MERIDIAN RESOURCE CORP
Form 10-Q
August 14, 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: June 30, 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 August 9, 2002 49,945,068

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 JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2002	2001	2002	2001

REVENUES:				
Oil and natural gas	$ 31,661	$ 45,701	$ 56,270	$ 115,035
Price risk management activities	670	--	(135)	--
Interest and other	142	325	186	1,060
	32,473	46,026	56,321	116,095
OPERATING COSTS AND EXPENSES:				
Oil and natural gas operating	3,013	4,408	6,102	9,220
Severance and ad valorem taxes	2,400	2,625	5,117	6,300
Depletion and depreciation	13,558	16,562	26,919	33,748
General and administrative	2,984	4,391	6,242	9,372
	21,955	27,986	44,380	58,640
EARNINGS BEFORE INTEREST AND INCOME TAXES	10,518	18,040	11,941	57,455
OTHER EXPENSES:				
Interest expense	3,744	5,449	7,644	11,867
Taxes on income - current	100	900	100	3,200
Taxes on income - deferred	2,400	4,000	1,500	14,600
	6,244	10,349	9,244	29,667
NET EARNINGS	4,274	7,691	2,697	27,788
DIVIDENDS ON PREFERRED STOCK	1,102	--	1,102	429
NET EARNINGS APPLICABLE TO COMMON STOCKHOLDERS	$ 3,172	$ 7,691	$ 1,595	$ 27,359
NET EARNINGS PER SHARE:				
Basic	$ 0.06	$ 0.16	$ 0.03	$ 0.56
Diluted	$ 0.06	$ 0.15	$ 0.03	$ 0.49
WEIGHTED AVERAGE NUMBER OF COMMON SHARES:				
Basic	49,916	47,872	49,551	48,781
Diluted	49,916	55,038	49,551	57,943

See notes to consolidated financial statements.

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

	JUNE 30,	DECEMBER 31,

	2002	2001
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 19,064	$ 14,340
Accounts receivable, less allowance for doubtful accounts $891 [2002 and 2001]	27,751	23,875
Due from affiliates	2,437	844
Prepaid expenses and other	3,468	1,825
Total current assets	52,720	40,884
PROPERTY AND EQUIPMENT:		
Oil and natural gas properties, full cost method (including $30,236 [2002] and $30,247 [2001] not subject to depletion)	1,114,625	1,085,656
Land	478	478
Equipment	9,717	9,578
	1,124,820	1,095,712
Accumulated depletion and depreciation	658,677	631,758
	466,143	463,954
OTHER ASSETS	5,917	2,828
	$ 524,780	$ 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)

	JUNE 30, 2002	DECEMBE 2001
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 6,070	$ 35,
Revenues and royalties payable	10,149	9,
Notes payable	1,307	25,
Accrued liabilities	10,431	15,
Oil and natural gas hedging derivatives	135	
Current income taxes payable	273	

Current portion long-term debt	27,000	
Total current liabilities	55,365	87,
LONG-TERM DEBT	168,000	190,
9 1/2% CONVERTIBLE SUBORDINATED NOTES	20,000	20,
DEFERRED INCOME TAXES	23,800	22,
REDEEMABLE PREFERRED STOCK:		
Preferred stock, $1.00 par value (1,500,000 shares authorized, 668,500 [2002] shares of Series C Redeemable Convertible Preferred Stock issued at stated value)	66,850	
STOCKHOLDERS' EQUITY:		
Common stock, $0.01 par value (200,000,000 shares authorized, 53,866,694 [2002] and [2001] issued)	555	
Additional paid-in capital	378,410	393,
Accumulated deficit	(156,131)	(157,
Unrealized loss on securities held for resale	(185)	(
Unamortized deferred compensation	(380)	(
	222,269	235,
Less treasury stock, at cost (3,923,273 [2002] and 5,892,342 [2001] shares)	31,504	47,
Total stockholders' equity	190,765	188,
	$ 524,780	$ 507,

See notes to consolidated financial statements.

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

	SIX MONTHS ENDED JUNE 30,	
	2002	2001

CASH FLOWS FROM OPERATING ACTIVITIES:		
Net earnings	$ 2,697	$ 27,788
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depletion and depreciation	26,919	33,748
Amortization of other assets	1,092	1,030
Non-cash compensation	827	1,010
Non-cash price risk management activities	135	--
Deferred income taxes	1,500	14,600
Changes in assets and liabilities:		
Accounts receivable	(3,876)	7,012
Due from affiliates	(1,593)	(1,842)
Prepaid expenses and other	(1,643)	(3,770)
Accounts payable	(29,882)	5,721
Revenues and royalties payable	587	2,672
Accrued liabilities and other	(6,266)	5,441
Net cash provided by (used in) operating activities	(9,503)	93,410
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to property and equipment	(29,656)	(67,342)
Sale of property and equipment	548	29,817
Net cash used in investing activities	(29,108)	(37,525)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Redeemable preferred stock	66,850	--
Reductions in long-term debt	(20,000)	(40,000)
Notes payable	544	26,848
Repurchase of stock	--	(114,000)
Issuance of stock/exercise of options	122	455
Preferred dividends	--	(3,129)
Additions to deferred loan costs	(4,181)	(508)
Net cash provided by (used in) financing activities	43,335	(130,334)
NET CHANGE IN CASH AND CASH EQUIVALENTS	4,724	(74,449)
Cash and cash equivalents at beginning of period	14,340	95,122
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 19,064	$ 20,673

See notes to consolidated financial statements.

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 June 30, 2002, and for the three and six month periods ended June 30, 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. Certain minor reclassifications of prior period statements have been made to conform to current reporting practices.

2. DEBT

SUBORDINATED CREDIT 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.

CREDIT FACILITY

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 latest amendment to our Credit Facility, our lenders agreed to maintain our borrowing base at $170 million. The Credit Facility matures on May 31, 2003. During August 2002, the Company entered into a new three-year $175 million underwritten senior secured credit agreement (the "Credit Agreement") with Societe Generale, as administrative agent, lead arranger, and book runner and Fortis Capital Corp., as co-lead arranger and documentation agent. The borrowing base under the Credit Agreement will be no less than $153 million with funding expected to occur during September 2002, at which time the existing Credit Facility will be retired. Pursuant to the terms of the Credit Agreement, the borrowing base may increase to as high as $175 million before the September 2002 funding, subject to meeting certain conditions. As of June 30, 2002, the Company's outstanding debt under its existing Credit Facility totaled $170 million compared to $190 million as of March 31, 2002, and December 31, 2001, respectively, and accordingly, $17 million has been classified as current on the Company's consolidated balance sheet as of June 30, 2002, to provide for the new $153 million minimum borrowing base. Should the borrowing base be increased prior to the September 2002 funding, corresponding amounts of the increase will be reclassified to long-term on the Company's consolidated balance sheet.

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.

3. 8.5% REDEEMABLE CONVERTIBLE PREFERRED STOCK

The private placement of $66.85 million of 8.5% redeemable convertible preferred stock was completed during May 2002. 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. Dividends of $1.1 million were payable as of July 1, 2002.

4. 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.

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

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

	THREE MONTHS ENDED JUNE 30, 2002	2001
Numerator:		
Net earnings applicable to common stockholders	$ 3,172	$ 7,691
Plus income impact of assumed conversions:		
Preferred stock dividends	1,102	--
Interest on convertible subordinated notes	309	312
Net earnings applicable to common stockholders plus assumed conversions	$ 4,583	$ 8,003
Denominator:		
Denominator for basic net earnings per share - weighted-average shares outstanding	49,916	47,872
Effect of potentially dilutive common shares:		
Redeemable preferred stock	N/A	--
Convertible subordinated notes	N/A	2,857
Employee and director stock options	N/A	1,817
Warrants	N/A	2,492
Denominator for diluted net earnings per share - weighted-average shares outstanding and assumed conversions	49,916	55,038

Basic net earnings per share	$ 0.06	$ 0.16
Diluted net earnings per share	$ 0.06	$ 0.15

	SIX MONTHS ENDED JUNE 30, 2002	2001
Numerator:		
Net earnings applicable to common stockholders	$ 1,595	$27,359
Plus income impact of assumed conversions:		
Preferred stock dividends	1,102	429
Interest on convertible subordinated notes	618	621
Net earnings applicable to common stockholders plus assumed conversions	$ 3,315	$28,409
Denominator:		
Denominator for basic net earnings per share - weighted-average shares outstanding	49,551	48,781
Effect of potentially dilutive common shares:		
Convertible preferred stock	--	1,986
Redeemable preferred stock	N/A	--
Convertible subordinated notes	N/A	2,857
Employee and director stock options	N/A	1,833
Warrants	N/A	2,486
Denominator for diluted net earnings per share - weighted-average shares outstanding and assumed conversions	49,551	57,943
Basic net earnings per share	$ 0.03	$ 0.56
Diluted net earnings per share	$ 0.03	$ 0.49

6. 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 effective date of this transaction was December 31, 2001.

7. OIL AND NATURAL GAS HEDGING ACTIVITIES

During March 2002, the Company entered into derivative agreements to provide an economic hedge of 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 June 30, 2002, the Company had an unrealized non-cash loss of $135,000 due to the mark-to-market valuation of the derivative agreements. These derivatives were not designated for special accounting under FAS 133 and the non-cash loss has been charged to earnings.

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 and six months ended June 30, 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 second quarter of 2002, Meridian's drilling activities have been focused in the Company's East Lake Arthur Field, the Lakeside Field, the Biloxi Marshlands project area and the Kent Bayou Field. Additional drilling activities in these and other similar areas will comprise our capital budget for 2002, currently set at $70 million.

Current activities include:

During March 2002, the Company commenced drilling operations on the East Lake Arthur - Hughes #2 well in Jefferson Davis Parish, Louisiana. Hole conditions have delayed the drilling operations by approximately ninety days. As a result, the Company recently began sidetrack operations on the well and is currently drilling at approximately 12,700 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 is the operator of the field and owns a 96% working interest and a 68% net revenue interest in the field. The Hughes #2 well is a twin offset to the Hughes #1 well.

During April 2002, the Company began drilling the Lakeside - Lacassane #1 well located in Cameron Parish, Louisiana. The well is currently drilling at approximately 16,700 feet with an objective depth of approximately 17,900 feet. 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 and is currently producing 12 Mmcfe/d, with collective production of over 4 Bcfe. The Company is operator of the well and has a 73% working interest and a 42% net revenue interest.

During June 2002, the Company commenced drilling operations on the Continental Land and Fur No. 65 well in the Kent Bayou Field in Terrebonne Parish, Louisiana. The well is currently drilling at approximately 14,400 feet with an objective depth of approximately 19,600 feet. The development well is being drilled to exploit the Rob L sand that is currently productive in adjoining acreage immediately offset to the well site. The Company is the operator and owns a 93% working interest in the well.

On the Biloxi Marshlands project area, the Company has initiated 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 commenced during the second quarter of 2002. 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. Fields in the immediate and surronding area have produced approximately 750-800 Bcfe to date. The first well, the Biloxi Marsh Lands No. 1, began drilling during the second quarter of 2002. The well was drilled to a depth of 9,294 feet and encountered 66 gross feet of gas bearing sand above a water level with approximately 12 net feet of apparent gas pay. The quality of the reservoir appears adequate for a completion. The Company has elected to proceed with the running tubing, testing and completion of this well after the drilling of additional wells in the area.

Other drilling operations scheduled for 2002 include both shallow and deep exploration tests primarily in the south Louisiana and Gulf of Mexico region. In addition, the Company has expanded its acreage and 3-D seismic inventory to provide a continued blend of high potential low risk projects extending its capital budget to take advantage of expected increased demand and reduced supply of domestic oil and natural gas beginning in 2003 and beyond. In keeping with our commitment to reduce debt and improve the Company's capital structure, the Company has further lowered its borrowing base and outstanding debt, reduced operating costs, general and administative overhead, and interest expenses.

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 June 30, 2002, was $24.99 per barrel compared to $27.16 per barrel for the three months ended June 30, 2001, and $20.62 per barrel for the three months ended March 31, 2002. Our average oil price for the six months ended June 30, 2002, was $22.80 per barrel compared to $28.12 per barrel for the six months ended June 30, 2001. Our average natural gas price for the three months ended June 30, 2002, was $3.69 per Mcf compared to $5.12 per Mcf for the three months ended June 30, 2001, and $2.51 per Mcf for the three months ended March 31, 2002. Our average natural gas price for the six months ended June 30, 2002, was $3.08 per Mcf compared to $6.53 per Mcf for the six months ended June 30, 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.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES. The Company's discussion and analysis of its financial condition and results of operation are based upon consolidated financial statements, which have been prepared in accordance with accounting principles generally adopted in the United States. The preparation of these financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. See the Company's Annual Report on Form 10-K for the year ended December 31, 2001, for further discussion.

RESULTS OF OPERATIONS

THREE MONTHS ENDED JUNE 30, 2002 COMPARED TO THREE MONTHS ENDED JUNE 30, 2001

OPERATING REVENUES. Second quarter 2002 oil and natural gas revenues decreased $14.0 million as compared to second quarter 2001 revenues, primarily due to a 14% decrease in production volumes and a 19% 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 the second half of 2001 and the first half of 2002. Drilling of new wells expected to offset production declines experienced delays in early 2002 for various reasons and did not resume until the end of the first quarter of 2002.

The following table summarizes the Company's operating revenues, production volumes and average sales prices for the three months ended June 30, 2002 and 2001:

	THREE MONTHS ENDED JUNE 30, 2002	THREE MONTHS ENDED JUNE 30, 2001	INCREASE (DECREASE)
Production Volumes:			
Oil (Mbbl)	631	687	(8%)
Natural gas (MMcf)	4,304	5,285	(19%)
MMcfe	8,089	9,405	(14%)
Average Sales Prices:			
Oil (per Bbl)	$ 24.99	$ 27.16	(8%)
Natural gas (per Mcf)	$ 3.69	$ 5.12	(28%)
MMcfe	$ 3.91	$ 4.86	(19%)
Operating Revenues (000's):			
Oil	$15,768	$18,656	(15%)
Natural gas	15,893	27,045	(41%)
Total Operating Revenues	$31,661	$45,701	(31%)

OPERATING EXPENSES. Oil and natural gas operating expenses decreased $1.4 million (32%) to $3.0 million for the three months ended June 30, 2002, compared to $4.4 million for the same period in 2001. On an equivalent unit of production basis, lease operating expenses decreased from $0.47 per MCFE for the second 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 in late 2001. This reorganization involved a 20% reduction in field operating personnel and increased emphasis in operating cost reductions. 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 $0.2 million (9%) to $2.4 million for the second quarter of 2002, compared to $2.6 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. Effective July 2002, Louisiana gas severance tax has decreased by $.077 per Mcf to $.122 per Mcf.

DEPLETION AND DEPRECIATION. Depletion and depreciation expense decreased $3.0 million (18%) during the second quarter of 2002 to $13.6 million from $16.6 million for the same period of 2001. This was primarily a result of the decrease in production volumes during the 2002 period in comparison to 2001 and a decrease in the depletion rate from 2001 levels.

GENERAL AND ADMINISTRATIVE EXPENSE. General and administrative expense decreased by $1.4 million (32%) to $3.0 million for three months ended June 30, 2002, compared to $4.4 million during the comparable period last year. On an equivalent unit of production basis, general and administrative expenses decreased to $0.37 per MCFE for the second quarter of 2002 from $0.47 per MCFE in the second 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 $1.7 million (31%) to $3.7 million for the second quarter of 2002 in comparison to $5.4 million for the second 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.

SIX MONTHS ENDED JUNE 30, 2002, COMPARED TO SIX MONTHS ENDED JUNE 30, 2001

OPERATING REVENUES. Oil and natural gas revenues during the six months ended June 30, 2002, decreased $58.8 million as compared to revenues during the six months ended June 30, 2001, due to average sales prices decreasing 40% and a decrease in production volumes of 18%, both on a natural gas equivalent basis. The production decrease is primarily a result of the property sales in 2001 and natural production declines, partially offset by new wells brought on during 2001. Drilling of new wells expected to offset production declines experienced delays in early 2002 for various reasons and did not resume until the end of the first quarter of 2002.

The following table summarizes production volumes, average sales prices and gross revenues for the six months ended June 30, 2002 and 2001.

	SIX MONTHS ENDED JUNE 30, 2002	2001	INCREASE (DECREASE)
Production Volumes:			
Oil (Mbbl)	1,264	1,466	(14%)
Natural gas (MMcf)	8,900	11,295	(21%)
MMcfe	16,484	20,089	(18%)
Average Sales Prices:			
Oil (Bbl)	$ 22.80	$ 28.12	(19%)
Natural gas (Mcf)	$ 3.08	$ 6.53	(53%)

MMcfe	$ 3.41	$ 5.73	(40%)
Gross Revenues (000's):			
Oil	$ 28,822	$ 41,224	(30%)
Natural gas	27,448	73,811	(63%)
Total	$ 56,270	$115,035	(51%)

OPERATING EXPENSES. Oil and natural gas operating expenses decreased $3.1 million (34%) to $6.1 million for the six months ended June 30, 2002, compared to $9.2 million for the six months ended June 30, 2001. 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. This reorganization involved a 20% reduction in field operating personnel and increased emphasis in operating cost reductions. 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 $1.2 million (19%) to $5.1 million for the six months ended June 30, 2002, compared to $6.3 million for the six months ended June 30, 2001. This decrease is largely attributable to the decrease in production and the decrease in oil revenues from the same period in 2001 partially offset by an increase in the tax rate for natural gas. Meridian's production is primarily from southern Louisiana, and, therefore, is subject to a current tax rate of 12.5% of gross oil revenues and $0.199 per Mcf for natural gas. The tax rate for natural gas for the first half of 2001 was $0.097 per Mcf.

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DEPLETION AND DEPRECIATION. Depletion and depreciation expense decreased $6.8 million (20%) to $26.9 million during the first six months of 2002 from $33.7 million for the same period last year. This decrease was primarily a result of the 18% decrease in production on an Mcfe basis from the comparable period in 2001, and a decrease in the depletion rate from 2001 levels.

GENERAL AND ADMINISTRATIVE EXPENSE. General and administrative expense decreased $3.2 million (33%) to $6.2 million for the first six months of 2002 compared to $9.4 million during the first six months of 2001. On an equivalent unit of production basis, general and administrative expenses decreased to $0.38 per MCFE from $0.47 for the comparable six month periods. 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 at the end of 2001.

INTEREST EXPENSE. Interest expense decreased $4.3 million (36%) to $7.6 million during the first six months of 2002 compared to $11.9 million during the comparable period of 2001. The decrease is primarily a result of the reduction in debt and the Federal Reserve Bank's decrease in overall interest rates which has led to a decrease in the average interest rate on the credit facility.

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LIQUIDITY AND CAPITAL RESOURCES

WORKING CAPITAL. During the second quarter of 2002, Meridian's capital expenditures were internally financed with cash from operations. As of June 30, 2002, we had a cash balance of $19.1 million and working capital deficit of $2.6 million, including $27 million in current portion of long-term 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. Under the amendment to our Credit Facility, our lenders agreed to maintain our borrowing base at $170 million. During August 2002, the Company entered into a new three-year $175 million underwritten senior secured credit agreement (the "Credit Agreement") with Societe Generale, as administrative agent, lead arranger and book runner, and Fortis Capital Corp., as co-lead arranger and documentation agent. The borrowing base under the Credit Agreement will be no less than $153 million with funding expected to occur during September 2002, at which time the existing Credit Facility will be retired. Pursuant to the terms of the Credit Agreement, the borrowing base may increase to as high as $175 million before the September 2002 funding, subject to meeting certain conditions. As of June 30, 2002, the Company's outstanding debt under its existing Credit Facility totaled $170 million compared to $190 million as of March 31, 2002, and December 31, 2001, respectively, and accordingly $17 million has been classified as current on the Company's consolidated balance sheet as of June 30, 2002, to provide for the new $153 minimum borrowing base. Should the borrowing base be increased prior to the September 2002 funding, corresponding amounts of the increase would be reclassified to long-term on the Company's consolidated balance sheet.

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.

SUBORDINATED CREDIT 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.

8.5% REDEEMABLE CONVERTIBLE PREFERRED STOCK. During May 2002, the Company completed the private placement of $66.85 million of 8.5% redeemable convertible preferred stock. The conversion price is subject to customary anti-dilution provisions. See Note 3 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. These derivatives were not designated for special accounting under FAS 133 and a $135,000 non-cash loss has been charged to earnings as of June 30, 2002.

CAPITAL EXPENDITURES. In the second quarter of 2002, Meridian's drilling activities have been focused in the Company's East Lake Arthur Field, Lakeside Field, the Biloxi Marshlands project area and the Kent Bayou Field. Additional drilling activities in these and other similar areas will comprise our 2002 capital budget of $70 million.

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 $66.85 million of 8.5% redeemable convertible preferred stock and dividends are payable semi-annually. Dividends of $1.1 million were payable as of July 1, 2002.

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.

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.

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 $170 million remains borrowed under the Credit Facility, we estimate our annual interest expense will change by $1.7 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

The Company filed no reports on Form 8-K during the second 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: August 14, 2002

By: JOSEPH A. REEVES, JR.
Joseph A. Reeves, Jr.
Chief Executive Officer
(Principal Executive Officer)
Director and Chairman of the Board

By: MICHAEL J. MAYELL
Michael J. Mayell
President and Director

By: LLOYD V. DELANO
Lloyd V. DeLano
Senior Vice President
Chief Accounting Officer

By: JAMES H. SHONSEY
James H. Shonsey
Executive Vice President
Chief Financial Officer

INFORMATIONAL ADDENDUM TO REPORT ON FORM 10-Q
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

NOT FILED PURSUANT TO THE SECURITIES EXCHANGE ACT OF 1934

The undersigned Chief Executive Officer and Chief Financial Officer of The Meridian Resource Corporation do hereby certify as follows:

The undersigned hereby certify that this Report on Form 10-Q fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 and the information contained in this Report on Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of The Meridian Resource Corporation.

/s/ JOSEPH A. REEVES, JR.
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Name: Joseph A. Reeves, Jr.
Title: Chief Executive Officer

/s/ MICHAEL J. MAYELL
\---
Name: Michael J. Mayell
Title: President

/s/ JAMES H. SHONSEY
\---
Name: James H. Shonsey
Title: Chief Financial Officer

/s/ LLOYD V. DELANO
\---
Name: Lloyd V. DeLano
Title: Chief Accounting Officer