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VAALCO ENERGY INC /DE/
Form 10QSB
August 19, 2002

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

FORM 10-QSB

(Mark One)

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2002

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number 0-20928

VAALCO Energy, Inc.

(Exact name of small business issuer as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

76-0274813
(I.R.S. Employer
Identification No.)

4600 Post Oak Place
Suite 309
Houston, Texas
(Address of principal executive offices)

77027
(Zip Code)

Issuer's telephone number: (713) 623-0801

Check whether the issuer (1) filed all reports required to be filed by
Section 13 or 15(d) of the Exchange Act during the past 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__.

As of August 14, 2002 there were outstanding 20,761,869 shares of
Common Stock, \$.10 par value per share, of the registrant. In addition, as of
August 14, 2002 there were outstanding 10,000 shares of Preferred Stock
convertible into 27,500,000 shares of Common Stock.

VAALCO ENERGY, INC. AND SUBSIDIARIES

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VAALCO ENERGY, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Unaudited)
(in thousands of dollars, except par value amounts)

| | June 30, 2002 |
|--|------------------|
| | ----- |
| ASSETS | |
| CURRENT ASSETS: | |
| Cash and cash equivalents | \$ 7, |
| Funds in escrow | 6, |
| Receivables: | |
| Trade | |
| Other | |
| Materials and supplies, net of allowance for inventory obsolescence of \$5 | |
| Prepaid expenses and other | |
| | ----- |
| Total current assets | 14, |
| | ----- |
| PROPERTY AND EQUIPMENT—SUCCESSFUL EFFORTS METHOD | |
| Wells, platforms and other production facilities | 2, |
| Undeveloped acreage | |
| Work in progress | 14, |
| Equipment and other | |
| | ----- |
| Accumulated depreciation, depletion and amortization | 18, (2, |
| | ----- |
| Net property and equipment | 16, |
| | ----- |
| OTHER ASSETS: | |
| Deferred tax asset | |
| Other long-term assets | |
| | ----- |
| TOTAL | \$ 31, ===== |
| LIABILITIES AND STOCKHOLDERS' EQUITY | |
| CURRENT LIABILITIES: | |

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| | |
|--|-----------------|
| Accounts payable and accrued liabilities | \$ 8, |
| Accounts with partners | 9, |
| Income taxes payable | ----- |
| Total current liabilities | 18, |
| MINORITY INTEREST | ----- |
| FUTURE ABANDONMENT COSTS | 3, |
| Total liabilities | 21, |
| STOCKHOLDERS' EQUITY: | |
| Preferred stock, \$25 par value, 500,000 shares authorized; 10,000 shares issued and outstanding in 2002 and 2001 | 2, |
| Common stock, \$.10 par value, 100,000,000 authorized shares 20,767,264 and 20,749,964 shares issued in 2002 and 2001 of which 5,395 are in the treasury | 43, |
| Additional paid-in capital | (1, |
| Subscription receivable | (33, |
| Accumulated deficit | ----- |
| Less treasury stock, at cost | 9, |
| Total stockholders' equity | ----- |
| TOTAL | \$ 31, ===== |

See notes to consolidated financial statements.

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VAALCO ENERGY, INC. AND SUBSIDIARIES
STATEMENTS OF CONSOLIDATED OPERATIONS
(Unaudited)
(in thousands of dollars, except per share amounts)

| | Three Months Ended June 30, | | Six M |
|--|-----------------------------|--------------|--------------|
| | 2002 | 2001 | 200 |
| REVENUES: | | | |
| Oil and gas sales | \$ 328 | \$ 517 | \$ 472 |
| Gain on sale of assets | -- | -- | -- |
| Total revenues | ----- 328 | ----- 517 | ----- 472 |
| OPERATING COSTS AND EXPENSES: | | | |
| Production expenses | 125 | 216 | 220 |
| Exploration expense | 9 | -- | 9 |
| Depreciation, depletion and amortization | 102 | 49 | 107 |
| General and administrative expenses | 165 | 537 | 698 |
| | ----- | ----- | ----- |

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| | | | |
|--|-----------|-----------|-----------|
| Total operating costs and expenses | 401 | 802 | 1,034 |
| OPERATING LOSS | (73) | (285) | (562) |
| OTHER INCOME (EXPENSE): | | | |
| Interest income | 36 | 84 | 45 |
| Equity loss in unconsolidated entities | -- | (12) | -- |
| Other, net | (7) | -- | (9) |
| Total other income (expense) | 29 | 72 | 36 |
| LOSS BEFORE TAXES | (44) | (213) | (526) |
| Income tax expense | -- | 2 | 2 |
| NET LOSS ATTRIBUTABLE TO COMMON SHAREHOLDERS | \$ (44) | \$ (215) | \$ (528) |
| LOSS PER COMMON SHARE: BASIC AND DILUTED | \$ (0.00) | \$ (0.01) | \$ (0.03) |
| WEIGHTED AVERAGE COMMON SHARES: BASIC AND DILUTED | 20,746 | 20,745 | 20,746 |

See notes to consolidated financial statements.

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VAALCO ENERGY, INC. AND SUBSIDIARIES
STATEMENTS OF CONSOLIDATED CASH FLOWS
(Unaudited)
(in thousands of dollars)

| | Six Months Ended June 30, | |
|--|---------------------------|----------|
| | 2002 | 2001 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net loss | \$ (528) | \$ (342) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Depreciation, depletion and amortization | 107 | 52 |
| Equity loss in unconsolidated entities | -- | 445 |
| Exploration expense | 9 | -- |
| Gain on sale of assets | -- | (215) |
| Change in assets and liabilities that provided (used) cash: | | |
| Funds in escrow | (6,165) | 715 |
| Trade receivables | (25) | (69) |

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| | | |
|--|----------|-----------|
| Accounts with partners | 4,977 | 410 |
| Other receivables | 109 | 19 |
| Materials and supplies | (404) | (2) |
| Prepaid expenses and other | (108) | (90) |
| Accounts payable and accrued liabilities | 7,687 | 2,325 |
| Income taxes payable | (29) | (8) |
| | ----- | ----- |
| Net cash provided by operating activities | 5,630 | 3,240 |
| | ----- | ----- |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Disposals of property and equipment | | 1,023 |
| Exploration expense | (9) | -- |
| Additions to property and equipment | (8,383) | (5,056) |
| Investment in unconsolidated entities | | 169 |
| Other | 10 | 3 |
| | ----- | ----- |
| Net cash used in investing activities | (8,382) | (3,861) |
| | ----- | ----- |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Proceeds from issuance of common stock | 5 | -- |
| | ----- | ----- |
| Net cash provided by financing activities | 5 | -- |
| | ----- | ----- |
| NET CHANGE IN CASH AND CASH EQUIVALENTS | (2,147) | (621) |
| | ----- | ----- |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD | 9,804 | 12,440 |
| | ----- | ----- |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | \$ 7,057 | \$ 11,819 |
| | ===== | ===== |
| Cash Income Taxes Paid | \$ -- | \$ 21 |
| | ===== | ===== |

See notes to consolidated financial statements.

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VAALCO ENERGY, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED JUNE 30, 2002
(Unaudited)

1. UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements of VAALCO Energy, Inc. and subsidiaries (collectively, "VAALCO" or the "Company"), included herein are unaudited, but include all adjustments consisting of normal recurring accruals which the Company deems necessary for a fair presentation of its financial position, results of operations and cash flows for the interim period. Such results are not necessarily indicative of results to be expected for the full year. These financial statements should be read in conjunction with the financial statements and notes thereto included in the Company's Form 10-KSB for the year ended December 31, 2001.

VAALCO Energy, Inc., a Delaware corporation, is a Houston-based independent energy company principally engaged in the acquisition, exploration, development and production of crude oil and natural gas. VAALCO owns

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producing properties and conducts exploration activities as operator of consortiums internationally in the Philippines and Gabon. Domestically, the Company has interests in the Texas Gulf Coast area.

VAALCO's Philippine subsidiaries include Alcorn (Philippines) Inc., Alcorn (Production) Philippines Inc. and Altisima Energy, Inc. VAALCO's Gabon subsidiaries are VAALCO Gabon (Etame), Inc. and VAALCO Production (Gabon), Inc. VAALCO Energy (USA), Inc. holds interests in certain properties in the United States.

2. RECENT DEVELOPMENTS

In the fourth quarter of 2001, the Company, as Operator, announced its intent to develop the Etame discovery located offshore of the Republic of Gabon. Based upon estimates by the Company's independent reserve engineers, the Company booked 6.1 million barrels of proven undeveloped oil reserves at December 31, 2001 representing \$23.1 million of net present value of future cash flows in conjunction with the plan to develop the field.

The budget for the field development is \$50.2 million dollars (\$15.2 million net to the Company) to complete and gravel pack three existing wells with subsea wellheads, and to lay flowlines to connect the wells to a 1.1 million barrel floating production storage and offloading tanker ("FPSO"). Major contracts for the FPSO, wellheads, flowlines, and the drilling rig have been awarded and entered into to perform the project. A semi-submersible drilling rig is currently on location having completed two of the three wells. The rig is currently completing the third well for the project. At the date of this filing, the flowline installation vessel was on location installing the flowlines from the wells to the location where the FPSO will be moored. The FPSO had completed retrofitting in Singapore and was under sail to the project area, with an anticipated arrival date on location of August 29, 2002. Barring any unforeseen delays the project is expected to come online during September 2002.

To fund its share of the development project, the Company has entered into a line of credit for \$10.0 million with the International Finance Corporation ("IFC"), a subsidiary of the World Bank. The loan agreement was signed on April 19, 2002. The first draw of \$7.0 million was

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VAALCO ENERGY, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED JUNE 30, 2002
(Unaudited)

made in early July. The balance of the loan is expected to be funded prior to project startup. Prior to project completion date, the IFC loan is guaranteed by the Company via cash received from a loan from the 1818 Fund II, L.P. (the "1818 Fund"). At June 30, 2002, the Company had \$6.2 million of funds in escrow to secure letters of credit associated with the Gabon development project.

The 1818 Fund loan will be in the form of a \$10 million subordinated note secured by a second lien on certain collateral with respect to the Company's investment in VAALCO Gabon (Etame), Inc. including the \$10 million cash collateral to support the Company's guarantee of the IFC loan. The interest rate on the loan is 10%. In conjunction with receiving the 1818 Fund loan, the Company issued on June 10, 2002 15 million warrants which will entitle the holder to purchase one share of the Company's Common

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Stock at a price of \$0.50 per share, 7.5 million of which will be cancelled if project completion occurs on the Etame Block. Management has allocated \$1.896 million of the anticipated proceeds from the loan to the warrants, which has been accounted for in the equity section of the balance sheet as additional paid-in capital with a corresponding offset in Subscriptions Receivable. The allocation is based on the relative fair values of the loan and warrants. The valuation of the warrants is based on a Black Sholes model valuation of the warrants, adjusted for liquidity issues associated with any potential sale of such large volume of shares. The Company has formed an independent committee of the Board of Directors, which has received a fairness opinion with regards to the terms of the 1818 Fund loan. The Company drew \$7.0 million under both the IFC loan facility and the 1818 Loan facility in July 2002.

3. EARNINGS PER SHARE

The weighted average common shares outstanding represent those of historical VAALCO for the applicable periods.

The Company accounts for earnings per share in accordance with Statement of Financial Accounting Standards ("SFAS") No. 128 - "Earnings per Share," which establishes the requirements for presenting earnings per share ("EPS"). SFAS No. 128 requires the presentation of "basic" and "diluted" EPS on the face of the income statement. Basic EPS is calculated using the average number of common shares outstanding during each period. Diluted EPS assumes the conversion of preferred stock to common stock and the exercise of all stock options having exercise prices less than the average market price of the common stock using the treasury stock method. The Company's preferred stock is convertible into 27,500,000 shares of common stock. As all of the convertible securities were anti-dilutive at June 30, 2002, basic EPS is equal to diluted EPS.

4. RECENT ACCOUNTING PRONOUNCEMENTS

On July 20, 2001, the Financial Accounting Standards Board issued SFAS No. 141, "Business Combinations," and SFAS No. 142, "Goodwill and Other Intangible Assets." The Statements will change the accounting for business combinations and goodwill in two significant ways. SFAS No. 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. Use of the pooling-of-interests method will be prohibited. SFAS No. 142 changes the accounting for goodwill from an amortization method to an impairment-only approach. Thus, amortization of goodwill, including goodwill recorded in past business combinations, will cease upon adoption of that statement, which for the Company was January 1, 2002. The adoption of these statements did not have a material effect on the Company's financial position, results of operations or cash flows.

In August 2001, the Financial Accounting Standards Board issued SFAS No. 143, "Accounting for Asset Retirement Obligations." SFAS No. 143 addresses financial accounting and reporting for obligations associated with the retirement of tangible, long-lived assets and the associated asset retirement costs. This Statement requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred by capitalizing it as part of the carrying amount of the long-lived assets. As required by SFAS No. 143, the Company will adopt this new accounting standard on January 1, 2003. The Company is currently evaluating the effects of adopting this pronouncement.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED JUNE 30, 2002
(Unaudited)

In October 2001, the Financial Accounting Standards Board issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." This Statement establishes a single accounting model for the impairment or disposal of long-lived assets. As required by SFAS No. 144, the Company adopted this new standard on January 1, 2001. The adoption of this statement did not have a material effect on the Company's financial position, results of operation or cash flows.

In April 2002 the Financial Accounting Standards Board ("FASB") issued Statement on Financial Accounting Standards ("SFAS") No. 145, "Recission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections", to eliminate an inconsistency between the required accounting for sale-leaseback transactions and the required accounting for certain lease modifications that are similar to sale-leaseback transactions. The statement also amends other existing pronouncements. This statement is effective for fiscal years beginning after May 15, 2002. The impact of adopting this statement on the consolidated financial position or results of operations is not expected to be material.

In June 2002 the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities", which addresses accounting and reporting for costs associated with exit and disposal activities and replaces Emerging Issues Task Force Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)". This statement is effective for exit or disposal activities that are initiated after December 31, 2002. The impact of adopting this statement on the consolidated financial position or results of operations is not expected to be material.

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VAALCO ENERGY, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED JUNE 30, 2002
(Unaudited)

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

This report includes "forward looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended ("Exchange Act"). All statements other than statements of historical fact included in this report (and the exhibits hereto), including without limitation, statements regarding the Company's financial position and estimated quantities and net present values of reserves, are forward looking statements. The Company can give no assurances that the assumptions upon which such statements are based will prove to have been correct. Important factors that could cause actual results to differ materially from the Company's expectations ("Cautionary Statements") are disclosed in the section "Risk Factors" included in the Company's Forms 10-KSB and other periodic reports filed under the Exchange Act, which are herein incorporated by reference. All subsequent written and oral forward looking statements attributable to the Company or persons acting on its behalf are expressly qualified by the Cautionary Statements.

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INTRODUCTION

The Company's results of operations are dependent upon the difference between prices received for its oil and gas production and the costs to find and produce such oil and gas. Oil and gas prices have been and are expected in the future to be volatile and subject to fluctuations based on a number of factors beyond the control of the Company. The Company does not presently engage in any hedging activities and has no plans to do so in the near future.

The Company is participating in the development of the Etame Block, which the Company operates on behalf of a consortium of five companies offshore of the Republic of Gabon. The Company is administering a \$50.2 million budget (\$15.2 million net to the Company) to execute the development project. Substantially all of the Company's capital resources and personnel will be dedicated to the completion of the development project in 2002.

The Company's production in the Philippines is from mature offshore fields with high production costs. The Company's margin on sales from these fields (the price received for oil less the production costs for the oil) is lower than the margin on oil production from many other areas. As a result, the profitability of the Company's production in the Philippines is affected more by changes in oil prices than production located in other areas.

The Company's results of operations are also affected by currency exchange rates. While oil sales are denominated in U.S. dollars, operating costs are predominately denominated in pesos. An increase in the exchange rate of pesos to the dollar will have the effect of increasing operating costs while a decrease in the exchange rate will reduce operating costs.

A substantial portion of the Company's oil production is located offshore of the Philippines. The Company produces into barges, which transport the oil to market. Due to weather and other factors, the Company's production is generally highest during the first and fourth quarters of the year.

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VAALCO ENERGY, INC. AND SUBSIDIARIES MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

CRITICAL ACCOUNTING POLICIES

The following describes the critical accounting policies used by VAALCO in reporting its financial condition and results of operations. In some cases, accounting standards allow more than one alternative accounting method for reporting, such is the case with accounting for oil and gas activities described below. In those cases, the Company's reported results of operations would be different should it employ an alternative accounting method.

Successful Efforts Method of Accounting for Oil and Gas Activities.

The Securities and Exchange Commission ("SEC") prescribes in Regulation SX the financial accounting and reporting standards for companies engaged in oil and gas producing activities. Two methods are prescribed: the successful efforts method and the full cost method. Like many other oil and gas companies, VAALCO has chosen to follow the successful efforts method. Management believes that this method is preferable, as the Company has focused on exploration activities wherein there are risk associated with future success and as such earnings are best represented by attachment to the drilling operations of the company.

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Costs of successful wells, development dry holes and leases containing productive reserves are capitalized and amortized on a unit-of-production basis over the life of the related reserves. Estimated future abandonment and site restoration costs, net of anticipated salvage values, are amortized on a unit of production basis over the life of the related reserves. Other exploration costs, including geological and geophysical expenses applicable to undeveloped leasehold, leasehold expiration costs and delay rentals are expensed as incurred.

In accordance with accounting under successful efforts, the Company reviews proved oil and gas properties for indications of impairment whenever events or circumstances indicate that the carrying value of its oil and gas properties may not be recoverable. When it is determined that an oil and gas property's estimated future net cash flows will not be sufficient to recover its carrying amount, an impairment charge must be recorded to reduce the carrying amount of the asset to its estimated fair value. This may occur if a field discovers lower than anticipated reserves or if commodity prices fall below a level that significantly effects anticipated future cash flows on the field. The Company determines if an impairment has occurred through either identification of adverse changes or as a result of the annual review of all fields. For the year ended December 31, 2001, impairments of \$567,145 were recognized. No impairments have been recognized in 2002.

Undeveloped Acreage.

At June 30, 2002, the Company had undeveloped acreage on its balance sheet totaling \$515,000, representing costs that are not being amortized pending evaluation of the respective leasehold for future development. Unproved properties are assessed quarterly for impairment in value, with any impairment charged to expense.

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VAALCO ENERGY, INC. AND SUBSIDIARIES MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

CAPITAL RESOURCES AND LIQUIDITY

Historically, the Company's primary source of capital resources has been from cash flows from operations, private sales of equity, borrowings and purchase money debt. In 2002 and 2001, the Company's primary uses of capital have been to fund its exploration and development operations in Gabon.

The Company produces oil from the Matinloc and Nido fields in the South China Sea, the Philippines. During the year ended December 31, 2001, total production from the fields was approximately 308,000 gross barrels (69,000 barrels net) of oil. For the six months ended June 2002 production from the fields was 135,745 gross barrels (29,000 net barrels) of oil. Substantially all of the Company's crude oil and natural gas is sold at the well head at posted or index prices under short-term contracts, as is customary in the industry. The Company markets its share of crude oil under an agreement with Caltex, a local Philippines refiner. While the loss of this buyer might have a material effect on the Company in the near term, management believes that the Company would be able to obtain other customers for its crude oil.

Domestically, the Company produces from wells in Brazos County, Texas. Domestic production is sold under two contracts, one for oil and one for gas. The Company has access to several alternative buyers for oil and gas sales domestically.

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The Company elected to terminate its joint venture with Paramount Petroleum, Inc., effective June 1, 2001. The joint venture focused on domestic onshore prospects in Mississippi, Alabama and Louisiana. In connection with the wind up of the joint venture, the Company received \$169,000 in cash, a receivable for \$47,000 representing its share of cash in the joint venture and \$259,000 of undeveloped acreage representing its proportionate 93.75% working interest in kind in all remaining prospects within the joint venture. Final completion of assignment documentation is ongoing. The Company has an interest in production from two small gas discoveries drilled by the joint venture.

The Company continues to seek financing to fund the development of existing properties and to acquire additional assets. The Company will rely on the issuance of equity and debt securities, asset sales and cash flow from operations to provide the required capital for funding future operations. While there can be no assurance the Company will be successful in raising new financing, management believes the prospects the Company has in hand will enable it to attract sufficient capital to fund required oil and gas activities.

During 2002, the Company anticipates that it will make capital expenditures on oil and gas properties of approximately \$14.5 million, all in Gabon. The Company has entered into a line of credit for its subsidiary VAALCO Gabon (Etame), Inc. in the amount of \$10.0 million with the IFC to partially fund its share of the development project, which loan agreement was signed on April 19, 2002. Prior to project completion, the IFC loan is to be guaranteed by the Company and cash collateralized with proceeds from a loan from the 1818 Fund. Project completion requires gross project production of 14,250 BOPD and gross proved reserves of 16.5 million barrels and compliance with financial covenants and other conditions, which may not be achieved. The IFC requires project completion to occur prior to March 31, 2003.

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VAALCO ENERGY, INC. AND SUBSIDIARIES MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The 1818 Fund loan will be in the form of a \$10 million subordinated note secured by a second lien on certain collateral with respect to the Company's investment in VAALCO Gabon (Etame), Inc. including the \$10 million cash collateral to support the Company's guarantee of the IFC loan. The interest rate on the loan is 10%. In conjunction with receiving the 1818 Fund loan, the Company issued on June 10, 2002 15 million warrants which will entitle the holder to purchase one share of the Company's Common Stock at a price of \$0.50 per share, 7.5 million of which will be cancelled if project completion occurs on the Etame Block. Management has allocated \$1.896 million of the anticipated proceeds from the loan to the warrants, which has been accounted for in the equity section of the balance sheet as additional paid-in capital with a corresponding offset in Subscriptions Receivable. The allocation is based on the relative fair values of the loan and warrants. The valuation of the warrants is based on a Black Sholes model valuation of the warrants, adjusted for liquidity issues associated with any potential sale of such large volume of shares. The Company has formed an independent committee of the Board of Directors, which has received a fairness opinion with regards to the terms of the 1818 Fund loan. The Company drew \$7.0 million under both the IFC loan facility and the 1818 Loan facility in July 2002.

RESULTS OF OPERATIONS

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Three months ended June 30, 2002 compared to three months ended June 30, 2001

Revenues

Total revenues were \$328 thousand for the three months ended June 30, 2002 compared to \$517 thousand for the comparable period in 2001. Higher crude oil and gas prices were realized in 2001.

Operating Costs and Expenses

Total production expenses for the three months ended June 30, 2002 were \$125 thousand compared to \$216 thousand during the same period in 2001. Exploration expense of \$9 thousand for seismic reinterpretation was incurred in the Philippines during the three months ending June 30, 2002. Depreciation, depletion and amortization for the three months ending June 30, 2002 was \$102 thousand compared to \$49 thousand for the same period in 2001 due to higher depletion rates per barrel. General and administrative expenses for the three months ended June 30, 2002 and 2001 were \$165 thousand and \$537 thousand. Overhead reimbursements associated with the capital expenditure program in Gabon during 2002 accounted for the decrease in general and administrative costs.

Other Income (Expense)

Interest income of \$36 thousand was received from amounts on deposit in 2002 compared to \$84 thousand in the quarter ended June 30, 2001. The decrease can be attributed to smaller balances on deposit in 2002 when compared to 2001 and lower interest rates in 2002. With the termination of the Paramount Joint Venture in June 2001, there was no equity gain or loss for unconsolidated entities in the second quarter of 2002, compared to an equity loss in unconsolidated entities in the quarter ended June 30, 2001 of \$12 thousand.

Income Taxes

Income tax of \$2 thousand for the quarter ending June 30, 2001 was associated with activity in the Philippines. No taxes were due in quarter ending June 30, 2002.

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VAALCO ENERGY, INC. AND SUBSIDIARIES MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Net Loss

Net loss attributable to common stockholders for the three months ended June 30, 2002 was \$44 thousand, compared to a net loss attributable to common stockholders of \$215 thousand for the same period in 2001. The lower net loss in 2002 was primarily due to lower general administrative costs.

Six months ended June 30, 2002 compared to six months ended June 30, 2001

Revenues

Total revenues were \$472 thousand for the six months ended June 30, 2002 compared to \$1,049 thousand for the comparable period in 2001. Higher product prices, plus a gain on the resale of certain interests acquired in Gabon in 2001 contributed to the higher 2001 revenues.

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Operating Costs and Expenses

Total production expenses for the six months ended June 30, 2002 were \$220 thousand compared to \$309 thousand for the same period in 2001. Expenditures in 2001 included additional activity at the Nido field. Exploration expense of \$9 thousand for seismic re-interpretation was incurred in the Philippines during the six months ending June 30, 2002. Depreciation, depletion and amortization increased from \$52 thousand in the six months ended June 30, 2001 to \$107 thousand in the six months ended June 30, 2002 due to higher depletion rates per barrel oil equivalent from the Brazos County wells. General and administrative expenses for the six months ended 2002 and 2001 were \$698 thousand and \$788 thousand. The Company benefited from overhead reimbursements associated with capital expenditure programs in Gabon in both 2002 and 2001.

Other Income (Expense)

Interest income of \$45 thousand was received from amounts on deposit in 2002 compared to \$222 thousand in the six months ended June 30, 2001. The decrease can be attributed to smaller balances on deposit in 2002 when compared to 2001 and lower interest rates in 2002. The equity loss in unconsolidated entities in the six months ended June 30, 2001 was \$445 thousand. The loss reported in the six months ended June 30, 2001 was associated with the Paramount joint venture and consisted of the write off of unsold prospect costs. The joint venture was terminated on June 30, 2001.

Income Taxes

The Company incurred \$2 thousand in income tax expense associated with activity in the Philippines, in the six months ended June 30, 2002, compared to \$17 thousand in 2001 due to greater taxable profits in 2001.

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VAALCO ENERGY, INC. AND SUBSIDIARIES MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Net Loss

Net loss attributable to common stockholders for the six months ended June 30, 2002 was \$528 thousand, compared to a net loss attributable to common stockholders of \$342 thousand for the same period in 2001. In 2001, the Company benefited from the gain on the resale of certain assets acquired in Gabon.

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PART II. OTHER INFORMATION

ITEM 2. CHANGES IN SECURITIES.

On June 10, 2002, the Company issued warrants to purchase 15 million shares of common stock at a price of \$0.50 per share, 7.5 million of which the Company will receive back if project completion occurs on the Etame Block. See "Management's Discussion and Analysis of Financial Condition and Results of Operations--Capital Resources and Liquidity." The warrants were issued in connection with a loan from the 1818 Fund, the proceeds of which are used to collateralize a loan with IFC. The warrants are exercisable for five years from

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the date of issuance. Half of the warrants issued are immediately exercisable, and warrants to purchase 7.5 million shares of common stock are not exercisable for two years from the date of issuance. The issuance of the warrants was exempt pursuant to Section 4(2) of the Securities Act of 1933.

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

At the annual meeting of stockholders held on June 6, 2002 the Common and Preferred Stockholders elected two Class I Directors and the Preferred Stockholders, voting as a class, elected one additional Class I Director to serve on the Company's Board of Directors. The stockholders also approved the appointment of Deloitte & Touche as auditors of the Company. The votes cast for each of the Class I directors proposed by the Company's definitive proxy statement on Schedule 14A, out of a total of 48,244,569 shares of Common Stock deemed to be outstanding and entitled to vote at the annual meeting, and 10,000 shares of Preferred Stock outstanding and entitled to vote at the annual meeting, were as follows:

| Directors Elected by Common and Preferred Stockholders ----- | Votes Cast For ----- | Votes Cast Against ----- |
|---|-------------------------|-----------------------------|
| W. Russell Scheirman | 44,470,419 | 3,500 |
| Arne R. Nielsen | 44,470,419 | 3,500 |
| | | |
| Directors Elected by Preferred Stockholders ----- | Votes Cast For ----- | Votes Cast Against ----- |
| Lawrence C. Tucker | 10,000 | 0 |

Regarding the proposal to approve the appointment of Deloitte & Touche as the Company's auditors, 44,473,919 votes were cast for the proposal, 0 votes were cast against the proposal and 0 votes abstained from voting.

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ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

3. Articles of Incorporation and Bylaws
 - 3.1 Restated Certificate of Incorporation (incorporated by reference to exhibit 4.1 to the Company's Registration Statement on Form S-3 filed with the Commission on July 15, 1998, Reg. No. 333-59095).
 - 3.2 Certificate of Amendment to Restated Certificate of Incorporation (incorporated by reference to exhibit 4.2 to the Company's Registration Statement on Form S-3 filed with the Commission on July 15, 1998, Reg. No. 333-59095).
 - 3.3 Bylaws (incorporated by reference to exhibit 4.3 to the Company's Registration Statement on Form S-3 filed with the

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Commission on July 15, 1998, Reg. No. 333-59095).

- 3.4 Amendment to Bylaws (incorporated by reference to exhibit 4.4 to the Company's Registration Statement on Form S-3 filed with the Commission on July 15, 1998, Reg. No. 333-59095).
- 3.5 Designation of Convertible Preferred Stock, Series A (incorporated by reference to exhibit 4.1 to the Company's Report on Form 8-K filed with the Commission on May 6, 1998, File No. 000-20928)
- 4. Instruments Defining the Rights of Holders
 - 4.1 Warrant granted to 1818 Fund II, L.P. to purchase 7,500,000 shares, par value \$.10, of common stock of the Company dated June 10, 2002.
 - 4.2 Warrant, subject to vesting requirements, granted to 1818 Fund II, L.P. to purchase 7,500,000 shares, par value \$.10, of common stock of the Company dated June 10, 2002.
- 10. Material Agreements
 - 10.1 Loan Agreement between VAALCO Gabon (Etame), Inc. and International Finance Corporation dated April 19, 2002.
 - 10.2 Subordinated Credit Agreement dated as of June 10, 2002, between VAALCO Energy, Inc. and 1818 Fund II, L.P.
 - 10.3 Guarantee Agreement between VAALCO Energy, Inc. and International Finance Corporation dated May 28, 2002.

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- 10.4 Trustee and Paying Agent Agreement by and between VAALCO Gabon (Etame), Inc., J.P. Morgan Trustee and Depositary Company Limited and JPMorgan Chase Bank, London Branch, dated June 26, 2002.

- (b) Reports on Form 8-K.
None

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SIGNATURES

In accordance with 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.

VAALCO ENERGY, INC.
(Registrant)

By /s/ W. RUSSELL SCHEIRMAN

W. Russell Scheirman, President,

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Chief Financial Officer and Director
(on behalf of the Registrant and as the
principal financial officer)

August 19, 2002

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EXHIBIT INDEX

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