

VINTAGE PETROLEUM INC  
Form 10-Q  
November 09, 2004  
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**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 September 30, 2004

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.)

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110 West Seventh Street  
Tulsa, Oklahoma  
(Address of principal executive offices)

74119-1029  
(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 by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2).

Yes  No

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

<u>Class</u>	<u>Outstanding at October 29, 2004</u>
Common Stock, \$0.005 Par Value	65,749,693

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**FORM 10-Q**  
**THREE MONTHS ENDED SEPTEMBER 30, 2004**  
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**PART I**

**FINANCIAL INFORMATION**

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Table of ContentsITEM 1. FINANCIAL STATEMENTS

## VINTAGE PETROLEUM, INC. AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

(In thousands, except shares

and per share amounts)

(Unaudited)

## ASSETS

	September 30, 2004	December 31, 2003
	<u>          </u>	<u>          </u>
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 46,012	\$ 32,264
Accounts receivable -		
Oil and gas sales	115,861	78,321
Joint operations	8,616	7,480
Deferred income taxes	21,513	
Prepays and other current assets	10,638	6,660
Assets of discontinued operations	253,387	224,321
	<u>          </u>	<u>          </u>
Total current assets	456,027	349,046
	<u>          </u>	<u>          </u>
<b>PROPERTY, PLANT AND EQUIPMENT, at cost:</b>		
Oil and gas properties, successful efforts method	2,023,933	1,835,588
Oil and gas gathering systems and plants	23,890	23,344
Other	27,903	26,334
	<u>          </u>	<u>          </u>
	2,075,726	1,885,266
Less accumulated depreciation, depletion and amortization	908,462	829,055
	<u>          </u>	<u>          </u>
Total property, plant and equipment, net	1,167,264	1,056,211
	<u>          </u>	<u>          </u>
<b>DEFERRED INCOME TAXES</b>	14,558	
	<u>          </u>	<u>          </u>
<b>OTHER ASSETS, net</b>	42,513	41,581
	<u>          </u>	<u>          </u>
<b>TOTAL ASSETS</b>	<u>\$ 1,680,362</u>	<u>\$ 1,446,838</u>

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See notes to unaudited consolidated financial statements.

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**Table of Contents****VINTAGE PETROLEUM, INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS****(Continued)****(In thousands, except shares****and per share amounts)****(Unaudited)****LIABILITIES AND STOCKHOLDERS' EQUITY**

	<b>September 30, 2004</b>	<b>December 31, 2003</b>
	<u>          </u>	<u>          </u>
<b>CURRENT LIABILITIES:</b>		
Revenue payable	\$ 37,541	\$ 22,641
Accounts payable - trade	53,578	48,548
Current income taxes payable	21,815	17,316
Derivative financial instruments payable	59,968	7,551
Other payables and accrued liabilities	88,796	54,852
Liabilities of discontinued operations	79,454	46,093
	<u>          </u>	<u>          </u>
Total current liabilities	341,152	197,001
	<u>          </u>	<u>          </u>
LONG-TERM DEBT	676,547	699,943
	<u>          </u>	<u>          </u>
DEFERRED INCOME TAXES	85,214	54,311
	<u>          </u>	<u>          </u>
LONG-TERM LIABILITY FOR ASSET RETIREMENT OBLIGATIONS	77,577	72,158
	<u>          </u>	<u>          </u>
DERIVATIVE FINANCIAL INSTRUMENTS PAYABLE AND OTHER	16,338	939
	<u>          </u>	<u>          </u>
<b>COMMITMENTS AND CONTINGENCIES (Note 5)</b>		
<b>STOCKHOLDERS' EQUITY, per accompanying statement:</b>		
Preferred stock, \$0.01 par, 5,000,000 shares authorized, zero shares issued and outstanding		
Common stock, \$0.005 par, 160,000,000 shares authorized, 66,181,811 and 64,720,975 shares issued and 65,657,693 and 64,281,199 outstanding, respectively	331	324
Capital in excess of par value	354,217	337,080
Retained earnings	96,974	22,844
Accumulated other comprehensive income	40,293	70,482
	<u>          </u>	<u>          </u>
	491,815	430,730
Less treasury stock, at cost, 524,118 and 439,776 shares	4,319	3,117
Less unamortized cost of restricted stock awards	3,962	5,127
	<u>          </u>	<u>          </u>

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Total stockholders' equity	483,534	422,486
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 1,680,362</b>	<b>\$ 1,446,838</b>

See notes to unaudited consolidated financial statements.



**Table of Contents****VINTAGE PETROLEUM, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF OPERATIONS****(In thousands, except per share amounts)****(Unaudited)**

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>
<b>REVENUES:</b>				
Oil, condensate and NGL sales	\$ 136,382	\$ 105,269	\$ 367,320	\$ 323,806
Gas sales	49,158	25,282	127,284	86,545
Sulfur sales	234	440	949	1,305
Gas marketing	17,897	15,445	50,131	59,978
<b>Total revenues</b>	<b>203,671</b>	<b>146,436</b>	<b>545,684</b>	<b>471,634</b>
<b>COSTS AND EXPENSES:</b>				
Production costs	34,335	33,266	105,379	91,329
Transportation and storage costs	3,318	1,761	7,500	5,120
Production and ad valorem taxes	5,732	3,997	16,557	12,756
Export taxes	12,778	7,409	25,691	25,814
Exploration costs	12,435	6,061	21,000	17,395
Gas marketing	16,857	14,798	47,409	58,093
General and administrative	12,806	11,848	41,723	34,667
Stock compensation	1,153	1,861	7,091	4,295
Depreciation, depletion and amortization	26,720	21,392	72,687	65,463
Impairment of proved oil and gas properties			3,915	
Accretion	1,685	1,523	4,932	4,422
Other operating (income) expense	1,671	(701)	(1,933)	941
<b>Total costs and expenses</b>	<b>129,490</b>	<b>103,215</b>	<b>351,951</b>	<b>320,295</b>
<b>OPERATING INCOME</b>	<b>74,181</b>	<b>43,221</b>	<b>193,733</b>	<b>151,339</b>
<b>OTHER (INCOME) EXPENSE:</b>				
Interest expense	12,625	17,818	39,321	54,328
Loss on early extinguishment of debt			9,903	1,426
(Gain) loss on disposition of assets	(17)		(72)	667
Foreign currency exchange (gain) loss	(285)	(915)	(1,112)	6,653
Other non-operating expense	15,721	818	15,991	41
<b>Net other expense</b>	<b>28,044</b>	<b>17,721</b>	<b>64,031</b>	<b>63,115</b>
<b>Income from continuing operations before income taxes and cumulative effect of change in accounting principle</b>	<b>46,137</b>	<b>25,500</b>	<b>129,702</b>	<b>88,224</b>

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<b>INCOME TAX PROVISION (BENEFIT):</b>				
Current	15,701	5,128	44,114	39,609
Deferred	3,024	5,034	5,115	(2,057)
<b>Total income tax provision</b>	<b>18,725</b>	<b>10,162</b>	<b>49,229</b>	<b>37,552</b>
Income from continuing operations before cumulative effect of change in accounting principle	27,412	15,338	80,473	50,672
INCOME (LOSS) FROM DISCONTINUED OPERATIONS, net of income tax provision (benefit) of \$(184), \$221, \$130 and \$25,480	(397)	(3,583)	3,086	(14,042)
Income before cumulative effect of change in accounting principle	27,015	11,755	83,559	36,630
CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE, net of income tax provision of \$4,104				7,119
<b>NET INCOME</b>	<b>\$ 27,015</b>	<b>\$ 11,755</b>	<b>\$ 83,559</b>	<b>\$ 43,749</b>

See notes to unaudited consolidated financial statements.

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## VINTAGE PETROLEUM, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF OPERATIONS

(Continued)

(In thousands, except per share amounts)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2003	2004	2003
<b>BASIC INCOME (LOSS) PER SHARE:</b>				
Income from continuing operations before cumulative effect of change in accounting principle	\$ 0.42	\$ 0.24	\$ 1.24	\$ 0.79
Income (loss) from discontinued operations	(0.01)	(0.06)	0.05	(0.22)
Income before cumulative effect of change in accounting principle	0.41	0.18	1.29	0.57
Cumulative effect of change in accounting principle				0.11
Net income	\$ 0.41	\$ 0.18	\$ 1.29	\$ 0.68
<b>DILUTED INCOME (LOSS) PER SHARE:</b>				
Income from continuing operations before cumulative effect of change in accounting principle	\$ 0.42	\$ 0.24	\$ 1.23	\$ 0.79
Income (loss) from discontinued operations	(0.01)	(0.06)	0.05	(0.22)
Income before cumulative effect of change in accounting principle	0.41	0.18	1.28	0.57
Cumulative effect of change in accounting principle				0.11
Net income	\$ 0.41	\$ 0.18	\$ 1.28	\$ 0.68
Weighted average common shares outstanding:				
Basic	65,283	64,228	64,786	63,938
Diluted	66,043	64,767	65,521	64,292

See notes to unaudited consolidated financial statements.

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**VINTAGE PETROLEUM, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY**  
**AND COMPREHENSIVE INCOME**

**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2004**

**(In thousands, except treasury shares and per share amounts)**

**(Unaudited)**

	<u>Common Stock</u>		<u>Treasury</u> <u>Stock</u>	<u>Capital In</u> <u>Excess of</u> <u>Par Value</u>	<u>Unamortized</u> <u>Restricted</u> <u>Stock</u> <u>Awards</u>	<u>Retained</u> <u>Earnings</u>	<u>Accumulated</u> <u>Other</u> <u>Comprehensive</u> <u>Income</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>						
BALANCE AT DECEMBER 31, 2003	64,721	\$ 324	\$ (3,117)	\$ 337,080	\$ (5,127)	\$ 22,844	\$ 70,482	\$ 422,486
Comprehensive income:								
Net income						83,559		83,559
Foreign currency translation adjustment							4,525	4,525
Change in value of derivatives, net of tax							(34,714)	(34,714)
<b>Total comprehensive income</b>								<b>53,370</b>
Stock options granted				377				377
Exercise of stock options and resulting tax effects	1,225	6		11,212				11,218
Issuance of restricted stock	176	1		2,651	(2,652)			
Amortization of restricted stock awards				3,057	3,751			6,808
Forfeitures of restricted stock (11,845 shares)				(160)	66			(94)
Vesting of restricted stock rights	60							
Purchase of treasury stock (72,497 shares)			(1,202)					(1,202)
Cash dividends declared (\$0.145 per share)						(9,429)		(9,429)
<b>BALANCE AT SEPTEMBER 30, 2004</b>	<b>66,182</b>	<b>\$ 331</b>	<b>\$ (4,319)</b>	<b>\$ 354,217</b>	<b>\$ (3,962)</b>	<b>\$ 96,974</b>	<b>\$ 40,293</b>	<b>\$ 483,534</b>

See notes to unaudited consolidated financial statements.

**Table of Contents****VINTAGE PETROLEUM, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS****(In thousands)****(Unaudited)**

	<b>Nine Months Ended September 30,</b>	
	<b>2004</b>	<b>2003</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 83,559	\$ 43,749
Adjustments to reconcile net income to cash provided by operating activities -		
(Income) loss from discontinued operations, net of tax	(3,086)	14,042
Cumulative effect of change in accounting principle, net of tax		(7,119)
Depreciation, depletion and amortization	72,687	65,463
Impairment of proved oil and gas properties	3,915	
Accretion	4,932	4,422
Exploration costs	16,733	9,910
Provision (benefit) for deferred income taxes	5,115	(2,057)
Foreign currency exchange (gain) loss	(1,112)	6,653
(Gain) loss on dispositions of assets	(72)	667
Loss on early extinguishment of debt	9,903	1,426
Stock compensation	7,091	4,295
Non-cash charges from hedging activities	15,361	691
Other non-cash items included in net income	424	1,953
Increase in receivables	(5,532)	(2,100)
Increase in payables and accrued liabilities	9,923	9,490
Other working capital changes	1,727	4,265
	<u>221,568</u>	<u>155,750</u>
Cash provided by continuing operations	221,568	155,750
Cash provided by discontinued operations	34,646	16,406
	<u>256,214</u>	<u>172,156</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Capital expenditures -		
Oil and gas properties	(159,538)	(100,041)
Gathering systems and other	(2,132)	(3,232)
Proceeds from sale of oil and gas properties	67	29,980
Purchase of company, net of cash acquired	(26,757)	
Proceeds from sale of company, net of cash sold		116,107
Other	2,454	(4,153)
	<u>(185,906)</u>	<u>38,661</u>
Cash provided (used) by investing activities - continuing operations	(185,906)	38,661
Cash provided (used) by investing activities - discontinued operations	(23,785)	8,311
	<u>(209,691)</u>	<u>46,972</u>
Cash provided (used) by investing activities	(209,691)	46,972

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<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Issuance of common stock	11,218	1,122
Purchase of treasury stock	(1,202)	(3,013)
Redemption of senior subordinated notes	(157,313)	(50,750)
Advances on revolving credit facility and other borrowings	370,100	115,400
Payments on revolving credit facility and other borrowings	(243,500)	(151,017)
Dividends paid	(9,042)	(7,971)
Other	(3,668)	1
	<u>          </u>	<u>          </u>
Cash used by financing activities	(33,407)	(96,228)
	<u>          </u>	<u>          </u>
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH</b>	632	480
	<u>          </u>	<u>          </u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	13,748	123,380
CASH AND CASH EQUIVALENTS, beginning of period	32,264	