,000 shares of EOG's common stock as a selling stockholder in the public offering referred to in Note 3 "Shareholders' Equity," and the completion on August 17, 1999 and August 20, 1999 of the offering of Enron Corp. notes mandatorily exchangeable at maturity into a minimum of 9,746,250 up to a maximum of 11,500,000 shares of EOG's common stock, Enron Corp.'s maximum remaining interest in EOG after the automatic conversion of its notes on July 31, 2002, will be under two percent (assuming the notes are exchanged for less than the 11,500,000 shares of EOG's common stock). As a result of Enron Corp.'s bankruptcy filing and because the Enron Corp. notes were unsecured, EOG believes it is unlikely that they will be exchanged for the shares of EOG's common stock. The entire 11,500,000 shares of EOG's common stock are included in EOG's outstanding common stock. Two entities not affiliated with Enron Corp. have recently filed Schedule 13Gs with the Securities and Exchange Commission with respect to these shares.

Effective as of August 16, 1999, the closing date of the Share Exchange, the members of the board of directors of EOG who were officers or directors of Enron Corp. resigned their positions as directors of EOG.

Natural Gas and Crude Oil, Condensate and Natural Gas Liquids Net Operating Revenues. Prior to the Share Exchange, Natural Gas and Crude Oil, Condensate and Natural Gas Liquids Net Operating Revenues included revenues from and associated costs paid to various subsidiaries and affiliates of Enron Corp. pursuant to contracts which, in the opinion of management, were no less favorable than could be obtained from third parties. Revenues from sales to Enron Corp. and its affiliates totaled \$57.3 million in 1999 prior to the Share Exchange. Natural Gas and Crude Oil, Condensate and Natural Gas Liquids Net Operating Revenues also included certain commodity price swap and NYMEX-related commodity transactions with Enron Corp. affiliated companies, which in the opinion of management, were no less favorable than could be received from third parties (see Note 12 "Price and Interest Rate Risk Management Activities").

General and Administrative Expenses. Prior to the Share Exchange, EOG was charged by Enron Corp. for all direct costs associated with its operations. Such direct charges, excluding benefit plan charges (see Note 6 "Employee Benefit Plans"), totaled \$10.6 million for the year ended December 31, 1999. Additionally, certain administrative costs not directly charged to any Enron Corp. operations or business segments were allocated to the entities of the consolidated group. Approximately \$3.4 million was incurred by EOG for indirect general and administrative expenses for 1999.

Edgar Filing: EOG RESOURCES INC - Form 8-K

Management believes that these charges were reasonable.

Sale of Enron Corp. Options. In December 1997, EOG and Enron Corp. entered into an Equity Participation and Business Opportunity Agreement. Under the agreement, among other things, Enron Corp. granted EOG options to purchase 3.2 million shares of Enron Corp. During 1999, EOG sold the 3.2 million options and recognized a pre-tax gain of \$59.6 million. The gain on sale of the options is included in other income (expense) - other, net in the consolidated statements of income and comprehensive income.

26

EOG RESOURCES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5. Income Taxes

The principal components of EOG's net deferred income tax liability at December 31, 2001 and 2000 were as follows (in thousands):

	2001	2000
	-----	-----
Deferred Income Tax Assets		
Non-Producing Leasehold Costs.....	\$ 26,727	\$ 22,623
Seismic Costs Capitalized for Tax.....	17,828	15,536
Trading Activity.....	-	4,420
Section 29 Credit Monetization.....	-	12,774
Other.....	26,325	16,743
	-----	-----
Total Deferred Income Tax Assets.....	70,880	72,096
Deferred Income Tax Liabilities		
Oil and Gas Exploration and Development Costs Deducted for		
Tax Over Book Depreciation, Depletion and Amortization.....	599,945	403,808
Capitalized Interest.....	8,373	5,697
Trading Activity.....	10,107	-
Other.....	3,475	2,670
	-----	-----
Total Deferred Income Tax Liabilities.....	621,900	412,175
	-----	-----
Net Deferred Income Tax Liability.....	\$551,020	\$340,079
	=====	=====

The components of income (loss) before income taxes were as follows (in thousands):

	2001	2000	1999
	-----	-----	-----
United States.....	\$488,741	\$491,823	\$580,000
Foreign.....	142,704	141,734	(12,000)
	-----	-----	-----
Total.....	\$631,445	\$633,557	\$568,000

Edgar Filing: EOG RESOURCES INC - Form 8-K

	2001	2000	1999
Total income tax provision (benefit) was as follows (in thousands):			
Current:			
Federal.....	\$ 36,737	\$ 81,912	\$ 50,000
State.....	5,475	7,528	3,000
Foreign.....	25,672	49,457	16,000
Total.....	67,884	138,897	79,000
Deferred:			
Federal.....	131,127	78,833	(49,000)
State.....	10,411	10,324	(1,000)
Foreign.....	23,407	8,572	23,000
Total.....	164,945	97,729	(26,000)
Income Tax Provision (Benefit).....	\$232,829	\$236,626	\$ (1,000)

The differences between taxes computed at the U.S. federal statutory tax rate and EOG's effective rate were as follows:

	2001	2000	1999
Statutory Federal Income Tax Rate.....	35.00%	35.00%	35.00%
State Income Tax, Net of Federal Benefit.....	1.64	1.83	0.00
Income Tax Provision Related to Foreign Operations.....	0.36	1.32	1.00
Tight Gas Sands Federal Income Tax Credits.....	(0.16)	-	(1.00)
Revision of Prior Years' Tax Estimates.....	(0.21)	0.16	(0.00)
Share Exchange.....	-	-	(35.00)
Other.....	0.24	(0.96)	(0.00)
Effective Income Tax Rate.....	36.87%	37.35%	(0.00)

EOG RESOURCES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

EOG's foreign subsidiaries' undistributed earnings of approximately \$515 million at December 31, 2001 are considered to be indefinitely invested outside the U.S. and, accordingly, no U.S. federal or state income taxes have been provided thereon. Upon distribution of those earnings in the form of dividends, EOG may be subject to both foreign withholding taxes and U.S. income taxes, net of allowable foreign tax credits. Determination of any potential amount of unrecognized deferred income tax liabilities is not

Edgar Filing: EOG RESOURCES INC - Form 8-K

practicable.

In 1999 and 2000, EOG entered into arrangements with a third party whereby certain Section 29 credits (Tight Gas Sands Federal Income Tax Credits) were sold by EOG to the third party, and payments for such credi