MERIDIAN RESOURCE CORP
Form 10-Q
May 15, 2002

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended: March 31, 2002

OR

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

For the transition period from __________________ to _________________

Commission file number: 1-10671

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

TEXAS	76-0319553
(State or other jurisdiction of incorporation or organization)	(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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 and 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

Number of shares of common stock outstanding at May 3, 2002 49,915,343

THE MERIDIAN RESOURCE CORPORATION
QUARTERLY REPORT ON FORM 10-Q

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	THREE MONTHS ENDED MARCH 31,	
	2002	2001
REVENUES:		
Oil and natural gas	$ 24,609	$ 69,334
Price risk management activities	(805)	--

Interest and other	44	735
	23,848	70,069
OPERATING COSTS AND EXPENSES:		
Oil and natural gas operating	3,089	4,812
Severance and ad valorem taxes	2,717	3,675
Depletion and depreciation	13,361	17,186
General and administrative	3,258	4,981
	22,425	30,654
EARNINGS BEFORE INTEREST AND INCOME TAXES	1,423	39,415
OTHER EXPENSES:		
Interest expense	3,900	6,418
Taxes on income	(900)	12,900
	3,000	19,318
NET EARNINGS (LOSS)	(1,577)	20,097
DIVIDENDS ON PREFERRED STOCK	--	429
NET EARNINGS (LOSS) APPLICABLE TO COMMON STOCKHOLDERS	$ (1,577)	$ 19,668
NET EARNINGS (LOSS) PER SHARE:		
Basic	$ (0.03)	$ 0.40
Diluted	$ (0.03)	$ 0.34
WEIGHTED AVERAGE NUMBER OF COMMON SHARES:		
Basic	49,182	49,699
Diluted	49,182	60,881

See notes to consolidated financial statements.

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

	MARCH 31, 2002	DECEMBER 31, 2001
ASSETS		

CURRENT ASSETS:		
Cash and cash equivalents	$ 9,577	$ 14,340
Accounts receivable, less allowance for doubtful accounts $891 [2002 and 2001]	45,339	23,875
Due from affiliates	2,352	844
Prepaid expenses and other	1,602	1,825
Total current assets	58,870	40,884
PROPERTY AND EQUIPMENT:		
Oil and natural gas properties, full cost method (including $30,887 [2002] and $30,247 [2001] not subject to depletion)	1,096,976	1,085,656
Land	478	478
Equipment	9,625	9,578
	1,107,079	1,095,712
Accumulated depletion and depreciation	645,120	631,758
	461,959	463,954
OTHER ASSETS	3,678	2,828
	$ 524,507	$ 507,666

See notes to consolidated financial statements.

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

	MARCH 31, 2002	DECEMBER 31, 2001
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 36,095	$ 35,952
Revenues and royalties payable	9,360	9,562
Notes payable	10,255	25,763
Accrued liabilities	9,866	15,895
Oil and natural gas hedging derivatives	805	--
Current income taxes payable	173	(27)
Total current liabilities	66,554	87,145
LONG-TERM DEBT	205,000	190,000

9 1/2% CONVERTIBLE SUBORDINATED NOTES	20,000	20,000
DEFERRED INCOME TAXES	21,400	22,300
REDEEMABLE PREFERRED STOCK:		
Preferred stock, $1.00 par value (1,500,000 shares authorized, 245,000 [2002] shares of Series C Redeemable Convertible Preferred Stock issued at stated value)	24,500	--
STOCKHOLDERS' EQUITY:		
Common stock, $0.01 par value (200,000,000 shares authorized, 53,866,694 [2002] and [2001] issued)	554	553
Additional paid-in capital	378,094	393,280
Accumulated deficit	(159,303)	(157,726)
Unrealized loss on securities held for resale	(185)	(185)
Unamortized deferred compensation	(378)	(386)
	218,782	235,536
Less treasury stock, at cost (3,951,351 [2002] and 5,892,342 [2001] shares)	31,729	47,315
Total stockholders' equity	187,053	188,221
	$ 524,507	$ 507,666

See notes to consolidated financial statements.

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

	THREE MONTHS ENDED MARCH 31,	
	2002	2001
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net earnings (loss)	$ (1,577)	$ 20,097
Adjustments to reconcile net earnings (loss) to net cash provided by operating activities:		
Depletion and depreciation	13,361	17,186
Amortization of other assets	520	515
Non-cash compensation	409	402
Non-cash price risk management activities	805	--

Deferred income taxes	(900)	10,600
Changes in assets and liabilities:		
Accounts receivable	3,036	1,620
Due from affiliates	(1,508)	35
Prepaid expenses and other	223	(565)
Accounts payable	143	5,850
Revenues and royalties payable	(202)	1,322
Notes payable	(508)	24,746
Accrued liabilities and other	(5,829)	6,757
Net cash provided by operating activities	7,973	88,565
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to property and equipment	(11,485)	(34,553)
Sale of property and equipment	119	--
Net cash used in investing activities	(11,366)	(34,553)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repurchase of stock	--	(114,000)
Issuance of stock/exercise of options	--	462
Preferred dividends	--	(3,129)
Additions to deferred loan costs	(1,370)	(468)
Net cash used by financing activities	(1,370)	(117,135)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(4,763)	(63,123)
Cash and cash equivalents at beginning of period	14,340	95,122
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 9,577	$ 31,999

See notes to consolidated financial statements.

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THE MERIDIAN RESOURCE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

1. BASIS OF PRESENTATION

The consolidated financial statements reflect the accounts of The Meridian Resource Corporation and its subsidiaries (the "Company") after elimination of all significant intercompany transactions and balances. The financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2001, as filed with the Securities and Exchange Commission.

The financial statements included herein as of March 31, 2002, and for the three month periods ended March 31, 2002 and 2001, are unaudited, and in the opinion of management, the information furnished reflects all material adjustments, consisting of normal recurring adjustments, necessary for a fair statement of the results for the interim periods presented.

2. NOTES PAYABLE

SHORT-TERM NOTE AGREEMENT

The Company extended and amended the short-term subordinated credit agreement with Fortis Capital Corporation for $25 million on April 5, 2002. The interest rate is the London interbank offered rate ("LIBOR") plus 4.5% through December 31, 2002, LIBOR plus 5.5% from January 1, 2003, through August 31, 2003, and LIBOR plus 6.5% from September 1, 2003, through December 31, 2004. Note payments of $5 million each are due on September 30, 2002, December 31, 2002, August 31, 2003 and April 30, 2004, with the remaining $5 million payable on December 31, 2004.

3. DEBT

LONG-TERM DEBT

In May 1998, the Company amended and restated its 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. Under the amendment to our credit facility, our lenders agreed to maintain our borrowing base at $190 million until May 31, 2002. If our lenders do not unanimously agree upon a new borrowing base redetermination by that date, the borrowing base will be automatically redetermined to equal $180 million until a new borrowing base has been agreed upon by all of the lenders.

9 1/2% CONVERTIBLE SUBORDINATED NOTES

During March 2002, the Company and the holders of the Notes amended the conversion price to $5.00 per share. 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.

4. REDEEMABLE CONVERTIBLE PREFERRED STOCK

As of March 31, 2002, the Company had received contractual agreements to purchase the private placement of $24.5 million of 8.5% redeemable convertible preferred stock. The remainder of this private placement was completed during early May 2002, for a total of $67 million. The preferred stock is convertible into shares of the Company's Common Stock at a conversion price of $4.75 per share. Dividends are payable semi-annually in cash. At the option of the Company, one-third of the preferred shares can be forced to convert to Common Stock if the closing price of the Company's Common Stock exceeds 150% of the conversion price for 30 out of 40 consecutive trading days on the New York Stock Exchange. Based on the above conversion criteria, the Company can elect to convert up to one-third of the original issue provided that the conversion occurs no sooner than twelve months from the most recent conversion. The preferred stock is subject to redemption at the option of the Company after March 2005, and mandatory redemption on March 31, 2009. The holders of the preferred stock have been granted registration rights with respect to the shares of Common Stock issued upon conversion of the preferred stock. Proceeds from the preferred offering are going to be used to accelerate the Company's development of the recently acquired Biloxi Marshlands acreage position as well as to accelerate the drilling of the Company's inventory of exploratory and development projects. In addition, the Company plans to use a portion of the proceeds to further improve working capital and reduce outstanding long-term debt.

5. COMMITMENTS AND CONTINGENCIES

LITIGATION

There are no material legal proceedings to which Meridian or any of its subsidiaries or partnerships is a party or by 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.

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

The following tables set forth the computation of basic and diluted net earnings (loss) per share:

	THREE MONTHS ENDED MARCH 31,	
	2002	2001
Numerator:		
Net earnings (loss) applicable to common stockholders	$(1,577)	$19,668
Plus income impact of assumed conversions:		
Preferred stock dividends	--	429
Interest on convertible subordinated notes	309	309
Net earnings (loss) applicable to common stockholders plus assumed conversions	$(1,268)	$20,406
Denominator:		
Denominator for basic net earnings (loss) per share - weighted-average shares outstanding	49,182	49,699
Effect of potentially dilutive common shares:		
Convertible preferred stock	--	3,994
Convertible subordinated notes	N/A	2,857
Employee and director stock options	N/A	1,850
Warrants	N/A	2,481
Denominator for diluted net earnings (loss) per share - weighted-average shares outstanding and assumed conversions	49,182	60,881
Basic net earnings (loss) per share	$ (0.03)	$ 0.40
Diluted net earnings (loss) per share	$ (0.03)	$ 0.34

7. ISSUANCE OF STOCK GRANTS

In December 2001, an offer was made to repurchase and terminate certain interests in the Well Bonus Plans from current and former employees in exchange for the issuance of Common Stock. The offering was for a total of 1,940,991 shares of our Common Stock. The Common Stock was issued on February 4, 2002, at the last reported sales price of $3.48 per share. The Board of Directors and the individuals involved agreed to have the effective date of this transaction to be December 31, 2001.

8. OIL AND NATURAL GAS HEDGING ACTIVITIES

During March 2002, the Company entered into derivative agreements to hedge a portion of its oil and gas production volumes through the typically volatile summer months. Through the use of costless collars the Company hedged approximately 55% of its gas production and 27% of its oil production, for a six month period from April 1, 2002 through September 30, 2002, establishing average floors of $2.25 per MMBTU and $20.00 per barrel and average ceilings of $3.98 per MMBTU and $29.18 per barrel. As of March 31, 2002, the Company had an unrealized non-cash loss of $805,000 due to the mark-to-market valuation of the derivative agreements.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following is a discussion of Meridian's financial operations for the three months ended March 31, 2002 and 2001. The notes to the Company's consolidated financial statements included in this report, as well as our Annual Report on Form 10-K for the year ended December 31, 2001 (and the notes attached thereto), should be read in conjunction with this discussion.

GENERAL

BUSINESS ACTIVITIES. During the first quarter of 2002, Meridian's drilling activities have been focused in the Company's East Lake Arthur and Lakeside Fields. We anticipate drilling activities in these areas, as well as the Biloxi Marshlands acreage and the Kent Bayou Field, will comprise the majority of our capital budget for 2002, currently set at $70 million.

Current activities are as follows:

During March 2002, the Company commenced drilling operations on the East Lake Arthur - Hughes #2 well in Jefferson Davis Parish, Louisiana. The well is a replacement well for the Hughes #1 that experienced cementing problems during the completion phase and was subsequently abandoned. The well is currently drilling at approximately 14,100 feet with an objective depth of approximately 19,000 feet. During the drilling of the Hughes #1 well, the Company logged an apparent 100' of net pay in the Bol Mex 3-6 sands and detected no water levels. The Company owns a 96% working interest and a 68% net revenue interest in the field. If the Hughes #2 well confirms the results of the Hughes #1 well, the Company expects to drill additional wells in the field.

During April 2002, the Company began drilling the Lakeside - Lacassane #1 well located in Cameron Parish, Louisiana. The well is being drilled to test an updip location to the Lakeside - SL 15223 #1 well that discovered in excess of 100' of productive sands in the Marg Howei and Camerina intervals. The Company is operator of the well and has a 73% working interest and a 42% net revenue interest.

During June 2002, the Company expects to commence operations on its Biloxi Marshlands acreage. The first well on the new exploratory acreage will be drilled to test a 3-D seismic-defined amplitude which has known production on adjacent acreage. The Company has applied for and received a unit designation for the drilling location. The Company will own an approximate 54% working interest and an approximate 39% net revenue interest in the initial well based on the current unit designation. After development of production facilities a second well is scheduled to drill to test an additional 3-D seismic-defined amplitude. The Company will own an approximate 72% working interest and an approximate 51% net revenue interest in the second well. Two additional exploratory wells located outside the unit boundaries of the first two wells are planned for the third and fourth quarters of 2002. The Company anticipates having an average 94% working interest and an average 70% net revenue interest in the majority of the wells drilled subsequent to the first two unit wells.

Additionally, the Company is in the process of underwriting a large-scale proprietary 3-D seismic survey that will image approximately 500 square miles in three phases over the next three years. The first phase of the seismic survey is anticipated to commence during the second quarter of 2002 and cover approximately 170 square miles. Based on 2-D and 3-D seismic acquired over a small portion of the acreage to date, the Company's geologists have begun initial mapping of more than a dozen prospect leads. The Biloxi Marshlands project focuses on relatively shallow, normal pressured horizons. As a result, the project will blend with the Company's traditional deep plays, providing lower costs, reduced mechanical risks and an expected high probability of success.

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INDUSTRY CONDITIONS. Revenues, profitability and future growth rates of Meridian 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. Our average oil price for the three months ended March 31, 2002, was $20.62 per barrel compared to $28.97 per barrel for the three months ended March 31, 2001, and $18.98 per barrel for the three months ended December 31, 2001. Our average natural gas price for the three months ended March 31, 2002, was $2.51 per Mcf compared to $7.78 per Mcf for the three months ended March 31, 2001, and $2.53 per Mcf for the three months ended December 31, 2001. Fluctuations in prevailing prices for oil and natural gas have several important consequences to us, including affecting 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 revenues, profitability and ability to maintain or increase our exploration and development program.

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RESULTS OF OPERATIONS

THREE MONTHS ENDED MARCH 31, 2002 COMPARED TO THREE MONTHS ENDED MARCH 31, 2001

OPERATING REVENUES. First quarter 2002 oil and natural gas revenues decreased $44.7 million as compared to first quarter 2001 revenues, primarily due to a 21% decrease in production volumes and a 55% decrease in average commodity prices, both on a natural gas equivalent basis. The decrease in production was a result of the property sales during 2001 and natural production declines, partially offset by new discoveries placed on line at varying times during 2001.

The following table summarizes the Company's operating revenues, production volumes and average sales prices for the three months ended March 31, 2002 and 2001:

	THREE MONTHS ENDED MARCH 31,		INCREASE
	2002	2001	(DECREASE)

Production Volumes:			
Oil (Mbbl)	633	779	(19%)
Natural gas (MMcf)	4,596	6,010	(24%)
MMcfe	8,395	10,684	(21%)
Average Sales Prices:			
Oil (per Bbl)	$ 20.62	$ 28.97	(29%)
Natural gas (per Mcf)	$ 2.51	$ 7.78	(68%)
MMcfe	$ 2.93	$ 6.49	(55%)
Operating Revenues (000's):			
Oil	$13,054	$22,568	(42%)
Natural gas	11,555	46,766	(75%)
Total Operating Revenues	$24,609	$69,334	(65%)

OPERATING EXPENSES. Oil and natural gas operating expenses decreased $1.7 million (36%) to $3.1 million for the three months ended March 31, 2002, compared to $4.8 million for the same period in 2001. On an equivalent unit of production basis, lease operating expenses decreased from $0.45 per MCFE for the first quarter 2001 to $0.37 per MCFE for the 2002 period. This decrease was primarily due to the sale of high cost, non-core properties during mid 2001 and the reorganization of field operations during 2001 resulting in greater efficiencies. In addition, the Company undertook an expanded workover program during 2001 in order to benefit from the higher commodity prices being realized at the time.

SEVERANCE AND AD VALOREM TAXES. Severance and ad valorem taxes decreased $1.0 million (26%) to $2.7 million for the first quarter of 2002, compared to $3.7 million during the same period in 2001. Meridian's oil and natural gas production is primarily from southern Louisiana, and is therefore subject to Louisiana severance tax. The severance tax rates for Louisiana are 12.5% of gross oil revenues and $0.199 per Mcf for natural gas, an increase from $0.097 per Mcf effective in July 2001. Our decrease was primarily due to the decrease in oil and natural gas production and the decrease in oil prices from the same period in 2001 partially offset by the increase in the natural gas tax rate.

DEPLETION AND DEPRECIATION. Depletion and depreciation expense decreased $3.8 million (22%) during the first quarter of 2002 to $13.4 million from $17.2 million for the same period of 2001. This was primarily a result of the decrease in production volumes in 2002 from 2001 levels.

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GENERAL AND ADMINISTRATIVE EXPENSE. General and administrative expense decreased by $1.7 million (35%) to $3.3 million for three months ended March 31, 2002, compared to $5.0 million during the comparable period last year. On an equivalent unit of production basis, general and administrative expenses decreased to $0.39 per MCFE for the first quarter of 2002 from $0.47 per MCFE in the first quarter of 2001. This reduction is partially due to the savings realized from staff reductions during 2001 and the purchase and termination of certain outstanding well bonus plan interests.

INTEREST EXPENSE. Interest expense decreased $2.5 million (39%) to $3.9 million for the first quarter of 2002 in comparison to the first quarter of 2001. The decrease is primarily a result of a decrease in the balance outstanding for the revolving credit line and a decrease in the interest rates.

LIQUIDITY AND CAPITAL RESOURCES

WORKING CAPITAL. During the first quarter of 2002, Meridian's capital expenditures were internally financed with cash from operations. As of March 31, 2002, we had a cash balance of $9.6 million and a working capital deficit of $7.7 million, including $10 million short-term notes payable. 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. Under the amendment to our credit facility, our lenders agreed to maintain our borrowing base at $190 million until May 31, 2002. If our lenders do not unanimously agree upon a new borrowing base redetermination by that date, the borrowing base will be automatically redetermined to equal $180 million until a new borrowing base has been agreed upon by all of the lenders.

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 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 ("LIBOR") plus 1.25% to 2.75%, 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. The Company extended and amended the short-term subordinated credit agreement with Fortis Capital Corporation for $25 million on April 5, 2002. The interest rate is LIBOR plus 4.5% through December 31, 2002, LIBOR plus 5.5% from January 1, 2003, through August 31, 2003, and LIBOR plus 6.5% from September 1, 2003, through December 31, 2004. Note payments of $5 million each are due on September 30, 2002, December 31, 2002, August 31, 2003 and April 30, 2004, with the remaining $5 million payable on December 31, 2004.

9 1/2% CONVERTIBLE SUBORDINATED NOTES. During March 2002, the Company and the holders of the Notes amended the conversion price to $5.00 per share. 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.

REDEEMABLE CONVERTIBLE PREFERRED STOCK. During May 2002, the Company completed the private placement of $67 million of 8.5% redeemable convertible preferred stock. See Note 4 of the Notes to Consolidated Financial Statements.

OIL AND NATURAL GAS HEDGING ACTIVITIES. During March 2002, the Company entered into derivative agreements hedging a portion of its oil and gas production volumes through the typically volatile summer months. Through the use of costless collars the Company hedged approximately 55% of the its gas production and 27% of its oil production, for a six month period from April 1, 2002, through September 30, 2002, establishing average floors of $2.25 per MMBTU and $20.00 per barrel and average ceilings of $3.98 per MMBTU and $29.18 per barrel.

CAPITAL EXPENDITURES. In the first quarter of 2002, Meridian's drilling activities have been focused in the Company's East Lake Arthur and Lakeside Fields. We anticipate drilling activities in these areas, as well as the Biloxi Marshlands acreage and the Kent Bayou Field, will comprise the majority of our 2002 capital budget of $70 million.

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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. During May 2002, the Company completed the private placement of $67 million of 8.5% redeemable convertible preferred stock and dividends are payable semi-annually.

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 for which we are not fully insured 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.

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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 that cannot be measured in an exact manner, and the accuracy of any reserve estimate is a function of the quality of available 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.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is currently exposed to market risk from hedging contracts changes and changes in interest rates. 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 $190 million remains borrowed under the Credit Facility, we estimate our annual interest expense will change by $1.9 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 $5.00 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.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

There are no material legal proceedings to which Meridian or any of its subsidiaries or partnerships is a party or by 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 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) 3.1 Certificate of Designation for Series C Redeemable Convertible Preferred Stock dated March 28, 2002.

(b) The Company filed no reports on Form 8-K during the first quarter of 2002.

SIGNATURES

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

THE MERIDIAN RESOURCE CORPORATION AND SUBSIDIARIES
(Registrant)

Date: May 14, 2002

By: /s/ LLOYD V. DELANO

Lloyd V. DeLano
Vice President
Chief Accounting Officer

By: /s/ JAMES H. SHONSEY

James H. Shonsey
Vice President
Finance and Capital Markets

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EXHIBIT INDEX

EXHIBIT NUMBER	DESCRIPTION
3.1	Certificate of Designation for Series C Redeemable Convertible Preferred Stock dated March 28, 2002.