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VINTAGE PETROLEUM INC
Form 10-Q
August 14, 2001

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2001

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission file number 1-10578

VINTAGE PETROLEUM, INC.

(Exact name of registrant as specified in charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

73-1182669
(I.R.S. Employer
Identification No.)

110 West Seventh Street Tulsa, Oklahoma 74119-1029

(Address of principal executive offices) (Zip Code)

(918) 592-0101

(Registrant's telephone number, including area code)

NOT APPLICABLE

(Former name, former address and former fiscal year,
if changed since last report)

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 No

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date.

Class	Outstanding at August 9, 2001
-----	-----
Common Stock, \$.005 Par Value	63,080,322

-1-

PART I

FINANCIAL INFORMATION

-2-

ITEM 1. FINANCIAL STATEMENTS

VINTAGE PETROLEUM, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(In thousands, except shares
and per share amounts)
(Unaudited)

ASSETS

	June 30, 2001

CURRENT ASSETS:	
Cash and cash equivalents.....	\$ 36,150
Accounts receivable -	
Oil and gas sales.....	113,047
Joint operations.....	12,639
Derivative financial instruments receivable.....	5,766
Prepays and other current assets.....	27,863

Total current assets.....	195,465

PROPERTY, PLANT AND EQUIPMENT, at cost:	
Oil and gas properties, successful efforts method.....	2,436,718
Oil and gas gathering systems and plants.....	28,854
Other	22,965

	2,488,537
Less: Accumulated depreciation, depletion and amortization.....	736,478

	1,752,059

GOODWILL, net of amortization.....	177,931

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OTHER ASSETS, net.....	48,563

	\$2,174,018
	=====

See notes to unaudited consolidated financial statements.

-3-

VINTAGE PETROLEUM, INC. AND SUBSIDIARIES

LIABILITIES AND STOCKHOLDERS' EQUITY

	June 30, 2001

CURRENT LIABILITIES:	
Revenue payable.....	\$ 56,076
Accounts payable - trade.....	50,816
Current income taxes payable.....	20,621
Short-term revolving debt.....	10,539
Other payables and accrued liabilities.....	80,676

Total current liabilities.....	218,728

LONG-TERM DEBT.....	959,214

DEFERRED INCOME TAXES.....	236,342

OTHER LONG-TERM LIABILITIES.....	3,733

STOCKHOLDERS' EQUITY per accompanying statement:	
Preferred stock, \$.01 par, 5,000,000 shares authorized, zero shares issued and outstanding.....	-
Common stock, \$.005 par, 160,000,000 shares authorized, 63,080,322 and 62,801,416 shares issued and outstanding, respectively.....	315
Capital in excess of par value.....	323,322
Retained earnings.....	422,269
Accumulated other comprehensive income.....	12,225

	758,131
Less: Unamortized cost of restricted stock awards.....	2,130

756,001

\$2,174,018
=====

See notes to unaudited consolidated financial statements.

-4-

VINTAGE PETROLEUM, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except per share amounts)
(Unaudited)

	Three Months Ended June 30,	
	2001	2000
		(Restat)
REVENUES:		
Oil and gas sales.....	\$ 208,504	\$ 151,000
Gas marketing.....	35,491	25,000
Oil and gas gathering and processing.....	6,197	4,000
Gain (loss) on disposition of assets.....	(2)	(1)
Other income (expense).....	1,724	(24,000)
	251,914	156,000
COSTS AND EXPENSES:		
Lease operating, including production taxes.....	52,893	39,000
Exploration costs.....	3,489	1,000
Gas marketing.....	34,297	24,000
Oil and gas gathering and processing.....	6,122	3,000
General and administrative.....	12,113	10,000
Depreciation, depletion and amortization.....	40,397	23,000
Amortization of goodwill.....	2,774	
Interest.....	15,874	11,000
	167,959	114,000
Income before income taxes and cumulative effect of change in accounting principle.....	83,955	41,000
PROVISION BENEFIT FOR INCOME TAXES:		
Current.....	27,957	8,000
Deferred.....	3,779	5,000
	31,736	14,000
Income before cumulative effect of change in accounting principle.....	52,219	27,000

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CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE, net of taxes of \$644.....			-	-----
NET INCOME.....	\$ 52,219	\$ 27,	-----	-----
BASIC INCOME PER SHARE:				
Income before cumulative effect of change in accounting principle.....	\$ 0.83	\$ 0	-----	-----
Cumulative effect of change in accounting principle.....	-	-	-----	-----
Net income.....	\$ 0.83	\$ 0	-----	-----
DILUTED INCOME PER SHARE:				
Income before cumulative effect of change in accounting principle.....	\$ 0.81	\$ 0	-----	-----
Cumulative effect of change in accounting principle.....	-	-	-----	-----
Net income.....	\$ 0.81	\$ 0	-----	-----
Weighted average common shares outstanding:				
Basic.....	63,031	62,	-----	-----
Diluted.....	64,153	63,	-----	-----

See notes to unaudited consolidated financial statements.

-5-

VINTAGE PETROLEUM, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

AND COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED JUNE 30, 2001

(In thousands)
(Unaudited)

	Common Stock		Capital In Excess of Par Value	Unamortized Restricted Stock Awards	Retained Earnings
	Shares	Amount			
	-----	-----	-----	-----	-----
Balance at December 31, 2000.....	62,801	\$ 314	\$319,893	\$ -	\$303,449
Cumulative effect of adoption of SFAS No. 133.....	-	-	-	-	-

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Comprehensive income:					
Net income.....	-	-	-	-	122,917
Foreign currency translation adjustment.....	-	-	-	-	-
Change in value of derivatives.....	-	-	-	-	-
Total comprehensive income.....					
Exercise of stock options and resulting tax effects.....					
	169	1	1,215	-	-
Issuance of restricted stock.....	110	-	2,214	(2,214)	-
Amortization of restricted stock awards.....	-	-	-	84	-
Cash dividends declared (\$.065 per share).....	-	-	-	-	(4,097)
	-----	-----	-----	-----	-----
Balance at June 30, 2001.....	63,080	\$ 315	\$323,322	\$ (2,130)	\$422,269
	=====	=====	=====	=====	=====

See notes to unaudited consolidated financial statements.

-6-

VINTAGE PETROLEUM, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)
(Unaudited)

	Six Months
	2001

CASH FLOWS FROM OPERATING ACTIVITIES:	
Net income.....	\$ 122,917
Adjustments to reconcile net income to cash provided by operating activities -	
Depreciation, depletion and amortization.....	67,988
Amortization of goodwill.....	2,774
Exploration costs.....	5,692
Provision for deferred income taxes.....	20,106
Other adjustments.....	66
Cumulative effect of change in accounting principle.....	-

	219,543
Decrease (increase) in receivables.....	44,744
Increase (decrease) in payables and accrued liabilities.....	(41,543)
Other.....	(15,191)

Cash provided by operating activities.....	207,553

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CASH FLOWS FROM INVESTING ACTIVITIES:

Capital expenditures -	
Oil and gas properties.....	(107,170)
Gathering systems and other.....	(2,828)
Proceeds from sale of oil and gas properties.....	24
Purchase of company, net of cash acquired.....	(462,815)
Other.....	(1,653)

Cash used by investing activities.....	(574,442)

CASH FLOWS FROM FINANCING ACTIVITIES:

Issuance of common stock.....	1,216
Advances on revolving credit facility and other borrowings.....	455,537
Payments on revolving credit facility and other borrowings.....	(75,629)
Dividends paid.....	(3,773)
Other.....	6,182

Cash provided (used) by financing activities.....	383,533

Net increase (decrease) in cash and cash equivalents..... 16,644

Cash and cash equivalents, beginning of period..... 19,506

Cash and cash equivalents, end of period..... \$ 36,150

See notes to unaudited consolidated financial statements.

-7-

VINTAGE PETROLEUM, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2001 and 2000

1. GENERAL

The accompanying financial statements are unaudited. The consolidated financial statements include the accounts of Vintage Petroleum, Inc. and its wholly- and majority-owned subsidiaries and its proportionately consolidated general partner interests in various joint ventures (collectively, the "Company"). Management believes that all material adjustments (consisting of only normal recurring adjustments) necessary for a fair presentation have been made. All significant intercompany accounts and transactions have been eliminated in consolidation. Certain 2000 amounts have been reclassified to conform with the 2001 presentation. These reclassifications have no impact on net income. All significant intercompany accounts and transactions have been eliminated in consolidation.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities, if any, at the

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date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. These financial statements and notes should be read in conjunction with the 2000 audited financial statements and related notes included in the Company's 2000 Annual Report on Form 10-K, Item 8, Financial Statements and Supplementary Data.

2. SIGNIFICANT ACCOUNTING POLICIES

Oil and Gas Properties

Under the successful efforts method of accounting, the Company capitalizes all costs related to property acquisitions and successful exploratory wells, all development costs and the costs of support equipment and facilities. All costs related to unsuccessful exploratory wells are expensed when such wells are determined to be non-productive; other exploration costs, including geological and geophysical costs, are expensed as incurred. The Company recognizes gain or loss on the sale of properties on a field basis.

Unproved leasehold costs are capitalized and are reviewed periodically for impairment. Costs related to impaired prospects are charged to expense. If oil and gas prices decline in the future, some of these unproved prospects may not be economic to develop which could lead to an impairment expense.

Costs of development dry holes and proved leaseholds are amortized on the unit-of-production method based on proved reserves on a field basis. The depreciation of capitalized production equipment and drilling costs is based on the unit-of-production method using proved developed reserves on a field basis. Estimated abandonment costs, net of salvage value, are included in the depreciation and depletion calculation.

-8-

The Company reviews its proved oil and gas properties for impairment on a field basis. For each field, an impairment provision is recorded whenever events or circumstances indicate that the carrying value of those properties may not be recoverable. The impairment provision is based on the excess of carrying value over fair value. Fair value is defined as the present value of the estimated future net revenues from production of total proved and risk-adjusted probable and possible oil and gas reserves, based on the Company's expectations of future oil and gas prices and costs, consistent with the method used for acquisition evaluations. Prior to 2001, the Company considered only proved oil and gas reserves in determining fair value. The change to total risk-adjusted reserves had no material effect on the Company's financial statements for the three month and six month periods ended June 30, 2001. In estimating the future net revenues, the Company assumed that the current oil and gas price environment would continue for the remainder of the year and thereafter, escalate annually. The Company assumed operating costs would escalate annually beginning at current levels. Due to the volatility of oil and gas prices, it is possible that the Company's assumptions regarding oil and gas prices may change in the future and may result in future impairment provisions. No impairment provision related to proved oil and gas properties was required for the first six months or the second quarter of either 2001 or 2000.

Hedging

The Company periodically uses hedges (swap agreements) to reduce the impact of oil and natural gas price fluctuations. Gains or losses on swap agreements are recognized as an adjustment to sales revenue when the related transactions being hedged are finalized. Gains or losses from swap agreements that do not qualify for accounting treatment as hedges are recognized currently as other income or

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expense. The cash flows from such agreements are included in operating activities in the consolidated statements of cash flows.

In June 1998, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities ("SFAS No. 133"). The FASB has subsequently issued Statement No. 137 and Statement No. 138 which are amendments to SFAS No. 133. SFAS No. 133, as amended, establishes accounting and reporting standards requiring that every derivative instrument (including certain derivative instruments embedded in other contracts) be recorded in the balance sheet as either an asset or liability measured at its fair value. SFAS No. 133, as amended, requires that changes in the derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met. Special accounting for qualifying hedges allows a derivative's gains and losses to offset related results on the hedged item in the income statement. Companies must formally document, designate and assess the effectiveness of transactions that receive hedge accounting.

-9-

Upon adoption of SFAS No. 133 on January 1, 2001, the Company recorded a transition asset of approximately \$18.5 million related to cash flow hedges in place that are used to reduce the volatility in commodity prices for portions of the Company's forecasted oil production. Additionally, the Company recorded, net of tax, an adjustment to accumulated other comprehensive income in the Stockholders' Equity section of the balance sheet of approximately \$14.9 million. The amount recorded to accumulated other comprehensive income will be relieved over time and taken to the income statement as the physical transactions being hedged are finalized. A significant portion of the Company's cash flow hedges in place at January 1, 2001, had settled as of June 30, 2001, with the actual cash flow impact recorded in "Oil and gas sales" on the Company's income statement.

Statements of Cash Flows

During the six months ended June 30, 2001 and 2000, the Company made cash payments for interest totaling approximately \$16.7 million, and \$25.9 million, respectively. Cash payments made during the first six months of 2001 and 2000 for U.S. Federal and state income taxes were approximately \$12.9 million and \$15.5 million, respectively. The Company made cash payments of approximately \$56.7 million and \$5.7 million during the first six months of 2001 and 2000, respectively, for foreign income taxes, primarily in Argentina.

Earnings Per Share

Basic earnings per common share for the second quarters of 2001 and 2000 were computed by dividing net income by the weighted average number of shares outstanding during the period. Diluted earnings per common share for the second quarters of 2001 and 2000 were computed assuming the exercise of all dilutive options, as determined by applying the treasury stock method. In addition, for the three month period ended June 30, 2001, the Company had outstanding stock options for 1,003,000 additional shares of the Company's common stock with an average exercise price of \$21.17 which were anti-dilutive. There were no anti-dilutive shares for the three month period ended June 30, 2000.

Lease Operating Expense

For the three months ended June 30, 2001, the Company recorded in lease operating expenses gross production taxes and transportation and storage expenses of approximately \$4.6 million and \$2.8 million, respectively. For the three months ended June 30, 2000, the Company recorded in lease operating

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expenses gross production taxes and transportation and storage expenses of approximately \$4.1 million and \$2.3 million, respectively.

For the six months ended June 30, 2001, the Company recorded in lease operating expenses gross production taxes and transportation and storage expenses of approximately \$9.7 million and \$5.6 million, respectively. For the six months ended June 30, 2000, the Company recorded in lease operating expenses gross production taxes and transportation and storage expenses of approximately \$7.5 million and \$4.1 million, respectively.

-10-

Foreign Currency

The Company uses the U.S. dollar as its functional currency, except for the Canadian subsidiaries, which use the Canadian dollar. Adjustments arising from translation of the Canadian subsidiaries' financial statements are reflected in accumulated other comprehensive income. Transaction gains and losses that arise from exchange rate fluctuations applicable to transactions denominated in a currency other than the Company's functional currency are included in the results of operations as incurred.

Cumulative Effect of Change in Accounting Principle

The Company adopted Securities and Exchange Commission Staff Accounting Bulletin No. 101, Revenue Recognition ("SAB No. 101") in the fourth quarter of 2000, effective January 1, 2000. SAB No. 101 requires oil inventories held in storage facilities to be valued at cost. Cost is defined as lifting costs plus depreciation, depletion and amortization. The Company previously followed industry practice by valuing oil inventories at market. The cumulative effect reduced net income by \$1.4 million, net of income tax effects of approximately \$0.6 million. Both the three month and six month periods ended June 30, 2000, have been restated to give effect to this change in accounting principle. Additional volatility in quarterly and annually reported earnings may occur in the future as a result of fluctuations in oil inventory levels.

Transportation and Storage Costs

The Company adopted Emerging Issues Task Force Issue 00-10, Accounting for Shipping and Handling Fees and Costs ("EITF 00-10") in the fourth quarter of 2000. EITF 00-10 requires that transportation and storage costs be shown as an expense in the statement of operations and not deducted from revenues. The Company previously followed industry practice by deducting transportation and storage costs from revenues. The Company now records transportation and storage costs as lease operating costs. Both the three month and six month periods ended June 30, 2000, have been restated to reflect the adoption of EITF 00-10. The adoption of EITF 00-10 did not impact net income.

Comprehensive Income

The Company had no non-owner changes in equity other than net income during the six months ended June 30, 2000. The Company had positive foreign currency translation adjustments of approximately \$6.2 million for the six months ended June 30, 2001, which it has included in accumulated other comprehensive income in the Stockholders' Equity section of the accompanying balance sheet. The Company also recorded under SFAS No. 133 a net reduction in unrealized derivative gains, net of tax, of approximately \$10.1 million related to oil swaps, reducing the unrealized gains, net of tax, to \$4.8 million at June 30, 2001. This net reduction consisted of a \$13.2 million reduction of the transitional asset established on January 1, 2001 (initially \$14.9 million), for contracts in place at December 31, 2000, that settled during the first half of

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2001 and an increase for a current period change in value of \$3.1 million for contracts to be settled in the third and fourth quarters of 2001. The actual cash flow impact of settled oil swaps (\$8.7 million) has been reflected in the "Oil and gas sales" line on the Company's statement of income for the six months ended June 30, 2001.

-11-

3. PUBLIC OFFERING

On May 30, 2001, the Company issued \$200 million of its 7 7/8% Senior Subordinated Notes due 2011 (the "7 7/8% Notes"). The 7 7/8% Notes are redeemable at the option of the Company, in whole or in part, at any time on or after May 15, 2006. In addition, prior to May 15, 2004, the Company may redeem up to 35 percent of the 7 7/8% Notes with the proceeds of certain underwritten public offerings of the Company's common stock. The 7 7/8% Notes mature on May 15, 2011, with interest payable semiannually on May 15 and November 15 of each year. All of the net proceeds to the Company from the sale of the 7 7/8% Notes were used to repay a portion of the existing indebtedness under the Company's revolving credit facility.

The 7 7/8% Notes are unsecured senior subordinated obligations of the Company, rank subordinate in right of payment to all senior indebtedness (as defined) and rank pari passu with the Company's 9% Senior Subordinated Notes Due 2005, its 8 5/8% Senior Subordinated Notes due 2009 and its 9 3/4% Senior Subordinated Notes due 2009. The indenture for the 7 7/8% Notes contains limitations on, among other things, additional indebtedness and liens, the payment of dividends and other distributions, certain investments and transfers or sales of assets.

4. RECENT PRONOUNCEMENTS

On July 20, 2001, the Financial Accounting Standards Board issued Statement No. 141, Business Combinations ("SFAS No. 141"), and Statement No. 142, Goodwill and Other Intangible Assets ("SFAS No. 142"). SFAS No. 141 requires all business combinations initiated after June 30, 2001, to be accounted for using the purchase method of accounting. Under SFAS 142, goodwill is no longer subject to amortization over its estimated useful life. Rather, goodwill will be subject to at least an annual assessment for impairment by applying a fair-value-based test. Additionally, an acquired intangible asset should be separately recognized if the benefit of the intangible asset is obtained through contractual or other legal rights, or if the intangible asset can be sold, transferred, licensed, rented, or exchanged, regardless of the acquirer's intent to do so. SFAS No. 142 is required to be applied starting with fiscal years beginning after December 15, 2001. Early application is permitted for entities with fiscal years beginning after March 15, 2001, provided that the first interim financial statements have not previously been issued.

The Company's May 2001 acquisition of Genesis Exploration Ltd. was accounted for using the purchase method of accounting. Management plans to adopt SFAS No. 142 effective January 1, 2002, resulting in the elimination of goodwill amortization for future period statements of income.

-12-

5. SEGMENT INFORMATION

The Company's reportable business segments have been identified based on the differences in products or services provided. Revenues for the exploration and production segment are derived from the production and sale of natural gas,

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sulfur and crude oil. Revenues for the gathering/plant segment arise from the transportation, processing and sale of natural gas, crude oil and plant products. The gas marketing segment generates revenue by earning fees through the marketing of Company produced gas volumes and the purchase and resale of third party produced gas volumes. The Company evaluates the performance of its operating segments based on operating income before corporate general and administrative costs and interest costs.

-13-

Operations in the gathering/plant and gas marketing segments are in the United States. The Company operates in the oil and gas exploration and production segment in the United States, Canada, South America, Trinidad and Yemen. Summarized financial information for the Company's reportable segments for the six month and three month periods ended June 30, 2001 and 2000, is shown in the following tables (in thousands):

	Exploration and Production				
	U.S.	Canada	Argentina	Bolivia	Ecu
<hr style="border-top: 1px dashed black;"/>					
Six Months Ended 6/30/01					
Revenues from external customers.....	\$233,466	\$ 32,175	\$131,074	\$ 8,341	\$10,
Intersegment revenues.....	-	-	-	-	
Depreciation, depletion and amortization expense.....	28,617	13,690	20,235	2,137	
Operating income.....	142,505	8,548	81,789	4,329	6,
Total assets.....	529,698	701,994	452,432	121,505	54,
Capital investments.....	32,033	631,601	30,079	753	6,
Long-lived assets.....	475,496	676,579	411,289	96,119	46,
<hr style="border-top: 1px dashed black;"/>					
Six Months Ended 6/30/00					
Revenues from external customers.....	\$156,544	\$ -	\$ 90,830	\$ 5,170	\$13,
Intersegment revenues.....	-	-	-	-	
Depreciation, depletion and amortization expense.....	25,677	-	14,300	2,786	
Operating income (loss).....	81,398	-	53,424	(647)	10,
Total assets.....	519,662	-	387,153	121,007	59,
Capital investments.....	24,591	-	21,476	12,423	
Long-lived assets.....	468,606	-	348,007	96,256	49,
<hr style="border-top: 1px dashed black;"/>					
	Gathering/ Plant	Gas Marketing	Corporate	Total	
<hr style="border-top: 1px dashed black;"/>					
Six Months Ended 6/30/01					
Revenues from external customers.....	\$ 14,306	\$ 94,814	\$ 2,447	\$ 527,404	
Intersegment revenues (losses).....	(422)	1,378	-	956	
Depreciation, depletion and amortization expense.....	1,054	-	4,054	70,762	
Operating income (loss).....	(1,225)	3,191	(1,607)	244,101	

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Total assets.....	20,209	22,074	245,883	2,174,018
Capital investments.....	9,602	-	3,328	714,823
Long-lived assets.....	14,412	-	184,918	1,929,990

Six Months Ended 6/30/00

Revenues from external customers.....	\$ 7,695	\$ 43,880	\$ 964	\$ 318,657
Intersegment revenues.....	1,105	1,002	-	2,107
Depreciation, depletion and amortization expense.....	752	-	981	45,436
Operating income (loss).....	624	1,954	(17)	146,721
Total assets.....	10,480	19,457	40,635	1,172,769
Capital investments.....	32	-	1,024	69,235
Long-lived assets.....	6,409	-	4,817	988,754

-14-

Exploration and Production

Three Months Ended 6/30/01

	U.S.	Canada	Argentina	Bolivia	Ecuador
Revenues from external customers.....	\$109,626	\$ 26,554	\$ 63,594	\$3,956	\$4,711
Intersegment revenues.....	-	-	-	-	-
Depreciation, depletion and amortization expense.....	14,706	12,033	10,676	1,130	41,130
Operating income.....	64,088	6,502	37,732	1,834	2,633
Capital investments.....	20,157	629,943	16,105	217	4,133

Three Months Ended 6/30/00

Revenues from external customers.....	\$ 81,673	\$ -	\$ 35,686	\$3,116	\$5,700
Intersegment revenues.....	-	-	-	-	-
Depreciation, depletion and amortization expense.....	13,293	-	7,692	1,537	40,050
Operating income (loss).....	42,570	-	15,613	847	4,050
Capital investments.....	17,529	-	14,489	6,363	28,000

	Gathering/ Plant	Gas Marketing	Corporate	Total
--	---------------------	------------------	-----------	-------

Three Months Ended 6/30/01

Revenues from external customers.....	\$6,197	\$35,491	\$ 1,779	\$ 251,914
Intersegment revenues (losses).....	(90)	595	-	505
Depreciation, depletion and amortization expense.....	748	-	3,464	43,171
Operating income (loss).....	(672)	1,194	(1,685)	111,942
Capital investments.....	9,210	-	1,976	682,670

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Three Months Ended 6/30/00

Revenues from external customers.....	\$4,277	\$25,418	\$ 394	\$ 156,266
Intersegment revenues.....	555	512	-	1,067
Depreciation, depletion and amortization expense.....	383	-	512	23,823
Operating income (loss).....	243	1,020	(119)	64,017
Capital investments.....	11	-	659	45,175

Intersegment sales are priced in accordance with terms of existing contracts and current market conditions. Capital investments include expensed exploratory costs. Corporate general and administrative costs and interest costs are not allocated to the operating income (loss) of the segments.

-15-

6. COMMITMENTS AND CONTINGENCIES

Through its December 2000 acquisition of Cometra Energy (Canada) Ltd. ("Cometra"), the Company assumed the drilling obligations of Cometra's wholly-owned subsidiary, Cometra Trinidad Limited. These obligations require the acquisition of 15 line-kilometers of 2-D seismic, 40 square-kilometers of 3-D seismic and drilling of three exploratory wells. As of June 30, 2001, all seismic obligations had been fulfilled and the first two exploratory wells had been drilled and were waiting on testing. The Company currently expects to drill the third exploratory well under this commitment during the second or third quarter of 2002.

The Company also is committed to drill four development wells on its Block 14 and Block 17 concessions in Ecuador (two wells each) during 2002. The Company currently estimates its commitment for these wells to be approximately \$15 million.

The Company also recently entered into an agreement with Shell C.A.P.S.A. to purchase its interests in certain producing concessions in Argentina for approximately \$50.4 million, subject to customary closing adjustments. Closing is anticipated by the end of August 2001.

The Company had approximately \$8.7 million in letters of credit outstanding at June 30, 2001. These letters of credit relate primarily to various obligations for acquisition and exploration activities in South America and bonding requirements of various state regulatory agencies for U.S. oil and gas operations. The Company's availability under its revolving credit facility is reduced by the outstanding letters of credit.

The Company is a defendant in various lawsuits and is a party to governmental proceedings from time to time arising in the ordinary course of business. In the opinion of management, none of the various pending lawsuits and proceedings should have a material adverse impact on the Company's financial position or results of operations.

7. SIGNIFICANT ACQUISITION

On May 2, 2001, the Company completed the acquisition of Canadian-based Genesis Exploration Ltd. ("Genesis") for total consideration of \$610 million, including transaction costs and the assumption of the estimated net indebtedness of Genesis at closing (the "Genesis Acquisition"). The cash portion of the acquisition price was paid through advances under the Company's revolving credit facility and cash on hand. The Genesis Acquisition was accounted for using purchase accounting, and as such, only two months of Genesis activity are

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included in the Company's statements of income for the three month and six month periods ended June 30, 2001.

The Company estimates that it acquired 62.2 million barrels of oil equivalent ("BOE") of proved reserves in the transaction with Genesis consisting of approximately 27.7 million barrels of oil and 207.2 Bcf of gas. Proved undeveloped reserves of oil and gas account for 33 percent of total proved BOE of reserves. In addition, the Company estimates that the properties have significant upside potential which may be realized through its 2001 work program and beyond. The reserves acquired in the Genesis Acquisition are located primarily in the provinces of Alberta and Saskatchewan, with a significant exploration exposure in the Northwest Territories.

-16-

In addition to reserves, the Company acquired over one million net undeveloped acres principally located in the areas of Alberta and Saskatchewan with a significant portion, aggregating to 440,000 net acres, in the Northwest Territories. Also, the Genesis Acquisition brings with it over 600 square-miles of 3-D seismic and over 15,000 miles of 2-D seismic. The Company estimates the acquisition cost of proved reserves was approximately \$8.78 per BOE, exclusive of \$54 million allocated to undeveloped acreage and \$9 million allocated to facilities.

The Genesis Acquisition preliminary purchase price was allocated as of May 2, 2001, as follows (in thousands):

	C\$	US\$
	-----	-----
Total purchase price.....	\$ 933,335	\$ 60
Long-term debt assumed.....	(135,000)	(8
Negative working capital assumed.....	(89,766)	(5
	-----	-----
Amount paid.....	708,569	46
Net assets at May 2, 2001.....	(196,912)	(12
	-----	-----
Excess of purchase price over net assets at May 2, 2001.....	\$ 511,657	\$ 33
	=====	=====
Allocation of excess of purchase price over net assets:		
Fair market value adjustment to oil and gas properties.....	\$ 393,702	\$ 25
SFAS No. 109 goodwill.....	273,640	17
Increase in deferred income taxes.....	(150,630)	(9
Increase in accrued liabilities.....	(5,055)	(
	-----	-----
	\$ 511,657	\$ 33
	=====	=====

(a) Converted at the May 2, 2001, exchange rate of US\$1/C\$1.5310.

SFAS No. 109 goodwill will be amortized using a unit-of-production basis over the total proved reserves acquired in accordance with Accounting Principles Board Opinion No. 16, Business Combinations, until January 1, 2002, when the

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Company formally adopts SFAS No. 142.

-17-

If the Genesis Acquisition had been consummated as of January 1, 2000, the Company's unaudited pro forma revenues and net income for the six months ended June 30, 2001 and 2000, would have been as shown below; however, such pro forma information is not necessarily indicative of what actually would have occurred had the transaction occurred on such date.

	Six Months Ended June 30,	
	2001	2000
	(In thousands, except per share amounts)	
Revenues.....	\$586,193	\$368,193
Income before cumulative effect of change in accounting principle.....	122,826	52,826
Net income.....	122,826	51,826
Basic Income Per Share:		
Income before cumulative effect of change in accounting principle.....	\$ 1.95	\$ 1.95
Net income.....	1.95	1.95
Diluted Income Per Share:		
Income before cumulative effect of change in accounting principle.....	\$ 1.92	\$ 1.92
Net income.....	1.92	1.92

-18-

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS

OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Results of Operations

The Company's results of operations have been significantly affected by its success in acquiring oil and gas properties and its ability to maintain or increase production through its exploitation and exploration activities. Fluctuations in oil and gas prices have also significantly affected the Company's results. The following table reflects the Company's oil and gas production and its average oil and gas sales prices for the periods presented:

	Three Months Ended June 30,		Six M
	2001	2000	2001
	-----		-----
Production:			
Oil (MBbls) -			

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U.S.....	2,145		2,249	
Argentina.....	2,574	(a)	2,130	(b)
Ecuador.....	245	(a)	255	(b)
Bolivia.....	25	(a)	25	(b)
Canada.....	376		-	
Total.....	5,365	(a)	4,659	(b)
Gas (MMcf) -				
U.S.....	9,043		9,502	
Argentina.....	2,966		2,205	
Bolivia.....	1,971		1,459	
Canada.....	4,973		-	
Total.....	18,953		13,166	
Total MBOE.....	8,524		6,853	
Average prices:				
Oil (per Bbl) -				
U.S.....	\$ 24.75	(c)	\$ 22.33	(d)
Argentina.....	23.12	(c)	26.66	
Ecuador.....	19.30		22.39	
Bolivia.....	20.32		27.65	
Canada.....	24.30		-	
Total.....	23.67	(c)	24.34	(d)
Gas (per Mcf) -				
U.S.....	\$ 6.25		\$ 3.31	
Argentina.....	1.38		1.82	
Bolivia.....	1.74		1.65	
Canada.....	3.51		-	
Total.....	4.30		2.87	

- (a) Total production for the three months and six months ended June 30, 2001, before the impact of changes in inventories was 5,452 MBbls (Argentina - 2,551 MBbls, Ecuador - 349 MBbls, Bolivia - 31 MBbls) and 10,615 MBbls (Argentina - 5,095 MBbls, Ecuador - 699 MBbls, Bolivia - 56 MBbls), respectively.
- (b) Total production for the three months and six months ended June 30, 2000, before the impact of changes in inventories was 4,792 MBbls (Argentina - 2,274 MBbls, Ecuador - 244 MBbls, Bolivia - 25 MBbls) and 9,557 MBbls (Argentina - 4,492 MBbls, Ecuador - 549 MBbls, Bolivia - 44 MBbls), respectively.
- (c) Reflects the impact of oil hedges which increased the three months and six months ended June 30, 2001, U.S., Argentina and total average oil prices per Bbl by \$0.57, \$0.57 and \$0.50, and \$0.60, \$1.22 and \$0.84, respectively.
- (d) Reflects the impact of oil hedges which decreased the three months and six months ended June 30, 2000, U.S. and total average oil prices per Bbl by \$2.93 and \$1.41, and \$2.06 and \$1.01, respectively.

-19-

Average U.S. and Canada oil prices received by the Company fluctuate generally with changes in the NYMEX reference price for oil. The Company's Argentina oil production is sold at West Texas Intermediate spot prices as quoted on the Platt's Crude Oil Marketwire (approximately equal to the NYMEX reference price) less a specified differential. The Company's Ecuador production is sold to various third party purchasers at West Texas Intermediate spot prices less a specified differential. The Company experienced a two percent decrease in its average oil price, including the impact of hedging activities (nine percent decrease excluding hedging activities), during the first six months of 2001 as

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compared to the same period of 2000. The Company's realized average oil price for the first six months of 2001 (before hedges) was approximately 83 percent of the NYMEX reference price compared to 90 percent for the same period of 2000. This decrease in realization was primarily the result of widening differentials on Argentina and Ecuador production; however, the differentials are expected to return closer to more historical levels over the last half of 2001.

The Company participated in oil hedges covering 3.22 MMBbls and 3.49 MMBbls during the first six months of 2001 and 2000, respectively. The impact of the 2001 hedges increased the Company's U.S. average oil price for the first six months of 2001 by 60 cents to \$25.22 per Bbl, its Argentina average oil price by \$1.22 to \$24.56 per Bbl and its overall average oil price by 84 cents to \$24.50 per Bbl. The impact of the 2000 hedges reduced the Company's U.S. average oil price for the first six months of 2000 by \$2.06 to \$23.32 per Bbl, and its overall average oil price by \$1.01 to \$24.94 per Bbl.

Average U.S. gas prices received by the Company fluctuate generally with changes in spot market prices, which may vary significantly by region as evidenced by the significantly higher gas prices in California during the first half of 2001 due to the localized power shortage. The Company's Bolivia average gas price is tied to a long-term contract under which the base price is adjusted for changes in specified fuel oil indexes. In Argentina, the Company's average gas price is primarily determined by the realized price of oil from its El Huemul concession; however, this contract expires at the end of 2001. The Company anticipates securing long-term contracts for this gas during 2001 and it expects future gas prices to be at lower levels than the current contract. The Company's Canada gas is generally sold at spot market prices as reflected by the AECO gas price index. The Company's total average gas price for the first six months of 2001 was 93 percent higher than the same period of 2000.

-20-

The Company has previously engaged in oil and gas hedging activities and intends to continue to consider various hedging arrangements to realize commodity prices which it considers favorable. The Company has entered into various oil hedges (swap agreements) for a total of 1.80 MMBbls of oil at a weighted average price of \$29.54 per Bbl (NYMEX reference price) for the last two quarters of 2001. The Company continues to monitor oil and gas prices and may enter into additional oil and gas hedges or swaps in the future. The following table reflects the barrels currently hedged and the corresponding weighted average NYMEX reference prices by quarter for the remainder of 2001:

Quarter Ending	Barrels	NYMEX Reference Price Per Bbl
-----	-----	-----
	(in thousands)	
September 30, 2001	1,344	\$29.87
December 31, 2001	460	28.58

Relatively modest changes in either oil or gas prices significantly impact the Company's results of operations and cash flow. However, the impact of changes in the market prices for oil and gas on the Company's average realized prices may be reduced from time to time based on the level of the Company's hedging activities. Based on the first six months of 2001 oil production, a change in the average oil price realized, before hedges, by the Company of \$1.00 per Bbl would result in a change in net income and cash flow before income taxes on an annual basis of approximately \$6.5 million and \$10.2 million, respectively. A 10 cent per Mcf change in the average price realized, before hedges, by the

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Company for gas would result in a change in net income and cash flow before income taxes on an annual basis of approximately \$2.0 million and \$3.2 million, respectively, based on gas production for the first six months of 2001.

Period to Period Comparison

During December 2000 and May 2001, the Company made two acquisitions which significantly impacted the period to period comparison for the second quarter and the first six months of 2001. These acquisitions (the "Canadian Acquisitions") include the purchase of 100 percent of the outstanding common stock of Cometra Energy (Canada) Ltd. (the "Cometra Acquisition") in December 2000 and the purchase of 100 percent of the outstanding common stock of Genesis Exploration Ltd. (the "Genesis Acquisition") in May 2001.

The Company's consolidated revenues and expenses for the second quarter and first half of 2001 include under the purchase method of accounting the consolidation of Cometra for a full three months and six months, respectively, and Genesis for the last two months of each respective period.

-21-

Three months ended June 30, 2001, Compared to Three Months ended June 30, 2000

The Company reported net income of \$52.2 million for the quarter ended June 30, 2001, compared to net income of \$27.1 million for the same period in 2000. The primary reason for the 93 percent increase quarter over quarter was the \$16.3 million, net of tax, negative impact on the 2000 second quarter of an unfavorable court decision in Argentina; however, the 2001 quarter was also benefitted by a 50 percent increase in average gas prices received by the Company and a 24 percent increase in production on a BOE basis.

Oil and gas sales increased \$57.2 million (38 percent), to \$208.5 million for the second quarter of 2001 from \$151.3 million for the same period of 2000. A 50 percent increase in average gas prices, coupled with a 44 percent increase in gas production, accounted for an increase of \$43.7 million. A 15 percent increase in oil production, partially offset by a three percent decrease in average oil prices, accounted for an additional increase of \$13.5 million. The Company's 15 percent increase in oil production was primarily a result of volumes associated with the Canadian Acquisitions, its Argentina Cuyo basin properties acquired in September 2000 and its 2000 and 2001 exploitation activities in Argentina. The Company's gas production rose by 44 percent due primarily to the gas production from the Canadian Acquisitions, increased production in Bolivia as a result of increased takes into the Bolivia-to-Brazil pipeline and increased gas production in the Company's Argentina concessions.

As a result of an unfavorable decision by the Supreme Court of Argentina, the Company had recorded as other expense in the second quarter of 2000 a non-recurring charge of \$25.1 million. No similar charge was incurred in the second quarter of 2001.

Lease operating expenses, including production taxes, increased \$13.6 million (35 percent), to \$52.9 million for the second quarter of 2001 from \$39.3 million for the same period of 2000. The increase in lease operating expenses is due primarily to costs associated with properties acquired through the Canadian Acquisitions and the Company's 2000 and 2001 drilling programs, increased lease power and field services costs, certain one-time repair costs and an increase in production taxes due to higher product prices. Lease operating expenses per equivalent barrel produced increased to \$6.21 in the second quarter of 2001 from \$5.73 for the same period in 2000. As the result of a Securities and Exchange Commission mandate, transportation and storage costs billed to the Company have been reclassified to lease operating expenses for all periods shown. These costs

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had been previously reported as a reduction of oil and gas revenues consistent with oil and gas industry practice. This reclassification added 33 cents and 34 cents to the reported lease operating expense per BOE in the second quarter of 2001 and 2000, respectively.

Exploration costs increased \$2.4 million (218 percent), to \$3.5 million for the second quarter of 2001 from \$1.1 million for the same period of 2000. During the second quarter of 2001, the Company's exploration costs included \$2.0 million for seismic and other geological and geophysical costs and \$1.5 million for unsuccessful exploratory drilling and leasehold impairments. Exploration expenses for the second quarter of 2000 consisted of \$0.7 million for lease impairments and \$0.4 million for unsuccessful exploratory drilling.

-22-

General and administrative expenses increased \$1.9 million (19 percent), to \$12.1 million for the second quarter of 2001 from \$10.2 million for the same period of 2000, due primarily to costs associated with the Company's new Canadian operations and personnel additions and consulting costs in conjunction with the Company's higher level of capital expenditures. The Company's G&A per BOE for the second quarter of 2001 was \$1.42 compared to \$1.49 for the same period of 2000.

Depreciation, depletion and amortization increased \$16.6 million (70 percent), to \$40.4 million for the second quarter of 2001 from \$23.8 million for the same period of 2000, primarily due to a 24 percent increase in total production and a higher DD&A rate associated with the properties acquired in the Genesis Acquisition. The Company's average oil and gas DD&A rate per equivalent barrel produced increased from \$3.34 in the second quarter of 2000 to \$4.56 in the second quarter of 2001.

In connection with the Genesis Acquisition, the Company recorded as an asset goodwill in the amount of approximately \$178.7 million. The Company is currently required under Accounting Principles Board Opinion No. 17, Intangible Assets, to amortize this goodwill using the units-of-production method over the total proved reserves of Genesis. The Company recorded goodwill amortization expense of \$2.8 million for the second quarter of 2001. In June 2001, Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets, was issued changing the rules regarding goodwill. For fiscal years beginning January 1, 2002, companies are no longer required to amortize goodwill, but rather must periodically review the fair value of goodwill and record impairment charges to income when the fair value is less than the book value of the goodwill.

Interest expense increased \$4.0 million (34 percent), to \$15.9 million for the second quarter of 2001 from \$11.9 million for the same period of 2000, due primarily to a 55 percent increase in the Company's total average outstanding debt quarter over quarter primarily as a result of the borrowings related to and debt assumed with the May 2001 Genesis Acquisition and the December 2000 Cometra Acquisition. This increase was partially offset by a decrease in the Company's average interest rate to 7.89 percent for the second quarter of 2001 from to 8.87 percent in the same period of 2000. The Company had \$14.4 million and \$5.0 million of accrued interest payable at June 30, 2001, and December 31, 2000, respectively, included in other payables and accrued liabilities.

Six months ended June 30, 2001, Compared to six months ended June 30, 2001

The Company reported net income of \$122.9 million for the six months ended June 30, 2001, compared to net income of \$65.3 million for the year-earlier period. The increase in the Company's net income is primarily due to a 93 percent increase in average gas prices, combined with a 20 percent increase in

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production on an equivalent barrel basis. The first half of 2000 also included a \$16.3 million, net of tax, non-recurring charge against income related to an unfavorable court decision in Argentina.

-23-

Oil and gas sales increased \$124.6 million (43 percent), to \$415.4 million for the first six months of 2001 from \$290.8 million for the six months of 2000. A 14 percent increase in oil production, partially offset by a two percent decrease in average oil prices, accounted for a \$27.7 million increase in oil sales for the first six months of 2001 as compared to the year-earlier period. A 93 percent increase in average gas prices coupled with a 32 percent increase in gas production accounted for a \$96.9 million increase in gas sales for the first six months of 2001 as compared to the year-earlier period. The 14 percent increase in oil production and the 32 percent increase in gas production are primarily the result of the Canadian Acquisitions and the Company's exploitation and exploration activities.

As a result of an unfavorable decision by the Supreme Court of Argentina, the Company had recorded as other expense in the first six months of 2000 a non-recurring charge of \$25.1 million. No similar charge was incurred in the first six months of 2001.

Lease operating expenses, including production taxes, increased \$25.8 million (34 percent), to \$100.7 million for the first six months of 2001 from \$74.9 million for the first six months of 2000 primarily due to the 20 percent increase in production primarily the result of the Canadian Acquisitions, increased lease power and field services costs, an increase in severance taxes due to higher product prices and certain one-time repair costs. Lease operating expenses per equivalent barrel produced increased 13 percent to \$6.37 in the first six months of 2001 from \$5.66 for the same period in 2000. As the result of a Securities and Exchange Commission mandate, transportation and storage costs billed to the Company have been reclassified to lease operating expenses for all periods shown. These costs had been previously reported as a reduction of oil and gas revenues consistent with oil and gas industry practice. This reclassification added 35 cents and 31 cents to the reported lease operating expense per BOE in the first six months of 2001 and 2000, respectively.

Exploration costs increased \$2.3 million (68 percent), to \$5.7 million for the first six months of 2001 from \$3.4 million for same period of 2000. During the first six months of 2001, the Company's exploration costs included \$2.9 million for unsuccessful exploratory drilling and lease impairments and \$2.8 million for other geological and geophysical costs. Exploration costs for the first six months of 2000 included \$2.5 million for unsuccessful exploratory drilling, primarily in Bolivia, \$0.8 million for lease impairments and \$0.1 million for other geological and geophysical costs.

General and administrative expenses increased \$4.9 million (26 percent), to \$24.1 million for the first six months of 2001 from \$19.2 million for the first six months of 2000 due primarily to costs associated with the Canadian operations acquired through the Canadian Acquisitions and personnel additions and consulting costs in conjunction with the Company's higher level of capital expenditures. General and administrative expenses per equivalent barrel produced increased to \$1.52 for the first half of 2001 from \$1.46 in the year-earlier period.

Depreciation, depletion and amortization increased \$22.6 million (50 percent), to \$68.0 million for the first six months of 2001 from \$45.4 million for the first six months of 2000, due primarily to the 20 percent increase in production on a BOE basis and the 25 percent increase in the average amortization rate per

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equivalent barrel produced from \$3.30 in the first six months of 2000 to \$4.14 for the same period of 2001 primarily due to the Genesis Acquisition and the impact on reserves of lower oil prices year over year.

-24-

Interest expense increased \$1.5 million (6 percent), to \$26.8 million for the first six months of 2001 from \$25.3 million for the first six months of 2000, due primarily to a 12 percent increase in the Company's total average outstanding debt year over year. This increase was partially offset as the Company's overall average interest rate decreased to 8.34 percent in the first six months of 2001 as compared to 8.72 percent in the year-earlier period primarily as the result of lower rates on its floating-rate debt due to overall market reductions and a significant increase in its lower-cost floating-rate borrowings as a result of the Canadian Acquisitions.

Capital Expenditures

During the first six months of 2001, the Company's total oil and gas capital expenditures were \$701.9 million, including \$599.5 million for oil and gas properties acquired in the Genesis Acquisition. In North America, the Company's non-acquisition oil and gas capital expenditures totaled \$59.8 million. Exploration activities accounted for \$23.0 million of the North America capital expenditures with exploitation activities contributing \$36.8 million. During the first six months of 2001, the Company's international non-acquisition oil and gas capital expenditures totaled \$38.4 million, including \$30.2 million in Argentina on exploitation activities and \$6.3 million in Ecuador, principally on exploitation. The Company also spent a combined \$1.9 million in other international areas including Trinidad, Bolivia and Yemen during the first half of 2001. The sizeable decrease from 2000 spending in Bolivia and Yemen is the result of the completion of the Bolivia drilling program in 2000 and the Company's current evaluation stage of the 2000 Yemen drilling program results. The Company had accrued property costs of \$31.0 million and \$14.6 million as of June 30, 2001, and December 31, 2000, respectively, included in other payables and accrued liabilities.

As of June 30, 2001, the Company had total unevaluated oil and gas property costs of approximately \$102.0 million consisting of undeveloped leasehold costs of \$84.8 million, including \$60.7 million in Canada, and exploratory drilling in progress of \$17.2 million. Approximately \$15.1 million of the total unevaluated costs are associated with the Company's Yemen drilling program. Future exploration expense and earnings may be impacted to the extent any of the exploratory drilling is determined to be unsuccessful.

On May 2, 2001, the Company completed the Genesis Acquisition for total consideration of \$610 million, including transaction costs and the assumption of the estimated net indebtedness of Genesis at closing (See Note 7 - Significant Acquisition). The cash portion of the acquisition price was paid through advances under the Company's revolving credit facility and cash on hand.

The Company also recently entered into an agreement with Shell C.A.P.S.A. ("Shell") to purchase its interests in certain producing concessions in Argentina for approximately \$50.4 million, subject to customary closing adjustments. Closing is anticipated by the end of August 2001.

-25-

The timing of most of the Company's capital expenditures is discretionary with no material long-term capital expenditure commitments other than the Shell agreement mentioned above. Consequently, the Company has a significant degree of

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flexibility to adjust the level of such expenditures as circumstances warrant. The Company uses internally-generated cash flow to fund capital expenditures other than significant acquisitions. The Company's non-acquisition capital expenditure budget for 2001 and its preliminary non-acquisition budget for 2002 are currently set at \$238 million and \$298 million, respectively. The Company does not have a specific acquisition budget since the timing and size of acquisitions are difficult to forecast. The Company continues to evaluate additional acquisitions of oil and gas properties. In addition to internally-generated cash flow and advances under its revolving credit facility, the Company may seek additional sources of capital to fund any future significant acquisitions (see "Liquidity"), however, no assurance can be given that sufficient funds will be available to fund the Company's desired acquisitions.

Liquidity

Internally generated cash flow and the borrowing capacity under its revolving credit facility are the Company's major sources of liquidity. In addition, the Company may use other sources of capital, including the issuance of additional debt securities or equity securities, to fund any major acquisitions it might secure in the future and to maintain its financial flexibility.

In the past, the Company has accessed the public markets to finance significant acquisitions and provide liquidity for its future activities. Since 1990, in conjunction with the purchase of substantial oil and gas assets, the Company completed five public equity offerings as well as two public debt offerings and two Rule 144A debt offerings, which provided the Company with aggregate net proceeds of approximately \$843 million.

On May 30, 2001, the Company issued \$200 million of its 7 7/8% Senior Subordinated Notes due 2011 (the "7 7/8% Notes"). The 7 7/8% Notes are redeemable at the option of the Company, in whole or in part, at any time on or after May 15, 2006. In addition, prior to May 15, 2004, the Company may redeem up to 35 percent of the 7 7/8% Notes with the proceeds of certain underwritten public offerings of the Company's common stock. The 7 7/8% Notes mature on May 15, 2011, with interest payable semiannually on May 15 and November 15 of each year. All of the net proceeds to the Company from the sale of the 7 7/8% Notes were used to repay a portion of the existing indebtedness under the Company's revolving credit facility.

Under the Second Amended and Restated Credit Agreement dated November 30, 2000, as amended (the "Bank Facility"), certain banks have provided to the Company a \$625 million unsecured revolving credit facility. The Bank Facility establishes a borrowing base determined by the banks' evaluation of the Company's oil and gas reserves. The amount available to be borrowed under the Bank Facility is limited to the lesser of the facility size or the borrowing base, which is currently set at \$850 million.

-26-

As a result of the recent amendment to its \$625 million Bank Facility, the Company's unused availability under the Bank Facility at August 9, 2001, was approximately \$235 million. The amendment included an increase in the borrowing base to \$850 million, in part to reflect the addition of the Canadian properties acquired in the Genesis Acquisition. While availability under the Bank Facility is limited to the \$625 million facility size, the \$225 million of borrowing base in excess of the \$625 million Bank Facility provides additional liquidity should the Company choose to incur additional indebtedness outside the Bank Facility. The unused portion of the Bank Facility and the Company's internally generated cash flow provide liquidity which may be used to finance future capital expenditures, including acquisitions. As additional acquisitions are made and such properties are added to the borrowing base, the banks' determination of the

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borrowing base and their commitments may be increased.

Outstanding advances under the Bank Facility bear interest payable quarterly at a floating rate based on Bank of Montreal's alternate base rate (as defined) or, at the Company's option, at a fixed rate for up to six months based on the Eurodollar market rate ("LIBOR"). The Company's interest rate increments above the alternate base rate and LIBOR vary based on the level of outstanding senior debt to the borrowing base. As of June 30, 2001, the Company had \$360 million outstanding under its Bank Facility, excluding outstanding letters of credit of approximately \$8.7 million. The Company must pay a commitment fee ranging from 0.325 to 0.50 percent per annum on the unused portion of the banks' commitment.

On a semiannual basis, the Company's borrowing base is redetermined by the banks based upon their review of the Company's oil and gas reserves. If the sum of outstanding senior debt exceeds the borrowing base, as redetermined, the Company must repay such excess. Final maturity of the Bank Facility is November 30, 2005.

The Company's internally generated cash flow, results of operations and financing for its operations are dependent on oil and gas prices. For the six months ended June 30, 2001, approximately 66 percent of the company's production was oil. Realized oil prices for the period decreased by two percent as compared to the same period of 2000 and total production on a BOE basis increased by 20 percent. As a result, the Company's earnings and cash flows materially increased compared to the first six months of 2000. To the extent oil prices decline, the Company's earnings and cash flow from operations may be adversely impacted. However, the Company believes that its cash flows and unused availability under the Bank Facility are sufficient to fund its planned capital expenditures for the foreseeable future.

Inflation

In recent years, U.S. inflation has not had a significant impact on the Company's operations or financial condition.

-27-

Income Taxes

The Company incurred a current provision for income taxes of approximately \$50.2 million and \$23.2 million for the first six months of 2001 and 2000, respectively. The total provision for U.S. income taxes is based on the Federal corporate statutory income tax rate plus an estimated average rate for state income taxes. Earnings of the Company's foreign subsidiaries are subject to foreign income taxes. No U.S. deferred tax liability will be recognized related to the unremitted earnings of these foreign subsidiaries as it is the Company's intention, generally, to reinvest such earnings permanently.

Change in Accounting Principles

The Company adopted Securities and Exchange Commission Staff Accounting Bulletin No. 101, Revenue Recognition ("SAB No. 101"), in the fourth quarter of 2000, effective January 1, 2000. SAB No. 101 requires oil inventories held in storage facilities to be valued at cost. Cost is defined as lifting costs plus depreciation, depletion and amortization. The Company previously followed industry practice by valuing oil inventories at market. The cumulative effect reduced net income by \$1.4 million, net of income tax effects of \$0.6 million. The first six months of 2000 have been restated to give effect to this change in accounting principle. Additional volatility in quarterly and annually reported earnings may occur in the future as a result of the required adoption of SAB No. 101 and fluctuations in oil inventory levels.

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In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended in June 1999 by Statement No. 137, Accounting for Derivative Instruments and Hedging Activities - Deferral of the Effective Date of FASB Statement No. 133, and in June 2000 by Statement No. 138, Accounting for Certain Derivative Instruments and Certain Hedging Activities - an amendment of FASB Statement No. 133 ("SFAS No. 133"). SFAS No. 133 establishes accounting and reporting standards requiring that every derivative instrument (including certain derivative instruments embedded in other contracts) be recorded in the balance sheet as either an asset or liability measured at its fair value. SFAS No. 133 requires that changes in the derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met. Special accounting for qualifying hedges allows a derivative's gains and losses to offset related results on the hedged item in the income statement. Companies must formally document, designate and assess the effectiveness of transactions that receive hedge accounting.

Upon adoption of SFAS No. 133 on January 1, 2001, the Company recorded a transition asset of \$18.5 million related to cash flow hedges in place that are used to reduce the volatility in commodity prices for portions of the Company's forecasted oil production. Additionally, the Company recorded, net of tax, an adjustment to accumulated other comprehensive income in the Stockholders' Equity section of the balance sheet of \$14.9 million. The amount recorded to accumulated other comprehensive income will be relieved over time and taken to the income statement as the physical transactions being hedged are finalized.

-28-

Foreign Operations

For information on the Company's foreign operations, see "Foreign Currency and Operations Risk" under Item 3 of Part I of this Form 10-Q.

Forward-Looking Statements

This Form 10-Q includes certain statements that may be deemed to be "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. All statements in this Form 10-Q, other than statements of historical facts, that address activities, events or developments that the Company expects, believes or anticipates will or may occur in the future, including production, operating costs and product price realization targets, future capital expenditures (including the amount and nature thereof), the drilling of wells, reserve estimates, future production of oil and gas, future cash flows, future reserve activity and other such matters are forward-looking statements. Although the Company believes the expectations expressed in such forward-looking statements are based on reasonable assumptions within the bounds of its knowledge of its business, such statements are not guarantees of future performance and actual results or developments may differ materially from those in the forward-looking statements.

Factors that could cause actual results to differ materially from those in forward-looking statements include: oil and gas prices; exploitation and exploration successes; continued availability of capital and financing; general economic, market or business conditions; acquisition opportunities (or lack thereof); changes in laws or regulations; risk factors listed from time to time in the Company's reports filed with the Securities and Exchange Commission; and other factors. The Company assumes no obligation to update publicly any forward-looking statements, whether as a result of new information, future events or otherwise.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company's operations are exposed to market risks primarily as a result of changes in commodity prices, interest rates and foreign currency exchange rates. The Company does not use derivative financial instruments for speculative or trading purposes.

Commodity Price Risk

The Company produces, purchases and sells crude oil, natural gas, condensate, natural gas liquids and sulfur. As a result, the Company's financial results can be significantly impacted as these commodity prices fluctuate widely in response to changing market forces. The Company has previously engaged in oil and gas hedging activities and intends to continue to consider various hedging arrangements to realize commodity prices which it considers favorable. During 2000 and the first half of 2001, the Company entered into various oil hedges (swap agreements) for a total of 5.02 MMBbls of oil at a weighted average NYMEX reference price of \$30.54 per Bbl for the calendar year 2001. The fair value of commodity swap agreements is the amount at which they could be settled, based on quoted market prices. At June 30, 2001, the Company would have received approximately \$5.8 million to terminate its oil swap agreements then in place for the last two quarters of 2001 covering a total 1.80 MMBbls of oil at an average NYMEX reference price of \$29.54 per Bbl. The Company continues to monitor oil and gas prices and may enter into additional oil and gas hedges or swaps in the future.

Interest Rate Risk

The Company's interest rate risk exposure results primarily from short-term rates, mainly LIBOR-based, on borrowings from its commercial banks. To reduce the impact of fluctuations in interest rates, the Company maintains a portion of its total debt portfolio in fixed-rate debt. At June 30, 2001, the amount of the Company's fixed-rate debt was 62 percent of its total long-term debt. In the past, the Company has not entered into financial instruments such as interest rate swaps or interest rate lock agreements. However, it may consider these instruments to manage the impact of changes in interest rates based on management's assessment of future interest rates, volatility of the yield curve and the Company's ability to access the capital markets in a timely manner.

The following table provides information about the Company's long-term debt principal payments and weighted-average interest rates by expected maturity dates:

Long-Term Debt:	2001	2002	2003	2004	2005	There- after	Tot
Fixed rate (in thousands).....	-	-	-	-	\$149,816	\$449,398	\$599
Average interest rate.....	-	-	-	-	9.0%	8.7%	
Variable rate (in thousands).....	-	-	-	-	\$360,000	-	\$360
Average interest rate.....	-	-	-	-	(a)	-	

(a) LIBOR plus an increment, based on level of outstanding senior debt to the

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borrowing base, up to a maximum of 2.0 percent. The increment above LIBOR at June 30, 2001, was 1.75 percent.

-30-

Foreign Currency and Operations Risk

International investments represent, and are expected to continue to represent, a significant portion of the Company's total assets. The Company has international operations in Argentina, Canada, Bolivia, Ecuador, Trinidad and Yemen. For the first half of 2001, the Company's exploration and production operations in Argentina accounted for approximately 25 percent of the Company's revenues, 33 percent of the Company's operating income and 21 percent of its total assets as of June 30, 2001. The Company's Canadian operations accounted for approximately 32 percent of its total assets as of June 30, 2001. A majority of these assets were purchased on May 2, 2001, as part of the Genesis Acquisition and the Company's exploration and production operations include only two months of their activity during the first half of 2001. During the first half of 2001, none of the Company's other international operations accounted for more than 10 percent of its revenues or operating income or total assets. The Company continues to identify and evaluate international opportunities, but currently has no binding agreements or commitments to make any material international investment other than the previously mentioned agreement with Shell C.A.P.S.A. for the purchase of its interests in certain producing Argentina concessions for \$50.4 million. As a result of such significant foreign operations, the Company's financial results could be affected by factors such as changes in foreign currency exchange rates, weak economic conditions or changes in the political climate in these foreign countries.

Since 1999, Argentina's economy has been in recession. In an effort to regain control of the economy, President Fernando de la Rúa has appointed Domingo Cavallo as Minister of Economy. Mr. Cavallo has been granted emergency powers by Congress to introduce reforms to achieve an economic reactivation by restoring growth and competitiveness. In May, the International Monetary Fund (the "IMF") approved a debt-swap and new fiscal deficit targets in order to allow sufficient time for economic and fiscal reforms to take effect. The Congress recently passed a "zero deficit" law, which consists of emergency cuts in government spending with the goal of eliminating the fiscal deficit. In effect, the government will spend only what it collects in revenues. Although the President obtained the political support for the new law, social approval must still be won and economic recovery must take effect. Social protests have begun to escalate and some in the business community are calling for the federal government to take a firm approach to control the situation.

Mr. Cavallo continues to focus on improvement in tax revenue, clamping down on tax evasion, lowering tariffs on imported capital goods to lower the costs of investment and taxing financial transactions. The Argentina congress has recently approved a proposal for the peso to shift from fixed parity with the U.S. dollar to a link with a basket of currencies including the euro and the U.S. dollar once the euro reaches a 1:1 exchange rate with the U.S. dollar. Until then, the peso will still be tied to the U.S. dollar only. Economic recovery will be led by new investment and by exports, but the pace of growth will likely be constrained by the economic slow down in Brazil, which is Argentina's main trading partner, and in the global economy.

All of the Company's Argentine revenues are U.S. dollar based, while a large portion of its costs are denominated in Argentine pesos. The Company believes that should any devaluation of the Argentine peso occur, its revenues would be unaffected and its operating costs would not be significantly increased. At the present time, there are no foreign exchange controls preventing or restricting the conversion of Argentine pesos into dollars.

-31-

Since the mid-1980's, Bolivia has been undergoing major economic reform, including the establishment of a free-market economy and the encouragement of foreign private investment. Economic activities that had been reserved for government corporations were opened to foreign and domestic private investments. Barriers to international trade have been reduced and tariffs lowered. A new investment law and revised codes for mining and the petroleum industry, intended to attract foreign investment, have been introduced.

The political environment in Bolivia will soon change as President Hugo Banzer, after being stricken with cancer, has resigned and handed over power to his Vice-President, Jorge Quiroga. Mr. Quiroga, who is a U.S. educated industrial engineer, will run the country until new elections are held, which are currently scheduled for next year. He will be barred from running in those elections due to term limits.

In 1987, the Boliviano ("Bs") replaced the peso at the rate of one million pesos to one Boliviano. The exchange rate is set daily by the Government's exchange house, the Bolsin, which is under the supervision of the Bolivian Central Bank. Foreign exchange transactions are not subject to any controls. The US\$:Bs exchange rate at June 30, 2001, was US\$1:Bs 6.60. The Company believes that any currency risk associated with its Bolivian operations would not have a material impact on the Company's financial position or results of operations.

In Ecuador, President Gustavo Noboa and Congress continue to debate further tax, social, and customs reform to strengthen economic growth. The legal basis for many of the recent reforms is the Ley Fundamental para la Transformacion Economica del Ecuador (the "economic transformation law") enacted in March 2000, which mandated dollarization of the economy. As a result of this reform, all of the Company's Ecuadorian revenues and costs are U.S. dollar based. Even though the second phase of the economic transformation law (known as Trole II), which was intended to bring significant tax and labor reform and a defined privatization program to increase inflows of foreign direct investment, was rejected by Congress, President Noboa used his veto powers to pass a tax reform package which allowed the IMF to make a disbursement of its stand-by loan in the second quarter. Although this political environment has slowed decisive policymaking, fixed investment should see a significant increase in 2001 driven by construction of the new heavy oil pipeline (the O.C.P.) begun in the second quarter.

With the Cometra Acquisition in December 2000 and the Genesis Acquisition in May 2001, the Company now has significant producing operations in Canada. The Company views the operating environment in Canada as stable and the economic stability as good. A majority of the Company's Canadian revenues and costs are denominated in Canadian dollars, and while the value of the Canadian dollar does fluctuate in relation to the U.S. dollar, the Company believes that any currency risk associated with its Canadian operations would not have a material impact on the Company's financial position or results of operations. The US\$:C\$ exchange rate at June 30, 2001, was US\$1:C\$1.5175 as compared to US\$1:C\$1.4995 at December 31, 2000.

-32-

PART II

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OTHER INFORMATION

-33-

Item 1. Legal Proceedings

For information regarding legal proceedings, see the Company's Form 10-K for the year ended December 31, 2000.

Item 2. Changes in Securities and Use of Proceeds

not applicable

Item 3. Defaults Upon Senior Securities

not applicable

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

The Annual Meeting of Stockholders of the Company (the "Annual Meeting") was held on May 8, 2001, in Tulsa, Oklahoma. At the Annual Meeting, the stockholders of the Company elected William L. Abernathy and Bryan H. Lawrence as Class II Directors. The stockholders also considered and approved the appointment of Arthur Andersen LLP as the independent public accountants of the Company for the fiscal year ending December 31, 2001.

There were present at the Annual Meeting, in person or by proxy, stockholders holding 55,486,537 shares of the Common Stock of the Company, or 88 percent of the total stock outstanding and entitled to vote at the Annual Meeting. The table below describes the results of voting at the Annual Meeting.

	Votes For	Votes Against or Withheld	Abstentions	Brok Non Vote
	-----	-----	-----	-----
1. Election of Directors:				
William L. Abernathy	46,493,359	8,993,178	-0-	-0-
Bryan H. Lawrence	54,104,360	1,382,177	-0-	-0-
2. Ratification of Arthur Andersen LLP as independent public accountants of the Company for fiscal 2001				
	55,277,578	153,892	55,067	-0-

-34-

Item 5. Other Information

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Copies of the Company's press releases each dated August 8, 2001, announcing second quarter 2001 earnings results and revisions to 2001 capital budget and growth targets and announcing preliminary 2002 capital budget and growth targets are attached as exhibits hereto and incorporated herein by reference.

Item 6. Exhibits and Reports on Form 8-K

a) Exhibits

The following documents are included as exhibits to this Form 10-Q. Those exhibits below incorporated by reference herein are indicated as such by the information supplied in the parenthetical thereafter. If no parenthetical appears after an exhibit, such exhibit is filed herewith.

2. Acquisition Agreement dated as of March 27, 2001, between the Company and Genesis Exploration Ltd. (filed as Exhibit 2 to the Company's Current Report on Form 8-K filed May 15, 2001).
4. Indenture dated as of May 30, 2001, between The Chase Manhattan Bank, as Trustee, and the Company (filed as Exhibit 4.1 to the Company's Registration Statement on Form S-4, Registration No. 333-63896, filed on June 26, 2001).
10. First Amendment to Second Amended and Restated Credit Agreement dated as of August 8, 2001, between the Company, the Lenders party thereto, Bank of Montreal, as Administrative Agent, Bank of America, N.A., as Syndication Agent, Societe General, Southwest Agency, as Documentation Agent, and ABN AMRO Bank, N.V., as Managing Agent.
- 99.1 Press release dated August 8, 2001, issued by the Company announcing second quarter 2001 earnings results.
- 99.2 Press release dated August 8, 2001, issued by the Company announcing an acquisition in Argentina, revisions to 2001 capital budget and growth targets and preliminary 2002 capital budget and growth targets.

b) Reports on Form 8-K

Form 8-K dated May 2, 2001, was filed May 15, 2001, to report under Item 2 the May 2, 2001, acquisition of 100 percent of the outstanding common stock of Genesis Exploration Ltd. and to report under Item 7 the acquisition agreement related thereto.

Form 8-K/A1 dated May 2, 2001, was filed May 21, 2001, to report under Item 7 the financial statements for Genesis Exploration Ltd. and pro forma financial statements for the Company.

Form 8-K dated May 22, 2001, was filed May 24, 2001, to report under Item 5 the Company's press release dated May 22, 2001, announcing the sale of \$200 million of senior subordinated notes and updating the Company's 2001 hedging program.

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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.

VINTAGE PETROLEUM, INC.

(Registrant)

DATE: August 14, 2001

\s\ Michael F. Meimerstorf

Michael F. Meimerstorf
Vice President and Controller
(Principal Accounting Officer)

-36-

Exhibit Index

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