MERIDIAN RESOURCE CORP
Form 10-Q
August 14, 2001

1

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended: June 30, 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: 1-10671

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

TEXAS	76-0319553
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1401 ENCLAVE PARKWAY, SUITE 300, HOUSTON, TEXAS 77077
(Address of principal executive offices) (Zip Code)

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

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

Number of shares of common stock outstanding at August 7, 2001 47,890,915

1

2

THE MERIDIAN RESOURCE CORPORATION
QUARTERLY REPORT ON FORM 10-Q

INDEX

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	THREE MONTHS ENDED JUNE 30,	SIX

REVENUES:	2001	2000	2001
Oil and natural gas	$ 45,701	$ 51,544	$ 115,0
Interest and other	325	346	1,0
	46,026	51,890	116,0
OPERATING COSTS AND EXPENSES:			
Oil and natural gas operating	4,408	4,289	9,2
Severance and ad valorem taxes	2,625	3,653	6,3
Depletion and depreciation	16,562	17,332	33,7
General and administrative	4,391	4,115	9,3
	27,986	29,389	58,6
EARNINGS BEFORE INTEREST AND INCOME TAXES	18,040	22,501	57,4
OTHER EXPENSES:			
Interest expense	5,449	6,452	11,8
Taxes on income	4,900	--	17,8
	10,349	6,452	29,6
NET EARNINGS	7,691	16,049	27,7
DIVIDENDS ON PREFERRED STOCK	--	1,350	4
NET EARNINGS APPLICABLE TO COMMON STOCKHOLDERS	$ 7,691	$ 14,699	$ 27,3
NET EARNINGS PER SHARE:			
Basic	$ 0.16	$ 0.31	$ 0.
Diluted	$ 0.15	$ 0.25	$ 0.
WEIGHTED AVERAGE NUMBER OF COMMON SHARES:			
Basic	47,872	46,668	48,7
Diluted	55,038	65,204	57,9

See notes to consolidated financial statements.

3

4

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

	JUNE 30, 2001	DECEMBER 31, 2000

ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 20,673	$ 95,122
Accounts receivable, less allowance for doubtful accounts $891 [2001 and 2000]	29,061	36,073
Due from affiliates	1,086	--
Prepaid expenses and other	4,873	1,103
Total current assets	55,693	132,298
PROPERTY AND EQUIPMENT:		
Oil and natural gas properties, full cost method (including $37,277 [2001] and $47,027 [2000] not subject to depletion)	1,019,820	982,566
Land	478	478
Equipment	10,505	10,283
	1,030,803	993,327
Accumulated depletion and depreciation	592,543	558,843
	438,260	434,484
OTHER ASSETS	3,618	4,139
	$ 497,571	$ 570,921

See notes to consolidated financial statements.

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

	JUNE 30, 2001	DECEMBER 31, 2000
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 23,554	$ 17,833
Revenues and royalties payable	4,125	1,453
Due to affiliates	--	756
Notes payable	27,231	383

Accrued liabilities	22,174	19,774
Current income taxes payable	2,243	1,900
Total current liabilities	79,327	42,099
LONG-TERM DEBT	190,000	230,000
9 1/2% CONVERTIBLE SUBORDINATED NOTES	20,000	20,000
DEFERRED INCOME TAXES	23,100	8,500
STOCKHOLDERS' EQUITY:		
Preferred stock, $1.00 par value (25,000,000 shares authorized, 3,982,906 [2000] shares of Series A Cumulative Convertible Preferred Stock issued at stated value)	--	135,000
Common stock, $0.01 par value (200,000,000 shares authorized, 47,889,790 [2001] and 53,763,285 [2000] issued)	551	550
Additional paid-in capital	386,068	315,603
Accumulated deficit	(152,918)	(180,277)
Unrealized loss on securities held for resale	(185)	(185)
Unamortized deferred compensation	(378)	(369)
	233,138	270,322
Less treasury stock, at cost	(47,994)	--
Total stockholders' equity	185,144	270,322
	$ 497,571	$ 570,921

See notes to consolidated financial statements.

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

	SIX MONTHS ENDED JUNE 30, 2001	2000
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net earnings	$ 27,788	$ 26,900
Adjustments to reconcile net earnings to net cash		

provided by operating activities:		
Depletion and depreciation	33,748	35,632
Amortization of other assets	1,030	646
Non-cash compensation	1,010	1,796
Deferred income taxes	14,600	--
Changes in assets and liabilities:		
Accounts receivable	7,012	(4,075)
Due from affiliates	(1,842)	(715)
Prepaid expenses and other	(3,770)	273
Accounts payable	5,721	(5,884)
Revenues and royalties payable	2,672	1,353
Notes payable	26,848	1,775
Accrued liabilities and other	5,441	165
Net cash provided by operating activities	120,258	57,866
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to property and equipment	(67,342)	(42,315)
Sale of property and equipment	29,817	25,145
Net cash used in investing activities	(37,525)	(17,170)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from long-term debt	--	2,000
Reductions in long-term debt	(40,000)	(13,000)
Repurchase of stock	(114,000)	--
Issuance of stock/exercise of options	455	--
Preferred dividends	(3,129)	(2,700)
Additions to deferred loan costs	(508)	57
Net cash provided (used) in financing activities	(157,182)	(13,643)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(74,449)	27,053
Cash and cash equivalents at beginning of period	95,122	6,617
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 20,673	$ 33,670

See notes to consolidated financial statements.

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

1. BASIS OF PRESENTATION

The consolidated financial statements reflect the accounts of The Meridian Resource Corporation and its subsidiaries (the "Company") after elimination of all significant intercompany transactions and balances. The financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2000, as filed with the Securities and Exchange Commission.

The financial statements included herein as of June 30, 2001, and for the six month periods ended June 30, 2001 and 2000, are unaudited, and in the opinion of management, the information furnished reflects all material adjustments, consisting of normal recurring adjustments, necessary for a fair statement of the results for the interim periods presented. Certain minor reclassifications of prior period statements have been made to conform to current reporting practices.

2. NOTES PAYABLE

SHORT-TERM NOTE AGREEMENT

The Company entered into a short-term subordinated credit agreement with Fortis Capital Corporation for $25 million, effective January 5, 2001. The interest rate is the London interbank offered rate ("LIBOR") plus 3.5%, with interest payments due on the last day of March, June, September and December. The note matures on December 31, 2001.

3. DEBT

LONG-TERM DEBT

In May 1998, the Company amended and restated its credit facility with The Chase Manhattan Bank as Administrative Agent (the "Credit Facility") to provide for maximum borrowings, subject to borrowing base limitations, of up to $250 million. The borrowing base on March 31, 2001, was set at $230 million; subsequently, a $40 million payment was made reducing the borrowing base to $190 million. The next scheduled redetermination is set for September 30, 2001.

4. COMMITMENTS AND CONTINGENCIES

LITIGATION

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

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

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

	THREE MONTHS ENDED JUNE 30, 2001	THREE MONTHS ENDED JUNE 30, 2000
Numerator:		
Net earnings applicable to common stockholders	$ 7,691	$ 14,699
Plus income impact of assumed conversions:		
Preferred stock dividends	--	1,350
Interest on convertible subordinated notes	312	480
Net earnings applicable to common stockholders plus assumed conversions	$ 8,003	$ 16,529

Denominator:		
Denominator for basic net earnings per share - weighted-average shares outstanding	47,872	46,668
Effect of potentially dilutive common shares:		
Convertible preferred stock	--	12,837
Convertible subordinated notes	2,857	2,857
Employee and director stock options	1,817	949
Warrants	2,492	1,893
Denominator for diluted net earnings per share - weighted-average shares outstanding and assumed conversions	55,038	65,204
Basic net earnings per share	$ 0.16	$ 0.31
Diluted net earnings per share	$ 0.15	$ 0.25

8

9

	SIX MONTHS ENDED JUNE 30, 2001	SIX MONTHS ENDED JUNE 30, 2000
Numerator:		
Net earnings applicable to common stockholders	$ 27,359	$ 24,200
Plus income impact of assumed conversions:		
Preferred stock dividends	429	2,700
Interest on convertible subordinated notes	621	960
Net earnings applicable to common stockholders plus assumed conversions	$ 28,409	$ 27,860
Denominator:		
Denominator for basic net earnings per share - weighted-average shares outstanding	48,781	46,562
Effect of potentially dilutive common shares:		
Convertible preferred stock	1,986	12,837
Convertible subordinated notes	2,857	2,857
Employee and director stock options	1,833	587
Warrants	2,486	1,819
Denominator for diluted net earnings per share - weighted-average shares outstanding and assumed conversions	57,943	64,662
Basic net earnings per share	$ 0.56	$ 0.52
Diluted net earnings per share	$ 0.49	$ 0.43

6. STOCKHOLDERS' EQUITY

Pursuant to the Option and Standstill Agreement, on January 29, 2001, the

Company completed the repurchase of all of the outstanding Preferred Stock (convertible into 12.8 million shares of Common Stock) and six million shares of Common Stock from Shell for $114 million. Cash to complete the $114 million stock buyback was generated using a balanced financing structure including $38.7 million in net proceeds from the issuance of Common Stock at $6 5/8 per share; $25 million in subordinated debt; and $50.3 million of available cash flow and proceeds from the sale of non-core properties. Shell remains Meridian's largest common shareholder, with approximately 7.1 million shares of Common Stock.

7. SALE OF PROPERTIES

On May 17, 2001, the Company sold certain non-strategic oil and gas properties located in south Louisiana and the Texas Gulf Coast for approximately $33 million. The sale was comprised of 25.1 Bcfe proved developed reserves and 20.5 Bcfe of undeveloped reserves.

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

The following is a discussion of Meridian's financial operations for the three months and six months ended June 30, 2001 and 2000. The notes to the Company's consolidated financial statements included in this report, as well as our Annual Report on Form 10-K for the year ended December 31, 2000 (and the notes attached thereto), should be read in conjunction with this discussion.

GENERAL

BUSINESS ACTIVITIES. During the second quarter of 2001, Meridian's drilling activities have been focused in the Company's East Lake Arthur, North Turtle Bayou/Ramos, Weeks Island and Thornwell Fields. We anticipate drilling activities in these areas will comprise the majority of our capital expenditure budget for 2001, currently set at $100 million.

Current drilling activities are as follows:

East Lake Arthur Prospect Area: The Hughes No. 1 well in the East Lake Arthur Field, in Jefferson Davis Parish, Louisiana, has completion operations presently underway. Initially, the well was perforated in the lower of Bol Mex 6 sand interval and tested at 2.5 Mmcfe/d with a flowing tubing pressure of 6,500 pounds per square inch for approximately six hours until the well experienced an obstruction in the tubing. Workover operations were delayed for approximately six weeks awaiting a rig and are now underway to correct the obstruction and place the well back on test. The well's production facilities have been constructed and the well is expected to be placed on production as soon as the work is completed. Meridian and its partners control approximately 2,300 acres in this newly discovered area and have scheduled a second well in the field, depending on test results, for late fourth quarter this year or early first quarter of 2002. Meridian is the operator and owns approximately 90% of the working interest in the well.

Thornwell/Lakeside Prospect Area: The SL 15223 No. 1 well in the Lakeside area in Cameron Parish, Louisiana, was completed on July 14, 2001, and is currently producing from the Camerina sands at a rate of approximately 4.4 MMcf/d plus 185 barrels of oil per day on a 10/64th inch choke with a flowing tubing pressure of 9,800 pounds per square inch. Meridian operates the well and has a net revenue interest of 43%. A second well, the SL 15223 No. 2, has been spudded and is currently drilling below 10,600 feet measured depth.

Thornwell Prospect: The Petitjean 17-2 well, in the South Thornwell Field, in Jefferson Davis Parish, Louisiana, was completed on July 10, 2001, and is currently producing from the Marg Idio sands at a rate of approximately 5.0 MMcf/d plus 65 barrels of oil per day on a 24/64th inch choke with a flowing tubing pressure of 1,825 pounds per square inch. Meridian owns approximately 20% of the net revenue interest in this well. The Addison 28 No. 1 well is currently drilling below 9,800 feet with a target depth of 10,800 feet to test the Marg Idio sands.

Southwest Donner Prospect: The Williams Land Company No. 1 well, in Assumption Parish, Louisiana, is currently drilling below 16,500 feet with a target depth of 18,200 feet to test multiple Operc sands which have been logged in its nearby Thidodaux and Breaux wells. Meridian holds approximately 90% of the working interest and a net revenue interest of approximately 62% in this well.

North Turtle Bayou/Ramos Prospect Area: The Thibodaux No. 25-2 well, in Assumption Parish, Louisiana, has reached its total depth of 19,080 feet to target the Operc sands and the Company is currently evaluating the results. Meridian holds approximately 90% of the working interest and a net revenue interest of approximately 63% in this well.

Weeks Island/Floyd Prospect: The Goodrich-Cocke No. 2 well was drilled to a depth of 8,098 feet and has been completed and tested at a gross daily flow rate of 1,099 barrels of oil per day and 394 Mcf/d on a 27/64th inch choke with a flowing tube pressure of 981 pounds per square inch. Meridian is the operator and holds a working interest of approximately 72% and a net revenue interest of approximately 58% in this well.

10

11

Dickinson Prospect: The East Hagler Unit No. 1 well in the Dickinson Prospect in Galveston County, Texas, is currently drilling below 12,890 feet with a target depth of 14,750 feet to test the Vicksburg sands. Meridian is the operator of the prospect and holds approximately 97% of the working interest through the completion and 72% thereafter.

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

The six million shares of Common Stock were repurchased into the Company's Treasury Stock account at a value of $48.2 million (using the closing price of Meridian's Common Stock on the transaction date). In addition, the buyback of the six million common shares along with the retirement of the Preferred Stock resulted in an immediate reduction in the fully diluted share count of more than 25%. Finally, since the face value of the Preferred Stock was $135 million, the repurchase at a discounted price of $114 million provided an immediate $21.0 million benefit to the equity of all common stockholders.

SALE OF PROPERTIES. On May 17, 2001, the Company sold certain non-strategic oil and gas properties located in south Louisiana and the Texas Gulf Coast for approximately $33 million. The sale was comprised of 25.1 Bcfe proved developed reserves and 20.5 Bcfe of undeveloped reserves. Benefits of the sale include the reduction of total debt by an additional $30 million resulting in an immediate savings in interest costs on the Company's senior bank debt, the elimination of $9.5 million in future capital expenditures associated with the properties, and the elimination of over $5 million in annual Lease Operating Expenses (LOE), which represented approximately 28% of our total LOE for the year 2000.

INDUSTRY CONDITIONS. Revenues, profitability and future growth rates of Meridian are substantially dependent upon prevailing prices for oil and natural gas. Oil and natural gas prices have been extremely volatile in recent years and are affected by many factors outside of our control. In this regard, average worldwide oil and natural gas prices have increased substantially from levels in early 2000. Our average oil price for the three months ended June 30, 2001, was $27.16 per barrel compared to $28.97 per barrel for the three months ended March 31, 2001, and $24.24 per barrel for the three months ended June 30, 2000. Our average oil price for the six months ended June 30, 2001, was $28.12 per barrel compared to $24.27 per barrel for the six months ended June 30, 2000. Our average natural gas price for the three months ended June 30, 2001, was $5.12 per Mcf compared to $7.78 per Mcf for the three months ended March 31, 2001, and $3.57 per Mcf for the three months ended June 30, 2000. Our average natural gas price for the six months ended June 30, 2001, was $6.53 per Mcf compared to $3.13 per Mcf for the six months ended June 30, 2000. Fluctuations in prevailing prices for oil and natural gas have several important consequences to us, including affecting the level of cash flow received from our producing properties, the timing of exploration of certain prospects and our access to capital markets, which could impact our revenues, profitability and ability to maintain or increase our exploration and development program.

RESULTS OF OPERATIONS

THREE MONTHS ENDED JUNE 30, 2001 COMPARED TO THREE MONTHS ENDED JUNE 30, 2000

OPERATING REVENUES. Second quarter 2001 oil and natural gas revenues decreased $5.8 million as compared to second quarter 2000 revenues, primarily due to a 31% decrease in production volumes partially offset by a 28% increase in average commodity prices, both on a natural gas equivalent basis. The decrease in production is a result of the property sales during 2000 and 2001 and natural production declines, partially offset by new wells brought on.

The following table summarizes the Company's operating revenues, production volumes and average sales prices for the three months ended June 30, 2001 and 2000:

	THREE MONTHS ENDED JUNE 30, 2001	THREE MONTHS ENDED JUNE 30, 2000	INCREASE (DECREASE)
Production Volumes:			
Oil (Mbbl)	687	1,018	(33)%

Natural gas (MMcf)	5,285	7,519	(30)%
MMcfe	9,405	13,627	(31)%
Average Sales Prices:			
Oil (per Bbl)	$ 27.16	$ 24.24	12%
Natural gas (per Mcf)	$ 5.12	$ 3.57	43%
MMcfe	$ 4.86	$ 3.78	28%
Operating Revenues (000's):			
Oil	$ 18,656	$ 24,673	(24)%
Natural gas	27,045	26,871	1%
Total Operating Revenues	$ 45,701	$ 51,544	(11)%

OPERATING EXPENSES. Oil and natural gas operating expenses increased $0.1 million to $4.4 million for the three months ended June 30, 2001, compared to $4.3 million for the same period in 2000. This increase was primarily due to the non-recurring expenses from an expanded well workover program and higher lifting costs on marginal wells, partially offset by a decrease in the number of wells from the sale of non-core properties.

SEVERANCE AND AD VALOREM TAXES. Severance and ad valorem taxes decreased $1.0 million to $2.6 million for the second quarter of 2001, compared to $3.6 million during the same period in 2000. Meridian's oil and natural gas production is primarily from southern Louisiana, and is therefore subject to Louisiana severance tax. The severance tax rates for Louisiana are 12.5% of gross oil revenues and $0.097 per Mcf for natural gas, an increase from $0.078 per Mcf effective in July 2000. Our second quarter decrease was primarily due to the decrease in oil and natural gas production over the same period in 2000 partially offset by the 12% increase in the average sales price of oil over 2000 and the increase in the natural gas tax rate.

DEPLETION AND DEPRECIATION. Depletion and depreciation expense decreased $0.7 million during the second quarter of 2001 to $16.6 million from $17.3 million for the same period of 2000. This was primarily a result of the decrease in production volumes in 2001 from 2000 levels partially offset by an increase in the depletion rate, reflecting the sale of non-core properties and completion delays of new wells for which reserves have not yet been booked.

12

13

GENERAL AND ADMINISTRATIVE EXPENSE. General and administrative expense increased by $0.3 million to $4.4 million for three months ended June 30, 2001, compared to $4.1 million during the comparable period last year. The increase was primarily a result of increases in salaries, wages, and other compensation related to the provisions of the 1998 net profits and well bonus plans. The plans provide for bonus payments to employees, which are calculated using a formula derived from the actual net profits on each well in the plan for the previous year. The formula has remained unchanged, however, increased payouts have resulted due to increased commodity prices.

INTEREST EXPENSE. Interest expense decreased $1.0 million to $5.4 million for the second quarter of 2001 in comparison to the second quarter of 2000. The decrease is primarily a result of a decrease in the average interest rate charged on the revolving credit as compared to the second quarter of 2000, and a decrease in the balance outstanding for the revolving credit line, partially offset by the issuance of the short-term notes payable issued in January 2001.

SIX MONTHS ENDED JUNE 30, 2001, COMPARED TO SIX MONTHS ENDED JUNE 30, 2000

OPERATING REVENUES. Oil and natural gas revenues during the six months ended June 30, 2001, increased $15.6 million as compared to revenues during the six months ended June 30, 2000, due to average sales prices increasing 61% partially offset by a decrease in production volumes of 28%, both on a natural gas equivalent basis. The production decrease is primarily a result of the property sales in 2000 and 2001 and natural production declines, partially offset by new wells brought on.

The following table summarizes production volumes, average sales prices and gross revenues for the six months ended June 30, 2001 and 2000.

	SIX MONTHS ENDED JUNE 30, 2001	SIX MONTHS ENDED JUNE 30, 2000	INCREASE (DECREASE)
Production Volumes:			
Oil (Mbbl)	1,466	2,158	(32)%
Natural gas (MMcf)	11,295	15,024	(25)%
MMcfe	20,089	27,974	(28)%
Average Sales Prices:			
Oil (Bbl)	$ 28.12	$ 24.27	16%
Natural gas (Mcf)	$ 6.53	$ 3.13	108%
MMcfe	$ 5.73	$ 3.56	61%
Gross Revenues (000's):			
Oil	$ 41,224	$ 52,384	(21)%
Natural gas	73,811	47,090	57%
Total	$ 115,035	$ 99,474	16%

OPERATING EXPENSES. Oil and natural gas operating expenses increased $0.5 million to $9.2 million for the six months ended June 30, 2001, compared to $8.7 million for the six months ended June 30, 2000. This increase was primarily due to the non-recurring expenses from an expanded well workover program and higher lifting costs on marginal wells, partially offset by a decrease in the number of wells from the sale of non-core properties.

SEVERANCE AND AD VALOREM TAXES. Severance and ad valorem taxes decreased $1.6 million to $6.3 million for the six months ended June 30, 2001, compared to $7.9 million for the six months ended June 30, 2000. This decrease is largely attributable to the decrease in production from the same period in 2000 partially offset by an increase in the tax rate for natural gas. Meridian's production is primarily from southern Louisiana, and, therefore, is subject to a current tax rate of 12.5% of gross oil revenues and $0.097 per Mcf for natural gas. The tax rate for natural gas for the first half of 2000 was $0.078 per Mcf.

DEPLETION AND DEPRECIATION. Depletion and depreciation expense decreased $1.9

million to $33.7 million during the first six months of 2001 from $35.6 million for the same period last year. This decrease was primarily a result of the 28% decrease in production on an Mcfe basis from the comparable period in 2000, partially offset by an increase in the depletion rate, reflecting the sale of non-core properties and completion delays of new wells for which reserves have not yet been booked.

GENERAL AND ADMINISTRATIVE EXPENSE. General and administrative expense increased $1.4 million to $9.4 million for the first six months of 2001 compared to $8.0 million during the first six months of 2000. This

increase was primarily a result of increases in salaries, wages, and other compensation related to the provisions of the 1998 net profits and well bonus plans. The plans provide for bonus payments to employees, which are calculated using a formula derived from the actual net profits on each well in the plan for the previous year. The formula has remained unchanged, however, increased payouts have resulted due to increased commodity prices.

INTEREST EXPENSE. Interest expense decreased $0.9 million to $11.9 million during the first six months of 2001 compared to $12.8 million during the comparable period of 2000. The decrease is primarily a result of the overall reduction in debt and the Federal Reserve Bank's decrease in overall interest rates which has lead to a decrease in the average interest rate on the credit facility.

LIQUIDITY AND CAPITAL RESOURCES

WORKING CAPITAL. During the second quarter of 2001, Meridian's capital expenditures were internally financed with cash from operations. As of June 30, 2001, we had a cash balance of $20.7 million and a working capital deficit of $23.6 million, including the $25 million short-term note payable.

CREDIT FACILITY. We entered into an amended and restated credit facility with The Chase Manhattan Bank as Administrative Agent (the "Credit Facility") to provide for maximum borrowings, subject to borrowing base limitations, of up to $250 million. The borrowing base on June 30, 2001, was $190 million following a $40 million payment in May 2001. The next scheduled redetermination is set for September 30, 2001.

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

SHORT-TERM NOTE AGREEMENT. The Company entered into a short-term subordinated credit agreement with Fortis Capital Corporation for $25 million, effective January 5, 2001. The interest rate is LIBOR plus 3.5%, and interest payments are due on the last day of March, June, September and December. The note matures on December 31, 2001, and the Company expects that adequate cash resources will be available to meet the obligation.

9 1/2% CONVERTIBLE SUBORDINATED NOTES. During June 1999, the Company completed private placements of an aggregate of $20 million of its 9 1/2% Convertible

Subordinated Notes due June 18, 2005 (the "Notes"). The Notes are unsecured and contain customary events of default, but do not contain any maintenance or other restrictive covenants. Interest is payable on a quarterly basis.

The Notes are convertible at any time by the holders of the Notes into shares of our common stock, $.01 par value ("Common Stock"), utilizing a conversion price of $7.00 per share (the "Conversion Price"). The Conversion Price is subject to customary anti-dilution provisions. The holders of the Notes have been granted registration rights with respect to the shares of Common Stock that are issued upon conversion of the Notes.

CAPITAL EXPENDITURES. To date, Meridian's drilling activities have been focused in the Company's East Lake Arthur, North Turtle Bayou/Ramos, Weeks Island and Thornwell Fields. We anticipate drilling activities in these areas will comprise the majority of our 2001 capital expenditure budget of $100 million.

DIVIDENDS. It is Company policy to retain its cash for reinvestment in its business, and therefore, it does not anticipate that dividends will be paid in the foreseeable future.

The Preferred Stock held by Shell accrued dividends on a pro-rata basis up until the exercise of the option on January 29, 2001, of $429,010. All outstanding obligations of dividends payable have been paid and no additional amounts are to be accrued on the preferred stock.

FORWARD-LOOKING INFORMATION

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

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

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

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

16

17

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

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

17

18

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

INTEREST RATES

We are subject to interest rate risk on our long-term fixed interest rate debt and variable interest rate borrowings. Our long-term borrowings primarily consist of borrowings under the Credit Facility and the $20 million principal of 9 1/2% Convertible Subordinated Notes due June 18, 2005. Since interest charged borrowings under the Credit Facility floats with prevailing interest rates (except for the applicable interest period for Eurodollar loans), the carrying value of borrowings under the Credit Facility should approximate the fair market value of such debt. Changes in interest rates, however, will change the cost of borrowing. Assuming $190 million remains borrowed under the Credit Facility, we estimate our annual interest expense will change by $1.9 million for each 100 basis point change in the applicable interest rates utilized under the Credit Facility. Changes in interest rates would, assuming all other things being equal, cause the fair market value of debt with a fixed interest rate, such as the Notes, to increase or decrease, and thus increase or decrease the amount required to refinance the debt. The fair value of the Notes is dependent on prevailing interest rates and our current stock price as it relates to the conversion price of $7.00 per share of our Common Stock.

HEDGING CONTRACTS

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

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

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

At the annual meeting of shareholders held on June 20, 2001, the Company's shareholders elected Class II Directors. The following summarizes the number of votes for and against each nominee.

Nominee	For	Against	Abstain
E. L. Henry	45,663,945	476,646	--
Joe E. Kares	45,663,662	476,929	--
Gary A. Messersmith	45,661,862	478,729	--

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits.

4.1 Termination Agreement, dated January 29, 2001, by and between the Company and Shell Louisiana Onshore Properties Inc. (incorporated by reference from the Company's Current Report on Form 8-K, dated January 29, 2001).

4.2 Registration Rights Agreement, dated January 29, 2001, by and between the Company and Shell Louisiana Onshore Properties Inc. (incorporated by reference from the Company's Current Report on Form 8-K, dated January 29, 2001).

4.3 Amendment No. 1, dated as of January 29, 2001, to Rights Agreement, dated as of May 5, 1999, by and between the Company and American Stock Transfer & Trust Co., as rights agent (incorporated by reference from the Company's Current Report on Form 8-K, dated January 29, 2001).

(b) The Company filed a Current Report on Form 8-K, dated January 29, 2001, regarding the exercise by the Company of the option to purchase from an affiliate of Shell Oil Company all of the Company's outstanding preferred stock and six million shares of the Company's common stock.

SIGNATURES

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

THE MERIDIAN RESOURCE CORPORATION AND SUBSIDIARIES

(Registrant)

Date: August 14, 2001

By: LLOYD V. DELANO

Lloyd V. DeLano
Vice President
Chief Accounting Officer