MERIDIAN RESOURCE CORP
Form 10-K
April 02, 2001

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-K

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

For the fiscal year ended: DECEMBER 31, 2000   Commission file number: 1-10671

THE MERIDIAN RESOURCE CORPORATION
(Exact name of registrant as specified in its charter)

TEXAS	76-0319553
(State of incorporation)	(I.R.S. Employer Identification No.)
1401 ENCLAVE PARKWAY, SUITE 300, HOUSTON, TEXAS	77077
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: 281-597-7000

Securities registered pursuant to Section 12(b) of the Act:

(Title of each class)	(Name of each exchange on which registered)
Common Stock, $0.01 par value	New York Stock Exchange

Securities registered pursuant to section 12(g) of the Act: None

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

Aggregate market value of shares of common stock held by non-affiliates of the Registrant at March 9, 2001: $322,614,971

Number of shares of common stock outstanding at March 9, 2001: 47,858,545

DOCUMENTS INCORPORATED BY REFERENCE

The information required by Part III of this Form (Items 10, 11, 12 and 13) is incorporated by reference from the registrant's Proxy Statement to be filed on or before April 30, 2001.

THE MERIDIAN RESOURCE CORPORATION

INDEX TO FORM 10-K

PART I

ITEM 1. BUSINESS

GENERAL

The Meridian Resource Corporation ("Meridian" or the "Company") is an independent oil and natural gas company that explores for, acquires and develops oil and natural gas properties utilizing 3-D seismic technology. Our operations are focused on the onshore oil and gas regions in south Louisiana, the Texas Gulf Coast and offshore in the Gulf of Mexico. As of December 31, 2000, we had proved reserves of approximately 306 Bcfe with a present value of future net cash flows before income taxes of approximately $1.3 billion. Approximately 56% of our proved reserves were natural gas and approximately 72% were classified as proved developed.

We believe we are among the leaders in the use of 3-D seismic technology by independent oil and natural gas companies. We also believe we have a competitive advantage in the areas where we operate because of our large inventory of lease acreage, seismic data coverage and experienced geotechnical, land and operational staff.

During 1998, we acquired substantially all of Shell Oil Company's and its affiliates' (collectively, "Shell") onshore south Louisiana oil and gas property interests in two separate transactions (the "Shell Transactions"). The Shell Transactions were consummated on June 30, 1998, and positioned us as one of the leading operators and producers in south Louisiana. Additionally, the property interests acquired in the Shell Transactions allow us to blend lower risk exploration and development projects with pursuing higher risk, higher potential exploration projects. As a result of the Shell Transactions, Shell beneficially owned 39.9% of our Common Stock on a fully-diluted basis, assuming the exercise of all outstanding stock options and warrants and conversion of all Preferred Stock. On January 29, 2001, the Company completed the repurchase of all of the outstanding Preferred Stock (convertible into 12.8 million shares of Common Stock) and six million shares of Common Stock from Shell for $114 million resulting in Shell's ownership being reduced to approximately 15% of our Common Stock outstanding.

We believe that Meridian is now best positioned for organic growth from internally generated projects. We currently have interests in over 302,044 gross acres in Louisiana, Texas and the Gulf of Mexico. We also have rights or access to approximately 4,200 square miles of 3-D seismic data, which we believe to be one of the largest positions held by a company of our size operating in our core areas of operation.

The Meridian Resource Corporation was incorporated in Texas in 1990, with headquarters located at 1401 Enclave Parkway, Suite 300, Houston, Texas 77077.

EXPLORATION STRATEGY

Meridian has focused its exploration strategy on prospects where large accumulations of oil and natural gas have been found and where we believe substantial oil and natural gas reserve additions can be achieved through exploratory drilling in which we use 3-D seismic technology. We also seek to identify prospects with multiple potential productive zones to maximize the probability of success. In an effort to mitigate the risk of dry holes, we engage in a rigorous and disciplined review of each prospect utilizing the latest in technological advances with respect to prospect analysis and evaluation.

Our process of review of exploration prospects begins with a thorough analysis of the prospect using traditional methods of prospect development and computer technology to analyze all reasonably available 2-D seismic

data and other geological and geophysical data with respect to the prospect. If the results of this analysis confirm the prospect potential, we seek to acquire 3-D seismic data over leasehold interests in, or options to acquire leasehold interests in, the prospect area. We then apply state-of-the-art processing technology to assimilate and correlate the 2-D and 3-D seismic data on the prospect with all available well-log information and other data to create a computer model that we design to identify the location and size of potential hydrocarbon accumulations in the prospect. If our analysis of the model continues to confirm the potential for hydrocarbon accumulations within our prospect objectives, we will then seek to identify the most desirable drilling location to test the prospect and to maximize production if the prospect is successful.

The process of developing, reviewing and analyzing a prospect from the time we first identify it to the time that we drill it is generally a 12 to 36 month process in which we reject many potential prospects at various levels of the review. Although the cost of designing, acquiring, processing and interpreting 3-D seismic data and acquiring options and leases on prospects that we do not ultimately drill requires greater up-front costs per prospect than traditional exploration techniques, we believe that the elimination of prospects that are unlikely to be successful and that might otherwise have been drilled at a substantial cost results in significantly lower finding costs. We also believe that our use of 3-D seismic technology minimizes development costs by allowing for the better placement of the initial and, if necessary, development wells.

We attempt to match our exploration risks with expected results by retaining working interests that historically have been between 50% and 75% in the Company's onshore wells. Our working interests may vary in certain prospects depending on participation structure, assessed risk, capital availability and other factors. In addition, working interests in offshore properties we acquired in a 1997 acquisition averages between 3% and 50% in each well. Our offshore properties generally involve higher drilling costs and risks commonly associated with offshore exploration, including costs of constructing exploration and production platforms and pipeline interconnections, as well as weather delays and other matters.

3-D SEISMIC TECHNOLOGY

An integral part of Meridian's exploration strategy is the disciplined application of 3-D seismic technology to every exploration and development prospect that we drill. We begin with the geological idea, develop subsurface maps based on analogous wells in the region and use 2-D seismic data, where available, to define our prospect areas. If the prospect meets our standards of risk and opportunity, we will acquire a 3-D seismic survey over the prospect area as a last method to further define the objectives, reduce the risks of drilling a dry hole and/or improve our opportunity for success. The entire process from the geological concept to the final interpretation is controlled by Meridian's management and professional staff. People are our most important ingredient in this formula. Meridian has put together a high quality professional and technical staff that has successfully explored for oil and gas in its region of focus-south Louisiana, southeast Texas and offshore Gulf of Mexico. Meridian designs its 3-D seismic surveys in conjunction with its geological and geophysical staff, manages the field acquisition efforts with its geophysical staff, processes the 3-D data in house using Western Geophysical's

Omega software system, in conjunction with the geological and geophysical technicians, and interprets the 3-D data utilizing Schlumberger's GeoQuest interpretative software, where all of the respective disciplines interact to develop the final product.

In addition, almost all of Meridian's producing properties have 3-D seismic surveys covering its fields, which we believe gives Meridian an advantage to develop and exploit the proved undeveloped and proved developed non-producing reserves from those fields.

As a result of our disciplined method of exploration we believe that we are able to develop a more accurate definition of the risk profile of exploration prospects than was previously available using traditional exploration techniques or than is used by our competition in our areas of focus. We therefore believe that our method of

-4-

5

exploration utilizing the 3-D technology increases our chances for success rates and reduces our dry-hole costs compared to companies that do not engage in a similar process.

-5-

6

OIL AND GAS PROPERTIES

The following table sets forth production and reserve information by region with respect to our proved oil and natural gas reserves as of December 31, 2000. The reserve volumes were reviewed by T. J. Smith & Company, Inc., independent reservoir engineers.

	TEXAS	LOUISIANA	GULF OF MEXICO
PRODUCTION FOR THE YEAR ENDED DECEMBER 31, 2000			
Oil (MBbls)................................	7	3,814	166
Natural Gas (MMcf).........................	598	23,261	3,813
RESERVES AS OF DECEMBER 31, 2000			
Oil (MBbls)................................	36	21,289	1,016
Natural Gas (MMcf).........................	4,272	149,733	18,422
ESTIMATED FUTURE NET CASH FLOWS ($000) (1)..			
PRESENT VALUE OF FUTURE NET CASH FLOWS BEFORE INCOME TAXES ($000)(1)			
STANDARDIZED MEASURE OF DISCOUNTED FUTURE NET CASH FLOWS ($000)(1)			

(1) The Standardized Measure of Discounted Future Net Cash Flows represents the Present Value of Future Net Cash Flows after income taxes discounted at 10%. For calculating the Present Value of Future Net Cash Flows as of December 31, 2000, we used the prices at December 31, 2000, which were $26.20 per Bbl of oil and $10.20 per Mcf of natural gas.

PRODUCTIVE WELLS

At December 31, 2000, 1999 and 1998, we held interests in the following productive wells. The majority of the 34 gross (5.7 net) wells in the Gulf of Mexico as of December 31, 2000, have multiple completions.

	2000		1999		
	GROSS	NET	GROSS	NET	GROSS
Oil Wells....................	118	96	116	91	117
Natural Gas Wells............	96	46	95	40	94
Total................	214	142	211	131	211

OIL AND NATURAL GAS RESERVES

Presented below are our estimated quantities of proved reserves of crude oil and natural gas, Future Net Cash Flows, Present Value of Future Net Revenues and the Standardized Measure of Discounted Future Net Cash Flows as of December 31, 2000. Information set forth in the following table is based on reserve reports prepared in accordance with the rules and regulations of the Securities and Exchange Commission (the "Commission"). The reserve volumes were reviewed by T. J. Smith & Company, Inc., independent reservoir engineers, as of December 31, 2000.

	PROVED RESERVES AT DECEMBER 31, 2000		
	DEVELOPED PRODUCING	DEVELOPED NON-PRODUCING	UNDEVELOPED
	(DOLLARS IN THOUSANDS)		
Net Proved Reserves:			
Oil (MBbls)...............................	10,322	5,227	6,792
Natural Gas (MMcf)........................	77,132	50,610	44,685
Natural Gas Equivalent (MMcfe)............	139,061	81,973	85,437

Estimated Future Net Cash Flows(1)...

Present Value of Future Net Cash Flows (before income taxes)(1)

Standardized Measure of Discounted Future Net Cash Flows(1)...................................

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(1) The Standardized Measure of Discounted Future Net Cash Flows represents the Present Value of Future Net Cash Flows after income taxes discounted at 10%. For calculating the Future Net Cash Flows, the Present Value and Future Net Cash Flows and Standard Measure of Discounted Future Net Cash Flows as of December 31, 2000, we used the prices at December 31, 2000, which were $26.20 per Bbl of oil and $10.20 per Mcf of natural gas.

You can read additional reserve information in our Consolidated Financial Statements and the Supplemental Oil and Gas Information (unaudited) included elsewhere herein. We have not included estimates of total proved reserves, comparable to those disclosed herein, in any reports filed with federal authorities other than the Commission.

In general, our engineers based their estimates of economically recoverable oil and natural gas reserves and of the future net revenues therefrom on a number of variable factors and assumptions, such as historical production from the subject properties, the assumed effects of regulation by governmental agencies and assumptions concerning future oil and natural gas prices and future operating costs, all of which may vary considerably from actual results. All such estimates are to some degree speculative, and classifications of reserves, that are based on the mechanical status of the completion, may also define the degree of speculation involved. For these reasons, estimates of the economically recoverable oil and natural gas reserves attributable to any particular group of properties, classifications of such reserves based on risk of recovery and estimates of the future net revenues expected therefrom, prepared by different engineers or by the same engineers at different times, may vary substantially. Therefore, the actual production, revenues, severance and excise taxes, and development and operating expenditures with respect to reserves likely will vary from such estimates, and such variances could be material.

Estimates with respect to proved reserves that we may develop and produce in the future are often based on volumetric calculations and by analogy to similar types of reserves rather than actual production history. Estimates based on these methods are generally less reliable than those based on actual production history, and subsequent evaluation of the same reserves, based on production history, will result in variations, which may be substantial, in the estimated reserves.

In accordance with applicable requirements of the Commission, the estimated discounted future net revenues from estimated proved reserves are based on prices and costs as of the date of the estimate unless such prices or costs are contractually determined at that date. Actual future prices and costs may be materially higher or lower. Actual future net revenues also will be affected by factors such as actual production, supply and demand for oil and natural gas, curtailments or increases in consumption by natural gas purchasers, changes in governmental regulations or taxation and the impact of inflation on costs.

OIL AND NATURAL GAS DRILLING ACTIVITIES

The following table sets forth the gross and net number of productive, dry and total exploratory and development wells that we drilled and completed in 2000, 1999 and 1998.

	GROSS WELLS			NET
	PRODUCTIVE	DRY	TOTAL	PRODUCTIVE
EXPLORATORY WELLS				
Year ended December 31, 2000..................	11	5	16	7.4
Year ended December 31, 1999..................	8	7	15	3.4
Year ended December 31, 1998..................	8	12	20	2.9
DEVELOPMENT WELLS				
Year ended December 31, 2000..................	7	--	7	4.2
Year ended December 31, 1999..................	6	1	7	3.3
Year ended December 31, 1998..................	6	1	7	4.5

Meridian had 5 gross (3.8 net) wells in progress at December 31, 2000.

PRODUCTION

The following table summarizes the net volumes of oil and natural gas produced and sold, and the average prices received with respect to such sales, from all properties in which Meridian held an interest during 2000, 1999 and 1998.

	YEAR ENDED DECEMBER 31,	
	2000	1999
PRODUCTION:		
Oil (MBbls).............................	3,987	4,454
Natural gas (MMcf).......................	27,672	22,711
Natural gas equivalent (MMcfe)............	51,596	49,438
AVERAGE PRICES:		
Oil ($/Bbl).............................	$ 27.32	$ 17.61

Natural Gas ($/Mcf)......................	$	4.14	$	2.38
Natural gas equivalent ($/Mcfe)..........	$	4.33	$	2.68
PRODUCTION EXPENSES:				
Lease operating expenses ($/Mcfe)............................	$	0.35	$	0.30
Severance and ad valorem taxes ($/Mcfe).......................	$	0.30	$	0.23

ACREAGE

The following table sets forth the developed and undeveloped oil and natural gas acreage in which Meridian held an interest as of December 31, 2000. Undeveloped acreage is considered to be those lease acres on which wells have not been drilled or completed to a point that would permit the production of commercial quantities of oil and natural gas, regardless of whether or not such acreage contains proved reserves.

	DECEMBER 31, 2000		
	DEVELOPED		UN
REGION	GROSS	NET	GROSS
TEXAS..	1,425	856	6,14
LOUISIANA......................................	36,572	28,959	33,85
GULF OF MEXICO.................................	54,684	12,927	169,35
TOTAL	92,681	42,742	209,36

In addition to the above acreage, we currently have options or farm-ins to acquire leases on approximately 390 gross (189 net) acres of undeveloped land located in Louisiana. Our fee holdings of 5,000 acres have been included in the undeveloped acreage and have been reduced to reflect the interest that we have leased to third parties.

GEOLOGIC AND GEOPHYSICAL EXPERTISE

Meridian employs approximately 91 full-time non-union employees and 17 contract employees. The exploration staff consists of 55 persons, representing 51% of the total personnel. This staff includes 11 full-time geologists and 10 full-time geophysicists, with 350 combined years of experience in generating onshore and offshore prospects in the Louisiana and Texas Gulf Coast region. Our geologists and geophysicists generate and review all prospects using 2-D and 3-D seismic technology and analogues to producing wells in the areas of interest. Talented geoscientists with experience in finding oil and gas in large quantities and who focus in our niche region of focus are unique and difficult to attract and retain on a long term basis. In the interest of attracting and retaining high-quality technical personnel capable of finding oil and gas reserves with the success rates we strive for, we have adopted a net profits interest incentive compensation plan for the senior geologists, geophysicists, and executives that relates each individual's compensation to the success of our exploration activities on a well by well basis. We believe that this plan provides Meridian's staff with the proper incentive to find large quantities of oil and gas on behalf of it and its shareholders at average success rates higher than our industry.

MARKETING OF PRODUCTION

We market our production to third parties in a manner consistent with industry practices. Typically, the oil production is sold at the wellhead at field-posted prices, less gathering and gravity adjustments, and the natural gas is sold at posted indices, less applicable gathering and dehydration charges, adjusted for the quality of natural gas and prevailing supply and demand conditions. The natural gas production is sold under short-term contracts or in the spot market.

The following table sets forth purchasers of our oil and natural gas that accounted for more than 10% of total revenues for 2000, 1999 and 1998.

	YEAR ENDED DECEMBER 31,	
CUSTOMER	2000	1999
Equiva Trading Company(1)............................	36%	43%
Superior Natural Gas.................................	14%	-----
Louisiana Intrastate Gas.............................	12%	-----
Tauber Oil Company...................................	-----	16%
Coral Energy Resources(1)............................	-----	-----

(1) These entities are affiliates of Shell.

Other purchasers for our oil and natural gas are available; therefore, we believe that the loss of any of these purchasers would not have a material adverse effect on the results of operations.

MARKET CONDITIONS

Our revenues, profitability and future rate of growth substantially depend on prevailing prices for oil and natural gas. Oil and natural gas prices have been extremely volatile in recent years and are affected by many factors outside our control. Since 1992, prices for West Texas Intermediate crude have ranged from $8.00 to $37.20 per Bbl and the monthly average of the Gulf Coast spot market natural gas price at Henry Hub, Louisiana, has ranged from $1.08 to $8.70 per MMBtu. The average price we received during the year ended December 31, 2000, was $4.33 per Mcfe compared to $2.68 per Mcfe during the year ended December 31, 1999. The volatile nature of energy markets makes it difficult to estimate future prices of oil and natural gas;

however, any prolonged period of depressed prices would have a material adverse effect on our results of operations and financial condition.

The marketability of our production depends in part on the availability, proximity and capacity of natural gas gathering systems, pipelines and processing facilities. Federal and state regulation of oil and natural gas production and transportation, general economic conditions, changes in supply and changes in demand could adversely affect our ability to produce and market our oil and natural gas. If market factors were to change dramatically, the financial impact on us could be substantial. We do not control the availability of markets and the volatility of product prices are beyond our control and therefore represent significant risks.

COMPETITION

The oil and natural gas industry is highly competitive for prospects, acreage and capital. Our competitors include numerous major and independent oil and natural gas companies, individual proprietors, drilling and income programs and partnerships. Many of these competitors possess and employ financial and personnel resources substantially greater than ours and may, therefore, be able to define, evaluate, bid for and purchase more oil and natural gas properties. There is intense competition in marketing oil and natural gas production, and there is competition with other industries to supply the energy and fuel needs of consumers. Shell retains, and may obtain in the future, interests in producing properties and exploration prospects in Louisiana state waters and adjacent onshore areas where Shell competes with us. In addition, although Shell currently does not have any significant working interests in producing properties or exploration prospects onshore in south Louisiana, and has indicated to us that it does not currently intend to obtain any such interests, it may do so in the future.

REGULATION

The availability of a ready market for any oil and natural gas production depends on numerous factors that we do not control. These factors include regulation of oil and natural gas production, federal and state regulations governing environmental quality and pollution control, state limits on allowable rates of production by a well or proration unit, the amount of oil and natural gas available for sale, the availability of adequate pipeline and other transportation and processing facilities and the marketing of competitive fuels. For example, a productive natural gas well may be "shut-in" because of an oversupply of natural gas or lack of an available natural gas pipeline capacity in the areas in which we may conduct operations. State and federal regulations generally are intended to prevent waste of oil and natural gas, protect rights to produce oil and natural gas between multiple owners in a common reservoir, control the amount of oil and natural gas produced by assigning allowable rates of production and control contamination of the environment. Pipelines are subject to the jurisdiction of various federal, state and local agencies.

Oil and natural gas production operations are subject to various types of regulation by state and federal agencies. Legislation affecting the oil and natural gas industry is under constant review for amendment or expansion. In addition, numerous departments and agencies, both federal and state, are authorized by statute to issue rules and regulations that govern the oil and natural gas industry and its individual members, some of which carry substantial penalties for failure to comply. The regulatory burden on the oil and natural gas industry increases our cost of doing business and, consequently, affects our profitability.

All of our federal offshore oil and gas leases are granted by the federal government and are administered by the U. S. Minerals Management Service (the "MMS"). These leases require compliance with detailed federal regulations and orders that regulate, among other matters, drilling and operations and the calculation of royalty payments to the federal government. Ownership interests in these leases generally are restricted to United States citizens and domestic corporations. The MMS must approve any assignments of these leases or interests therein.

The federal authorities, as well as many state authorities, require permits for drilling operations, drilling bonds and reports concerning operations and impose other requirements relating to the exploration and production of oil and gas. Individual states also have statutes or regulations addressing conservation matters, including provisions for the unitization or pooling of oil and gas properties, the establishment of maximum rates of production from oil and gas wells and the regulation of spacing, plugging and abandonment of such wells. The statutes and regulations of the federal authorities, as well as many state authorities, limit the rates at which we can produce oil and gas on our properties.

Federal Regulation

The FERC regulates interstate natural gas pipeline transportation rates and service conditions, both of which affect the marketing of natural gas produced by us, as well as the revenues we receive for sales of such natural gas. Since the latter part of 1985, culminating in 1992 in the Order No. 636 series of orders, the FERC has endeavored to make natural gas transportation more accessible to gas buyers and sellers on an open and non-discriminatory basis. The FERC believes "open access" policies are necessary to improve the competitive structure of the interstate natural gas pipeline industry and to create a regulatory framework that will put gas sellers into more direct contractual relations with gas buyers. As a result of the Order No. 636 program, the marketing and pricing of natural gas has been significantly altered. The interstate pipelines' traditional role as wholesalers of natural gas has been terminated and replaced by regulations which require pipelines to provide transportation and storage service to others who buy and sell natural gas. In addition, on February 9, 2000, FERC issued Order No. 637 and promulgated new regulations designed to refine the Order No. 636 "open access" policies and revise the rules applicable to capacity release transactions. These new rules will, among other things, permit existing holders of firm capacity to release or "sell" their capacity to others at rates in excess of FERC's regulated rate for transportation services.

It is unclear what impact, if any, these new rules or increased competition within the natural gas transportation industry will have on us and our gas sales efforts. It is not possible to predict what, if any, effect the FERC's open access or future policies will have on us. Additional proposals and/or proceedings that might affect the natural gas industry may be considered by FERC, Congress or state regulatory bodies. It is not possible to predict when or if any of these proposals may become effective or what effect, if any, they may have on our operations. We do not believe, however, that our operations will be affected any differently than other gas producers or marketers with which we compete.

Price Controls

Our sales of natural gas, crude oil, condensate and natural gas liquids are not regulated and transactions occur at market prices.

State Regulation of Oil and Natural Gas Production

States where we conduct our oil and natural gas activities regulate the production and sale of oil and natural gas, including requirements for obtaining drilling permits, the method of developing new fields, the spacing and operation of wells and the prevention of waste of natural gas and resources. In addition, most states regulate the rate of production and may establish the maximum daily production allowables for wells on a market demand or conservation basis.

Environmental Regulation

Our operations are subject to numerous laws and regulations governing the discharge of materials into the environment or otherwise relating to environmental protection. These laws and regulations may require us to acquire a permit before we commence drilling; restrict the types, quantities and concentration of various substances that we can release into the environment in connection with drilling and production activities; limit

or prohibit our drilling activities on certain lands lying within wilderness, wetlands and other protected areas; and impose substantial liabilities for pollution resulting from our operations. Moreover, the general trend toward stricter standards in environmental legislation and regulation is likely to continue. For instance, as discussed below, legislation has been proposed in Congress from time to time that would cause certain oil and gas exploration and production wastes to be classified as "hazardous wastes", which would make the wastes subject to much more stringent handling and disposal requirements. If such legislation were enacted, it could have a significant impact on our operating costs, as well as on the operating costs of the oil and natural gas industry in general. Initiatives to further regulate the disposal of oil and gas wastes have also been considered in the past by certain states, and these various initiatives could have a similar impact on us. We believe that our current operations substantially comply with applicable environmental laws and regulations and that continued compliance with existing requirements will not have a material adverse impact on us.

OPA. The Oil Pollution Act of 1990 (the "OPA") and regulations thereunder impose a variety of regulations on "responsible parties" related to the prevention of oil spills and liability for damages resulting from such spills in United States waters. A "responsible party" includes the owner or operator of a facility or vessel, or the lessee or permittee of the area where an offshore facility is located. The OPA makes each responsible party liable for oil-removal costs and a variety of public and private damages. While liability limits apply in some circumstances, a party cannot take advantage of liability limits if the party caused the spill by gross negligence or willful misconduct or if the spill resulted from a violation of a federal safety, construction or operating regulation. The liability limits likewise do not apply if the party fails to report a spill or to cooperate fully in the cleanup. Few defenses exist to the liability imposed by the OPA.

The OPA also imposes ongoing requirements on a responsible party, including the requirement to maintain proof of financial responsibility to be able to cover at least some costs if a spill occurs. In this regard, the OPA requires the lessee or permittee of an offshore area in which a covered offshore facility is located to establish and maintain evidence of financial responsibility in the amount of $35 million ($10 million if the offshore facility is located landward of the seaward boundary of a state) to cover liabilities related to a crude oil spill for which such person is statutorily responsible. The amount of required financial responsibility may be increased above the minimum amounts to an amount not exceeding $150 million depending on the risk represented by the quantity or quality of crude oil that is handled by the facility. The MMS has promulgated regulations that implement the financial responsibility requirements of the OPA. Under the MMS regulations, the amount of financial responsibility required for an offshore facility is increased above the minimum amount if the "worst case" oil spill volume calculated for the facility exceeds certain limits established in the regulations.

The OPA also imposes other requirements, such as the preparation of an oil-spill contingency plan. We have such a plan in place. Failure to comply with ongoing requirements or inadequate cooperation during a spill may subject a responsible party to civil or criminal enforcement actions. We are not aware of any action or event that would subject us to liability under the OPA and we believe that compliance with the OPA's financial responsibility and other operating requirements will not have a material adverse impact on us.

CERCLA. The Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA"), also known as the "Superfund" law, and comparable state statutes impose liability, without regard to fault or the legality of the original conduct, on certain classes of persons who are considered to have contributed to the release of a "hazardous substance" into the environment. These persons include the owner or operator of the disposal site or sites where the release occurred and companies that disposed or arranged for the disposal of the hazardous substances. Under CERCLA, persons or companies that are statutorily liable for a release could be subject to joint-and-several liability for the costs of cleaning up the hazardous substances that have been released into the environment and for damages to natural resources. In addition, it is not uncommon for neighboring landowners and other third parties to file claims for personal injury and property damage allegedly caused by the hazardous substances released into the environment. We have not been notified by any governmental agency or third party that we are responsible under CERCLA or a comparable state statute for a release of hazardous substances.

Clean Water Act. The Federal Water Pollution Control Act of 1972, as amended (the "Clean Water Act"), imposes restrictions and controls on the discharge of produced waters and other oil and gas wastes into navigable waters. These controls have become more stringent over the years, and it is possible that additional restrictions will be imposed in the future. Permits must be obtained to discharge pollutants into state and federal waters. Certain state regulations and the general permits issued under the Federal National Pollutant Discharge Elimination System program prohibit the discharge of produced waters and sand, drilling fluids, drill cuttings and certain other substances related to the oil and gas industry into certain coastal and offshore water. The Clean Water Act provides for civil, criminal and administrative penalties for unauthorized discharges for oil and other hazardous substances and imposes liability on parties responsible for those discharges for the costs of cleaning up any environmental damage caused by the release and for natural resource damages resulting from the release. Comparable state statutes impose liability and authorize penalties in the case of an unauthorized discharge of petroleum or its derivatives, or other hazardous substances, into state waters. We believe that our operations comply in all material respects with the requirements of the Clean Water Act and state statutes enacted to control water pollution.

Resource Conservation and Recovery Act. The Resource Conservation and Recovery Act ("RCRA") is the principle federal statute governing the treatment, storage and disposal of hazardous wastes. RCRA imposes stringent operating requirements, and liability for failure to meet such requirements, on a person who is either a "generator" or "transporter" of hazardous waste or an "owner" or "operator" of a hazardous waste treatment, storage or disposal facility. At present, RCRA includes a statutory exemption that allows most crude oil and natural gas exploration and production waste to be classified as nonhazardous waste. A similar exemption is contained in many of the state counterparts to RCRA. As a result, we are not required to comply with a substantial portion of RCRA's requirements because our operations generate minimal quantities of hazardous wastes. At various times in the past, proposals have been made to amend RCRA to rescind the exemption that excludes crude oil and natural gas exploration and production wastes from regulation as hazardous waste. Repeal or modification of the exemption by administrative, legislative or judicial process, or modification of similar exemptions in applicable state statutes, would increase the volume of hazardous waste we are required to manage and dispose of and could cause us to incur increased operating expenses.

TITLE TO PROPERTIES

As is customary in the oil and natural gas industry, we make only a cursory review of title to undeveloped oil and natural gas leases at the time we acquire them. However, before drilling commences, we search the title, and remedy any material defects before we actually begin drilling the well. To the extent title opinions or other investigations reflect title defects, we (rather than the seller or lessor of the undeveloped property) typically are obligated to cure any such title defects at our expense. If we are unable to remedy or cure any title defects so that it would not be prudent for us to commence drilling operations on the property, we could suffer a loss of our entire investment in the property. We believe that we have good title to our oil and natural gas

properties, some of which are subject to immaterial encumbrances, easements and restrictions. Under the terms of our credit facility, we may not grant liens on various properties and must grant to our lenders a mortgage on our oil and gas properties of at least 80% of our present value of proved properties. Our own oil and natural gas properties also typically are subject to royalty and other similar noncost-bearing interests customary in the industry.

We acquired substantial portions of our 3-D seismic data through licenses and other similar arrangements. Such licenses contain transfer and other restrictions customary in the industry.

ITEM 2. PROPERTIES

PRODUCING PROPERTIES

For information regarding Meridian's properties, see "Item 1. Business" above.

ITEM 3. LEGAL PROCEEDINGS

There are no material legal proceedings to which Meridian or any of its subsidiaries or partnerships is a party or to which any of its property is subject, other than ordinary and routine litigation incidental to the business of producing and exploring for crude oil and natural gas.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of Meridian's security holders during the fourth quarter of 2000.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

PRICE RANGE OF COMMON STOCK AND DIVIDEND POLICY

Our Common Stock is traded on the New York Stock Exchange under the symbol "TMR." The following table sets forth, for the periods indicated, the high and low sale prices per share for the Common Stock as reported on the New York Stock Exchange:

	HIGH	
2000:		
First quarter	$ 4.25	$
Second quarter	5.94	
Third quarter	7.06	
Fourth quarter	8.88	
1999:		
First quarter	$ 3.88	$
Second quarter	6.44	
Third quarter	5.75	
Fourth quarter	5.19	

The closing sale price of the Common Stock on March 9, 2001, as reported on the New York Stock Exchange Composite Tape, was $8.07. As of March 9, 2001, we had approximately 863 shareholders of record.

Meridian has not paid cash dividends on the Common Stock and does not intend to pay cash dividends on the Common Stock in the foreseeable future. We currently intend to retain our cash for the continued development of our business, including exploratory and development drilling activities. We also are currently restricted under our Chase Manhattan Bank Credit Agreement from expending more than $2.0 million in the aggregate for cash dividends on the Common Stock or for purchase of shares of Common Stock without the prior consent of the lender.

ITEM 6. SELECTED FINANCIAL DATA

All financial data should be read in conjunction with our Consolidated Financial Statements and related notes thereto included throughout this report.

	YEAR ENDED DECEMBER 31,				
	2000	1999	1998	1997	
	(In thousands, except prices and per share infor				
A. SUMMARY OF OPERATING DATA					
Production:					
Oil (MBbls)	3,987	4,454	2,365	914	
Natural gas (MMcf)	27,672	22,711	20,603	14,603	
Natural gas equivalent (MMcfe)	51,596	49,438	34,793	20,087	
Average Prices:					
Oil ($/Bbl)	$ 27.32	$ 17.61	$ 12.19	$ 19.72	$
Natural gas ($/Mcf)	4.14	2.38	2.16	2.70	
Natural gas equivalent ($/Mcfe)	4.33	2.68	2.11	2.86	
B. SUMMARY OF OPERATIONS					
Total revenues	$ 226,246	$ 133,361	$ 74,026	$ 58,333	$
Depletion and depreciation	69,648	54,222	45,390	26,337	
Net earnings (loss)(1)	65,070	11,467	(230,708)	(28,541)	
Net earnings (loss) per share:(1)					
Basic	$ 1.34	$ 0.25	$ (5.80)	$ (0.85)	$
Diluted	1.06	0.25	(5.80)	(0.85)	
Dividends per:					
Common share	-----	-----	-----	-----	

Preferred share	$ 1.36	$ 1.36	$ 0.68	-----	
Weighted average common shares outstanding	48,646	45,995	39,774	33,383	
C. SUMMARY BALANCE SHEET DATA					
Total assets	$ 570,921	$ 477,719	$ 445,175	$ 292,558	$
Long-term obligations, inclusive of current maturities	250,000	270,000	240,084	107,195	
Stockholders' equity	270,322	163,860	148,808	145,102	

(1) Applicable to common stockholders.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

GENERAL

The Meridian Resource Corporation is an independent oil and natural gas exploration and production company with operations primarily focused in the onshore and offshore south Louisiana and southeast Texas Gulf Coast region. As an integral part of our business strategy, we take a very disciplined approach to each project incorporating 3-D seismic analysis of every prospective area prior to drilling a first well. We place emphasis on employing every technological tool available to evaluate each prospect prior to commencing drilling.

As of December 31, 2000, Meridian's reserves totaled 306 Bcfe, representing a decrease of 16% from year-end 1999, with a present value of future net cash flows before income taxes of $1,339 million, an increase of $743 million, or 125%, over year-end 1999, based on prices of $26.20 per Bbl of oil and $10.20 per Mcf of natural gas. Production volumes for the year 2000 were 51.6 Bcfe as compared to 49.4 Bcfe for 1999, a 4% increase after accounting for the sale of non-core properties, which resulted in a reduction of 28.4 Bcfe in reserves. We had discoveries and extensions that added 52.1 Bcfe during the year, partially offset by 30.1 Bcfe of revisions of prior reserve estimates. Our reserves have an average reserve life of six years and are approximately 56% natural gas with 72% being proved developed reserves and 28% proved undeveloped reserves. In addition to the proved reserves, Meridian holds 105,893 net undeveloped acres, 42,742 net developed acres, rights and licenses to over 4,200 square miles of 3-D seismic data and access to over 156,000 miles of 2-D seismic data.

We believe that we are in a strong position relative to others in our industry who compete in the south Louisiana and southeast Texas onshore transition zone region. This advantage stems primarily from (1) our technical and professional staff and its experience in exploring for and producing oil and natural gas in our focus area; (2) our large land and seismic inventories, which form the foundation of the Company's future prospects and growth; and (3) our experienced approach to the development of original prospects and the understanding of what works best technically in our region.

Because of the Shell acquisition and merger, we are now in a better position to balance the allocation of capital expenditures between our exploration activities and development/exploitation activities, which provides us with greater flexibility during the volatile price environments we have experienced in the past. The same holds true for calendar year 2001 and the projects currently scheduled for drilling.

Industry Conditions. Our revenues, profitability and future rate of growth are substantially dependent upon prevailing prices for oil and natural gas. Oil and natural gas prices have been extremely volatile in recent years and are affected by many factors outside of our control. In this regard, average worldwide oil and natural gas prices have increased substantially from levels existing during 1998. As a result of these increases, the average price we received during the year ended December 31, 2000 was $4.33 per Mcfe compared to $2.68 per Mcfe during the year ended December 31, 1999. These industry conditions, and any continuation thereof, will have several important consequences to us, including the level of cash flow received from our producing properties, the timing of exploration of certain prospects and our access to capital markets, which could impact our ability to maintain or increase our exploration and development program.

Shell Transactions. On June 30, 1998, we acquired (the "LOPI Transaction") Louisiana Onshore Properties Inc. ("LOPI"), an indirect subsidiary of Shell, pursuant to a merger of a wholly-owned subsidiary with LOPI. The consideration paid in the LOPI Transaction consisted of 12,082,030 shares of our Common Stock and a new issue of convertible Preferred Stock that was convertible into 12,837,428 shares of Common Stock, which together provided Shell Louisiana Onshore Properties Inc., an indirect subsidiary of Shell ("SLOPI"), with beneficial ownership of 39.9% of our common stock on a fully-diluted basis assuming the exercise of all outstanding stock options and warrants and conversion of all Preferred Stock. In a transaction separate from the LOPI Transaction, on June 30, 1998, we also acquired from Shell Western E&P Inc., an indirect subsidiary

of Shell ("SWEPI"), various other oil and gas property interests located onshore in south Louisiana for a total cash consideration of $38.6 million (the "SWEPI Acquisition").

The LOPI Transaction and the SWEPI Acquisition (together, the "Shell Transactions") were effected to substantially increase our reserves, lease acreage positions and exploration prospects in Louisiana. The Shell Transactions were accounted for utilizing the purchase method of accounting. Therefore, operations relating to the Shell properties are included in our results of operations beginning with the third quarter of 1998.

On January 29, 2001, we completed the repurchase of all of the outstanding Preferred Stock (convertible into 12.8 million shares of Common Stock) and six million shares of our Common Stock from Shell for $114 million. The repurchase of these shares resulted in an immediate reduction in the fully diluted share count of more than 25%.

The Company accumulated the $114 million required to exercise the option to buy back the Company's Preferred Stock and six million shares of Common Stock through a balanced financing structure including $38.7 million in net proceeds from the issuance and sale of Common Stock at $6 5/8 per share; $50.3 million of excess cash flow and proceeds from the sale of non-core properties; and $25 million in subordinated debt.

Ceiling Test Write-down. During 2000 and 1999, crude oil and natural gas prices were significantly improved over 1998. Therefore, we recorded no write-down of the value of our oil and natural gas properties. A significant decline in oil and natural gas prices was the primary cause of our recognition of $245.0 million of non-cash write-downs of our oil and natural gas properties under the full cost method of accounting during 1998. Due to the potential volatility in oil and gas prices and their effect on the carrying value of our proved oil and gas reserves, there can be no assurance that future write-downs will not be required as a result of factors that may negatively affect the present value of proved oil and natural gas reserves and the carrying value of oil and natural gas properties, including volatile oil and natural gas prices, downward revisions in estimated proved oil and natural gas reserve quantities and unsuccessful drilling activities.

RESULTS OF OPERATIONS

YEAR ENDED DECEMBER 31, 2000, COMPARED TO YEAR ENDED DECEMBER 31, 1999

Operating Revenues and Production.

Oil and natural gas revenues increased $90.8 million as a result of improved commodity prices and increased production volumes. The production increase, net of reductions from property sales and natural declines, was a direct result of the inclusion of new wells being placed on production and an aggressive workover program during the year 2000. The following table summarizes Meridian's operating revenues, production volumes and average sales prices for the years ended December 31, 2000 and 1999.

	Year Ended December 31, 2000	1999	Incr (Decr
Production:			
Oil (MBbls)	3,987	4,454	(
Natural gas (MMcf)	27,672	22,711	
Natural gas equivalent (MMcfe)	51,596	49,438	
Average Sales Price:			
Oil (per Bbl)	$ 27.32	$ 17.61	
Natural gas (per Mcf)	4.14	2.38	
Natural gas equivalent (per Mcfe)	4.33	2.68	
Gross Revenues (000's):			
Oil	$ 108,930	$ 78,447	
Natural gas	114,490	54,129	1
Total	$ 223,420	$132,576	

Interest and Other Income.

Interest and other income increased $2.0 million to $2.8 million in 2000, compared to $0.8 million for 1999. This increase was primarily due to invested funds from the sale of properties and the Common Stock offering. These funds were being accumulated for the amount required to exercise the option to buy back the Company's Preferred Stock and six million shares of the Company's Common Stock from Shell.

Operating Expenses.

Oil and natural gas operating expenses increased $3.6 million to $18.2 million in 2000, compared to $14.6 million in 1999. This net increase was the result of several factors. To take advantage of higher commodity prices, the Company pursued an expanded well workover program to increase production during the year 2000; however, these marginal wells incur higher lifting costs. We implemented a cost reduction program to reduce the operating costs on several properties, and this partially offset the increase in costs from the expanded workovers on marginal wells. Additional factors included the expense incurred in bringing new reserves on production, which was partially offset by the property sales which included several wells with high operating costs. The net impact of these various factors was an increase in operating expenses when viewed year over year. On an Mcfe basis, operating expenses were $0.35 per Mcfe for 2000, compared to $0.30 per Mcfe for 1999.

Severance and Ad Valorem Taxes.

Severance and ad valorem taxes increased $4.3 million to $15.6 million in 2000, compared to $11.3 million in 1999. This increase is largely attributable to the 22% increase in natural gas production over the same period in 1999 and the 55% increase in the average sales price of oil over 1999. Meridian's production is primarily from southern Louisiana, and is therefore, subject to a tax rate of 12.5% of gross oil revenues and $0.097 per Mcf for natural gas, an increase from $0.078 per Mcf effective in July 2000.

Depletion and Depreciation.

Depletion and depreciation expenses increased $15.4 million to $69.6 million in 2000, compared to $54.2 million in 1999. This increase was primarily a result of the 4% increase in production on an Mcfe basis over the comparable period in 1999 and an increase in the depletion rate, reflecting the movement of $15.7 million for the year 2000 from the unevaluated to the full cost pool subject to depletion, the sale of non-core properties and revisions of prior reserve estimates.

General and Administrative Expense.

General and administrative expenses increased $2.5 million to $16.4 million in 2000, compared to $13.9 million in 1999. This increase was primarily a result of our expanded exploration and production activities; costs included additional salaries, wages and other compensation and related employee expenses and increased rent related expenses, partially offset by a decrease in franchise taxes, legal expenses and other related administrative expenses.

Interest Expense.

Interest expense increased $2.6 million to $25.5 million in 2000 compared to $22.9 million in 1999. The increase is primarily a result of the issuance of the Subordinated Notes in June 1999, and due to the Federal Reserve Bank's increase during 2000 in overall interest rates, leading to an increase in the average interest rate on the credit facility, partially offset by a decrease in the balance outstanding on the credit facility to $230 million.

YEAR ENDED DECEMBER 31, 1999, COMPARED TO YEAR ENDED DECEMBER 31, 1998

Operating Revenues and Production.

Oil and natural gas revenues increased $59.2 million as a result of increased volumes and improved prices. The production increase was a direct result of the inclusion of results for the entire year from the Louisiana properties purchased from Shell as compared to their inclusion for only six months for 1998, as well as new wells being placed on production during 1999. The following table summarizes Meridian's operating revenues, production volumes and average sales prices for the years ended December 31, 1999 and 1998.

	Year Ended December 31, 1999	Year Ended December 31, 1998	Inc (Dec
Production:			
Oil (MBbls)	4,454	2,365	
Natural gas (MMcf)	22,711	20,603	
Natural gas equivalent (MMcfe)	49,438	34,793	
Average Sales Price:			
Oil (per Bbl)	$ 17.61	$ 12.19	
Natural gas (per Mcf)	2.38	2.16	
Natural gas equivalent (per Mcfe)	2.68	2.11	
Gross Revenues (000's):			
Oil	$ 78,447	$28,911	1
Natural gas	54,129	44,425	
Total	$ 132,576	$73,336	

Operating Expenses.

Oil and natural gas operating expenses increased $1.8 million to $14.6 million in 1999, compared to $12.8 million in 1998. The increase was primarily due to the additional operating expenses related to increased production and the inclusion of costs and expenses from the Shell properties for the full year as well as new wells brought on production in 1999. When viewed on a per unit basis, this reflects a decrease in operating costs to $0.30 per Mcfe for 1999 compared to $0.37 per Mcfe for 1998. This reduction was due to our efforts to reduce operating costs on all of our properties, especially those purchased from Shell, which had a higher cost of operations associated with them upon assuming control on June 30, 1998.

Severance and Ad Valorem Taxes.

Severance and ad valorem taxes increased $7.2 million to $11.3 million in 1999, compared to $4.1 million in 1998. Meridian's oil and natural gas is primarily produced from south Louisiana, and, therefore, is subject to Louisiana's severance tax. Louisiana's severance tax rates were $0.078 per Mcf for natural gas and 12.5% of gross oil revenue. Our 1999 severance tax increase of $7.2 million was largely tied to the increase of oil and natural gas production over 1998 and the fact that our average oil price increased 44% over 1998.

Depletion and Depreciation.

Depletion and depreciation expenses increased $8.8 million to $54.2 million in 1999, compared to $45.4 million in 1998. The increase was primarily due to the increased production in 1999 over 1998 levels.

General and Administrative Expense.

General and administrative expenses increased $4.3 million to $13.9 million in 1999, compared to $9.6 million in 1998. This increase was primarily a result of increases in salaries, wages, other compensation and related employee costs associated with the increase in employees related to the Shell properties acquisition and the development and exploitation opportunities associated with the properties and the 3-D seismic surveys covering them. In addition, because of increased oil and natural gas volumes and prices, the net profit interest distributions increased accordingly.

Interest Expense.

Interest expense increased $9.7 million to $22.9 million in 1999 compared to $13.2 million in 1998. The increase is primarily a result of additional borrowings under the credit facility for the full year of 1999 versus only six months of 1998, and the issuance in June 1999 of $20 million of 9 1/2% Convertible Subordinated Notes, due June 18, 2005. These additional funds were utilized in our capital expenditures program to further the exploration and development activities during a period when many in the industry were not as active in their drilling programs and drilling and service costs were lower.

LIQUIDITY AND CAPITAL RESOURCES

WORKING CAPITAL. During 2000, Meridian's liquidity improved significantly. Capital expenditures were internally financed from the Company's cash flow generated from operations. Meridian's unhedged position since July 2000 allowed us to take full advantage of strong commodity prices during the last six months of the year, contributing to high levels of cash flow. In addition, Meridian continued initiatives designed to increase liquidity and provide flexibility in our capital structure. We completed the sale of certain non-strategic assets resulting in cash proceeds of approximately $35 million of which $20 million was applied to debt reduction. The Company also sold 6,021,500 shares of Common Stock during 2000, for net proceeds of approximately $38.7 million to the Company. As of December 31, 2000, we had a cash balance of $95.1 million and working capital of $90.2 million.

This improvement in working capital demonstrates our commitment to de-levering the balance sheet by using available cash flow to reduce payables and other debt. Our strategy is to grow the Company prudently, taking advantage of the strong asset base built over the years to add reserves through the drill bit while maintaining a disciplined approach to costs. Where appropriate, we will allocate excess cash above capital expenditures to reduce leverage.

CREDIT FACILITY. We entered into an amended and restated credit facility with The Chase Manhattan Bank as Administrative Agent (the "Credit Facility") to provide for maximum borrowings, subject to borrowing base limitations, of up to $250 million. Due to the property sales during 2000, the borrowing base was reduced to $230 million. The Company is currently negotiating its scheduled borrowing base redetermination with its banks. Borrowings under the Credit Facility are secured by pledges of the outstanding capital stock of our subsidiaries and a mortgage on the oil and natural gas properties of at least 80% of its present value of proved properties. The Credit Facility contains various restrictive covenants, including, among other items, maintenance of certain financial ratios and restrictions on cash dividends on the Common Stock. Borrowings under the Credit Facility mature on May 22, 2003.

Under the Credit Facility, as amended, we may secure either (i) an alternative base rate loan that bears interest at a rate per annum equal to the greater of the administrative agent's prime rate, a certificate of deposit based rate or a federal funds based rate plus 0.25% to 1.0% or (ii) a Eurodollar base rate loan that bears interest, generally, at a rate per annum equal to the London interbank offered rate plus 1.25% to 2.5%, depending on the ratio of the aggregate outstanding loans and letters of credit to the borrowing base. The Credit Facility also provides for commitment fees ranging from 0.3% to 0.5% per annum.

SHORT-TERM NOTE AGREEMENT. We entered into a short-term subordinated credit agreement with Fortis Capital Corporation for $25 million, effective January 5, 2001. The interest rate is LIBOR plus 3.5%. The termination date is December 31, 2001.

9 1/2% CONVERTIBLE SUBORDINATED NOTES. During June 1999, we completed private placements of an aggregate of $20 million of our 9 1/2% Convertible Subordinated Notes due June 18, 2005 (the "Notes"). The Notes are unsecured and contain customary events of default, but do not contain any maintenance or other restrictive covenants. Interest is payable on a quarterly basis.

The Notes are convertible at any time by the holders of the Notes into shares of our Common Stock, utilizing a conversion price of $7.00 per share (the "Conversion Price"). The Conversion Price is subject to customary anti-dilution provisions. The holders of the Notes have been granted registration rights with respect to the shares of Common Stock that would be issued upon conversion of the Notes or issuance of the warrants discussed below.

We may prepay the Notes at any time without penalty or premium; however, if we redeem or prepay the Notes

on or before June 21, 2001, we will issue to the holders of the Notes warrants to purchase that number of shares of Common Stock into which such Notes would have been convertible on the date of prepayment. The warrants will have exercise prices equal to the Conversion Price in effect on the date of issuance and will expire on June 21, 2001, regardless of the date such warrants are issued.

CAPITAL EXPENDITURES. Capital expenditures in 2000 consisted of $102.7 million for property and equipment additions primarily related to exploration and development of various prospects, including leases, seismic data acquisitions, and drilling and workover activities. The Company expanded workover activities to take advantage of high commodity prices. Our strategy is to blend exploration drilling activities with high-confidence workover and development projects selected from our broad asset inventory added to our daily production during a high commodity price environment. This strategy brought on production and added reserves sooner than the drilling of deep, higher risk exploration wells. The workover additions came from key producing fields, primarily West Lake Verret, Weeks Island, and Good Hope.

The 2001 capital expenditures plan has been established at approximately $100 million. The final projects will be determined based on a variety of factors, including prevailing prices for oil and natural gas, our expectations as to future pricing and the level of cash flow from operations. We currently anticipate funding the 2001 plan primarily utilizing cash flow from operations. Where appropriate, we will use excess cash flow from operations as a result of increased rates or prices beyond that needed for the 2001 capital expenditures plan to be used to de-lever the Company by development of exploration discoveries or direct payment of debt.

SALE OF PROPERTIES. To reduce bank debt and increase liquidity, the Company announced on January 14, 2000, the initiation of a formal process to pursue the sale of certain non-strategic oil and gas properties located in south Louisiana, the Texas Gulf Coast and offshore in the Gulf of Mexico. As of December 31, 2000, seven transactions had been closed, covering a net total of 28.4 Bcfe for a total of approximately $35 million, or an average price of $1.24 Mcfe. Of the property sale proceeds, $20 million was used to reduce bank debt. While additional non-strategic properties may be sold, the Company may elect to retain the properties if the expected earnings generated from continued operations exceeds the value of any offer for those properties. There is no assurance that additional sales will take place or that the prices realized on any such sales will be comparable to previous property sales.

DIVIDENDS. It is our policy to retain existing cash for reinvestment in our business, and therefore, we do not anticipate that dividends will be paid with respect to the Common Stock in the foreseeable future. The Preferred Stock issued upon closing of the LOPI Transaction accrued an annual cash dividend of 4% of its stated value with the dividend ceasing to accrue incrementally on one-third of the shares of Preferred Stock on June 30, 2001, 2002 and 2003 so that no dividends would have accrued on any shares of Preferred Stock after June 30, 2003. Dividends on the Preferred Stock aggregating $5.4 million were accrued for 2000, of which $2.7 million had been paid as of December 31, 2000. Dividends were paid on a pro-rata basis up until the exercise date of the option to purchase the Preferred Stock held by Shell.

STOCK RIGHTS AND RESTRICTIONS AGREEMENT. In June 1998, Meridian acquired substantially all of Shell's onshore south Louisiana oil and gas properties. In consideration of the purchase, Meridian issued to Shell Louisiana Onshore Properties, Inc. ("SLOPI"), 12.1 million shares of Common Stock plus Preferred Stock with a stated value of $135 million. The terms of the original Stock Rights and Restrictions Agreement allowed for the conversion of the Preferred Stock into Common Stock at any time and beginning July 1, 2000, and the potential for 25% of Shell's Common Stock holdings to be sold per year, each subsequent year.

Meridian and SLOPI, on July 18, 2000, announced a definitive agreement granting Meridian an option to repurchase all of the outstanding shares of our Preferred Stock (convertible into 12.8 million shares of Common Stock), plus six million shares of our Common Stock held by Shell, for an aggregate cash price of $114 million. Further, the agreement provided that Shell would not dispose of any of its stock position until

the latter part of April 2001 and any subsequent stock sales would be subject to Rule 144 of the Securities Act of 1933. As consideration for the option, we issued Shell one million shares of our Common Stock. The "Option and Standstill Agreement" was exercised in a single transaction on January 29, 2001. After Meridian exercised the option, Shell remains Meridian's largest shareholder, with approximately 7.1 million shares of Common Stock. The agreement is intended to benefit all shareholders, both by potentially reducing the number of outstanding shares and by eliminating the uncertainty resulting from the unknown amount of dilution related to the "make whole" provision of the Preferred Stock. We believe that exercise of the option has simplified our capital structure.

FORWARD-LOOKING INFORMATION

From time to time, we may make certain statements that contain "forward-looking" information as defined in the Private Securities Litigation Reform Act of 1995 and that involve risk and uncertainty. These forward-looking statements may include, but are not limited to exploration and seismic acquisition plans, anticipated results from current and future exploration prospects, future capital expenditure plans, anticipated results from third party disputes and litigation, expectations regarding compliance with our credit facility, the anticipated results of wells based on logging data and production tests, future sales of production, earnings, margins, production levels and costs, market trends in the oil and natural gas industry and the exploration and development sector thereof, environmental and other expenditures and various business trends. Forward-looking statements may be made by management orally or in writing including, but not limited to, the Management's Discussion and Analysis of Financial Condition and Results of Operations section and other sections of our filings with the Securities and Exchange Commission under the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended.

Actual results and trends in the future may differ materially depending on a variety of factors including, but not limited to the following:

Changes in the price of oil and natural gas. The prices we receive for our oil and natural gas production and the level of such production are subject to wide fluctuations and depend on numerous factors that we do not control, including seasonality, worldwide economic conditions, the condition of the United States economy (particularly the manufacturing sector), foreign imports, political conditions in other oil-producing countries, the actions of the Organization of Petroleum Exporting Countries and domestic government regulation, legislation and policies. Material declines in the prices received for oil and natural gas could make the actual results differ from those reflected in our forward-looking statements.

Operating Risks. The occurrence of a significant event against which we are not fully insured against could have a material adverse effect on our financial position and results of operations. Our operations are subject to all of the risks normally incident to the exploration for and the production of oil and natural gas, including uncontrollable flows of oil, natural gas, brine or well fluids into the environment (including groundwater and shoreline contamination), blowouts, cratering, mechanical difficulties, fires, explosions, unusual or unexpected formation pressures, pollution and environmental hazards, each of which could result in damage to or destruction of oil and natural gas wells, production facilities or other property, or injury to persons. In addition, we are subject to other operating and production risks such as title problems, weather conditions, compliance with government permitting requirements, shortages of or delays in obtaining equipment, reductions in product prices, limitations in the market for products, litigation and disputes in the ordinary course of business. Although we maintain insurance coverage considered to be customary in the industry, we are not fully insured against certain of these risks either because such insurance is not available or because of high premium costs. We cannot predict if or when any such risks could affect our operations. The occurrence of a significant event for which we are not adequately insured could cause our actual results to differ from those reflected in our forward-looking statements.

-27-

28

Drilling Risks. Our decision to purchase, explore, develop or otherwise exploit a prospect or property will depend in part on the evaluation of data obtained through geophysical and geological analysis, production data and engineering studies, which are inherently imprecise. Therefore, we cannot assure you that all of our drilling activities will be successful or that we will not drill uneconomical wells. The occurrence of unexpected drilling results could cause the actual results to differ from those reflected in our forward-looking statements.

Uncertainties in Estimating Reserves and Future Net Cash Flows. Reserve engineering is a subjective process of estimating the recovery from underground accumulations of oil and natural gas we cannot measure in an exact manner, and the accuracy of any reserve estimate is a function of the quality of those accumulations of data and of engineering and geological interpretation and judgement. Reserve estimates are inherently imprecise and may be expected to change as additional information becomes available. There are numerous uncertainties inherent in estimating quantities and values of proved reserves and in projecting future rates of production and timing of development expenditures, including many factors beyond our control. Because all reserve estimates are to some degree speculative, the quantities of oil and natural gas that we ultimately recover, production and operating costs, the amount and timing of future development expenditures and future oil and natural gas sales prices may differ from those assumed in these estimates. Significant downward revisions to our existing reserve estimates could cause the actual results to differ from those reflected in our forward-looking statements.

-28-

29

ITEM 7. A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is from time to time exposed to market risk from changes in interest rates and hedging contracts. A discussion of the market risk exposure in financial instruments follows.

INTEREST RATES

We are subject to interest rate risk on our long-term fixed interest rate debt and variable interest rate borrowings. Our long-term borrowings primarily consist of borrowings under the Credit Facility and the $20 million principal of 9 1/2% Convertible Subordinated Notes due June 18, 2005. Since interest charged borrowings under the Credit Facility floats with prevailing interest rates (except for the applicable interest period for Eurodollar loans), the carrying value of borrowings under the Credit Facility should approximate the fair market value of such debt. Changes in interest rates, however, will change the cost of borrowing. Assuming $230 million remains borrowed under the Credit Facility, we estimate our annual interest expense will change by $2.3 million for each 100 basis point change in the applicable interest rates utilized under the Credit Facility. Changes in interest rates would, assuming all other things being equal, cause the fair market value of debt with a fixed interest rate, such as the Notes, to increase or decrease, and thus increase or decrease the amount required to refinance the debt. The fair value of the Notes is dependent on prevailing interest rates and our current stock price as it relates to the conversion price of $7.00 per share of our Common Stock.

HEDGING CONTRACTS

Meridian may address market risk by selecting instruments whose value fluctuations correlate strongly with the underlying commodity being hedged. From time to time, we may enter into swaps and other derivative contracts to hedge the price risks associated with a portion of anticipated future oil and gas production. While the use of hedging arrangements limits the downside risk of adverse price movements, it may also limit future gains from favorable movements. Under these agreements, payments are received or made based on the differential between a fixed and a variable product price. These agreements are settled in cash at or prior to expiration or exchanged for physical delivery contracts. Meridian does not obtain collateral to support the agreements, but monitors the financial viability of counter-parties and believes its credit risk is minimal on these transactions. In the event of nonperformance, we would be exposed to price risk. Meridian has some risk of accounting loss since the price received for the product at the actual physical delivery point may differ from the prevailing price at the delivery point required for settlement of the hedging transaction.

GLOSSARY OF CERTAIN OIL AND NATURAL GAS TERMS

The definitions set forth below apply to the indicated terms commonly used in the oil and natural gas industry and in this Form 10-K. Mcfe is calculated using the ratio of six Mcf of natural gas to one barrel of oil, condensate or natural gas liquids, which approximates the relative energy content of crude oil, condensate and natural gas liquids as compared to natural gas. Prices have historically been substantially higher for crude oil than natural gas on an energy equivalent basis. Any reference to net wells or net acres was determined by multiplying gross wells or acres by our working percentage interest therein.

"Bbl" means barrel and "Bbls" means barrels.
"Bcf" means billion cubic feet.
"Bcfe" means billion cubic feet of natural gas equivalent.
"Btu" means British Thermal Unit.
"EPA" means Environmental Protection Agency.
"FERC" means the Federal Energy Regulatory Commission.
"MBbls" means thousand barrels.
"Mcf" means thousand cubic feet.
"Mcfe" means thousand cubic feet of natural gas equivalent.
"MMBbls" means million barrels.
"MMBtu" means million Btus.
"MMcf" means million cubic feet.

"MMcfe" means million cubic feet of natural gas equivalent.
"NGPA" means the Natural Gas Policy Act of 1978, as amended.
"Present Value of Future Net Cash Flows" or "Present Value of Proved Reserves" means the present value of estimated future revenues to be generated from the production of proved reserves calculated in accordance with Securities and Exchange Commission guidelines, net of estimated production and future development costs, using prices and costs as of the date of estimation without future escalation, without giving effect to non-property related expenses such as general and administrative expenses, debt service, future income tax expenses and depreciation, depletion and amortization, and discounted using an annual discount rate of 10%.
"Tcf" means trillion cubic feet.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Index to Financial Statements

REPORT OF INDEPENDENT AUDITORS

Board of Directors and Stockholders
The Meridian Resource Corporation

We have audited the accompanying consolidated balance sheets of The Meridian

Resource Corporation and subsidiaries as of December 31, 2000 and 1999, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2000. 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 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 consolidated financial position of The Meridian Resource Corporation and subsidiaries at December 31, 2000 and 1999, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States.

ERNST & YOUNG LLP

Houston, Texas
March 2, 2001

THE MERIDIAN RESOURCE CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(thousands, except per share)

	YEAR ENDED DECEMBER 31,		
	2000	1999	1
REVENUES:			
Oil and natural gas	$ 223,420	$ 132,576	$
Interest and other	2,826	785	
	226,246	133,361	
OPERATING COSTS AND EXPENSES:			

Oil and natural gas operating	18,234	14,604	
Severance and ad valorem taxes	15,578	11,338	
Depletion and depreciation	69,648	54,222	
General and administrative	16,383	13,928	
Impairment of long-lived assets	--	--	2
Litigation expenses and loss provision	--	(477)	
	119,843	93,615	3
EARNINGS (LOSS) BEFORE INTEREST AND INCOME TAXES	106,403	39,746	(2
OTHER EXPENSES:			
Interest expense	25,533	22,879	
Taxes on income	10,400	--	(
	35,933	22,879	(
NET EARNINGS (LOSS)	70,470	16,867	(2
DIVIDENDS ON PREFERRED STOCK	5,400	5,400	
NET EARNINGS (LOSS) APPLICABLE TO COMMON STOCKHOLDERS	$ 65,070	$ 11,467	$ (2
NET EARNINGS (LOSS) PER SHARE:			
Basic	$ 1.34	$ 0.25	$
Diluted	$ 1.06	$ 0.25	$
WEIGHTED AVERAGE NUMBER OF COMMON SHARES:			
Outstanding	48,646	45,995	
Assuming dilution	67,521	45,995	

See notes to consolidated financial statements.

THE MERIDIAN RESOURCE CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(thousands of dollars)

	DEC
	2000
ASSETS	
CURRENT ASSETS:	
Cash and cash equivalents	$ 95,12
Accounts receivable, less allowance for doubtful accounts $891 [2000] and $1,003 [1999]	36,07
Due from affiliates	-
Prepaid expenses and other	1,10
Total current assets	132,29
PROPERTY AND EQUIPMENT:	
Oil and natural gas properties, full cost method (including $47,027 [2000] and $62,686 [1999] not subject to depletion)	982,56
Land	47
Equipment	10,28
	993,32
Accumulated depletion and depreciation	558,84
	434,48
OTHER ASSETS, NET	4,13
	$ 570,92

See notes to consolidated financial statements.

35

THE MERIDIAN RESOURCE CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (continued)
(thousands of dollars)

	DEC
	2000
LIABILITIES AND STOCKHOLDERS' EQUITY	
CURRENT LIABILITIES:	
Accounts payable	$ 18,21
Revenues and royalties payable	1,45
Due to affiliates	75
Accrued liabilities	19,77
Current income taxes payable	1,90
Total current liabilities	42,09
LONG-TERM DEBT	230,00
9 1/2% CONVERTIBLE SUBORDINATED NOTES	20,00
DEFERRED INCOME TAXES	8,50
STOCKHOLDERS' EQUITY:	
Preferred stock, $1.00 par value (25,000,000 shares authorized, 3,982,906 [2000 and 1999] shares of Series A Cumulative Convertible Preferred Stock issued at stated value)	135,00
Common stock, $0.01 par value (200,000,000 shares authorized, 53,763,285 [2000] and 46,409,980 [1999] issued)	55
Additional paid-in capital	315,60
Accumulated deficit	(180,27
Unrealized loss on securities held for resale	(18
Unamortized deferred compensation	(36
Total stockholders' equity	270,32
	$ 570,92

See notes to consolidated financial statements.

THE MERIDIAN RESOURCE CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(thousands of dollars)

	YEAR ENDED DECEM	
	2000	1999
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net earnings (loss)	$ 70,470	$ 16,8
Adjustments to reconcile net earnings (loss) to net cash provided by operating activities:		
Depletion and depreciation	69,648	54,2
Amortization of other assets	1,276	1,2
Non-cash compensation	2,729	3,6
Impairment of long-lived assets	--	
Deferred income taxes	8,500	
Changes in assets and liabilities:		
Accounts receivable	(7,595)	4,0
Due to (from) affiliates	921	4,6
Prepaid expenses and other	131	1
Accounts payable	(3,143)	2,2
Revenues and royalties payable	(3,275)	(1,7
Accrued liabilities and other	3,902	(14,2
Net cash provided by operating activities	143,564	71,1
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to property and equipment	(102,679)	(108,1
Sale of property and equipment	35,054	8,9
Net cash used in investing activities	(67,625)	(99,2
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from long-term debt	2,000	40,0
Reductions in long-term debt	(22,000)	(10,0
Preferred dividends	(5,400)	(4,0

Issuance of stock/exercise of stock options	38,663	
Additions to deferred loan costs	(697)	(7
Net cash provided by financing activities	12,566	25,2
NET CHANGE IN CASH AND CASH EQUIVALENTS	88,505	(2,8
Cash and cash equivalents at beginning of year	6,617	9,4
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 95,122	$ 6,6

See notes to consolidated financial statements.

THE MERIDIAN RESOURCE CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 1998, 1999 AND 2000 (in thousands)

	Preferred Stock		Common Stock		Additional Paid-In	Accumulated Earnings	
	Shares	Par Value	Shares	Par Value	Capital	(Deficit)	C
Balance, December 31, 1997	-----	$ -----	33,481	$ 336	$172,023	$ (26,106)	
Exercise of stock options	-----	-----	254	3	1,290	-----	
Company's 401(k) plan contribution	-----	-----	-----	-----	(487)	-----	
Issuance of rights to common stock	-----	-----	-----	1	1,599	-----	
Compensation expense	-----	-----	-----	-----	-----	-----	
Issuance of shares - Shell Transaction:							
Preferred stock	3,983	135,000	-----	-----	-----	-----	
Common stock	-----	-----	12,082	121	96,052	-----	
Preferred dividends	-----	-----	-----	-----	-----	(2,700)	
Net loss	-----	-----	-----	-----	-----	(228,008)	
Balance, December 31, 1998	3,983	135,000	45,817	461	270,477	(256,814)	
Exercise of stock options	-----	-----	32	-----	85	-----	
Company's 401(k) plan contribution	-----	-----	138	2	562	-----	

Issuance of rights to common stock	-----	-----	-----	5	1,492	-----
Issuance of shares as compensation	-----	-----	423	4	1,682	-----
Compensation expense	-----	-----	-----	-----	-----	-----
Realization on securities held	-----	-----	-----	-----	-----	-----
Preferred dividends	-----	-----	-----	-----	-----	(5,400)
Net earnings	-----	-----	-----	-----	-----	16,867
Balance, December 31, 1999	3,983	135,000	46,410	472	274,298	(245,347)
Issuance of rights to common stock	-----	-----	-----	4	1,596	-----
Company's 401(k) plan contribution	-----	-----	58	1	335	-----
Issuance of shares as compensation	-----	-----	256	3	781	-----
Exercise of stock options	-----	-----	18	-----	70	-----
Compensation expense	-----	-----	-----	-----	-----	-----
Shares issued to SLOPI	-----	-----	1,000	10	(10)	-----
Issuance of shares from stock offerinG	-----	-----	6,021	60	38,533	-----
Preferred dividends	-----	-----	-----	-----	-----	(5,400)
Net earnings	-----	-----	-----	-----	-----	70,470
Balance, December 31, 2000	3,983	$135,000	53,763	$ 550	$315,603	$(180,277)

	Treasury Stock Shares	Treasury Stock Cost	Total
Balance, December 31, 1997	47	$(842)	$ 145,102
Exercise of stock options	-----	-----	1,293
Company's 401(k) plan contribution	(46)	819	332
Issuance of rights to common stock	-----	-----	-----
Compensation expense	-----	-----	1,616
Issuance of shares - Shell Transaction:			
Preferred stock	-----	-----	135,000
Common stock	-----	-----	96,173
Preferred dividends	-----	-----	(2,700

Net loss	-----	-----	(228,008
Balance, December 31, 1998	1	(23)	148,808
Exercise of stock options	-----	-----	85
Company's 401(k) plan contribution	(1)	23	587
Issuance of rights to common stock	-----	-----	-----
Issuance of shares as compensation	-----	-----	1,686
Compensation expense	-----	-----	1,412
Realization on securities held	-----	-----	(185
Preferred dividends	-----	-----	(5,400
Net earnings	-----	-----	16,867
Balance, December 31, 1999	-----	-----	163,860
Issuance of rights to common stock	-----	-----	-----
Company's 401(k) plan contribution	-----	-----	336
Issuance of shares as compensation	-----	-----	784
Exercise of stock options	-----	-----	70
Compensation expense	-----	-----	1,609
Shares issued to SLOPI	-----	-----	-----
Issuance of shares from stock offering	-----	-----	38,593
Preferred dividends	-----	-----	(5,400)
Net earnings	-----	-----	70,470
Balance, December 31, 2000	-----	$-----	$270,322

See notes to consolidated financial statements.

THE MERIDIAN RESOURCE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. ORGANIZATION AND BASIS OF PRESENTATION

The Meridian Resource Corporation and its subsidiaries, (the "Company" or "Meridian") explores for, acquires, develops and produces oil and natural gas reserves, principally located onshore in south Louisiana, the Texas Gulf Coast and offshore in the Gulf of Mexico. The Company was initially organized in 1985 as a master limited partnership and operated as such until 1990 when it converted into a corporation through a merger with a limited partnership of which the Company was the sole limited and general partner. The Company acquired in two separate transactions (the "Shell Transactions") certain Louisiana onshore properties from Shell Oil Company ("Shell") as described in note 7 below. The Shell Transactions were accounted for as purchases for financial accounting purposes.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, after eliminating all significant intercompany transactions.

PROPERTY AND EQUIPMENT

The Company follows the full cost method of accounting for its investments in oil and natural gas properties. All costs incurred with the acquisition, exploration and development of oil and natural gas properties, including unproductive wells, are capitalized. Included in capitalized costs are general and administrative costs that are directly related with acquisition, exploration and development activities. Proceeds from the sale of oil and natural gas properties are credited to the full cost pool, unless the sale involves a significant quantity of reserves, in which case a gain or loss is recognized. Under the rules of the Securities and Exchange Commission ("SEC") for the full cost method of accounting, the net carrying value of oil and natural gas properties is limited to the sum of the present value (10% discount rate) of the estimated future net cash flows from proved reserves, based on the current prices and costs, plus the lower of cost or estimated fair market value of unproved properties.

Capitalized costs of proved oil and natural gas properties are depleted on a unit of production method using proved oil and natural gas reserves. Costs depleted include net capitalized costs subject to depletion and estimated future dismantlement, restoration, and abandonment costs. Estimated future abandonment, dismantlement and site restoration costs include costs to dismantle, relocate and dispose of the Company's offshore production platforms, gathering systems, wells and related structures. Such costs related to onshore properties, net of estimated salvage values, are not expected to be significant.

Equipment, which includes computer equipment, hardware and software, furniture and fixtures, leasehold improvements and automobiles, is recorded at cost and is generally depreciated on a straight-line basis over the estimated useful lives of the assets, which range in periods of three to seven years.

-38-

39

CASH AND CASH EQUIVALENTS

For purposes of the statements of cash flows, cash equivalents include time deposits, certificates of deposit and all highly liquid instruments with original maturities of three months or less. The Company made cash payments for interest of $25.3 million, $23.2 million and $12.3 million in 2000, 1999 and 1998, respectively. There were no cash payments for income taxes for 2000, 1999 or 1998.

CONCENTRATIONS OF CREDIT RISK

Substantially all of the Company's receivables are due from oil and natural gas purchasers and other oil and natural gas producing companies located in the United States. Accounts receivable are generally not collateralized. Historically, credit losses incurred on receivables of the Company are not significant.

REVENUE RECOGNITION

Meridian recognizes oil and natural gas revenue from its interests in producing wells as oil and natural gas is produced and sold from those wells. Oil and natural gas sold is not significantly different from the Company's share of production.

EARNINGS PER SHARE

Basic earnings per share amounts are calculated based on the weighted average number of shares of Common Stock outstanding during each period. Diluted earnings per share is based on the weighted average number of shares of Common Stock outstanding for the periods, including the dilutive effects of stock options and warrants granted. Dilutive options and warrants that are issued during a period or that expire or are canceled during a period are reflected in the computations for the time they were outstanding during the periods being reported. Options where the exercise price of the options exceeds the average price for the period are considered antidilutive, and therefore are not included in the calculation of dilutive shares.

STOCK OPTIONS

As permitted by SFAS No. 123, "Accounting for Stock Based Compensation," the Company will continue to follow the existing accounting requirements for stock options and stock-based awards contained in Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and related Interpretations and consensus of the Emerging Issues Task Force in terms of measuring compensation expense.

DERIVATIVE INSTRUMENTS

The Company enters into swaps, options, collars and other derivative contracts to hedge the price risks associated with a portion of anticipated future oil and gas production. Realized gains and losses on settled derivative contracts are deferred and recognized as adjustments to oil and gas revenues in the applicable period(s) hedged. In applying hedge accounting, the Company periodically monitors the correlation of changes in the value of its derivative contracts with that of the prices the Company realized for its production. In the event of a lack of significant correlation, as might occur in the event of a major market disturbance, certain of the Company's derivative contracts no longer may qualify for hedge accounting, and would be marked to market accordingly. The Company may also enter into interest rate swaps to manage risk associated with interest rates and reduce the Company's exposure to interest rate fluctuations. Interest rate swaps are valued on a periodic basis, with resulting differences recognized as an adjustment to interest and other financing costs over the term of the agreement. The Company only enters into derivative contracts for hedging purposes.

ACCOUNTING PRONOUNCEMENT

In June 1999, the Financial Accounting Standards Board issued SFAS No. 137, "Accounting for Derivative Instruments and Hedging Activities - Deferral of the Effective Date of FASB Statement No. 133," which is effective for fiscal years beginning after June 15, 2000, with earlier adoption encouraged. FASB Statement

No. 133, "Accounting for Derivative Instruments and Hedging Activities," requires companies to record derivatives on the balance sheet as assets and liabilities, measured at fair value. Gains or losses resulting from changes in the values of those derivatives would be accounted for depending on the use of the derivative and whether it qualifies for hedge accounting. The Company has determined SFAS No. 133 will not have any effect on the current results of operations and financial position. The Company will adopt this accounting standard as required by January 1, 2001.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

3. IMPAIRMENT OF LONG-LIVED ASSETS

A significant decline in oil and natural gas prices during 1998 resulted in the Company recognizing non-cash write-downs totaling $245.0 million of its oil and natural gas properties under the full cost method of accounting.

Due to the potential volatility in oil and gas prices and their effect on the carrying value of the Company's proved oil and gas reserves, there can be no assurance that future write-downs will not be required as a result of factors that may negatively affect the present value of proved oil and natural gas reserves and the carrying value of oil and natural gas properties, including volatile oil and natural gas prices, downward revisions in estimated proved oil and natural gas reserve quantities and unsuccessful drilling activities.

4. DEBT

LONG-TERM DEBT

In May 1998, the Company amended and restated the Company's credit facility with The Chase Manhattan Bank as Administrative Agent (the "Credit Facility") to provide for maximum borrowings, subject to borrowing base limitations, of up to $250 million. In November 1998, the Company amended the Credit Facility to increase the then-existing borrowing base from $200 million to $250 million. The borrowing base, currently set at $230 million, is scheduled to be redetermined in March 2001. In addition to the regularly scheduled semi-annual borrowing base redeterminations, the lenders under the Credit Facility have the right to redetermine the borrowing base at any time once during each calendar year and the Company has the right to obtain a redetermination by the banks of the borrowing base once during each calendar year. Borrowings under the Credit Facility are secured by pledges of the outstanding capital stock of the Company's material subsidiaries and a mortgage on the Company's oil and natural gas properties of at least 80% of its present value of proved properties. The Credit Facility contains various restrictive covenants, including, among other items, maintenance of certain financial ratios and restrictions on cash dividends on the Common Stock. Borrowings under the Credit Facility mature on May 22, 2003.

Under the Credit Facility, as amended, the Company may secure either (i) an alternative base rate loan that bears interest at a rate per annum equal to the greatest of the administrative agent's prime rate, a certificate of deposit based rate or federal funds based rate plus 0.25% to 1.0% or (ii) a Eurodollar base rate loan that bears interest, generally, at a rate per annum equal to the London interbank offered rate plus 1.25% to 2.5%, depending on the Company's ratio of the aggregate outstanding loans and letters of credit to the borrowing base. The Credit Facility also provides for commitment fees ranging from 0.3% to 0.5% per annum. At December 31, 2000, the Company had outstanding borrowings of $230 million under the Credit Facility.

9 1/2% CONVERTIBLE SUBORDINATED NOTES

During June 1999, the Company completed private placements of an aggregate of $20 million of its 9 1/2% Convertible Subordinated Notes due June 18, 2005 (the "Notes"). The Notes are unsecured and contain customary events of default, but do not contain any maintenance or other restrictive covenants. Interest is payable on a quarterly basis.

The Notes are convertible at any time by the holders of the Notes into shares of the Company's Common Stock, $.01 par value ("Common Stock"), utilizing a conversion price of $7.00 per share (the "Conversion Price"). The Conversion Price is subject to customary anti-dilution provisions. The holders of the Notes have been granted registration rights with respect to the shares of Common Stock would be issued upon conversion of the Notes or issuance of the warrants discussed below.

The Notes may be prepaid by the Company at any time without penalty or premium; however, in the event the Company redeems or prepays the Notes on or before June 21, 2001, the Company will issue to the holders of the Notes warrants to purchase that number of shares of Common Stock into which such Notes would have been convertible on the date of prepayment. Such warrants will have exercise prices equal to the Conversion Price in effect on the date of issuance and will expire on June 21, 2001, regardless of the date such warrants are issued.

5. LEASE OBLIGATIONS

The Company has a seven-year operating lease for office space with a primary term expiring in September 2006. The Company also has operating leases for equipment with various terms, none exceeding three years. Rental expense amounted to approximately $1.9 million, $1.4 million and $0.7 million in 2000, 1999 and 1998, respectively. Future minimum lease payments under all non-cancelable operating leases having initial terms of one year or more are estimated to be $1.3 million for each of the years 2001 - 2003, $1.4 million for the years 2004 and 2005, and $1.3 million thereafter.

6. COMMITMENTS AND CONTINGENCIES

LITIGATION

There are no other material legal proceedings to which Meridian or any of our subsidiaries or partnerships is a party or by which any of our property is subject, other than ordinary and routine litigation incidental to the business of producing and exploring for crude oil and natural gas.

7. SHELL TRANSACTIONS

On June 30, 1998, the Company acquired (the "LOPI Transaction") Louisiana Onshore Properties Inc. ("LOPI"), an indirect subsidiary of Shell, pursuant to a merger of a wholly-owned subsidiary of the Company with LOPI. The consideration paid in the LOPI Transaction consisted of 12,082,030 shares of the Company's Common Stock, $.01 par value ("Common Stock"), and a new issue of convertible Preferred Stock of the Company (the "Preferred Stock") that is convertible into

12,837,428 shares of Common Stock, which together provided Shell Louisiana Onshore Properties Inc., an indirect subsidiary of Shell ("SLOPI"), with beneficial ownership of 39.9% of the outstanding shares of Common Stock as of the closing of the LOPI Transaction, assuming exercise of all outstanding options and warrants and the conversion of the Preferred Stock. In a

transaction separate from the LOPI Transaction, on June 30, 1998, the Company also acquired from Shell Western E&P, Inc., an indirect subsidiary of Shell, various other oil and gas property interests located onshore in south Louisiana for a total cash consideration of $38.6 million (together with the LOPI Transaction, the "Shell Transactions"). The combined purchase price of $303.5 million, including related deferred tax liability of $28 million, was allocated to oil and gas properties, including $37 million of unevaluated costs.

8. TAXES ON INCOME

Provisions (benefits) for federal and state income taxes are as follows (thousands of dollars):

	YEAR ENDED DECEMBER 31,		
	2000	1999	1
Current:			
Federal	$ 779	-----	
State	1,121	-----	
Deferred:			
Federal	8,500	-----	
	$ 10,400	-----	

Income tax expense as reported is reconciled to the federal statutory rate (35%) as follows (thousands of dollars):

	YEAR ENDED DECEM	
	2000	1999
Income tax provision (benefit) computed at statutory rate	$ 28,305	$ 5,90
Nondeductible costs	1,175	87
State income tax net of federal tax benefit	729	----

Net operating loss carryforwards not benefited in the income tax provision	-----	----
Change in valuation allowance	(19,809)	(6,77
	$ 10,400	----

Deferred income taxes reflect the net tax effects of net operating losses, depletion carryovers, and temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax assets and liabilities are as follows (thousands of dollars):

	DECE
	2000
Deferred tax assets:	
Net operating tax loss carryforward	$ 37,964
Statutory depletion carryforward	950
Tax credits	779
Other	2,484
Valuation allowance	(500)
Total deferred tax assets	41,677
Deferred tax liabilities:	
Book in excess of tax basis in oil and gas properties	50,107
Basis differential in long-term investments	70
Total deferred tax liabilities	50,177
Net deferred tax asset (liability)	$ (8,500)

As of December 31, 2000, the Company has approximately $108.5 million of tax net operating loss carryforwards which begin to expire in 2005. Some of the net operating loss carryforwards are subject to change in ownership and separate return limitations. The net operating loss carryforwards assume that certain items, primarily intangible drilling costs, have been written off in the current year. However, the Company has not made a final determination if an election will be made to capitalize all or part of these items for tax purposes.

9. STOCKHOLDERS' EQUITY

COMMON STOCK

On September 29, 2000, the Company announced that it sold to certain investors an aggregate of 6,021,500 shares of Common Stock at a price of $6 5/8 per share under the terms of the prospectus supplement dated September 28, 2000. The shares were placed with certain investors on a best-efforts basis. In connection with the placement of the shares, the Company paid the placement agents a total fee of approximately $1.2 million, resulting in proceeds of approximately $38.7 million to the Company. The Company used the proceeds from this sale to fund in part the exercise of the option to repurchase Preferred and Common Stock from Shell for $114 million on January 29, 2001.

PREFERRED STOCK

On June 30, 1998, the Company issued to SLOPI 3,982,906 shares of the Company's Preferred Stock. The Preferred Stock has an aggregate stated value of $135 million and ranks prior to the Common Stock as to distribution of assets and payment of dividends. The Preferred Stock may be converted into an aggregate of 12,837,428 shares of Common Stock at any time by the holder thereof. The Preferred Stock is entitled to receive, when and as declared by the Board of Directors, a cash dividend at the rate of 4% per annum on the

stated value per share; provided, however, dividends shall cease to accrue on an incremental one-third of the shares of Preferred Stock on the third, fourth and fifth anniversaries of the LOPI Transaction so that no dividends will accrue on any shares of Preferred Stock after June 30, 2003.

SHELL OPTION AGREEMENT

Meridian and SLOPI, on July 18, 2000, announced a definitive agreement granting Meridian an option to repurchase all of the outstanding shares of Meridian Preferred Stock (convertible into 12.8 million shares of Common Stock), plus six million shares of Meridian Common Stock now held by Shell, for an aggregate cash price of $114 million. The "Option and Standstill Agreement" is exercisable in a single transaction through January 31, 2001. As consideration for the option, Meridian issued Shell one million shares of Meridian Common Stock in July 2000.

EXERCISE OF OPTION AND STANDSTILL AGREEMENT

On January 29, 2001, the Company completed the repurchase of all of the outstanding Preferred Stock (convertible into 12.8 million shares of Common Stock) and six million shares of Common Stock from Shell for $114 million. The $114 million stock buyback price was generated through a balanced financing structure including $38.7 million in net proceeds from the issuance of Common Stock at $6 5/8 per share; $25 million in subordinated debt; and $50.3 million of excess cash flow and proceeds from the sale of non-core properties. The repurchase of these shares resulted in an immediate reduction in the fully diluted share count of more than 25%. After the exercise of the option, Shell will remain Meridian's largest shareholder, with approximately 7.1 million shares of Common Stock.

WARRANTS

The Company had the following warrants outstanding at December 31, 2000:

WARRANTS	NUMBER OF SHARES	EXERCISE PRICE	EXPIRATION DATE
Executive Officers	1,428,000	$ 5.85	*
General Partner	1,088,920	$ 0.17	December 31, 2015

* A date one year following the date on which the respective officer ceases to be an employee of the Company.

On June 7, 1994, the shareholders of the Company approved a conversion of Class "B" Warrants held by Joseph A. Reeves, Jr. and Michael J. Mayell, which entitled each of them to purchase an aggregate of 714,000 shares of common stock, to Executive Officer Warrants. The Warrants expire one year following the date on which the respective officer ceases to be an employee of the Company. The Warrants further provide that in the event the officer's employment with the Company is terminated by the Company without "cause" or by the officer for "good reason," the officer will have the option to require the Company to purchase some or all of the Warrants held by the officer for an amount per Warrant equal to the difference between the exercise price, $5.85 per share, and the then prevailing market price of the common stock. The Company may satisfy this obligation with shares of common stock.

STOCK OPTIONS

Options to purchase the Company's Common Stock have been granted to officers, employees, nonemployee directors and certain key individuals, under various stock option plans. Options generally become exercisable in 25% cumulative annual increments beginning with the date of grant and expire at the end of ten years. At December 31, 2000, 1999 and 1998, 915,997, 810,588 and 74,425 shares, respectively, were available for grant under the plans. A summary of option transactions follows:

	NUMBER OF SHARES	EXE
Outstanding at December 31, 1997	2,072,187	$
Granted	3,229,550	
Exercised	(256,804)	
Canceled	(143,940)	
Outstanding at December 31, 1998	4,900,993	

Granted	9,500	
Exercised	(31,425)	
Canceled	(200,635)	
Outstanding at December 31, 1999	4,678,433	
Granted	183,945	
Exercised	(17,750)	
Canceled	(454,233)	
Outstanding at December 31, 2000	4,390,395	$
Shares exercisable:		
December 31, 2000	3,527,941	$
December 31, 1999	2,961,419	$
December 31, 1998	2,262,085	$

RANGE OF EXERCISABLE PRICES	OPTIONS OUTSTANDING OUTSTANDING AT DECEMBER 31, 2000	WEIGHTED AVERAGE EXERCISE PRICE	OPTIONS EXERCI EXERCISABLE AT DECEMBER 31, 2000	EX
$2.44 - $4.94	3,434,800	$ 3.43	2,604,846	$
$5.32 - $10.00	568,545	8.25	536,045	
$10.38 - $16.38	387,050	11.21	387,050	
	4,390,395	$ 4.74	3,527,941	$

The weighted average remaining contractual life of options outstanding at December 31, 2000, was approximately eight years.

Pro forma information is required by SFAS No. 123 to reflect the estimated effect on net earnings and net earnings per share as if the Company had accounted for the stock options and other awards granted using the fair value method described in that Statement. The fair value was estimated at the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions: risk-free interest rate of 4.8%, 6.48% and 5.8%; dividend yield of 0%; volatility factors of the expected market price of the Company's Common Stock of 0.84, 0.56 and 0.59 for 2000, 1999 and 1998, respectively; and a weighted-average expected life of five years. These assumptions resulted in a weighted average grant date fair value of $2.73, $ 2.90 and $1.89 for options granted in 2000, 1999 and 1998, respectively. For purposes of the pro forma disclosures, the estimated fair value is amortized to expense over the awards' vesting period. Reflecting the amortization of this hypothetical expense for 2000, 1999 and 1998 income results in pro forma net earnings (loss) of $64.9 million, $ 9.9 million and ($232.5) million, respectively, and pro forma basic net earnings (loss) per share of $1.33, $0.22 and ($5.85), respectively, and proforma diluted net earnings (loss) per share of $1.06, $0.22 and ($5.85), respectively.

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

DEFERRED COMPENSATION

In July 1996, the Company through the Compensation Committee of the board of Directors offered to Messrs. Reeves and Mayell (the Company's Chief Executive Officer and President, respectively) the option to accept in lieu of cash compensation for their respective base salaries Common Stock pursuant to the Company's Long Term Incentive Plan. Under such grants, Messrs. Reeves and Mayell each elected to defer $400,000, which is substantially all of their salaried compensation for each of the years 1998, 1999 and 2000. In exchange for and in consideration of their accepting this option to reduce the Company's cash payments to each of Messrs. Reeves and Mayell, the company granted to each officer a matching deferral equal to 100 % of that amount deferred, which is subject to a one-year vesting period. Under the terms of the grants, the employee and matching deferrals are allocated to a Common Stock account in which units are credited to the accounts of the officer based on the number of shares that could be purchased at the market price of the Common Stock at December 31, 1996, for deferrals in 1997, at December 31, 1997, for deferrals during the first half of 1998, at June 30, 1998, for deferrals during the second half of 1998, at December 31, 1998, for deferrals during the first half of 1999, at June 30, 1999, for deferrals during the second half of 1999, at December 31, 1999, for deferrals during the first half of 2000, and at June 30, 2000, for deferrals during the second half of 2000. At December 31, 2000, the plan had reserved 1,700,000 shares of Common Stock for future issuance and 1,214,564 rights have been granted. No actual shares of Common Stock have been issued and the officer has no rights with respect to any shares unless and until there is a distribution. Distributions are to be made upon the death, retirement or termination of employment of the officer.

The obligations of the Company with respect to the deferrals are unsecured obligations. The shares of common stock that may be issuable upon distribution of deferrals have been treated as a common stock equivalent in the financial statements of the Company. Although no cash has been paid, to either Mr. Reeves or Mr. Mayell for their base salaries during these periods, the compensation expense required to be reported by the Company for the equity grants was $1,609,000, $1,412,000 and $1,616,000 for 2000, 1999 and 1998 periods, respectively, relating to these grants is reflected in general and administrative expense for the years ended December 31, 2000, 1999 and 1998, respectively.

STOCKHOLDER RIGHTS PLAN

On May 5, 1999, the Company's Board of Directors declared a dividend distribution of one Right for each then-current and future outstanding share of Common Stock. Each Right entitles the registered holder to purchase one one-thousandth interest in a share of the Company's Series B Preferred Stock with a par value of $.01 per share and an exercise price of $30. Unless earlier redeemed by the Company at a price of $.01 each, the Rights become exercisable only in certain circumstances constituting a potential change in control of the Company and will expire on May 5, 2009.

Each share of Series B Junior Participating Preferred Stock purchased upon exercise of the Rights will be entitled to certain minimum preferential quarterly dividend payments as well as a specified minimum preferential liquidation payment in the event of a merger, consolidation or other similar transaction. Each share will also be entitled to 100 votes to be voted together with the Common stockholders and will be junior to any other series of Preferred Stock authorized or issued by the Company, unless the terms of such other series provides otherwise.

In the event of a potential change in control, each holder of a Right, other than Rights beneficially owned by the acquiring party (which will have become void), will have the right to receive upon exercise of a Right that number of shares of Common Stock of the Company, or, in certain instances, Common Stock of the acquiring party, having a market value equal to two times the current exercise price of the Right.

10. PROFIT SHARING AND SAVINGS PLAN

The Company has a 401(k) profit sharing and savings plan (the "Plan") that covers substantially all employees and entitles them to contribute up to 15% of their annual compensation, subject to maximum limitations imposed by the Internal Revenue Code. The Company matches 100% of each employee's contribution up to 6.5% of annual compensation subject to certain limitations as outlined in the Plan. In addition, the Company may make discretionary contributions which are allocable to participants in accordance with the Plan.

During 1998, the Company implemented a new net profits program that was adopted effective as of November 1997. All employees participate in this program. Pursuant to this program, the Company adopted three separate well bonus plans: (i) The Meridian Resource Corporation Geoscientist Well Bonus Plan (the "Geoscientist Plan"); (ii) The Meridian Resource Corporation TMR Employees Trust Well Bonus Plan (the "Trust Plan") and (iii) The Meridian Resource Corporation Management Well Bonus Plan (the "Management Plan" and with the Management Plan and the Geoscientist Plan, the "Well Bonus Plans"). Payments under the plans are calculated based on revenues from production on previously discovered reserves, as realized by the Company at current commodity prices, less operating expenses. Total compensation related to these plans totaled $12.0 million, $5.3 million and $0.9 million in 2000, 1999 and 1998, respectively. A portion of these amounts has been capitalized. The Executive Committee of the Board of Directors, which is comprised of Messrs. Reeves and Mayell, administers each of the Well Bonus Plans. The participants in each of the Well Bonus Plans are designated by the Executive Committee in its sole discretion. Participants in the Management Plan are limited to executive officers of the Company and other key management personnel designated by the Executive Committee. Neither Messrs. Reeves or Mayell will participate in the Management Plan, except with respect to a small number of wells and prospects not covered by their original net profit grants described below. The participants in the Trust Plan generally will be all employees of the Company that do not participate in one of the other Well Bonus Plans.

Pursuant to the Well Bonus Plans, the Executive Committee designates, in its sole discretion, the individuals and wells that will participate in each of the Well Bonus Plans. The Executive Committee also determines the percentage bonus that will be paid under each well and the individuals that will participate thereunder. The Well Bonus Plans cover all properties on which the Company expends funds during each participant's

employment with the Company, with the percentage bonus generally ranging from less than .1% to .5%, depending on the level of the employee. It is intended that these well bonuses function similar to an actual net profit interests, except that the employee will not have a real property interest and his or her rights to such bonuses will be subject to a one-year vesting period, except for grants in 1998 for which all employees were deemed vested, and will be subject to the general credit of the Company. Payments under vested bonus rights will continue to be made after an employee leaves the employment of the Company based on their adherence to the obligations required in their non-compete agreement upon termination. The Company has the option to make payments in whole, or in part, utilizing shares of Common Stock. The determination whether to pay cash or issue Common Stock will be based upon a variety of factors, including the Company's current liquidity position and the fair market value of the Common Stock at the time of issuance.

In connection with the execution of their employment contracts in 1994, both Messrs. Reeves and Mayell were granted a 2% net profit interest in the oil and natural gas production from the Company's properties to the extent the Company acquires a mineral interest therein. The net profits interest for Messrs. Reeves and Mayell applies to all properties on which the Company expends funds during their employment with the Company. Each grant of a net profits interest is reflected at a value based on a third party appraisal of the interest granted. Total compensation related to this plan totaled approximately $100 thousand and $200 thousand in 1997 and 1998, respectively. The net profit interests represent real property rights that are not subject to vesting or continued employment with the Company. Messrs. Reeves and Mayell will not participate in the Well Bonus Plans for any particular property to the extent the original net profit interest grants covers such property.

11. OIL AND NATURAL GAS HEDGING ACTIVITIES

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

During the years ended December 31, 2000 and 1999, oil and natural gas revenues were reduced by $5,419,000 and $551,000, respectively, as a result of hedging transactions. During the year ended December 31, 1998, the Company had no material open hedging agreements.

12. MAJOR CUSTOMERS

Major customers for the years ended December 31, 2000, 1999 and 1998, were as follows (based on purchases of oil and natural gas as a percent of total oil and natural gas sales):

	YEAR ENDED DECEMBER 31,	
CUSTOMER	2000	1999
Equiva Trading Company(1)............................	36%	43%
Superior Natural Gas.................................	14%	-----
Louisiana Intrastate Gas.............................	12%	-----
Tauber Oil Company...................................	-----	16%
Coral Energy Resources(1)............................	-----	-----

(1) Equiva Trading Company and Coral Energy Resources are both affiliates of Shell Oil Company.

13. RELATED PARTY TRANSACTIONS

Historically since 1994, with the approval of the Board of Directors, Texas Oil Distribution and Development, Inc. ("TODD") and Sydson Energy, Inc. ("Sydson"), entities controlled by Joseph A. Reeves, Jr. and Michael J. Mayell, respectively, have each invested in all Meridian drilling locations on a promoted basis, where applicable, at a 1.5% working interest basis. The maximum percentage that either may elect to participate in any prospect is a 4% working interest. On a collective basis, TODD and Sydson invested $3,027,000, $3,974,000 and $2,126,000 for the years ended December 31, 2000, 1999 and 1998, respectively, in oil and natural gas drilling activities for which the Company was the operator. Collective amounts due (to) from such entities for such activities were approximately ($756,000) and $178,000 as of December 31, 2000 and 1999, respectively.

Effective July 15, 1999, the Company, with the approval of the Board of Directors, acquired the Kings Bayou, Backridge and Chocolate Bayou interests held by TODD, Sydson and Messrs. Reeves and Mayell. Proceeds of $2.0 million to each of TODD and Sydson and $1.4 million to each of Messrs. Reeves and Mayell due from the acquisition were applied directly to current and/or future costs and expenses related to TODD and Sydson's working interest rather than paid in cash.

Mr. Joe Kares, a Director of Meridian, is a partner in the public accounting firm of Kares & Cihlar, which provided the Company with accounting services for the years ended December 31, 2000, 1999 and 1998 and received fees of approximately $304,000, $283,000 and $57,000, respectively. Such fees exceeded 5% of the gross revenues of Kares & Cihlar for those respective years. Management believes that such fees were equivalent to fees that would have been paid to similar firms providing such services in arm's length transactions.

Mr. Gary A. Messersmith, a Director of Meridian, is a partner in the law firm of Fouts & Moore, L.L.P. in Houston, Texas, which provided legal services for the Company for the years ended December 31, 2000, 1999 and 1998 and received fees of approximately $124,000, $49,000 and $52,000, respectively. In addition, the Company has Mr. Messersmith on personal retainer of $8,333 per month relating to services provided to the Company personally by Mr. Messersmith. Mr. Messersmith also participates in the Management Plan

described in Note 10 above pursuant to which he was paid approximately $383,000 and received 11,472 shares of the Company's Common Stock during 2000, $46,000 and received 19,000 shares of the Company's Common Stock during 1999 and $22,600 during 1998.

14. EARNINGS PER SHARE
(in thousands, except per share)

The following table sets forth the computation of basic and diluted earnings (loss) per share:

	YEAR ENDED DECEMBE	
	2000	1999(1)
Numerator:		
Net earnings (loss) applicable to common stockholders	$65,070	$11,467
Plus income impact of assumed conversions:		
Preferred stock dividends	5,400	--
Interest on convertible subordinated notes	1,256	--
Net earnings (loss) applicable to common stockholders plus assumed conversions	$71,726	$11,467
Denominator:		
Denominator for basic earnings (loss) per share - weighted-average shares outstanding	48,646	45,995
Effect of potentially dilutive common shares:		
Convertible preferred stock	12,837	--
Convertible subordinated notes	2,857	--
Employee and director stock options	1,103	N/A
Warrants	2,078	N/A
Denominator for diluted earnings (loss) per share - weighted-average shares outstanding and assumed conversions	67,521	45,995
Basic earnings (loss) per share	$ 1.34	$ 0.25
Diluted earnings (loss) per share	$ 1.06	$ 0.25

(1) Anti-dilutive

On June 30, 1998, the Company acquired (the "LOPI Transaction") Louisiana Onshore Properties, Inc., an indirect subsidiary of Shell Oil Company ("Shell") pursuant to a merger of a wholly-owned subsidiary with LOPI. In conjunction with the other consideration paid to Shell, the Company issued a new convertible preferred stock that is convertible into 12,837,428 shares of Common Stock. In the event Shell elects to sell any shares of Common Stock issued upon conversion of the Preferred Stock (the "Make-Whole Shares"), as more fully described in the Agreement and Plan of Merger dated March 27, 1998, and included in the Company's proxy statement dated June 10, 1998, the Company has agreed to pay Shell the amount, if any, that the consideration received by Shell is less than $10.52 per share. Such payment may be made in cash or Common Stock, or a combination thereof, at the Company's election.

15. SUBSEQUENT EVENT

See Note 9 for information concerning the exercise of the Option and Standstill Agreement.

16. QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

Results of operations by quarter for the years ended December 31, 2000 and 1999, were (thousands of dollars, except per share):

	QUARTER ENDED		
	MARCH 31	JUNE 30	SEPT. 30
2000			
Revenues	$ 48,061	$51,890	$62,781
Results of operations from exploration and production activities(1)	21,332	26,659	37,094
Net earnings(2)	$ 9,501	$14,699	$25,373
Net earnings per share:(2)			
Basic	$ 0.20	$ 0.31	$ 0.53
Diluted	0.18	0.25	0.40
1999			
Revenues	$ 23,306	$30,969	$38,947
Results of operations from exploration and production activities(1)	4,320	11,569	18,137
Net earnings (loss)(2)	$ (4,989)	$ 1,440	$ 6,389
Net earnings (loss) per share:(2)			
Basic	$ (0.11)	$ 0.03	$ 0.14
Diluted(3)	(0.11)	0.03	0.13

(1) Results of operations from exploration and production activities, which approximates gross profit, are computed as operating revenues less lease operating expenses, severance and ad valorem taxes, depletion and impairment of oil and natural gas properties (after tax).

(2) Applicable to common stockholders.

(3) Reflects conversion of preferred stock for third quarter 1999 and reflects conversion of preferred stock and subordinated notes for fourth quarter 1999.

THE MERIDIAN RESOURCE CORPORATION AND SUBSIDIARIES
SUPPLEMENTAL OIL AND NATURAL GAS INFORMATION
(UNAUDITED)

The following information is being provided as supplemental information in accordance with the provisions of SFAS No. 69, "Disclosures about Oil and Gas Producing Activities."

COSTS INCURRED IN OIL AND NATURAL GAS ACQUISITION, EXPLORATION AND DEVELOPMENT ACTIVITIES
(thousands of dollars)

	YEAR ENDED DECEMBER 31,		
	2000	1999	1998
Costs incurred during the year:(1)			
Property acquisition costs			
Unproved	$ 2,665	$ 14,542	$ 16,545
Proved	--	3,261	259,502
Exploration	63,378	52,739	83,156
Development	35,200	34,478	51,809
	$101,243	$105,020	$411,012

(1) Costs incurred during the years ended December 31, 2000, 1999 and 1998 include general and administrative costs related to acquisition, exploration and development of oil and natural gas properties, net of third party reimbursements, of $14,477,000, $9,951,000 and $6,651,000, respectively.

CAPITALIZED COSTS RELATING TO OIL AND NATURAL GAS PRODUCING ACTIVITIES
(thousands of dollars)

	DECEMBER 31,	
	2000	1999
Capitalized costs	$982,566	$916,495
Accumulated depletion	553,947	485,870
Net capitalized costs	$428,619	$430,625

At December 31, 2000 and 1999, unevaluated costs of $47,027,000 and $62,686,000, respectively, were excluded from the depletion base. These costs are expected to be evaluated within the next three years. These costs consist primarily of acreage acquisition costs and related geological and geophysical costs.

RESULTS OF OPERATIONS FROM OIL AND NATURAL GAS PRODUCING ACTIVITIES
(thousands of dollars)

	YEAR ENDED DECEMBER 31,		
	2000	1999	1998
Oil and natural gas revenues	$223,420	$132,576	$ 73,336
Less:			
Oil and natural gas operating costs	18,234	14,604	12,841
Severance and ad valorem taxes	15,578	11,338	4,069
Depletion	68,077	53,002	44,347
Impairment of long-lived assets	--	--	245,011
Income tax	10,400	--	(28,052)
	112,289	78,944	278,216
Results of operations from oil and natural gas producing activities	$111,131	$ 53,632	$(204,880)
Depletion expense per Mcfe	$ 1.32	$ 1.07	$ 1.27

ESTIMATED QUANTITIES OF PROVED RESERVES

The following table sets forth the net proved reserves of the Company as of December 31, 2000, 1999 and 1998, and the changes therein during the years then ended. The reserve information was reviewed by T. J. Smith & Company, Inc., independent petroleum engineers, for 2000, 1999 and 1998. All of the Company's oil and natural gas producing activities are located in the United States.

TOTAL PROVED RESERVES:	Oil (MBbls)	Gas (MMcf)
BALANCE AT DECEMBER 31, 1997	9,731	110,785
Production during 1998	(2,365)	(20,603)
Discoveries and extensions	6,556	37,854
Purchase of reserves-in-place	12,602	83,472
Sale of reserves-in-place	(1,059)	(8,047)
Revisions of previous quantity estimates and other	(3,088)	(33,574)
BALANCE AT DECEMBER 31, 1998	22,377	169,887
Production during 1999	(4,454)	(22,711)
Discoveries and extensions	6,382	71,484
Purchase of reserves-in-place	335	2,379
Sale of reserves-in-place	(67)	(2,633)
Revisions of previous quantity estimates and other	2,782	(17,941)
BALANCE AT DECEMBER 31, 1999	27,355	200,465
Production during 2000	(3,987)	(27,672)
Discoveries and extensions	3,103	33,475
Sale of reserves-in-place	(369)	(26,139)

Revisions of previous quantity estimates and other	(3,761)	(7,702)
BALANCE AT DECEMBER 31, 2000	22,341	172,427
PROVED DEVELOPED RESERVES:		
Balance at December 31, 2000	15,549	127,742
Balance at December 31, 1999	17,695	144,552
Balance at December 31, 1998	14,592	120,233
Balance at December 31, 1997	5,305	81,500

STANDARDIZED MEASURE OF DISCOUNTED FUTURE NET CASH FLOWS

The information that follows has been developed pursuant to SFAS No. 69 and utilizes reserve and production data prepared or reviewed by independent petroleum consultants. Reserve estimates are inherently imprecise and estimates of new discoveries are less precise than those of producing oil and natural gas properties. Accordingly, these estimates are expected to change as future information becomes available.

The estimated discounted future net cash flows from estimated proved reserves are based on prices and costs as of the date of the estimate unless such prices or costs are contractually determined at such date. Actual future prices and costs may be materially higher or lower. Actual future net revenues also will be affected by factors such as actual production, supply and demand for oil and natural gas, curtailments or increases in consumption by natural gas purchasers, changes in governmental regulations or taxation and the impact of inflation on costs. Future income tax expense has been reduced for the effect of available net operating loss carryforwards.

(thousands of dollars)	AT DECEMBER 31,	
	2000	199
Future cash flows	$ 2,364,261	$ 1,155
Future production costs	(204,898)	(184
Future development costs	(75,375)	(78
Future net cash flows before income taxes	2,083,988	892
Future taxes on income	(607,070)	(189
Future net cash flows	1,476,918	703
Discount to present value at 10 percent per annum	(484,664)	(178
Standardized measure of discounted future net cash flows	$ 992,254	$ 524

The average price for natural gas in the above computations was $10.20 and $2.48 per Mcf at December 31, 2000 and 1999, respectively. The average price used for crude oil in the above computations was $26.20 and $25.81 per Bbl at December 31, 2000 and 1999, respectively.

CHANGES IN STANDARDIZED MEASURE OF DISCOUNTED FUTURE NET CASH FLOWS

The following table sets forth the changes in standardized measure of discounted future net cash flows for the years ended December 31, 2000, 1999 and 1998 (thousands of dollars):

	YEAR ENDED DECEMBER	
	2000	1999
Balance at Beginning of Period	$ 524,758	$ 293,377
Sales of oil and gas, net of production costs	(189,608)	(106,634)
Changes in sales & transfer prices, net of production costs	838,072	248,633
Revisions of previous quantity estimates	(141,858)	(2,737)
Sales of reserves-in-place	(33,291)	(4,753)
Current year discoveries, extensions and improved recovery	232,674	165,055
Purchase of reserves-in-place	--	6,808
Changes in estimated future development costs	(14,341)	(25,887)
Development costs incurred during the period	35,200	34,478
Accretion of discount	52,476	29,338
Net change in income taxes	(346,097)	(70,882)
Change in production rates (timing) and other	34,269	(42,038)
Net change	467,496	231,381
Balance at End of Period	$ 992,254	$ 524,758

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

PART III

The information required in Items 10, 11, 12 and 13 is incorporated by reference to the Company's definitive Proxy Statement to be filed with the Securities and Exchange Commission on or before April 30, 2001.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a) Documents filed as part of this report:

1. Financial Statements included in Item 8:

(i) Independent Auditor's Report

(ii) Consolidated Balance Sheets as of December 31, 2000 and 1999

(iii) Consolidated Statements of Operations for each of the three years in the period ended December 31, 2000

(iv) Consolidated Statements of Changes in Stockholders' Equity for each of the three years in the period ended December 31, 2000

(v) Consolidated Statements of Cash Flows for each of the three years in the period ended December 31, 2000

(vi) Notes to Consolidated Financial Statements

(vii) Consolidated Supplemental Oil and Gas Information (Unaudited)

2. Financial Statement Schedule:

(i) All schedules are omitted as they are not applicable, not required or the required information is included in the consolidated financial statements or notes thereto.

3. Exhibits:

2.1 Agreement and Plan of Merger dated March 27, 1998, between the Company, LOPI Acquisition Corp., Shell Louisiana Onshore Properties, Inc. and Louisiana Onshore Properties, Inc. (incorporated by reference from the Company's Current Report on Form 8-K dated June 30, 1998).

2.2 Purchase and Sale Agreement dated effective October 1, 1997, by and between The Meridian Resource Corporation and Shell Western E&P Inc. (incorporated by reference from the Company's Current Report on Form 8-K dated June 30, 1998).

3.1 Third Amended and Restated Articles of Incorporation of the Company (incorporated by reference to the Company's Quarterly Report on Form 10- Q for the three months ended September 30, 1998).

3.2 Amended and Restated Bylaws of the Company (incorporated by reference to the Company's Quarterly Report on Form 10-Q for the three months ended September 30, 1998).

3.3 Certificate of Designation for Preferred Stock dated June 30, 1998 (incorporated by reference from the Company's Current Report on Form 8-K dated June 30, 1998).

4.1 Specimen Common Stock Certificate (incorporated by reference to Exhibit 4.1 of the Company's Registration Statement on Form S-1, as amended (Reg. No. 33-65504)).

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-58-

59

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ended December 31, 1991, as amended by the Company's Form 8 filed March 4, 1993).

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10.1 See exhibits 4.2 through 4.15 for additional material contracts.

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21.1	Subsidiaries of the Company.
**23.1	Consent of Ernst & Young LLP.
**23.2	Consent of T. J. Smith & Company, Inc.

* Management contract or compensation plan.

** Filed herewith.

(b) Reports on Form 8-K.

On October 3, 2000, the Company filed a report on Form 8-K dated September 28, 2000, relating to the offering and sale of 6,021,500 shares of the Company's Common Stock.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

THE MERIDIAN RESOURCE CORPORATION

BY: /s/ JOSEPH A. REEVES, JR.

Chief Executive Officer
(Principal Executive Officer)
Director and Chairman of the Board

Date: March 30, 2001

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Name	Title	Date
BY: /s/ JOSEPH A. REEVES, JR. ---------------------------- Joseph A. Reeves, Jr.	Chief Executive Officer (Principal Executive Officer) Director and Chairman of the Board	March 30, 2001
BY: /s/ MICHAEL J. MAYELL ---------------------------- Michael J. Mayell	President and Director	March 30, 2001
BY: /s/ P. RICHARD GESSINGER ----------------------------- P. Richard Gessinger	Chief Financial Officer	March 30, 2001
BY: /s/ LLOYD V. DELANO ----------------------------- Lloyd V. DeLano	Chief Accounting Officer	March 30, 2001
BY: /s/ JAMES T. BOND ----------------------------- James T. Bond	Director	March 30, 2001

BY: /s/ JOE E. KARES Joe E. Kares	Director	March 30, 2001
BY: /s/ GARY A. MESSERSMITH Gary A. Messersmith	Director	March 30, 2001

-62-

63

EXHIBIT INDEX

EXHIBIT NO.	DESCRIPTION
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2.2	Purchase and Sale Agreement dated effective October 1, 1997, by and between The Meridian Resource Corporation and Shell Western E&P Inc. (incorporated by reference from the Company's Current Report on Form 8-K dated June 30, 1998).
3.1	Third Amended and Restated Articles of Incorporation of the Company (incorporated by reference to the Company's Quarterly Report on Form 10- Q for the three months ended September 30, 1998).
3.2	Amended and Restated Bylaws of the Company (incorporated by reference to the Company's Quarterly Report on Form 10-Q for the three months ended September 30, 1998).
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64

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65

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66

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