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VINTAGE PETROLEUM INC
Form 10-Q
August 09, 2002

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

(Mark One)

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

OR

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

Commission file number 1-10578

VINTAGE PETROLEUM, INC.

(Exact name of registrant as specified in charter)

Delaware

73-1182669

(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer
Identification No.)

110 West Seventh Street

Tulsa, Oklahoma

74119-1029

(Address of principal executive offices)

(Zip Code)

(918) 592-0101

(Registrant's telephone number, including area code)

NOT APPLICABLE

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

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

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Class	Outstanding at August 9, 2002
-----	-----
Common Stock, \$.005 Par Value	63,344,972

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PART I

FINANCIAL INFORMATION

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ITEM 1. FINANCIAL STATEMENTS

VINTAGE PETROLEUM, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(In thousands, except shares
and per share amounts)

ASSETS

	June 30, 2002
	----- (Unaudited)
CURRENT ASSETS:	
Cash and cash equivalents	\$ 32,678
Accounts receivable -	
Oil and gas sales	79,729
Joint operations	12,596
Derivative financial instruments receivable	947
Prepays and other current assets	29,367

Total current assets	155,317

PROPERTY, PLANT AND EQUIPMENT, at cost:	
Oil and gas properties, successful efforts method	2,561,334
Oil and gas gathering systems and plants	20,192
Other	26,378

Less accumulated depreciation, depletion and amortization	2,607,904
	884,550

	1,723,354

GOODWILL, net	104,455

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OTHER ASSETS, net	54,220

	\$ 2,037,346
	=====

See notes to unaudited consolidated financial statements.

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VINTAGE PETROLEUM, INC. AND SUBSIDIARIES

LIABILITIES AND STOCKHOLDERS' EQUITY

	June 30, 2002

	(Unaudited)
CURRENT LIABILITIES:	
Revenue payable	\$ 29,028
Accounts payable - trade	34,207
Current income taxes payable	11,751
Short-term debt	5,660
Derivative financial instruments payable	1,317
Other payables and accrued liabilities	53,533

Total current liabilities	135,496

LONG-TERM DEBT	1,016,428

DEFERRED INCOME TAXES	166,841

OTHER LONG-TERM LIABILITIES	8,540

COMMITMENTS AND CONTINGENCIES (Note 8)	
STOCKHOLDERS' EQUITY per accompanying statement:	
Preferred stock, \$.01 par, 5,000,000 shares authorized, zero shares issued and outstanding	-
Common stock, \$.005 par, 160,000,000 shares authorized, 63,404,972 and 63,081,322 shares issued and 63,344,972 and 63,081,322 outstanding, respectively	317
Capital in excess of par value	326,256
Retained earnings	379,964
Accumulated other comprehensive income (loss)	6,554

	713,091
Less unamortized cost of restricted stock awards	3,050

	710,041

	\$ 2,037,346

=====

See notes to unaudited consolidated financial statements.

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VINTAGE PETROLEUM, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share amounts)
(Unaudited)

	Three Months June 30
	2002

REVENUES:	
Oil and gas sales	\$ 158,560 \$
Gas marketing	17,405
Oil and gas gathering and processing	1,468
Gain (loss) on disposition of assets	17,624
Foreign currency exchange gain	1,244
Other income	469

	196,770

COSTS AND EXPENSES:	
Lease operating, including production and export taxes	56,121
Exploration costs	6,975
Gas marketing	16,941
Oil and gas gathering and processing	1,505
General and administrative	13,495
Depreciation, depletion and amortization	46,696
Amortization of goodwill	-
Interest	20,741
Loss on early extinguishment of debt	8,154

	170,628

Income before income taxes and cumulative effect of change in accounting principle	26,142
PROVISION (BENEFIT) FOR INCOME TAXES:	
Current	9,755
Deferred	(6,042)

	3,713

Income before cumulative effect of change in accounting principle	22,429
CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	-

NET INCOME (LOSS)	\$ 22,429 \$

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BASIC INCOME (LOSS) PER SHARE:		
Income before cumulative effect of change in accounting principle		\$ 0.36 \$
Cumulative effect of change in accounting principle		-

Net income (loss)		\$ 0.36 \$
		=====
DILUTED INCOME (LOSS) PER SHARE:		
Income before cumulative effect of change in accounting principle		\$ 0.35 \$
Cumulative effect of change in accounting principle		-

Net income (loss)		\$ 0.35 \$
		=====
Weighted average common shares outstanding:		
Basic		63,128
		=====
Diluted		63,925
		=====

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 (LOSS)

FOR THE SIX MONTHS ENDED JUNE 30, 2002

(In thousands)

(Unaudited)

	Common Stock		Treasury	Capital	Unamortized	
	Shares	Amount	Stock	In	Restricted	R
	-----	-----	-----	Excess	Stock	E
	Shares	Amount	Shares	of Par	Awards	-----
	-----	-----	-----	Value	-----	-----
BALANCE AT DECEMBER 31, 2001	63,081	\$ 315	-	\$ 324,077	\$ (1,760)	\$
Comprehensive income (loss):						
Net loss	-	-	-	-	-	-
Foreign currency translation						
adjustment	-	-	-	-	-	-
Change in value of derivatives	-	-	-	-	-	-
Total comprehensive loss						
Exercise of stock options and						
resulting tax effects	63	1	-	513	-	-
Issuance of restricted stock	261	1	-	2,879	(2,880)	-
Amortization of restricted						
stock awards	-	-	-	-	796	-

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Forfeiture of restricted stock	(60)	-	60	(1,213)	794
Cash dividends declared (\$.075 per share)	-	-	-	-	-
BALANCE AT JUNE 30, 2002	63,345	\$ 317	60	\$ 326,256	\$ (3,050)
	=====	=====	=====	=====	=====

See notes to unaudited consolidated financial statements.

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VINTAGE PETROLEUM, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Six

	2002

CASH FLOWS FROM OPERATING ACTIVITIES:	
Net income (loss)	\$ (43,7
Adjustments to reconcile net income (loss) to cash provided by operating activities -	
Cumulative effect of change in accounting principle	60,5
Depreciation, depletion and amortization	96,4
Amortization of goodwill	
Exploration costs	15,9
Provision (benefit) for deferred income taxes	(14,3
Foreign currency exchange gain	(4,1
Gain on disposition of assets	(17,7
Loss on early extinguishment of debt	8,1
Other non-cash items	4

Decrease (increase) in receivables	101,6
Increase (decrease) in payables and accrued liabilities	(14,8
Other working capital changes	(8,0

Cash provided by operating activities	10,5

Cash provided by operating activities	89,2

CASH FLOWS FROM INVESTING ACTIVITIES:	
Capital expenditures -	
Oil and gas properties	(60,6
Gathering systems and other	(2,0
Proceeds from sale of oil and gas properties	22,7
Purchase of company, net of cash acquired	
Other	2,0

Cash used by investing activities	(37,9

CASH FLOWS FROM FINANCING ACTIVITIES:	
Issuance of common stock	5
Issuance of 8 1/4% Senior Notes Due 2012	350,0

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Partial redemption of 9% Senior Subordinated Notes Due 2005	(103,0
Advances on revolving credit facility and other borrowings	153,4
Payments on revolving credit facility and other borrowings	(409,4
Dividends paid	(6,9
Other	(9,8

Cash provided (used) by financing activities	(25,3

EFFECT OF EXCHANGE RATE CHANGE ON CASH	(8,6
NET INCREASE IN CASH AND CASH EQUIVALENTS	17,2
CASH AND CASH EQUIVALENTS, beginning of period	15,4

CASH AND CASH EQUIVALENTS, end of period	\$ 32,6
	=====

See notes to unaudited consolidated financial statements.

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VINTAGE PETROLEUM, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS June 30, 2002 and 2001

1. GENERAL

The accompanying financial statements are unaudited. The consolidated financial statements include the accounts of Vintage Petroleum, Inc. and its wholly- and majority-owned subsidiaries and its proportionately consolidated general partner and limited partner interests in various joint ventures and partnerships (collectively, the "Company"). Management believes that all material adjustments (consisting of only normal recurring adjustments) necessary for a fair presentation have been made. Certain 2001 amounts have been reclassified to conform with the 2002 presentation. All significant intercompany accounts and transactions have been eliminated in consolidation.

On May 2, 2001, the Company completed the acquisition of Canadian-based Genesis Exploration Ltd. ("Genesis") for total consideration of \$617 million, including transaction costs and the assumption of the net indebtedness of Genesis at closing. The cash portion of the acquisition price was paid through advances under the Company's revolving credit facility and cash on hand. The acquisition of Genesis was accounted for using purchase accounting and, as such, only two months of Genesis activity is included in the Company's statement of operations for the three months and six months ended June 30, 2001.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities, if any, at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. These financial statements and notes should be read in conjunction with the 2001 audited financial statements and related notes included in the Company's 2001 Annual Report on Form 10-K, Item 8, Financial Statements and Supplementary Data.

2. SIGNIFICANT ACCOUNTING POLICIES

Oil and Gas Properties

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

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Unproved leasehold costs are capitalized and are reviewed periodically for impairment on a property-by-property basis, considering factors such as future drilling and exploitation plans and lease terms. Costs related to impaired prospects are charged to expense. An impairment expense could result if oil and gas prices decline in the future or if downward reserve revisions are recorded, as it may not be economic to develop some of these unproved properties.

Costs of development dry holes and proved leaseholds are amortized on the unit-of-production method based on proved reserves on a field basis. The depreciation of capitalized production equipment and drilling costs is based on the unit-of-production method using proved developed reserves on a field basis.

In August 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 143, Accounting for Asset Retirement Obligations. Currently, the Company accrues future abandonment costs of wells and related facilities through its depreciation calculation and includes the cumulative accrual in accumulated depreciation. The new standard will require that the Company record the discounted fair value of the retirement obligation as a liability at the time a well is drilled or acquired. The liability will accrete over time with a charge to interest expense. The new standard will apply to the financial statements of the Company beginning January 1, 2003. While the new standard will require that the Company change its accounting for such abandonment obligations, the Company has not completed its evaluation of the impact of the new standard on its financial statements.

The Company reviews its proved oil and gas properties for impairment on a field basis. For each field, an impairment provision is recorded whenever events or circumstances indicate that the carrying value of those properties may not be recoverable from estimated future net revenues. The impairment provision is based on the excess of carrying value over fair value. Fair value is defined as the present value of the estimated future net revenues from production of total proved and risk-adjusted probable and possible oil and gas reserves over the economic life of the reserves, based on the Company's expectations of future oil and gas prices and costs, consistent with the methods used for acquisition evaluations. No impairment provision related to proved oil and gas properties was required for the first six months or the second quarter of either 2002 or 2001.

On January 1, 2002, the Company adopted the provisions of Statement of Financial Accounting Standards No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets ("SFAS No. 144"). SFAS No. 144 creates accounting and reporting standards to establish a single accounting model, based on the framework established in Statement of Financial Accounting Standards No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of, for long-lived assets to be disposed of by sale. The adoption of SFAS No. 144 did not have a material impact on the Company's financial position or results of operations.

Goodwill

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Goodwill represents the excess of the purchase price over the estimated fair value of the net assets acquired in the purchase of Genesis, which was accounted for using the purchase method of accounting. In 2001, goodwill was amortized using the unit-of-production basis over the total proved reserves acquired. Accumulated amortization was approximately \$11.9 million at December 31, 2001.

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On July 20, 2001, the FASB issued Statement of Financial Accounting Standards No. 141, Business Combinations ("SFAS No. 141"), and Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets ("SFAS No. 142"). SFAS No. 141 requires all business combinations initiated after June 30, 2001, to be accounted for using the purchase method of accounting. Under SFAS No. 142, goodwill is no longer subject to amortization. Rather, goodwill will be subject to at least an annual assessment for impairment by applying a fair-value based test. Additionally, an acquired intangible asset should be separately recognized if the benefit of the intangible asset is obtained through contractual or other legal rights, or if the intangible asset can be sold, transferred, licensed, rented or exchanged, regardless of the acquirer's intent to do so.

The Company adopted SFAS No. 141 and SFAS No. 142 effective January 1, 2002, resulting in the elimination of goodwill amortization from statements of operations in future periods. The Company recorded an impairment charge of \$60.5 million related to the goodwill of its Canadian operations as a cumulative effect of a change in accounting principle in its statement of operations (see Note 3).

Hedging

The Company periodically uses hedges to reduce the impact of oil and gas price fluctuations. Gains or losses on hedges are recognized as an adjustment to sales revenue when the related transactions being hedged are finalized. Gains or losses from derivative financial instruments that do not qualify for accounting treatment as hedges are recognized currently as other income or expense. The cash flows from such agreements are included in operating activities in the consolidated statements of cash flows.

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

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Upon adoption of SFAS No. 133 on January 1, 2001, the Company recorded a transition receivable of approximately \$18.5 million related to cash flow hedges in place that are used to reduce the volatility in commodity prices for portions of the Company's forecasted oil production. Additionally, the Company recorded, net of tax, an increase to accumulated other comprehensive income in the Stockholders' Equity section of the balance sheet of approximately \$14.9 million. During the first half of 2001, \$13.2 million of the original amount recorded to accumulated other comprehensive income was taken to the statement of operations as the physical transactions being hedged were finalized. At June 30, 2002, the Company had a net derivative financial instrument payable of \$0.4 million related to 2002 cash flow hedges in place. During the first six months of 2002 and 2001, there were no significant gains or losses recognized in earnings for hedge ineffectiveness. The Company did not discontinue any hedges because of the probability that the original forecasted transaction would not occur.

Statements of Cash Flows

During the six months ended June 30, 2002 and 2001, the Company made cash payments for interest totaling approximately \$35.2 million, and \$16.7 million, respectively. Cash payments made for U.S. income taxes of \$6.2 million and \$12.9 million were made during the first six months of 2002 and 2001, respectively. The Company made cash payments of \$4.7 million and \$56.7 million during the first six months of 2002 and 2001, respectively, for foreign income taxes, primarily in Argentina and Canada.

Earnings Per Share

Basic earnings per common share were computed by dividing net income by the weighted average number of shares outstanding during the period. Diluted earnings per common share for all periods presented were computed assuming the exercise of all dilutive options, as determined by applying the treasury stock method. In periods in which a loss from continuing operations occurs, no options are assumed to be exercised in computing diluted earnings per common share.

For the three month period ended June 30, 2002 and 2001, the Company had outstanding stock options for 3,125,000 and 1,003,000 additional shares of the Company's common stock, respectively, with an average exercise price of \$19.18 and \$21.17, respectively, which were anti-dilutive. For the six month period ended June 30, 2002 and 2001, the Company had outstanding stock options for 3,152,000 and 648,000 additional shares of the Company's common stock, respectively, with an average exercise price of \$19.12 and \$21.80, respectively, which were anti-dilutive.

General and Administrative Expense

The Company receives fees for the operation of jointly-owned oil and gas properties and records such reimbursements as reductions of general and administrative expense. Such fees totaled approximately \$2.8 million and \$3.4 million for the first six months of 2002 and 2001, respectively, and approximately \$1.4 million and \$2.0 million for the second quarters of 2002 and 2001, respectively.

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Lease Operating Expense

Included in lease operating expenses are the following items (in thousands):

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	Three Months Ended June 30,		Six Months Ended June 30,	
	2002	2001	2002	2001
Gross production taxes	\$2,858	\$4,561	\$5,133	\$9,661
Argentina oil export taxes	10,093	-	10,614	-
Transportation and storage expenses ...	2,922	3,415	6,145	6,415

Foreign Currency

Foreign currency transactions and financial statements are translated in accordance with Statement of Financial Accounting Standards No. 52, Foreign Currency Translation. All of the Company's subsidiaries use the U.S. dollar as their functional currency, except for the Company's Canadian subsidiaries, which use the Canadian dollar. Adjustments arising from translation of the Canadian subsidiaries' financial statements are reflected in accumulated other comprehensive income. Transaction gains and losses that arise from exchange rate fluctuations applicable to transactions denominated in a currency other than the Company's or its subsidiaries' functional currency are included in the results of operations as incurred.

Beginning in 1991, the Argentine peso ("peso") was tied to the U.S. dollar at a rate of one peso to one U.S. dollar. As a result of economic instability and substantial withdrawals from the banking system, in early December 2001, the Argentine government instituted restrictions that prohibit foreign money transfers without Central Bank approval and only allow cash withdrawals from bank accounts for personal transactions in small amounts with certain limited exceptions. While the legal exchange rate remained at one peso to one U.S. dollar, financial institutions were allowed to conduct only limited activity due to these controls, and currency exchange activity was effectively halted except for personal transactions in small amounts. These actions by the government in effect caused a devaluation of the peso in December 2001.

On January 6, 2002, the Argentine government abolished the one peso to one U.S. dollar legal exchange rate. On January 9, 2002, Decree 71 created a dual exchange market whereby foreign trade transactions were conducted at an official exchange rate of 1.4 pesos to one U.S. dollar and other transactions were conducted in a free floating exchange market. On February 8, 2002, Decree 260 unified the dual exchange markets and allowed the peso to float freely with the U.S. dollar. The exchange rate at June 30, 2002, was 3.82 pesos to one U.S. dollar.

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On February 3, 2002, Decree 214 required all contracts that were previously payable in U.S. dollars to be payable in pesos. Pursuant to an emergency law passed on January 10, 2002, U.S. dollar obligations between private parties due after January 6, 2002, were to be liquidated in pesos at a negotiated rate of exchange which reflects a sharing of the impact of the devaluation. The Company's settlements in pesos of the existing U.S. dollar-denominated agreements were substantially completed by March 31, 2002, thus, future periods should not be impacted by this mandate. This government-mandated "equitable sharing" of the impact of the devaluation resulted in a reduction in oil revenues from domestic sales in Argentina for the first six months of 2002 of

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approximately \$8 million, or \$1.37 per Argentina Bbl produced or \$0.73 per total Company Bbl produced. The Company's Argentine lease operating costs were also reduced as a result of this mandate and the positive impact of devaluation on the Company's peso-denominated costs, which essentially offset the negative impact on Argentine oil revenues.

Absent the emergency law that was enacted on January 10, 2002, the devaluation of the peso would have had no effect on the Company's U.S. dollar-denominated payables and receivables at December 31, 2001. A \$0.9 million gain resulting from the involuntary conversion was recorded in January 2002 and is reflected in "Other income" in the accompanying statement of operations. The translation of peso-denominated balances at June 30, 2002, and peso-denominated transactions during the six months ended June 30, 2002, resulted in a foreign currency exchange gain of \$3.7 million.

Comprehensive Income (Loss)

Comprehensive income (loss) consists of the following (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2002	2001	2002	2001
Net income (loss)	\$ 22,429	\$ 52,219	\$ (43,738)	\$ 12,000
Foreign currency translation adjustment ...	31,932	8,572	31,432	(1,000)
Change in value of derivatives	5,693	2,005	(3,246)	(1,000)
	-----	-----	-----	-----
Comprehensive income (loss)	\$ 60,054	\$ 62,796	\$ (15,552)	\$ 11,000
	=====	=====	=====	=====

The Company had a foreign currency translation gain of approximately \$31.4 million for the six months ended June 30, 2002, which is included in accumulated other comprehensive income (loss) in the Stockholders' Equity section of the accompanying balance sheet. The gain is the result of a strengthening of the Canadian dollar against the U.S. dollar from December 31, 2001, to June 30, 2002. The US\$:C\$ exchange rate at June 30, 2002, was US\$1:C\$1.52 as compared to US\$1:C\$1.59 at December 31, 2001.

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During the six months ended June 30, 2002, the Company also recorded under SFAS No. 133 a \$3.2 million charge to other comprehensive income (loss) (net of a \$1.9 million tax benefit) for changes in unrealized derivative gains and losses related to oil and gas price swaps and gas basis swaps. This charge consists of the removal of a \$3.0 million unrealized gain (net of \$1.9 million tax expense) for derivative contracts in place at December 31, 2001, which settled in 2002 and the recording of unrealized losses of \$0.2 million related to open derivative contracts at June 30, 2002, that will settle later in 2002. The actual cash flow losses from settled oil swaps recorded in oil and gas sales in the Company's statement of operations were \$1.8 million and \$2.6 million for the six months and three months ended June 30, 2002, respectively. The actual cash flow losses from settled gas swaps of \$2.1 million have been reflected in oil and gas sales in the Company's statement of operations for the three months ended June 30, 2002. There were no gas swaps in place for the first quarter of 2002.

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Other Recent Pronouncements

On April 30, 2002, the FASB issued Statement of Financial Accounting Standards No. 145, Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections ("SFAS No. 145"). SFAS No. 145 updates, clarifies and simplifies existing accounting pronouncements. Among other items, it rescinds previous accounting rules which required all gains and losses from extinguishment of debt to be aggregated and, if material, classified as an extraordinary item, net of related income tax effect. The Company has adopted the provisions of SFAS No. 145 and, accordingly, has classified an \$8.2 million (\$4.3 million net of tax) loss on the early extinguishment of debt (see Note 4) as a charge to income from continuing operations in its statements of operations for the three months and six months ended June 30, 2002. The adoption of SFAS No. 145 did not have any other material impact on the Company's financial position or results of operations.

On July 30, 2002, the FASB issued Statement of Financial Accounting Standards No. 146, Accounting for Costs Associated with Exit or Disposal Activities. The standard requires companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. The provisions of this statement are to be applied prospectively to exit or disposal activities initiated after December 31, 2002. The Company does not expect the adoption of this standard to have a material impact on the Company's financial position or results of operations.

3. GOODWILL

Goodwill represents the excess of the purchase price over the estimated fair value of the net assets acquired in the purchase of Genesis. All of the Company's goodwill is related to the Company's Canadian reporting unit, which is consistent with the Canadian segment identified in Note 7. Effective January 1, 2002, the Company adopted the provisions of SFAS No. 142. SFAS No. 142 changes the accounting for goodwill from an amortization method to an impairment assessment only method.

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Under the new rule, the Company had a six-month transitional period from the effective date of the adoption to perform an initial assessment of whether there was an indication that the carrying value of goodwill was impaired. This assessment was made by comparing the fair value of the Canadian reporting unit, as determined in accordance with SFAS No. 142, to its book value. If the fair value was less than the book value, an impairment was indicated and the Company would be required to perform a second test no later than December 31, 2002, to measure the amount of the impairment. Any initial impairment is to be taken as a cumulative effect of change in accounting principle retroactive to January 1, 2002. In future years, this assessment must be conducted at least annually and any such impairment must be recorded as a charge to operating earnings.

The Company has completed its initial assessment and has recorded a non-cash charge of \$60.5 million. Decreases in oil and gas price expectations from the May 2, 2001, acquisition of Genesis to January 1, 2002, and certain downward revisions recorded to the Company's Canadian oil and gas reserves at December 31, 2001, were the primary factors that led to the goodwill impairment. The charge was recorded as a cumulative effect of change in accounting principle retroactive to January 1, 2002, in accordance with the provisions of SFAS No. 142.

The Company engaged an independent appraisal firm to determine the fair

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value of its Canadian reporting unit as of January 1, 2002. This fair value determination was made principally on the basis of present value of future after tax cash flows, although other valuation methods were considered. The book value of the Canadian reporting unit exceeded the fair value determined by the independent appraisal firm, indicating a possible impairment of goodwill. The Company then calculated the implied fair value of the goodwill by deducting the fair value of all tangible and intangible net assets of the Canadian reporting unit from the fair value of the Canadian reporting unit determined in step one of the assessment. The carrying value of the goodwill exceeded this calculated implied fair value of the goodwill at January 1, 2002, resulting in the impairment charge.

The Company has no intangible assets other than the goodwill of its Canadian reporting unit, which has a net book value (after the cumulative effect of change in accounting principle) of \$104.5 million as of June 30, 2002. The changes in the carrying amount of goodwill for the six months ended June 30, 2002 are as follows (in thousands):

Balance, December 31, 2001	\$156,990
Impairment	(60,547)
Changes in foreign currency exchange rates	8,012

Balance, June 30, 2002	\$104,455
	=====

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The unaudited results of operations presented below for the three months and six months ended June 30, 2001 reflect the operations of the Company had the Company adopted the non-amortization provisions of SFAS No. 142 effective January 1, 2001 (in thousands, except per share amounts):

	Three Months Ended June 30, 2001	Six Months Ended June 30, 2001
	-----	-----
Reported net income	\$ 52,219	\$ 122,917
Goodwill amortization	2,774	2,774
	-----	-----
Adjusted net income	\$ 54,993	\$ 125,691
	=====	=====
Adjusted basic income per share	\$ 0.87	\$ 2.00
	=====	=====
Adjusted diluted income per share	\$ 0.86	\$ 1.96
	=====	=====

As noted above, SFAS No. 142 requires the cumulative effect of change in accounting principle be recorded retroactive to January 1, 2002. The following table reflects the impact of this accounting change on selected financial data for the three months ended March 31, 2002 (in thousands, except per share data):

	As Reported

Loss before cumulative effect of change in accounting principle	\$ (5,620)
Cumulative effect of change in accounting principle	-

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Net Loss	\$ (5,620)
=====	
Basic Loss Per Share:	
Loss before cumulative effect of change in accounting principle	\$ (0.09)
Cumulative effect of change in accounting principle	-

Net Loss	\$ (0.09)
=====	
Diluted Loss Per Share:	
Loss before cumulative effect of change in accounting principle	\$ (0.09)
Cumulative effect of change in accounting principle	-

Net Loss	\$ (0.09)
=====	

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4. LONG-TERM DEBT

Long-term debt at June 30, 2002, and December 31, 2001, consisted of the following:

(In thousands)	June 30, 2002	December 31, 2001
	-----	-----
Revolving credit facility	\$ 167,000	\$ 411,4
8 1/4% Senior Notes due 2012	350,000	
Senior Subordinated Notes:		
9% Notes due 2005, less unamortized discount	49,953	149,8
8 5/8% Notes due 2009, less unamortized discount	99,538	99,5
9 3/4% Notes due 2009	150,000	150,0
7 7/8% Notes due 2011, less unamortized discount	199,937	199,9
	-----	-----
	\$ 1,016,428	\$ 1,010,6
	=====	=====

The Company had \$11.1 million and \$9.5 million of accrued interest payable related to its long-term debt at June 30, 2002, and December 31, 2001, respectively, included in other payables and accrued liabilities.

On May 2, 2002, the Company issued, through a Rule 144A offering, \$350 million of its 8 1/4% Senior Notes due 2012 (the "8 1/4% Notes"). All of the net proceeds were used to repay a portion of the outstanding balance under the Company's revolving credit facility and to redeem \$100 million of the Company's outstanding 9% Senior Subordinated Notes due 2005 (the "9% Notes"). The 8 1/4% Notes are redeemable at the option of the Company, in whole or in part, at any time on or after May 1, 2007. In addition, on or before May 1, 2005, the Company may redeem up to 35 percent of the 8 1/4% Notes with the proceeds of certain underwritten public offerings of the Company's common stock. The 8 1/4% Notes mature on May 1, 2012, with interest payable semi-annually on May 1 and November 1, commencing November 1, 2002.

Upon a change in control of the Company (as defined in the applicable indentures), holders of the 8 1/4% Notes and the Company's senior subordinated

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notes (collectively, the "Notes") may require the Company to repurchase all or a portion of the Notes at a purchase price equal to 101 percent of the principal amount thereof, plus accrued and unpaid interest. The indentures for the Notes contain limitations on, among other things, additional indebtedness and liens, the payment of dividends and other distributions, certain investments and transfers or sales of assets.

In conjunction with the offering of 8 1/4% Notes, the Company entered into a new \$300 million revolving credit facility (the "Bank Facility"), which was used to refinance its previously existing credit facility and will be available to provide funds for ongoing operating and general corporate needs. The Bank Facility consists of a three-year senior secured credit facility with availability governed by a borrowing base determination.

The borrowing base (currently \$300 million) is based on the bank's evaluation of the Company's oil and gas reserves. The amount available to be borrowed under the Bank Facility is limited to the lesser of the borrowing base or the facility size, which is also currently set at \$300 million. The next borrowing base redetermination will be in November 2002. At June 30, 2002, the unused availability under the Bank Facility was approximately \$115 million.

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Outstanding advances under the Bank Facility bear interest payable quarterly at a floating rate based on Bank of Montreal's alternate base rate (as defined therein) or, at the Company's option, at a fixed rate for up to six months based on the Eurodollar market rate ("LIBOR"). The Company's interest rate increments above the alternate base rate and LIBOR vary based on the level of outstanding senior secured debt to the borrowing base. In addition, the Company must pay a commitment fee of 0.50 percent per annum on the unused portion of the bank's commitment. Total outstanding advances at June 30, 2002, were \$167 million at an average interest rate of 4.10 percent.

The Company's borrowing base will be redetermined on a semiannual basis by the banks based upon their review of the Company's oil and gas reserves. If the sum of outstanding senior secured debt exceeds the borrowing base, as redetermined, the Company must repay such excess. Any principal advances outstanding are due at maturity on May 2, 2005. The Bank Facility is secured by a first priority lien on the Company's U.S. oil and gas properties constituting at least 80 percent of the present value of the Company's U.S. proved reserves owned now or in the future. The Bank Facility will be guaranteed by any of the Company's existing and future U.S. subsidiaries that grant a lien on oil and gas properties under the Bank Facility.

The terms of the Bank Facility impose certain restrictions on the Company regarding the pledging of assets and limitations on additional indebtedness. In addition, the Bank Facility requires the maintenance of a minimum current ratio (as defined therein) and tangible net worth (as defined therein) of not less than \$425 million plus 75 percent of the net proceeds of any future equity offerings less any impairment write downs required by GAAP or by the Securities and Exchange Commission and excluding any impact related to SFAS No. 133.

In conjunction with the elimination of the Company's previously existing revolving credit facility and the partial redemption of the 9% Notes, the Company was required to expense certain associated deferred financing costs and discounts. This \$5.2 million non-cash charge, along with a \$3.0 million cash charge for the call premium on the 9% Notes, resulted in a one-time charge of approximately \$8.2 million (\$4.3 million net of tax) in the second quarter of 2002.

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5. CAPITAL STOCK

On March 16, 1999, the Company's Board of Directors adopted a stockholder rights plan and declared a dividend distribution of one preferred share purchase right (a "Right") for each outstanding share of the Company's common stock, to stockholders of record on April 5, 1999 (the "Record Date"). Each common share issued after the Record Date has also been issued a Right. The description and terms of the Rights are set forth in a Rights Agreement, dated as of March 16, 1999, between the Company and the rights agent.

On April 3, 2002, the Company and the rights agent executed the First Amendment to Rights Agreement (the "Amendment"). As more fully set forth in the Amendment, the Amendment, among other things, amends the Rights Agreement to lower the threshold at which a person becomes an Acquiring Person (as defined in the Rights Agreement, as amended by the Amendment) and lowers the percentage at which the rights plan is triggered from 15 percent to 10 percent.

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Stock Plans

On June 14, 2002, the Company granted 260,650 shares of restricted stock to employees under the 1990 Stock Plan, as amended. All of the shares vest over a three-year period. The related compensation expense of \$2.9 million (based on the stock price on the date of grant) is being amortized over the vesting periods. Compensation expense related to restricted stock grants totaled \$400,000 and \$100,000 for the six months ended June 30, 2002 and 2001, respectively.

Dividends

The Company declared cash dividends of \$0.075 and \$0.065 per share for the six months ended June 30, 2002 and 2001, respectively and \$0.04 and \$0.035 per share for the three months ended June 30, 2002 and 2001, respectively.

6. INCOME TAXES

A reconciliation of the U.S. federal statutory income tax rate to the effective rate is as follows:

	Six Months Ended June 30, 2002	Six Months Ended June 30, 2001
	-----	-----
U.S. federal statutory income tax rate	35.0%	35.0%
U.S. state income tax (net of federal tax benefit).....	3.9	3.9
Foreign operations	(53.5)	(2.5)
Other	(3.3)	-
	-----	-----
	(17.9)%	36.4%
	=====	=====

7. SEGMENT INFORMATION

The Company's reportable business segments have been identified based on the differences in products or services provided. Revenues for the exploration

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

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Operations in the gathering/plant and gas marketing segments are in the United States. The Company operates in the oil and gas exploration and production segment in the United States, Canada, South America, Yemen and Trinidad. Summarized financial information for the Company's reportable segments for the six month and three month periods ended June 30, 2002 and 2001, is shown in the following tables (in thousands):

	Exploration and Production			
	U.S.	Canada	Argentina	
<u>Six Months Ended June 30, 2002</u>				
Revenues from external customers	\$ 122,282	\$ 55,291	\$ 105,132	\$
Intersegment revenues	-	-	-	
Depreciation, depletion and amortization expense	28,662	38,000	24,657	
Segment operating income (loss)	43,794	(16,255)	49,411	
Total assets	454,826	782,381	508,931	
Capital investments	14,229	34,282	12,466	
Long-lived assets	417,859	760,065	464,057	
	Gathering/ Plant	Gas Marketing	Corporate	
<u>Six Months Ended June 30, 2002</u>				
Revenues from external customers	\$ 2,853	\$ 29,733	\$ 5,167	\$
Intersegment revenues	-	454	-	
Depreciation, depletion and amortization expense	589	-	1,493	
Segment operating income (loss)	(1,018)	988	3,674	
Total assets	8,907	9,428	66,913	2
Capital investments	-	-	872	
Long-lived assets	6,375	-	7,358	1

Exploration and Production

U.S.	Canada	Argentina
------	--------	-----------

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Six Months Ended June 30, 2001

Revenues from external customers	\$ 233,466	\$ 32,175	\$ 131,074	\$
Intersegment revenues	-	-	-	
Depreciation, depletion and amortization expense	28,617	13,690	20,235	
Segment operating income (loss)	142,505	8,548	81,789	
Total assets	529,698	701,994	452,432	
Capital investments	32,033	631,601	30,079	
Long-lived assets	475,496	854,510	411,289	

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

Six Months Ended June 30, 2001

Revenues from external customers	\$ 14,306	\$ 94,814	\$ 2,447	\$
Intersegment revenues	-	1,378	-	
Depreciation, depletion and amortization expense	1,054	-	4,054	
Segment operating income (loss)	(1,225)	3,191	(1,607)	
Total assets	20,209	22,074	245,883	2
Capital investments	9,602	-	3,328	
Long-lived assets	14,412	-	6,987	1

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Exploration and Produ

U.S.	Canada	Argentina	Bo
-----	-----	-----	-----

Three Months Ended June 30, 2002

Revenues from external customers	\$ 77,150	\$ 30,440	\$ 60,319	\$
Intersegment revenues	-	-	-	
Depreciation, depletion and amortization expense	13,101	19,116	11,999	
Segment operating income (loss)	40,443	(5,175)	28,562	
Capital investments	6,993	14,931	4,505	

Gathering/ Plant	Gas Marketing	Corporate	To
-----	-----	-----	-----

Three Months Ended June 30, 2002

Revenues from external customers	\$ 1,468	\$ 17,404	\$ 1,537	\$ 19
Intersegment revenues	-	283	-	
Depreciation, depletion and amortization expense	314	-	790	4
Segment operating income (loss)	(350)	463	747	6
Capital investments	678	-	374	3

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	Exploration and Production			
	U.S.	Canada	Argentina	Bolivia
Three Months Ended June 30, 2001				
Revenues from external customers	\$ 109,626	\$ 26,554	\$ 63,594	\$ -
Intersegment revenues	-	-	-	-
Depreciation, depletion and amortization expense	14,706	12,033	10,676	-
Segment operating income (loss)	64,088	6,502	37,732	-
Capital investments	20,157	629,943	16,105	-
	Gathering/ Plant	Gas Marketing	Corporate	Trinidad
Three Months Ended June 30, 2001				
Revenues from external customers	\$ 6,197	\$ 35,491	\$ 1,779	\$ 25,000
Intersegment revenues	-	595	-	-
Depreciation, depletion and amortization expense	748	-	3,464	4,000
Segment operating income (loss)	(672)	1,194	(1,685)	11,000
Capital investments	9,210	-	1,976	68,000

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

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8. COMMITMENTS AND CONTINGENCIES

The Company is committed to drill one well in the Chaco concession in Bolivia in 2003 at an estimated cost of \$6.3 million and to drill two wells on the Damis S-1 concession in Yemen prior to October 2004 at an estimated total cost of \$6.0 million. In Ecuador, the Company is committed to drill two wells in Block 14 and two wells in Block 17 at an aggregate estimated cost of approximately \$14.8 million in 2002 and is committed to drill one well in the Shiripuno Block in 2003 at an estimated cost of approximately \$4.2 million.

Through its December 2000 acquisition of Cometra Energy (Canada) Ltd. ("Cometra"), the Company assumed the drilling obligations of Cometra's wholly-owned subsidiary, Cometra Trinidad Limited. These obligations require the acquisition of 15 line-kilometers of 2-D seismic, 40 square-kilometers of 3-D seismic and drilling of three exploratory wells. As of June 30, 2002, the Company had fulfilled the seismic requirements and had drilled two of the three exploratory wells. As discussed in Note 9, the Company has sold its operations in Trinidad subsequent to June 30, 2002 and has no remaining commitment in Trinidad.

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The Company had approximately \$18.1 million in letters of credit outstanding at June 30, 2002. These letters of credit relate primarily to various obligations for acquisition and exploration activities in South America and Yemen and bonding requirements of various state regulatory agencies in the U.S. for oil and gas operations. The Company's availability under its revolving credit facility is reduced by the outstanding letters of credit.

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

9. SALES OF ASSETS

In June 2002, the Company sold its heavy oil properties in the Santa Maria area of southern California for approximately \$9.5 million in cash and a note receivable for \$6 million. The note is payable in monthly installments of \$360,000, plus interest at a rate of 7.5% per annum, with final maturity in June 2003. The Company recorded a gain of approximately \$18.3 million (\$9.6 million after tax) on this transaction, subject to post-closing adjustments. Included in this the gain is a reversal of the Company's accrual for future abandonment costs related to these properties.

On July 30, 2002, the Company completed the sale of its operations in Trinidad. The Company received \$40 million in cash and will record a gain of approximately \$30.7 million (\$13.8 million after deferred taxes), subject to post-closing adjustments.

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

Results of Operations

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

	Three Months Ended June 30,		Six Month
	2002	2001	2002
Production:			
Oil (MBbls) -			
U.S.	1,829	2,145	3,575
Canada	452	376	980
Argentina	2,842 (a)	2,574 (b)	5,835
Ecuador	282	245 (b)	546
Bolivia	32 (a)	25 (b)	71
Total	5,437 (a)	5,365 (b)	11,007

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Gas (MMcf) -			
U.S.	6,527	9,043	12,480
Canada	8,250	4,973	15,406
Argentina	2,466	2,966	3,967
Bolivia	1,319	1,971	3,345
Total	18,562	18,953	35,198
Total MBOE	8,531	8,524	16,873
Average prices:			
Oil (per Bbl) -			
U.S.	\$ 21.80 (c)	\$ 24.75 (d)	\$ 20.05 (e)
Canada	22.60	24.30	19.96
Argentina	20.92 (c)	23.12 (d)	17.76 (e)
Ecuador	20.88	19.30	18.24
Bolivia	21.87	20.32	19.81
Total	21.36 (c)	23.67 (d)	18.74 (e)
Gas (per Mcf) -			
U.S.	\$ 3.01 (e)	\$ 6.25	\$ 2.64 (f)
Canada	2.43 (e)	3.51	2.32 (f)
Argentina	0.35	1.38	0.38
Bolivia	1.42	1.74	1.42
Total	2.29 (e)	4.30	2.13 (f)

-
- (a) Total production for the three months and six months ended June 30, 2002, before the impact of changes in inventories was 5,357 MBbls (Argentina - 2,772 MBbls, Bolivia - 22 MBbls) and 10,769 MBbls (Argentina - 5,618 MBbls, Bolivia - 50 MBbls), respectively.
- (b) Total production for the three months and six months ended June 30, 2001, before the impact of changes in inventories was 5,452 MBbls (Argentina - 2,551 MBbls, Ecuador - 349 MBbls, Bolivia - 31 MBbls) and 10,615 MBbls (Argentina - 5,095 MBbls, Ecuador - 699 MBbls, Bolivia - 56 MBbls), respectively.
- (c) Reflects the impact of oil hedges which decreased the three months and six months ended June 30, 2002, U.S., Argentina and total average oil prices per Bbl by \$1.05, \$0.23 and \$0.47, and \$0.26, \$0.15 and \$0.16, respectively.
- (d) Reflects the impact of oil hedges which increased the three months and six months ended June 30, 2001, U.S., Argentina and total average oil prices per Bbl by \$0.57, \$0.57, and \$0.50, and \$0.60, \$1.22 and \$0.84, respectively.

Continued on next page.

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- (e) Reflects the impact of gas hedges which decreased the three and six months ended June 30, 2002, U.S., Canada and total average gas prices per Mcf by \$0.18, \$0.12 and \$0.11, and \$0.09, \$0.06 and \$0.06, respectively.
- (f) Reflects the impact of the one-time government-mandated forced settlement of domestic Argentina oil sales which decreased the Argentina and total average oil prices per Bbl by \$1.37 and \$0.73,

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respectively.

Significant acquisitions and dispositions of producing oil and gas properties during 2001 affect the comparability of operating data for the periods presented in the table on the previous page.

Average U.S. and Canada oil prices received by the Company fluctuate generally with changes in the NYMEX reference price for oil. The Company's Argentina oil production is sold at West Texas Intermediate spot prices as quoted on the Platt's Crude Oil Marketwire (approximately equal to the NYMEX reference price) less a specified differential. The Company's Ecuador production is sold to various third party purchasers at West Texas Intermediate spot prices less a specified differential. The Company experienced a 24 percent decrease in its average oil price, including the impact of hedging activities (20 percent decrease excluding hedging activities), during the first six months of 2002 as compared to the same period of 2001. The Company's realized average oil price for the first six months of 2002 (before hedges) was approximately 79 percent of the NYMEX reference price (82 percent excluding the negative impact of the Argentine government mandated settlements) compared to 83 percent for the same period of 2001.

The Argentine government took actions which in effect caused the devaluation of the peso in early December 2001 and, in January 2002, enacted an emergency law that required certain contracts that were previously payable in U.S. dollars to be payable in pesos. Subsequently, on February 13, 2002, the Argentine government announced a 20 percent tax on oil exports, effective March 1, 2002. The tax is limited by law to a term of no more than five years. For additional information, see "Item 3. Quantitative and Qualitative Disclosures About Market Risk - Foreign Currency and Operations Risk" included elsewhere in this Form 10-Q. The Company's domestic Argentina oil sales are now being received locally in pesos, while its export oil sales continue to be received in U.S. bank accounts in U.S. dollars, with a requirement to repatriate 30 percent of such proceeds into Argentina.

The Company currently exports approximately 70 percent of its Argentina oil production. The Company believes that this export tax will have the effect of decreasing all future Argentina oil revenues (not only export revenues) by the tax rate for the duration of the tax. The Company believes the U.S. dollar equivalent value for domestic Argentina oil sales (now paid in pesos) will move over time to parity with the U.S. dollar-denominated export values, net of the export tax, thus impacting domestic Argentina values by a like percentage to the tax. The adverse impact of this tax will be partially offset by the net cost savings from the devaluation of the peso on peso-denominated costs and may be further reduced by the Argentina income tax savings related to deducting such impact.

The Company participated in oil hedges covering 2.21 MMBbls and 3.22 MMBbls during the first six months of 2002 and 2001, respectively. The impact of the 2002 hedges reduced the Company's U.S. average oil price for the first six months of 2002 by 26 cents to \$20.05 per Bbl, its Argentina average oil price by 15 cents to \$17.76 per Bbl and its overall average oil price by 16 cents to \$18.74 per Bbl. The impact of the 2001 hedges increased the Company's U.S. average oil price for the first six months of 2001 by 60 cents to \$25.22 per Bbl, its Argentina average oil price by \$1.22 to \$24.56 per Bbl and its overall average oil price by 84 cents to \$24.50 per Bbl.

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Average U.S. gas prices received by the Company fluctuate generally with changes in spot market prices, which may vary significantly by region as

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evidenced by the significantly higher gas prices in California during the first half of 2001 due to the localized power shortage. The Company's Canada gas is generally sold at spot market prices as reflected by the AECO gas price index. The Company's Bolivia average gas price is tied to a long-term contract under which the base price is adjusted for changes in specified fuel oil indexes. In Argentina, the Company's average gas price was historically determined by the realized price of oil from its El Huelmul concession under a gas for oil exchange arrangement which expired at the end of 2001. Beginning in 2002, the Company's Argentina gas is sold under spot contracts of varying lengths and, as a result of the emergency laws enacted in 2002, must now be received locally in pesos. This has initially resulted in a decrease in Argentine gas sales revenue when converted to U.S. dollars due to the devaluation of the peso and current market conditions. This value may improve over time as domestic Argentina gas drilling declines and market conditions improve. The Company's total average realized gas price for the first six months of 2002, including the impact of hedging activities, was 57 percent lower (56 percent lower excluding hedging activities) than the same period of 2001.

The Company participated in gas hedges covering 3.84 million MMBtu during the first six months of 2002. The Company did not participate in any gas hedges in the first six months of 2001. The impact of the 2002 hedges reduced the Company's U.S. average gas price for the first six months of 2002 by nine cents to \$2.64 per Mcf, its Canada average gas price by six cents to \$2.32 per Mcf and its overall average gas price by six cents to \$2.13 per Mcf.

The Company has previously engaged in oil and gas hedging activities and intends to continue to consider various hedging arrangements to realize commodity prices which it considers favorable. The Company has entered into various oil price swap agreements covering approximately 2.64 million Bbls of its U.S. and Canadian oil production at a weighted average NYMEX reference price of \$26.28 per Bbl for the last half of 2002. The Company has also entered into oil price swap agreements covering approximately 2.74 million Bbls of its U.S. oil production at a weighted average NYMEX reference price of \$24.58 per Bbl for calendar year 2003.

Additionally, the Company has entered into various gas price swap agreements covering approximately 7.7 million MMBtu of its U.S. and Canadian gas production from July 1, 2002, and expiring at various times through October 31, 2002. The Canadian portion of the gas price swap agreements (approximately 4.3 million MMBtu) is at an average AECO gas price index reference price of 3.71 Canadian dollars per MMBtu and will be settled in Canadian dollars. The U.S. portion of the gas swap agreements (approximately 3.4 million MMBtu) is at an average NYMEX reference price of \$2.79 per MMBtu.

Additionally, the Company has entered into two costless price collar arrangements for U.S. gas production. The first price collar covers production of 6,500 MMBtu per day for the period from July 1 through October 31, 2002, with a floor NYMEX reference price of \$3.50 per MMBtu and a cap NYMEX reference price of \$4.00 per MMBtu. The second price collar covers production of 20,000 MMBtu per day for the period November 1 through December 31, 2002, with a floor NYMEX reference price of \$3.50 per MMBtu and a cap NYMEX reference price of \$5.10 per MMBtu.

In conjunction with each of the U.S. gas price swaps and costless price collars discussed above, the Company entered into basis swap agreements covering identical periods of time and volumes. These basis swaps establish a differential between the NYMEX reference price and the various delivery points at levels that are comparable to the historical differentials received by the Company.

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The counterparty to the Company's hedging agreements is a commercial bank. The Company continues to monitor oil and gas prices and may enter into additional oil and gas hedges or swaps in the future.

Relatively modest changes in either oil or gas prices significantly impact the Company's results of operations and cash flow. Based on the first six months of 2002 oil production, a change in the average oil price realized, before hedges, by the Company of \$1.00 per Bbl would result in a change in net income and cash flow before income taxes on an annual basis of approximately \$8.1 million and \$12.0 million, respectively. A 10 cent per Mcf change in the average price realized, before hedges, by the Company for gas would result in a change in net income and cash flow before income taxes on an annual basis of approximately \$2.3 million and \$3.5 million, respectively, based on gas production for the first six months of 2002. However, the impact of changes in the market prices for oil and gas on the Company's average realized prices may be reduced from time to time based on the level of the Company's hedging activities.

Period to Period Comparison

In May 2001, the Company purchased 100 percent of the outstanding common stock of Genesis Exploration Ltd. ("Genesis"). This acquisition significantly impacts the period to period comparison for the second quarter and the first six months of 2002 compared to the second quarter and first six months of 2001. The Company's consolidated revenues and expenses for the second quarter and first six months of 2001 include, under the purchase method of accounting, two months of activities for Genesis.

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

The Company reported net income of \$22.4 million for the quarter ended June 30, 2002, compared to net income of \$52.2 million for the same period in 2001. The second quarter of 2002 included a \$17.6 million (\$9.2 million net of tax) gain on the sale of oil and gas properties and an \$8.2 million (\$4.3 million net of tax) loss on the early extinguishment of debt. A 47 percent decrease in average gas prices and a 10 percent decrease in average oil prices were the other primary factors resulting in the 57 percent decrease in net income.

Oil and gas sales decreased \$49.9 million (24 percent), to \$158.6 million for the second quarter of 2002 from \$208.5 million for the same period of 2001. A 47 percent decrease in average gas prices coupled with a two percent decrease in gas production, accounted for a decrease of \$39.1 million. A 10 percent decrease in oil prices partially offset by a one percent increase in average oil production, accounted for an additional decrease of \$10.8 million. Increases in oil and gas production resulting from the acquisitions of Genesis and the La Ventana concession in Argentina and the Company's exploitation and exploration activities were offset by natural production declines and the reduced production volumes resulting from U.S. property sales in the fourth quarter of 2001.

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A net gain on disposition of assets of \$17.6 million (\$9.2 million net of tax) was reflected in the second quarter of 2002 primarily as a result of the sale of the Company's heavy oil properties in the Santa Maria area of southern California in June 2002. The Company recorded a gain of approximately \$18.3 million (\$9.6 million net of tax) on this transaction, subject to post-closing adjustments. Included in the gain is a reversal of the Company's accrual for future abandonment costs related to these properties. Other than the gain

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recorded, this disposition did not significantly affect the Company's results of operations for the second quarter of 2002 as the sale occurred at the end of the quarter.

As discussed elsewhere in this Form 10-Q, the Argentine peso was devalued in early December 2001. During the second quarter of 2002, the peso continued to decline in value, falling from a rate of 2.90 pesos to one U.S. dollar at March 31, 2002, to 3.82 pesos to one U.S. dollar at June 30, 2002. The translation of peso-denominated balances at June 30, 2002, and peso-denominated transactions for the three months ended June 30, 2002, resulted in a foreign currency exchange gain of \$0.8 million.

Lease operating expenses, including production and export taxes, increased \$3.2 million (six percent), to \$56.1 million for the second quarter of 2002 from \$52.9 million for the same period of 2001. The new export taxes in Argentina increased lease operating expenses for the second quarter of 2002 by \$10.1 million. This increase was partially offset by lower direct lease operating expenses in Argentina resulting from the devaluation of the peso and by lower expenses in the U.S. as a result of the property sales in the fourth quarter of 2001. Lease operating expenses per equivalent barrel produced, before the effect of the export tax, decreased 13 percent to \$5.40 for the second quarter of 2002 from \$6.21 for the same period in 2001.

Exploration costs increased \$3.5 million (100 percent), to \$7.0 million for the second quarter of 2002 from \$3.5 million for the same period of 2001. During the second quarter of 2002, the Company's exploration costs included \$1.4 million for seismic and other geological and geophysical costs and \$5.6 million for unsuccessful exploratory drilling and leasehold impairments. Exploration expenses for the second quarter of 2001 consisted of \$2.0 million for seismic and other geological and geophysical costs and \$1.5 million for unsuccessful exploratory drilling.

General and administrative expenses increased \$1.4 million (12 percent), to \$13.5 million for the second quarter of 2002, from \$12.1 million for the same period in 2001. This increase primarily relates to the addition of Genesis. Since the acquisition of Genesis occurred on May 2, 2001, only two months of Genesis expenses are included for the second quarter of 2001. General and administrative expenses per equivalent barrel produced increased 11 percent to \$1.58 for the second quarter of 2002 from \$1.42 for the same period in 2001.

Depreciation, depletion and amortization increased \$6.3 million (16 percent), to \$46.7 million for the second quarter of 2002 from \$40.4 million for the same period of 2001, primarily due to the increase in the Company's average oil and gas DD&A rate per equivalent barrel produced from \$4.56 in the second quarter of 2001 to \$5.34 in the second quarter of 2002. This increase in the average amortization rate per equivalent barrel produced primarily resulted from the acquisition of Genesis and the impact of substantially lower commodity prices on proved reserve volumes used to determine the amortization rate.

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Interest expense increased \$4.8 million (30 percent), to \$20.7 million for the second quarter of 2002 from \$15.9 million for the same period of 2001. The increase in interest expense is due to a 38 percent increase in the Company's total average outstanding debt, partially offset by a decrease in the Company's average interest rate to 7.48 percent for the second quarter of 2002 from 7.86 percent in the same period of 2001.

In conjunction with the issuance of the Company's 8 1/4% senior notes, the Company entered into a new revolving credit facility and redeemed a portion of

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the Company's 9% senior subordinated notes. The Company was required to expense certain associated deferred financing costs and discounts. This \$5.2 million non-cash charge, along with a \$3.0 million cash charge for the call premium on the 9% senior subordinated notes, resulted in a one-time charge of approximately \$8.2 million (\$4.3 million net of tax) in the second quarter of 2002.

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

The Company reported a net loss of \$43.7 million for the six months ended June 30, 2002, compared to net income of \$122.9 million for the year-earlier period. The first half of 2002 included a charge of \$60.5 million for impairment of goodwill resulting from the cumulative effect of adopting Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets ("SFAS No. 142"). Income before the cumulative effect of adopting SFAS No. 142 decreased \$106.1 million to \$16.8 million. This decrease was caused by a 57 percent decrease in average gas prices and a 24 percent decrease in average oil prices received, partially offset by a seven percent increase in production on a BOE basis.

Oil and gas sales decreased \$134.3 million (32 percent), to \$281.1 million for the first six months of 2002 from \$415.4 million for the six months of 2001. A nine percent increase in gas production was also more than offset by a 57 percent decrease in average gas prices received by the Company and accounted for the \$84.6 million decrease in gas sales for the first six months of 2002 compared to the year-earlier period. A five percent increase in oil production was more than offset by a 24 percent decrease in average oil prices received by the Company and accounted for a \$49.7 million decrease in oil sales for the first six months of 2002 as compared to the year-earlier period. In addition to the decline in market prices for oil, the Company's related oil price for the six months ended June 30, 2002, was reduced by approximately \$0.73 per barrel as a result of Argentine government-mandated negotiated settlements of all U.S. dollar-denominated domestic sales amounts in existence at January 6, 2002. The mandate required these agreements to be settled in pesos with a negotiated, equitable sharing of the impact of devaluation. These negotiations were substantially completed in the first quarter of 2002 and no ongoing impact from these settlements is expected. The five percent increase in oil production and nine percent increase in gas production are primarily the result of the acquisitions of Genesis and the La Ventana Concession in Argentina and the Company's exploitation and exploration activities, partially offset by natural production declines and the reduced volumes resulting from U.S. property sales in the fourth quarter of 2001.

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A net gain on disposition of assets of \$17.7 million (\$9.3 million net of tax) was reflected in the first six months of 2002 primarily as a result of the sale of the Company's heavy oil properties in the Santa Maria area of southern California in June 2002. The Company recorded a gain of approximately \$18.3 million (\$9.6 million net of tax) on this transaction, subject to post-closing adjustments. Included in this the gain is a reversal of the Company's accrual for future abandonment costs related to these properties. Other than the gain recorded, this disposition did not significantly affect the Company's results of operations for the first half of 2002 as the sale occurred at the end of the period.

As discussed elsewhere in this Form 10-Q, the Argentine peso was devalued in early December 2001. During the first six months of 2002, the peso continued to decline in value, falling from a rate of 1.65 pesos to one U.S. dollar at January 11, 2002, to 3.82 pesos to one U.S. dollar at June 30, 2002. The translation of peso-denominated balances at June 30, 2002, and peso-denominated

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transactions during the six months ended June 30, 2002, resulted in a foreign currency exchange gain of \$3.7 million. The Company also recorded a gain of \$0.9 million in "Other income" for the first six months of 2002 related to the Argentine government-mandated negotiated settlements of U.S. dollar-denominated receivables and payables in existence at January 6, 2002. There were no similar gains related to Argentina in the six months ended June 30, 2001.

Lease operating expenses, including production and export taxes, increased \$4.3 million (four percent), to \$105.0 million for the first six months of 2002 from \$100.7 million for the first six months of 2001. The new export taxes in Argentina increased lease operating expenses for the first half of 2002 by \$10.6 million. Lease operating expenses also increased due to the acquisition of Genesis in May 2001 and the acquisition of the La Ventana concession in Argentina in September 2001. These increases were partially offset by lower direct lease operating expenses in Argentina resulting from the devaluation of the peso and by lower expenses in the U.S. as a result of the property sales in the fourth quarter of 2001. Lease operating expenses per equivalent barrel produced decreased two percent to \$6.23 for the six months ended June 30, 2002, from \$6.37 for the same period in 2001. The decrease in lease operating expenses per equivalent barrel produced primarily resulted from the impact of the Argentine peso devaluation on peso-denominated costs and the government-mandated negotiated settlement of U.S. dollar-denominated agreements affecting the Company's costs, partially offset by the new export tax.

General and administrative expenses increased \$2.4 million (10 percent), to \$26.5 million for the six months ended June 30, 2002, from \$24.1 million for the first six months in 2001. This increase primarily relates to the addition of Genesis. Since the acquisition of Genesis occurred on May 2, 2001, only two months of Genesis expenses are included for the first half of 2001. General and administrative expenses per equivalent barrel produced increased three percent to \$1.57 for the six months ended June 30, 2002, from \$1.52 for the same period in 2001.

Exploration costs increased \$10.2 million (179 percent), to \$15.9 million for the first six months of 2002 from \$5.7 million for same period of 2001. During the first six months of 2002, the Company's exploration costs included \$11.0 million for unsuccessful exploratory drilling and lease impairments and \$4.9 million for other geological and geophysical costs. Exploration costs for the first six months of 2001 included \$2.9 million for unsuccessful exploratory drilling and lease impairments and \$2.8 million for other geological and geophysical costs.

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Depreciation, depletion and amortization increased \$28.5 million (42 percent), to \$96.5 million for the first six months of 2002 from \$68.0 million for the first six months of 2001, due primarily to the seven percent increase in production on a BOE basis and the 35 percent increase in the average amortization rate per equivalent barrel produced from \$4.14 in the first six months of 2001 to \$5.59 for the same period of 2002. This increase in the average amortization rate per equivalent barrel produced primarily resulted from the acquisition of Genesis and the impact of substantially lower commodity prices on proved reserve volumes used to determine the amortization rate.

Interest expense increased \$11.4 million (43 percent), to \$38.2 million for the first six months of 2002 from \$26.8 million for the first six months of 2001, due primarily to higher outstanding borrowings (73 percent) resulting from the acquisition of Genesis in May 2001 and other acquisitions made subsequent to the second quarter of 2001. This increase was partially offset by a decrease in the Company's average interest rate to 6.99 percent for the first six months of

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2002 from 8.30 percent in the same period of 2001.

In conjunction with the issuance of the Company's 8 1/4% senior notes, the Company entered into a new revolving credit facility and redeemed a portion of the Company's 9% senior subordinated notes. The Company was required to expense certain associated deferred financing costs and discounts. This \$5.2 million non-cash charge, along with a \$3.0 million cash charge for the call premium on the 9% senior subordinated notes, resulted in a one-time charge of approximately \$8.2 million (\$4.3 million net of tax) in the second quarter of 2002.

Effective January 1, 2002, the Company adopted the provisions of Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets ("SFAS No. 142"). SFAS No. 142 changes the accounting for goodwill from an amortization method to an impairment-only method. Under SFAS No. 142, all goodwill amortization ceased effective January 1, 2002. Goodwill was tested for impairment in conjunction with a transitional goodwill impairment test in 2002 and will be tested at least annually thereafter. As a result of the transitional impairment test, the Company recorded a \$60.5 million charge to cumulative effect of change in accounting retroactive to January 1, 2002, in accordance with the provisions of SFAS No. 142.

Capital Expenditures

During the first six months of 2002, the Company's total oil and gas capital expenditures were \$64.7 million. In North America, the Company's non-acquisition oil and gas capital expenditures totaled \$47.9 million. Exploration activities accounted for \$29.0 million of the North America capital expenditures with exploitation activities contributing \$18.9 million. During the first six months of 2002, the Company's international non-acquisition oil and gas capital expenditures totaled \$16.2 million, consisting of \$12.5 million in Argentina on exploitation activities, \$1.9 million in Ecuador principally on exploitation, \$1.1 million in Bolivia on exploitation, and \$0.7 million on exploration projects primarily in Yemen.

As of June 30, 2002, the Company had unproved oil and gas property costs of approximately \$105.7 million consisting of undeveloped leasehold costs of \$80.2 million, including \$59.8 million in Canada, and unevaluated exploratory drilling costs of \$25.5 million. Approximately \$21.4 million of the total unevaluated costs are associated with the Company's Yemen drilling program. Future exploration expense and earnings may be impacted to the extent any of the exploratory drilling is determined to be unsuccessful.

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The timing of most of the Company's capital expenditures is discretionary with no material long-term capital expenditure commitments. Consequently, the Company has a significant degree of flexibility to adjust the level of such expenditures as circumstances warrant. The Company uses internally-generated cash flow to fund capital expenditures other than significant acquisitions. The Company's total planned capital expenditures for 2002 are currently \$144 million exclusive of acquisitions. The Company does not have a specific acquisition budget since the timing and size of acquisitions are difficult to forecast. The Company is actively pursuing additional acquisitions of oil and gas properties. In addition to internally-generated cash flow and advances under its revolving credit facility, the Company may seek additional sources of capital to fund any future significant acquisitions (see "Liquidity"); however, no assurance can be given that sufficient funds will be available to fund the Company's desired acquisitions.

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Liquidity

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

In the past, the Company has accessed the public markets to finance significant acquisitions and provide liquidity for its future activities. Since 1990, the Company completed five public equity offerings as well as two public debt offerings and three Rule 144A debt offerings, which provided the Company with aggregate net proceeds of approximately \$1.2 billion.

On May 2, 2002, the Company issued, through a Rule 144A offering, \$350 million of its 8 1/4% Senior Notes due 2012 (the "8 1/4% Notes"). All of the net proceeds were used to repay a portion of the outstanding balance under the Company's revolving credit facility and to redeem \$100 million of the Company's outstanding 9% Senior Subordinated Notes due 2005. The 8 1/4% Notes are redeemable at the option of the Company, in whole or in part, at any time on or after May 1, 2007. In addition, prior to May 1, 2005, the Company may redeem up to 35 percent of the 8 1/4% Notes with the proceeds of certain underwritten public offerings of the Company's common stock. The 8 1/4% Notes mature on May 1, 2012, with interest payable semi-annually on May 1 and November 1, commencing November 1, 2002.

In conjunction with the offering of 8 1/4% Notes, the Company entered into a new \$300 million revolving credit facility (the "Bank Facility"), which was used to refinance its previously existing credit facility and will be available to provide funds for ongoing operating and general corporate needs. The Bank Facility consists of a three-year senior secured credit facility with availability governed by a borrowing base determination.

The borrowing base (currently \$300 million) is based on the bank's evaluation of the Company's oil and gas reserves. The amount available to be borrowed under the Bank Facility is limited to the lesser of the borrowing base or the facility size, which is also currently set at \$300 million.

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Outstanding advances under the Bank Facility bear interest payable quarterly at a floating rate based on Bank of Montreal's alternate base rate (as defined therein) or, at the Company's option, at a fixed rate for up to six months based on the Eurodollar market rate ("LIBOR"). The Company's interest rate increments above the alternate base rate and LIBOR vary based on the level of outstanding senior secured debt to the borrowing base. In addition, the Company must pay a commitment fee of 0.50 percent per annum on the unused portion of the bank's commitment.

The Company's borrowing base will be redetermined on a semiannual basis by the banks based upon their review of the Company's oil and gas reserves. If the sum of outstanding senior secured debt exceeds the borrowing base, as redetermined, the Company must repay such excess. Any principal advances outstanding are due at maturity on May 2, 2005. The Bank Facility is secured by a first priority lien on the Company's U.S. oil and gas properties constituting at least 80 percent of the present value of the Company's U.S. proved reserves owned now or in the future. The Bank Facility will be guaranteed by any of the Company's existing and future U.S. subsidiaries that grant a lien on oil and gas properties under the Bank Facility.

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At July 31, 2002, the outstanding borrowings under the Bank Facility were \$101.5 million and unused availability under the Bank Facility was approximately \$180.4 million (net of letters of credit of \$18.1 million). The unused portion of the Bank Facility and the Company's internally generated cash flow provide liquidity which may be used to finance future capital expenditures, including acquisitions. As additional acquisitions are made and such properties are added to the borrowing base, the banks' determination of the borrowing base and their commitments may be increased. The next borrowing base redetermination will be in November 2002.

The Company's internally generated cash flow, results of operations and financing for its operations are dependent on oil and gas prices. Realized oil prices for the six months ended June 30, 2002, decreased by 24 percent as compared to the same period in 2001. Realized gas prices for the first six months of 2002 decreased by 57 percent as compared to the same period in 2001. The Company believes that its cash flows and unused availability under the Bank Facility are sufficient to fund its planned capital expenditures for the foreseeable future. To the extent oil and gas prices continue to decline, the Company's earnings and cash flow from operations may be adversely impacted. Continued low oil and gas prices could cause the Company to not be in compliance with maintenance covenants under its Bank Facility and could negatively affect its credit statistics and coverage ratios and thereby affect its liquidity.

Consistent with its stated goal of maintaining financial flexibility and optimizing its portfolio of assets, the Company announced plans to reduce debt by \$200 million in 2002 through a combination of asset sales and cash flow in excess of planned capital expenditures. The Company determined that the level of investment and time horizon required to continue the development of its interests in Ecuador and Trinidad are inconsistent with the timing of its desire to reduce leverage. These assets, along with the Company's remaining heavy oil properties in the Santa Maria area of southern California, were identified for sale. The Company's heavy oil properties in the Santa Maria area of southern California were sold in June 2002 for \$9.5 million in cash and a note receivable for \$6 million bearing monthly payments of \$360,000, plus interest, with final maturity in June 2003. The Company's interest in Trinidad was sold in July 2002 for \$40 million in cash. The Company's interests in Ecuador are currently being marketed for sale. The Company is currently reviewing its portfolio and is considering additional asset sales or possible capital market transactions, if necessary, to achieve its \$200 million debt reduction target for 2002.

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Inflation

In recent years inflation has not had a significant impact on the Company's operations or financial condition. However, industry specific inflationary pressures built up in late 2000 and in 2001 due to favorable conditions in the industry. While oil and gas prices have declined from the levels seen in late 2000 and early 2001, the cost of services in the oil and gas industry have not declined by a similar percentage. Any increases in product prices could cause inflationary pressures specific to the industry to also increase.

As a result of the recent devaluation of the peso, the Company expects inflationary pressures to build in Argentina. The Company anticipates that peso-denominated costs will gradually increase, but the ultimate impact of such increases when converted to U.S. dollars cannot be determined due to the uncertainty of future currency exchange rates.

Income Taxes

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The Company incurred a current provision for income taxes of approximately \$11.8 million and \$50.2 million for the first six months of 2002 and 2001, respectively. The total provision for U.S. income taxes is based on the Federal corporate statutory income tax rate plus an estimated average rate for state income taxes. Earnings of the Company's foreign subsidiaries are subject to foreign income taxes. No U.S. deferred tax liability will be recognized related to the unremitted earnings of these foreign subsidiaries as it is the Company's intention, generally, to reinvest such earnings permanently.

A reconciliation of the U.S. federal statutory income tax rate to the effective rate is as follows:

	Six Months Ended June 30, 2002	Six Months Ended June 30, 2001
	-----	-----
U.S. federal statutory income tax rate	35.0%	
U.S. state income tax (net of federal tax benefit)	3.9	
Foreign operations	(53.5)	
Other	(3.3)	
	-----	-----
	(17.9)%	
	=====	=====

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Critical Accounting Policies and Estimates

Management's discussion and analysis of its financial condition and results of operations are based upon the Company's consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP"). The preparation of these consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities, if any, at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. The Company bases its estimates on historical experience and various other assumptions that are believed to be reasonable under the circumstances. Actual results could differ from these estimates under different assumptions or conditions. Note 1 to the Company's 2001 audited consolidated financial statements included in its 2001 Annual Report on Form 10-K and Note 2 to the Company's consolidated financial statements included elsewhere in this Form 10-Q, contain a comprehensive summary of the Company's significant accounting policies. The following is a discussion of the Company's most critical accounting policies, judgments and uncertainties that are inherent in the Company's application of GAAP:

Proved reserve estimates. Estimates of the Company's proved reserves included in its consolidated financial statements are prepared in accordance with guidelines established by GAAP and by the SEC. The accuracy of a reserve estimate is a function of: (i) the quality and quantity of available data; (ii) the interpretation of that data; (iii) the accuracy of various mandated economic assumptions; and (iv) the judgment of the persons preparing the estimate.

The Company's proved reserve information is based on estimates prepared by its independent petroleum consultants. Estimates prepared by others may be

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higher or lower than these estimates. Because these estimates depend on many assumptions, all of which may substantially differ from actual results, reserve estimates may be different from the quantities of oil and gas that are ultimately recovered. In addition, results of drilling, testing and production after the date of an estimate may justify material revisions to the estimate.

The present value of future net cash flows should not be assumed to be the current market value of the Company's estimated proved reserves. In accordance with SEC requirements, the estimated discounted future net cash flows from proved reserves are based on prices and costs on the date of the estimate. Actual future prices and costs may be materially higher or lower than the prices and costs as of the date of the estimate.

The estimates of proved reserves materially impact depletion, depreciation and amortization expense. If the estimates of proved reserves decline, the rate at which the Company records depletion, depreciation and amortization expense increases, reducing net income. Such a decline may result from lower market prices, which may make it uneconomic to drill for and produce higher cost reserves. In addition, the decline in proved reserve estimates may impact the outcome of the Company's assessment of its oil and gas producing properties for impairment.

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Impairment of proved oil and gas properties. The Company reviews its proved oil and gas properties for impairment on a field basis. For each field, an impairment provision is recorded whenever events or circumstances indicate that the carrying value of those properties may not be recoverable. The impairment provision is based on the excess of carrying value over fair value. Fair value is defined as the present value of the estimated future net revenues from production of total proved and risk-adjusted probable and possible oil and gas reserves over the economic life of the reserves, based on the Company's expectations of future oil and gas prices and costs, consistent with methods used for acquisition evaluations.

Impairment of unproved oil and gas properties. Unproved leasehold costs are capitalized and are reviewed periodically for impairment on a property-by-property basis, considering factors such as future drilling and exploitation plans and lease terms. Costs related to impaired prospects are charged to expense. An impairment expense could result if oil and gas prices decline in the future or if downward reserve revisions are recorded, as it may not be economic to develop some of these unproved properties.

Impairment of goodwill. The Company's goodwill is entirely related to its Canadian operations. The Company must assess its goodwill for impairment at least annually. The Company must perform an initial assessment of whether there is an indication that the carrying value of goodwill is impaired. This assessment is made by comparing the fair value of the Canadian reporting unit, as determined in accordance SFAS No. 142, to its book value. If the fair value is less than the book value, an impairment is indicated and the Company must perform a second test to measure the amount of the impairment. In the second test, the Company must then calculate the implied fair value of the goodwill by deducting the fair value of all tangible and intangible net assets of the Canadian reporting unit from the fair value of the Canadian reporting unit determined in step one of the assessment. If the carrying value of the goodwill exceeds this calculated implied fair value of the goodwill an impairment charge is recorded.

Revenue recognition. Revenue is a key component of the Company's results of operations and also determines the timing of certain expenses, such as severance

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taxes and royalties. The Company follows a very specific and detailed guideline of recognizing revenues when oil and gas are delivered to the purchaser. However, certain judgments affect the application of the Company's revenue recognition policy. Revenue results are difficult to predict, and any shortfall in revenue or delay in recognizing revenue could cause the Company's operating results to vary significantly from quarter to quarter and could result in future operating losses.

Income taxes. The Company provides deferred income taxes on transactions which are recognized in different periods for financial and tax reporting purposes. The Company has not recognized a U.S. deferred tax liability related to the unremitted earnings of any of its foreign subsidiaries as it is the Company's intention, generally, to reinvest such earnings permanently. The Company has also recorded deferred tax assets related to operating loss and tax credit carryforwards. Management periodically assesses the probability of recovery of recorded deferred tax assets based on its assessment of future earnings outlooks by tax jurisdiction. Such estimates are inherently imprecise since many assumptions are utilized in the assessments that may prove to be incorrect in the future.

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Assessments of functional currencies. All of the Company's subsidiaries use the U.S. dollar as their functional currency, except for the Company's Canadian subsidiaries, which use the Canadian dollar. Management determines the functional currencies of the Company's subsidiaries based on an assessment of the currency of the economic environment in which a subsidiary primarily realizes and expends its operating revenues, costs and expenses. The assessment of functional currencies can have a significant impact on periodic results of operations and financial position.

Argentina economic and currency measures. The accounting for and translation of the Company's Argentina financial statements reflects management's assumptions regarding some uncertainties unique to Argentina's current economic situation. See Notes 1 and 2 to the Company's consolidated financial statements included elsewhere in this Form 10-Q for a description of the assumptions utilized in the preparation of its consolidated financial statements. The Argentina economic and political situation evolves continuously and the Argentine government has adopted numerous decrees, is considering implementing various alternatives and may enact future regulations or policies that may materially impact, among other items, (i) the realized prices the Company receives for oil and gas it produces and sells; (ii) the timing and amount of repatriations of cash to the U.S.; (iii) the amount of permitted export sales; (iv) the Argentine banking system; (v) the Company's asset valuations; and (vi) peso-denominated monetary assets and liabilities. For further information, see "Item 3. Quantitative and Qualitative Disclosures About Market Risk-Foreign Currency and Operations Risk" included elsewhere in this Form 10-Q.

Change in Accounting Principles

In June 1998, the Financial Accounting Standards Board (the "FASB") issued Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended in June 1999 by Statement No. 137, Accounting for Derivative Instruments and Hedging Activities - Deferral of the Effective Date of FASB Statement No. 133 and in June 2000 by Statement No. 138, Accounting for Certain Derivative Instruments and Certain Hedging Activities - an amendment of FASB Statement No. 133 ("SFAS No. 133"). SFAS No. 133 establishes accounting and reporting standards requiring that every derivative instrument (including certain derivative instruments embedded in

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other contracts) be recorded in the balance sheet as either an asset or liability measured at its fair value. SFAS No. 133 requires that changes in the derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met. Special accounting for qualifying hedges allows a derivative's gains and losses to offset related results on the hedged item in the statement of operations. Companies must formally document, designate and assess the effectiveness of transactions that receive hedge accounting.

Upon adoption of SFAS No. 133 on January 1, 2001, the Company recorded a transition receivable of \$18.5 million related to cash flow hedges in place that are used to reduce the volatility in commodity prices for portions of the Company's forecasted oil production. Additionally, the Company recorded, net of tax, an increase to accumulated other comprehensive income in the Stockholders' Equity section of the balance sheet of approximately \$14.9 million. During the first half of 2001, \$13.2 million of the original amount recorded to accumulated other comprehensive income was taken to the statement of operations as the physical transactions being hedged were finalized. All of the Company's cash flow hedges in place at January 1, 2001, settled in 2001, with the actual cash flow impact recorded in oil and gas sales in the Company's statement of operations.

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On July 20, 2001, the FASB issued Statement of Financial Accounting Standards No. 141, Business Combinations ("SFAS No. 141"), and Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets ("SFAS No. 142"). SFAS No. 141 requires all business combinations initiated after June 30, 2001, to be accounted for using the purchase method of accounting. Under SFAS No. 142, goodwill is no longer subject to amortization. Rather, goodwill will be subject to at least an annual assessment for impairment by applying a fair-value based test. Additionally, an acquired intangible asset should be separately recognized if the benefit of the intangible asset is obtained through contractual or other legal rights, or if the intangible asset can be sold, transferred, licensed, rented or exchanged, regardless of the acquirer's intent to do so.

The Company adopted SFAS No. 141 and SFAS No. 142 effective January 1, 2002, resulting in the elimination of goodwill amortization from statements of operations in future periods. As discussed in Note 3 to the Company's consolidated financial statements included elsewhere in this Form 10-Q, the Company recorded an impairment charge of \$60.5 million related to the goodwill of its Canadian operations as a cumulative effect of a change in accounting principle in its statement of operations.

On January 1, 2002, the Company adopted the provisions of Statement of Financial Accounting Standards No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets ("SFAS No. 144"). SFAS No. 144 creates accounting and reporting standards to establish a single accounting model, based on the framework established in Statement of Financial Accounting Standards No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of, for long-lived assets to be disposed of by sale. The adoption of SFAS No. 144 did not have a material impact on the Company's financial position or results of operations.

On April 30, 2002, the FASB issued Statement of Financial Accounting Standards No. 145, Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections ("SFAS No. 145"). SFAS No. 145 updates, clarifies and simplifies existing accounting pronouncements. Among other items, it rescinds previous accounting rules which required all gains and losses from extinguishment of debt to be aggregated and, if material, classified

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as an extraordinary item, net of related income tax effect. The Company has adopted the provisions of SFAS No. 145 and, accordingly, has classified an \$8.2 million (\$4.3 million net of tax) loss on the early extinguishment of debt (see Note 4) as a charge to income from continuing operations in its statements of operations for the three months and six months ended June 30, 2002. The adoption of SFAS No. 145 did not have any other material impact on the Company's financial position or results of operations.

New Accounting Pronouncements

In August 2001, the FASB issued Statement of Financial Accounting Standards No. 143, Accounting for Asset Retirement Obligations. Currently, the Company accrues future abandonment costs of wells and related facilities through its depreciation calculation and includes the cumulative accrual in accumulated depreciation. The new standard will require that the Company record the discounted fair value of the retirement obligation as a liability at the time a well is drilled or acquired. The liability will accrete over time with a charge to interest expense. The new standard will apply to financial statements of the Company beginning January 1, 2003. While the new standard will require that the Company change its accounting for such abandonment obligations, the Company has not completed its evaluation of the impact of the new standard on its financial statements.

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On July 30, 2002, the FASB issued Statement of Financial Accounting Standards No. 146, Accounting for Costs Associated with Exit or Disposal Activities. The standard requires companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. The provisions of this statement are to be applied prospectively to exit or disposal activities initiated after December 31, 2002. The Company does not expect the adoption of this standard to have a material impact on the Company's financial position or results of operations.

Foreign Operations

For information on the Company's foreign operations, see "Item 3. Quantitative and Qualitative Disclosures About Market Risk - Foreign Currency and Operations Risk" included elsewhere in this Form 10-Q.

Forward-Looking Statements

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

Factors that could cause actual results to differ materially from those in forward-looking statements include: oil and gas prices; exploitation and exploration successes; actions taken and to be taken by Argentina as a result of

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its economic instability; continued availability of capital and financing; general economic, market or business conditions; acquisition and other business opportunities (or lack thereof) that may be presented to the Company; changes in laws or regulations; risk factors listed from time to time in the Company's reports and other documents filed with the Securities and Exchange Commission; and other factors. The Company assumes no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Commodity Price Risk

The Company produces, purchases and sells crude oil, natural gas, condensate, natural gas liquids and sulfur. As a result, the Company's financial results can be significantly impacted as these commodity prices fluctuate widely in response to changing market forces. See Management's Discussion and Analysis of Financial Condition and Results of Operations for a discussion of the impact of commodity price changes based on production levels for the first half of 2002. The Company has previously engaged in oil and gas hedging activities and intends to continue to consider various hedging arrangements to realize commodity prices which it considers favorable.

The Company has entered into various oil price swap agreements covering approximately 2.64 million Bbls of its U.S. and Canadian oil production at a weighted average NYMEX reference price of \$26.28 per Bbl for the last half of 2002. The Company has also entered into oil price swap agreements covering approximately 2.74 million Bbls of its U.S. oil production at a weighted average NYMEX reference price of \$24.58 per Bbl for calendar year 2003.

Additionally, the Company has entered into various gas price swap agreements covering approximately 7.7 million MMBtu of its U.S. and Canadian gas production expiring at various times through October 31, 2002. The Canadian portion of the gas price swap agreements (approximately 4.3 million MMBtu) is at an average AECO gas price index reference price of 3.71 Canadian dollars per MMBtu and will be settled in Canadian dollars. The U.S. portion of the gas swap agreements (approximately 3.4 million MMBtu) is at an average NYMEX reference price of \$2.79 per MMBtu.

Additionally, the Company has entered into two costless price collar arrangements for U.S. gas production. The first price collar covers production of 6,500 MMBtu per day for the period from July 1 through October 31, 2002, with a floor NYMEX reference price of \$3.50 per MMBtu and a cap NYMEX reference price of \$4.00 per MMBtu. The second price collar covers production of 20,000 MMBtu per day for the period November 1 through December 31, 2002, with a floor NYMEX reference price of \$3.50 per MMBtu and a cap NYMEX reference price of \$5.10 per MMBtu.

In conjunction with each of the U.S. gas price swaps and costless price collars discussed above, the Company entered into basis swap agreements covering identical periods of time and volumes. These basis swaps establish a differential between the NYMEX reference price and the various delivery points at levels that are comparable to the historical differentials received by the

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Company.

The counterparty to the Company's hedging agreements is a commercial bank. The Company continues to monitor oil and gas prices and may enter into additional oil and gas hedges or swaps in the future.

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Interest Rate Risk

The Company's interest rate risk exposure results primarily from short-term rates, mainly LIBOR based, borrowings from its commercial banks. To reduce the impact of fluctuations in interest rates, the Company maintains a portion of its total debt portfolio in fixed-rate debt. At June 30, 2002, the amount of the Company's fixed-rate debt was 84 percent of its total. In the past, the Company has not entered into financial instruments such as interest rate swaps or interest rate lock agreements. However, it may consider these instruments to manage the portfolio mix between fixed and floating rate debt and to mitigate the impact of changes in interest rates based on management's assessment of future interest rates, volatility of the yield curve and the Company's ability to access the capital markets in a timely manner.

Based on the outstanding borrowings under variable rate debt instruments at June 30, 2002, a change in the average interest rate of 100 basis points would result in a change in net income and cash flow before income taxes on an annual basis of approximately \$1.0 million and \$1.7 million, respectively.

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

Long-Term Debt:	2002	2003	2004	2005	2006	There- after
	-----	-----	-----	-----	-----	-----
Fixed rate (in thousands)	-	-	-	\$ 49,952	-	\$799,47
Average interest rate	-	-	-	9.0%	-	8.
Variable rate (in thousands)	-	-	-	\$167,000	-	
Average interest rate	-	-	-	(a)	-	

(a) LIBOR plus an increment, based on level of outstanding senior debt to the borrowing base, up to a maximum of 2.25 percent. The increment above LIBOR at June 30, 2002, was 1.75 percent.

Foreign Currency and Operations Risk

International investments represent, and are expected to continue to represent, a significant portion of the Company's total assets. The Company has international operations in Canada, Argentina, Bolivia, Ecuador and Yemen. For the six months ended June 30, 2002, the Company's operations in Argentina and Canada accounted for approximately 31 percent and 16 percent, respectively, of the Company's revenues and, at June 30, 2002, the Company's operations in Argentina and Canada accounted for approximately 25 percent and 38 percent, respectively, of the Company's total assets, including goodwill. During the first six months of 2002 and at June 30, 2002, the Company's operations in

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Argentina and Canada represented its only foreign operations accounting for more than 10 percent of its revenues or total assets, including goodwill. The Company continues to identify and evaluate international opportunities, but currently has no binding agreements or commitments to make any material international investment. As a result of such significant foreign operations, the Company's financial results could be affected by factors such as changes in foreign currency exchange rates, weak economic conditions or changes in the political climate in these foreign countries.

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Historically, the Company has not used derivatives or other financial instruments to hedge the risk associated with the movement in foreign currencies. However, the Company evaluates currency fluctuations and will consider the use of derivative financial instruments or employment of other investment alternatives if cash flows or investment returns so warrant.

The Company's international operations may be adversely affected by political and economic instability, changes in the legal and regulatory environment and other factors. The Company's foreign properties, operations or investments in Canada, Argentina, Bolivia, Ecuador and Yemen may be adversely affected by a number of factors. For example:

- . local political and economic developments could restrict or increase the cost of the Company's foreign operations;
- . exchange controls and currency fluctuations could result in financial losses;
- . royalty and tax increases and retroactive claims could increase costs of the Company's foreign operations;
- . expropriation of the Company's property could result in loss of revenue, property and equipment;
- . civil uprisings, riots and war could make it impractical to continue operations, adversely affect both budgets and schedules and expose the Company to losses;
- . import and export regulations and other foreign laws or policies could result in loss of revenues; and
- . laws and policies of the U.S. affecting foreign trade, taxation and investment could restrict the Company's ability to fund foreign operations or may make foreign operations more costly.

The Company does not currently maintain political risk insurance. However, the Company will consider obtaining such coverage in the future if conditions so warrant.

Canada. With the acquisition of Cometra Energy (Canada), Ltd. in December 2000 and the acquisition of Genesis in May 2001, the Company now has significant producing operations in Canada. The Company views the operating environment in Canada as stable and the economic stability as good. All of the Company's Canadian revenues and costs are denominated in Canadian dollars. While the value of the Canadian dollar does fluctuate in relation to U.S. dollar, the Company believes that any currency risk associated with its Canadian operations would not have a material impact on the Company's financial position or results of operations. The US\$:C\$ exchange rate at both June 30, 2002 and June 30, 2001, was US\$1:C\$1.52.

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Argentina. Beginning in 1991, Peronist Carlos Menem, as newly-elected President of Argentina, and Domingo Cavallo, as his economy minister, set out to reverse economic decline through free-market reforms such as open trade. The key to their plan was the "Law of Convertibility" under which the peso was tied to the U.S. dollar at a rate of one peso to one U.S. dollar. Between 1991 and 1997 the plan succeeded. With the risk of devaluation apparently removed, capital came in from abroad and much of Argentina's state-owned assets were privatized. During this period, the economy grew at an annual average rate of 6.1 percent, the highest in the region.

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However, the "convertibility" plan left Argentina with few monetary policy tools to respond to outside events. A series of external shocks began in 1998: prices for Argentina's commodities stopped rising; the dollar appreciated against other currencies; and Brazil, Argentina's main trading partner, devalued its currency. Argentina began a period of economic deflation, but failed to respond by reforming government spending. During 2001, Argentina's budget deficit exceeded \$9 billion and its sovereign debt reached \$140 billion.

As a result of economic instability and substantial withdrawals from the banking system, in early December 2001, the Argentine government, with Fernando de la Rúa as president and Domingo Cavallo as minister of economy, instituted restrictions that prohibit foreign money transfers without Central Bank approval and limit cash withdrawals from bank accounts to personal transactions in small amounts with certain limited exceptions. While the legal exchange rate remained at one peso to one U.S. dollar, financial institutions were allowed to conduct only limited activity due to these controls, and currency exchange activity was effectively halted except for personal transactions in small amounts.

On January 6, 2002, the Argentine government abolished the one peso to one U.S. dollar legal exchange rate. On January 9, 2002, Decree 71 created a dual exchange market whereby foreign trade transactions were conducted at an official exchange rate of 1.4 pesos to one U.S. dollar and other transactions were conducted in a free floating exchange market. On February 8, 2002, Decree 260 unified the dual exchange markets and allowed the peso to float freely with the U.S. dollar. The exchange rate at June 30, 2002, was 3.82 pesos to one U.S. dollar.

On February 3, 2002, Decree 214 required all contracts that were previously payable in U.S. dollars to be payable in pesos. Pursuant to an emergency law passed on January 10, 2002, U.S. dollar obligations between private parties due after January 6, 2002, were to be liquidated in pesos at a negotiated rate of exchange which reflects a sharing of the impact of the devaluation. The Company's settlements in pesos of the existing U.S. dollar-denominated agreements were substantially completed by March 31, 2002, thus, future periods should not be impacted by this mandate. This government-mandated "equitable sharing" of the impact of the devaluation resulted in a reduction in oil revenues from domestic sales for the first six months of 2002 of approximately \$8 million, or \$1.37 per Argentina Bbl produced or \$0.73 per total Company Bbl produced. The Company's Argentine lease operating costs were also reduced as a result of this mandate and the positive impact of devaluation on the Company's peso-denominated costs, which essentially offset the negative impact on Argentine oil revenues.

On February 13, 2002, the Argentine government announced a 20 percent tax on oil exports, effective March 1, 2002. The tax is limited by law to a term of no more than five years. The Company currently exports approximately 70 percent of its Argentina oil production. Management believes that this export tax will

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have the effect of decreasing all future Argentina oil revenues (not only export revenues) by the tax rate for the duration of the tax. Management also believes that the U.S. dollar equivalent value for domestic Argentina oil sales (now paid in pesos) will move over time to parity with the U.S. dollar-denominated export values, net of the export tax, thus impacting domestic Argentina values by a like percentage to the tax. The adverse impact of this tax will be partially offset by the net cost savings resulting from the devaluation of the peso on peso-denominated costs and may be further reduced by the Argentina income tax savings related to deducting such impact.

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On May 24, 2002, Decree 867 declared the domestic supply of hydrocarbons to be in a state of emergency. This was largely due to the high seasonal demand for diesel in the agricultural sector coupled with lower activity in refineries. On May 30, 2002, the Secretary of Energy with Resolution #140 established limits on oil exports to 36 percent of monthly production beginning June 2002 for a period of four months. Subsequently on June 21, 2002, the Secretary of Energy with Resolution #166 relaxed the limits, declaring the 36 percent export limit applicable to the entire four month period rather than the individual months. On July 26, 2002, the Secretary of Energy with Resolution #341 completely eliminated the four month export limit.

The Company continues to monitor the political and economic environment in Argentina. The Company's capital budgets have been adjusted to reflect a reduced level of drilling in the country. In addition, the devaluation of the peso is expected to result in a near-term reduction in revenues, substantially offset by a reduction in peso-denominated operating, administrative and capital costs, and the recognition of translation gains and losses, the impact of which cannot currently be accurately estimated.

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

On June 30, 2002, Bolivia held national elections for President, Vice President, and the Congress. This marked the sixth consecutive election since 1982, representing the longest period of constitutional democratic government in the country's history. Since no candidate for President won the required majority vote, the election was decided by Congress on August 4, 2002. Coalitions formed among the two leading parties allowing Gonzalo Sanchez de Lozada to win the vote. Gonzalo Sanchez de Lozada took office on August 6, 2002. He was President from 1993 until 1997 when significant privatization activity along with encouragement of private investment occurred in the country.

In 1987, the Boliviano ("Bs") replaced the peso at the rate of one million pesos to one Boliviano. The exchange rate is set daily by the government's exchange house, the Bolsin, which is under the supervision of the Bolivian Central Bank. Foreign exchange transactions are not subject to any controls. The US\$:Bs exchange rate at June 30, 2002, was US\$1:Bs 7.42. The Company believes that any currency risk associated with its Bolivian operations would not have a material impact on the Company's financial position or results of operations.

Ecuador. In Ecuador, President Gustavo Naboia and Congress continue to debate further tax, social, and customs reforms to strengthen economic growth.

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The legal basis for many of the recent reforms is the Ley Fundamental para la Transformacion Economica del Ecuador (the "economic transformation law") enacted in March 2000, which mandated dollarization of the economy. As a result of this reform, all of the Company's Ecuadorian revenues and costs are U.S. dollar based. Even though the second phase of the economic transformation law (known as Trole II), which was intended to bring significant tax and labor reform and a defined privatization program to increase inflows of foreign direct investment, was rejected by Congress, President Naboia used his veto powers to pass a tax reform package which allowed the International Monetary Fund ("IMF") to make a disbursement of its stand-by loan in the second quarter of 2001.

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Recently, the Ecuadorian Minister of Finance resigned amidst a corruption scandal, which has interrupted the government's negotiations with the IMF for a new stand-by loan. President Gustavo Naboia and his new Minister of Finance continue to aim for fiscal and debt goals necessary to satisfy IMF requirements and obtain the loan this year. However, no significant policymaking or structural reforms are expected for the remainder of the year as Ecuador prepares for elections during the fourth quarter of 2002.

Fixed investments in Ecuador by certain oil and gas companies remain high as construction of the new heavy oil pipeline (the "OCP") continues to progress on schedule.

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PART II

OTHER INFORMATION

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Item 1. Legal Proceedings

For information regarding legal proceedings, see the Company's Form 10-K for the year ended December 31, 2001.

Item 2. Changes in Securities and Use of Proceeds

not applicable

Item 3. Defaults Upon Senior Securities

not applicable

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

The Annual Meeting of Stockholders of the Company (the "Annual Meeting") was held on May 14, 2002, in Tulsa, Oklahoma. At the Annual Meeting, the stockholders of the Company elected S. Craig George, Charles C. Stephenson, Jr. and Joseph D. Mahaffey as Class III Directors.

There were present at the Annual Meeting, in person or by proxy, stockholders holding 56,293,475 shares of the Common Stock of the

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Company, or 89 percent of the total stock outstanding and entitled to vote at the Annual Meeting. The table below describes the results of voting at the Annual Meeting.

	Votes For -----	Votes Against or Withheld -----	Abstentions -----
Election of Directors:			
S. Craig George	42,980,168	13,313,307	-0-
Charles C. Stephenson, Jr.	42,723,972	13,569,503	-0-
Joseph E. Mahaffey	50,297,706	5,995,769	-0-

Item 5. Other Information

A copy of the Company's press release dated August 7, 2002, announcing second quarter 2002 earnings results and revisions to 2002 capital budget and growth targets is attached as an exhibit hereto and incorporated herein by reference.

Item 6. Exhibits and Reports on Form 8-K

a) Exhibits

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

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- 4.1 Indenture dated as of May 2, 2002, between JP Morgan Chase Bank, as Trustee, and the Company (filed as Exhibit 4.1 to the Company's Registration Statement on Form S-4, Registration No. 333-89182).
- 10.1 Credit Agreement dated as of May 2, 2002, among the Company, as Borrower, and certain commercial lending institutions, as lenders, Bank of Montreal, as agent, and the Syndication Agent and Co-Documentation Agents party thereto.
- 10.2 First Amendment to Credit Agreement dated as of May 24, 2002, among the Company, as Borrower, the Lenders party thereto, Bank of Montreal, as administrative agent, Deutsche Bank Trust Company Americas, as syndication agent, and Fleet National Bank, Societe Generale and The Bank of New York, as co-documentation agents.
- 10.3 Form of Restricted Stock Award Agreement under the Vintage Petroleum, Inc. 1990 Stock Plan.

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- 99.1 Press release dated August 7, 2002, issued by the Company announcing second quarter 2002 earnings results and revisions to 2002 capital budget and growth targets.
- 99.2 Certificate pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
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b) Reports on Form 8-K

Form 8-K dated April 3, 2002, was filed on April 4, 2002, to report under Item 5 the execution of the first amendment to the Company's preferred share purchase rights agreement.

Form 8-K dated April 17, 2002, was filed on April 17, 2002, to report under Item 5 the pro forma combined statement of operations of the Company for the year ended December 31, 2001.

Form 8-K dated April 17, 2002, was filed on April 18, 2002, to report under Item 5 the Company's press release dated April 17, 2002, announcing the offering of \$250 million of senior notes to be sold through a Rule 144A offering.

Form 8-K dated April 26, 2002, was filed on April 26, 2002, to report under Item 5 the Company's press release dated April 26, 2002, announcing the sale of \$350 million of senior notes.

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Form 8-K dated June 17, 2002, was filed on June 17, 2002, to report under Item 5 the Company's press release dated June 17, 2002, announcing the signing of a definitive agreement to sell all of the Company's holdings in Trinidad and Tobago to Vermilion Resources Ltd. and the planned opening of a data rooms in the U.S. and U.K., initiating the sale process for the Company's oil and gas assets in Ecuador.

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Signatures

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

VINTAGE PETROLEUM, INC.

(Registrant)

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DATE: August 9, 2002

\s\ Michael F. Meimerstorf

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

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Exhibit Index

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