RAYOVAC CORP
Form 10-Q
February 11, 2004

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

ý **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended December 28, 2003

OR

o **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 001-13615

Rayovac Corporation

(Exact name of registrant as specified in its charter)

Wisconsin (State or other jurisdiction of incorporation or organization)	**22-2423556** (I.R.S. Employer Identification Number)
601 Rayovac Drive, Madison, Wisconsin (Address of principal executive offices)	**53711** (Zip Code)

(608) 275-3340
(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 ý No o

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes ý No o

The number of shares outstanding of the Registrant's common stock, $.01 par value, as of February 6, 2004, was 34,077,032.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

RAYOVAC CORPORATION
Condensed Consolidated Balance Sheets
December 28, 2003 and September 30, 2003
(Unaudited)
(In thousands)

	December 28, 2003	September 30, 2003
-ASSETS-		
Current assets:		
Cash and cash equivalents	$ 25,637	$ 107,774
Receivables, less allowances of $36,363 and $22,911, respectively	356,464	270,581
Inventories	178,895	219,254
Prepaid expenses and other	74,296	77,717
Total current assets	635,292	675,326
Property, plant and equipment, net	148,727	150,609
Goodwill	406,940	398,380
Intangible assets, net	263,830	252,870
Deferred charges and other	66,858	71,196
Debt issuance costs	26,280	28,111
Total assets	$ 1,547,927	$ 1,576,492
-LIABILITIES AND SHAREHOLDERS' EQUITY-		
Current liabilities:		
Current maturities of long-term debt	$ 15,184	$ 72,852
Accounts payable	166,997	172,632
Accrued liabilities	210,181	160,041
Total current liabilities	392,362	405,525
Long-term debt, net of current maturities	814,093	870,540
Employee benefit obligations, net of current portion	64,545	63,044
Other	38,667	35,381
Total liabilities	1,309,667	1,374,490
Shareholders' equity:		
Common stock, $.01 par value, authorized 150,000 shares; issued 62,484 and 61,999 shares, respectively; outstanding 32,948 and	625	620

	December 28, 2003	September 30, 2003
32,463 shares, respectively		
Additional paid-in capital	192,374	185,561
Retained earnings	186,902	164,703
Accumulated other comprehensive loss	(955)	(12,457)
Notes receivable from officers/shareholders	(3,605)	(3,605)
	375,341	334,822
Less treasury stock, at cost, 29,536 shares	(130,070)	(130,070)
Less unearned restricted stock compensation	(7,011)	(2,750)
Total shareholders' equity	238,260	202,002
Total liabilities and shareholders' equity	$ 1,547,927	$ 1,576,492

See accompanying notes which are an integral part of these statements.

RAYOVAC CORPORATION
Condensed Consolidated Statements of Operations

For the three month periods ended December 28, 2003 and December 29, 2002
(Unaudited)
(In thousands, except per share amounts)

	THREE MONTHS	
	2004	2003
Net sales	$ 454,010	$ 260,222
Cost of goods sold	260,980	156,963
Restructuring and related charges		9,705
Gross profit	193,030	93,554
Selling	101,443	51,609
General and administrative	36,513	21,821
Research and development	4,302	3,896
Restructuring and related charges	1,100	5,685
Total operating expenses	143,358	83,011
Operating income	49,672	10,543
Interest expense	17,351	10,102
Non-operating expense		3,072
Other income, net	(1,262)	(1,687)
Income (loss) from continuing operations before income taxes	33,583	(944)

	THREE MONTHS	
Income tax expense (benefit)	12,761	(359)
Income (loss) from continuing operations	20,822	(585)
Income from discontinued operations, net of tax of $530	1,377	
Net income (loss)	$ 22,199	$ (585)
Basic earnings per share:		
Weighted average shares of common stock outstanding	32,168	31,801
Income (loss) from continuing operations	$ 0.65	$ (0.02)
Income from discontinued operations	0.04	
Net income (loss)	$ 0.69	$ (0.02)
Diluted earnings per share:		
Weighted average shares and equivalents outstanding	33,260	31,801
Income (loss) from continuing operations	$ 0.63	$ (0.02)
Income from discontinued operations	0.04	
Net income (loss)	$ 0.67	$ (0.02)

See accompanying notes which are an integral part of these statements.

RAYOVAC CORPORATION

Condensed Consolidated Statements of Cash Flows

For the three month periods ended December 28, 2003 and December 29, 2002

(Unaudited)

(In thousands)

	THREE MONTHS	
	2004	**2003**
Cash flows from operating activities:		
Net income (loss)	$ 22,199	$ (585)
Non-cash adjustments to net income:		
Discontinued operations	(1,377)	
Depreciation	8,313	8,286
Amortization	216	63
Amortization of debt issuance costs	1,005	460
Other non-cash adjustments	(350)	3,791
Net changes in assets and liabilities, net of acquisitions and discontinued operations	17,320	12,211

	THREE MONTHS	
Net cash provided by continuing operating activities	47,326	24,226
Cash flows from investing activities:		
Purchases of property, plant and equipment	(2,955)	(3,052)
Proceeds from sale of property, plant and equipment		113
Payment for acquisitions, net of cash acquired	(2,577)	(245,130)
Net cash used by investing activities	(5,532)	(248,069)
Cash flows from financing activities:		
Reduction of debt	(147,158)	(257,803)
Proceeds from debt financing	76,500	506,771
Extinguishment of debt	(57,012)	
Debt issuance costs		(12,635)
Other	1,913	(606)
Net cash (used) provided by financing activities	(125,757)	235,727
Net cash provided by discontinued operations	924	
Effect of exchange rate changes on cash and cash equivalents	902	1,154
Net (decrease) increase in cash and cash equivalents	(82,137)	13,038
Cash and cash equivalents, beginning of period	107,774	9,881
Cash and cash equivalents, end of period	$ 25,637	$ 22,919

See accompanying notes which are an integral part of these statements.

RAYOVAC CORPORATION

Notes to Condensed Consolidated Financial Statements (Unaudited)

(In thousands, except per share amounts)

1 SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation: These financial statements have been prepared by Rayovac Corporation (the "Company"), without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC") and, in the opinion of the Company, include all adjustments (which are normal and recurring in nature) necessary to present fairly the financial position of the Company at December 28, 2003, and the results of operations and cash flows for the three month periods ended December 28, 2003 and December 29, 2002. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such SEC rules and regulations. These condensed consolidated financial statements should be read in conjunction with the audited financial statements and notes thereto as of September 30, 2003. Certain prior year amounts have been reclassified to conform with the current presentation.

Significant Accounting Policies and Practices: The consolidated financial statements include the financial statements of Rayovac Corporation and its subsidiaries and are prepared in accordance with accounting principles generally accepted in the United States of America. All intercompany transactions have been eliminated. The Company's fiscal year ends September 30. References herein to 2003 and 2004 refer to the fiscal years ended September 30, 2003 and 2004.

The Company's Condensed Consolidated Balance Sheet as of September 30, 2003 gives effect to the acquisition of Remington Product Company, L.L.C., "Remington", which occurred on September 30, 2003. The Company's Condensed Consolidated Statement of Operations for the three months ended December 29, 2002, includes only the results attributable to Rayovac and its subsidiaries prior to the Remington acquisition. Consequently, all Condensed Consolidated Statement of Operations footnote disclosures exclude the results of Remington for the three months ended December 29, 2002. See footnote 10, Acquisitions, for additional information on the Remington acquisition.

Discontinued Operations: The Company has reflected Remington's United States and United Kingdom Service Centers as discontinued operations. The Company will discontinue operations at these Service Centers during 2004 as part of our Remington integration initiatives. See footnote 8, Restructuring and Related Charges, and footnote 11, Subsequent Events, for additional discussion of Remington integration initiatives. The following amounts have been segregated from continuing operations and are reflected as discontinued operations for the three months ended December 28, 2003:

Net sales	$ 13,647
Income from discontinued operations before income taxes	1,907
Provision for income taxes	530
Income from discontinued operations, net of tax	$ 1,377
Depreciation expense associated with discontinued operations	$ 133

Revenue Recognition: The Company recognizes revenue from product sales upon shipment to the customer which is the point at which all risks and rewards of ownership of the product are passed, provided that: there are no uncertainties regarding customer acceptance; persuasive evidence of an

arrangement exists; the price to the buyer is fixed or determinable; and collectibility is deemed reasonably assured. The Company is generally not obligated to allow for, and the Company's general policy is not to accept, product returns. The Company does recognize a reserve for potential returns, when appropriate, based on past experience and our latest contractual arrangements with certain customers.

The Company enters into various promotional arrangements, primarily with retail customers, including arrangements entitling such retailers to cash rebates from the Company based on the level of their purchases, which require the Company to estimate and accrue the estimated costs of the promotional programs. These costs are generally treated as a reduction of net sales.

The Company also enters into promotional arrangements targeted to the ultimate consumer. Such arrangements are treated as either a reduction of net sales or an increase of cost of sales, based on the type of promotional program. The income statement characterization of the Company's promotional arrangements complies with EITF 01-09, *Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor's Products).*

For all types of promotional arrangements and programs, the Company monitors its commitments and uses statistical measures and past experience to determine amounts to be recorded for the estimate of the earned, but unpaid, promotional costs. The terms of the Company's customer-related promotional arrangements and programs are individualized to each customer and are generally documented through written contracts, correspondence or other communications with the individual customers.

The Company also enters into various contractual arrangements, primarily with retail customers, which require the Company to make upfront cash, or "slotting" payments, to secure the right to distribute through such customer. The Company capitalizes slotting payments, provided the payments are supported by a time or volume based contractual arrangement with the retailer, and will amortize the associated payment over the appropriate time or volume based term of the contractual arrangement. The amortization of the slotting payment is treated as a reduction in net sales and the corresponding asset is included in Deferred charges and other in the Condensed Consolidated Balance Sheets.

Shipping and Handling Costs: The Company incurred shipping and handling costs of $18,288 and $12,996 for the three months ended December 28, 2003 and December 29, 2002, respectively, which are included in selling expense. Shipping and handling costs include costs incurred with third-party carriers to transport products to customers and salaries and overhead costs related to activities to prepare the Company's products for shipment at the Company's distribution facilities.

Concentrations of Credit Risk: Trade receivables potentially subject the Company to credit risk. The Company extends credit to its customers based upon an evaluation of the customer's financial condition and credit history and generally does not require collateral. The Company monitors its customers' credit and financial condition based on changing economic conditions and will make adjustments to credit policies as required. The Company has historically incurred minimal credit losses, but in 2002 experienced a significant loss resulting from the bankruptcy filing of a large retailer in the United States.

The Company has a broad range of customers including many large retail outlet chains, one of which accounts for a significant percentage of our sales volume. This major customer also represented approximately 19% and 13%, respectively, of our receivables as of December 28, 2003 and September 30, 2003.

Following the acquisition of Remington, approximately 49% of the Company's sales occur outside of North America. These sales and related receivables are subject to varying degrees of credit, currency, and political and economic risk. The Company monitors these risks and makes appropriate provisions for collectibility based on an assessment of the risks present.

Stock Based Compensation: The Company has stock option and other stock-based compensation plans, which are fully described in the Company's financial statements and notes thereto as of September 30, 2003. The Company accounts for its stock-based compensation plans using the intrinsic value method, under the principles prescribed by the Accounting Principles Board's Opinion No. 25, *Accounting for Stock Issued to Employees*, and related interpretations. For stock options granted, no employee compensation cost is reflected in the Company's results of operations, as all options granted under the plans had an exercise price equal to the market value of the underlying common stock at the grant date. Results of operations include compensation cost related to grants of restricted stock of $912 and $833 for the three months ended December 28, 2003 and December 29, 2002, respectively.

The Company has adopted the disclosure-only provisions of FASB Statement No. 123, ("Statement No. 123") *Accounting for Stock Based Compensation*, as amended by FASB Statement No. 148, *Accounting for Stock-Based Compensation-Transition and Disclosure.* Accordingly, no compensation cost has been recognized in the results of operations for the stock option plans. Had compensation cost for stock options granted been determined based on the fair value at the grant date for awards consistent with an alternative method prescribed by Statement No. 123, the Company's net income (loss) and earnings per share would have reflected the pro forma amounts indicated below:

	Three Months	
	2004	**2003**
Net income (loss), as reported	$ 22,199	$ (585)
Add: Stock-based compensation expense included in reported net income, net of tax	556	508
Deduct: Total stock-based compensation expense determined under fair value based method for all awards, net of tax	(1,515)	(1,855)
Pro forma net income (loss)	$ 21,240	$ (1,932)
Basic earnings per share:		
Net income (loss), as reported	$ 0.69	$ (0.02)
Net income (loss), Pro forma	$ 0.66	$ (0.06)
Diluted earnings per share:		
Net income (loss), as reported	$ 0.67	$ (0.02)

	Three Months	
Net income (loss), Pro forma	$ 0.64	$ (0.06)

The effect of restricted stock and unexercised stock options of approximately 712 shares outstanding for the three-month period ended December 29, 2002 were excluded from the diluted EPS calculation, as their effect was anti-dilutive.

Derivative Financial Instruments: The Company uses interest rate swaps to manage its interest rate risk. The swaps are designated as cash flow hedges with the fair value recorded in Other Comprehensive Income ("OCI") and as a hedge asset or liability, as applicable. The swaps settle periodically in arrears with the related amounts for the current settlement period payable to, or receivable from, the counter-parties included in accrued liabilities or accounts receivable and recognized in earnings as an adjustment to interest expense from the underlying debt to which the swap is designated. During the three month periods ended December 28, 2003 and December 29, 2002, respectively, $1,220 and $1,078 of pretax derivative losses from such hedges were recorded as an adjustment to interest expense. At December 28, 2003, the Company had a portfolio of interest rate swaps outstanding which effectively fixes the interest rates on floating rate debt at rates as follows: 4.458% for a notional principal amount of $70,000 through July 2004, 3.974% for a notional principal amount of $70,000 from July 2004 through October 2005, 3.769% for a notional principal amount of $100,000 through August 2004 and 3.799% for a notional principal amount of $100,000 from August 2004 through November 2005. The derivative net loss on these contracts recorded in OCI at December 28, 2003 and December 29, 2002, respectively, was an after-tax loss of $3,615 and $4,814.

The Company enters into forward and swap foreign exchange contracts, to hedge the risk from forecasted settlement in local currencies of inter-company purchases and sales, trade sales, and trade purchases. These contracts generally require the Company to exchange foreign currencies for U.S. dollars, Euros or Pounds Sterling. These contracts are designated as cash flow hedges with the fair value recorded in OCI and as a hedge asset or liability, as applicable. Once the forecasted transaction has been recognized as a purchase or sale and a related liability or asset recorded in the balance sheet, the gain or loss on the related derivative hedge contract is reclassified from OCI into earnings as an offset to the change in value of the liability or asset. During the three month periods ended December 28, 2003 and December 29, 2002, respectively, $0 and $11 of pretax derivative losses were recorded as an adjustment to earnings for forward and swap contracts settled at maturity. At December 28, 2003 and December 29, 2002, respectively, the Company had no such foreign exchange derivative contracts outstanding.

The Company periodically enters into forward and swap foreign exchange contracts, to hedge the risk from inter-company loans. These obligations generally require the Company to exchange foreign currencies for U.S. dollars, Euros, Pounds Sterling or Canadian Dollars. These foreign exchange contracts are fair value hedges of a related liability or asset recorded in the balance sheet. The gain or loss on the derivative hedge contracts is recorded in earnings as an offset to the change in value of the related liability or asset. During the three month period ended December 28, 2003, $94 of pretax derivative gains from such hedges were recorded as an adjustment to earnings. At December 28, 2003, the Company had such forward and swap contracts outstanding with a contract value of $7,023. No such forward and swap foreign exchange contracts were outstanding at December 29, 2002.

The Company periodically enters into forward foreign exchange contracts, to hedge the risk from changes in fair value from unrecognized firm purchase commitments. These firm purchase commitments generally require the Company to exchange U.S. dollars for foreign currencies. These

hedge contracts are designated as fair value hedges with the fair value recorded in earnings on a pretax basis and as a hedge asset or liability, as applicable. To the extent effective, changes in the value of the forward contracts recorded in earnings will be offset by changes in the value of the hedged item, also recorded in earnings on a pretax basis and as an asset or liability, as applicable. Once the firm purchase commitment has been consummated, the firm commitment asset or liability balance will be reclassified as an addition to or subtraction from, the carrying value of the purchased asset. During the three month periods ended December 28, 2003 and December 29, 2002, respectively, no such foreign exchange derivative activity occurred. At December 28, 2003 and December 29, 2002, respectively, the Company had no such foreign exchange derivative contracts outstanding.

The Company is exposed to risk from fluctuating prices for zinc used in the manufacturing process. The Company hedges a portion of this risk through the use of commodity swaps. The swaps are designated as cash flow hedges with the fair value recorded in OCI and as a hedge asset or liability, as applicable. The fair value of the swaps is reclassified from OCI into earnings when the hedged purchase of zinc metal-based items also affects earnings. The swaps effectively fix the floating price on a specified quantity of zinc through a specified date. During the three month periods ended December 28, 2003 and December 29, 2002, respectively, $232 of pretax derivative gains and $218 of pretax derivative losses were recorded as an adjustment to cost of sales for swap contracts settled at maturity. At December 28, 2003, the Company had a series of such swap contracts outstanding through October 2004 with a contract value of $7,351. The derivative net gain or loss on these contracts recorded in OCI at December 28, 2003 and December 29, 2002, respectively, was an after-tax gain of $1,071 and an after-tax loss of $217.

Change in Accounting Policy: In previous years, the Company deferred certain advertising costs incurred on an interim basis in accordance with APB 28. The Company chose the deferral method to match advertising expenses to the level of sales on an interim basis (i.e., more advertising expenses were recognized in quarters in which the level of sales was higher) as management believed that the benefits of the advertising expenditures extended beyond the interim period in which the expenditures were made. However, in the Company's annual financial statements, there was no deferral of advertising costs incurred and the Company recognized advertising costs in accordance with the American Institute of Certified Public Accountants' Statement of Position No. 93-7, *Reporting on Advertising Costs*. The acquisition of Remington on September 30, 2003, will result in an increased level of advertising expenditures required for Remington's personal care products, as well as expenses that are more seasonal in nature, as compared to the Company's legacy battery products. Therefore, beginning with the three months ended December 28, 2003, the Company began expensing all advertising costs in the period in which they are incurred for interim reporting purposes. This change has no impact on the reported results for prior years. Management believes the new policy of expensing all advertising expenses as incurred is preferable as it eliminates the uncertainty in estimating overall expected net sales and the benefit period of the advertising on an interim basis. In addition, the new accounting policy results in the recognition of advertising costs in the interim period in which they are actually incurred, and conforms the Company's interim accounting policy with that used to prepare the

annual financial statements. The impacts on net income (loss) and earnings per share related to the change in accounting policy is as follows:

	Three Months	
	2004	**2003**
Income (loss) before change in accounting policy	$ 25,423	$ (585)
Less: Impact due to change in accounting policy, net of tax	(3,224)	
Net income (loss), as reported	$ 22,199	$ (585)
Basic earnings per share:		
Income (loss) before change in accounting policy	$ 0.79	$ (0.02)
Less: Impact due to change in accounting policy, net of tax	(0.10)	
Net income (loss), as reported	$ 0.69	$ (0.02)
Diluted earnings per share:		
Income (loss) before change in accounting policy	$ 0.76	$ (0.02)
Less: Impact due to change in accounting policy, net of tax	(0.09)	
Net income (loss), as reported	$ 0.67	$ (0.02)

Had the prior year's advertising expense been recognized consistent with the policy used in the current fiscal year, the Company's net income (loss) and earnings per share would have reflected the pro forma amounts indicated below:

Three Months	
2004	**2003**

	Three Months	
Pro forma amounts assuming new accounting policy is applied retroactively:		
Net income (loss)	$ 22,199	$ (3,251)
Basic earnings (loss) per share	$ 0.69	$ (0.10)
Diluted earnings (loss) per share	$ 0.67	$ (0.10)

The effect of restricted stock and unexercised stock options of approximately 712 shares outstanding for the three-month period ended December 29, 2002 were excluded from the diluted EPS calculation, as their effect was anti-dilutive.

2 INVENTORIES

Inventories consist of the following:

	December 28, 2003	September 30, 2003
Raw material	$ 34,717	$ 60,732
Work-in-process	20,355	34,914
Finished goods	123,823	123,608
	$ 178,895	$ 219,254

3 ACQUIRED INTANGIBLE ASSETS AND GOODWILL

Intangible assets consist of the following:

	December 28, 2003			September 30, 2003		
Amortized Intangible Assets:	**Gross Carrying Amount**	**Accumulated Amortization**	**Net Intangible**	**Gross Carrying Amount**	**Accumulated Amortization**	**Net Intangible**
Proprietary technology	$ 10,421	$ 514	$ 9,907	$ 10,421	$ 340	$ 10,081
Customer lists	1,781	252	1,529	1,781	210	1,571
Effect of translation			2,989			2,084
			$ 14,425			$ 13,736
Pension Intangibles						
Under-funded pension	$ 2,405	$	$ 2,405	$ 2,405	$	$ 2,405
Unamortized Intangible Assets						
Trade names balance as of beginning of the period	$ 218,642	$ 4,875	$ 213,767	$ 90,000	$ 4,875	$ 85,125
Trade name acquired during the period				128,642		128,642
Subtotal			213,767			213,767

	December 28, 2003	September 30, 2003
Effect of translation	33,233	22,962
Trade names balance as of end of period	$ 247,000	$ 236,729

Goodwill	North America	Latin America	Europe/ROW	Total
Balance as of September 30, 2003, net	$ 285,418	$ 37,876	$ 75,086	$ 398,380
Goodwill recognized during the period	3,936			

(A Development Stage Company) Statement of Shareholders' Equity (Deficit) April 9, 1998 (inception) through March 31, 2001 and April 1, 2001 through December 31, 2001 (Unaudited) Deficit Accumulated Preferred Stock Common Stock Additional During ------------------- ----------------------- Paid-In Development Shares Amount Shares Amount Capital Stage Total -- Beginning balance, April 9, 1998 .... -- $ -- -- $ -- $ -- $ -- $ -- April 1998, common stock issued in exchange for services and organizational costs (Note B) .... -- -- 1,000,000 500 -- -- 500 Contributed rent (Note B) .... -- -- -- -- 100 -- 100 Net loss for the period ended April 30, 1998 .... -- -- -- -- -- (688) (688) --------- --------- ----------- ----------- ----------- ----------- ----------- BALANCE, APRIL 30, 1998 .... -- -- 1,000,000 500 100 (688) (88) May 1998, sale of common stock, net of $127 of offering costs (Note B) .... -- -- 230,000 2,173 -- -- 2,173 Contributed rent (Note B) .... -- -- -- -- 1,200 -- 1,200 Net loss for year ended April 30, 1999 .... -- -- -- -- -- (2,420) (2,420) --------- --------- ----------- ----------- ----------- ----------- ----------- BALANCE, APRIL 30, 1999 .... -- -- 1,230,000 2,673 1,300 (3,108) 865 Contributed rent (Note B) .... -- -- -- -- 1,200 -- 1,200 Net loss for year ended April 30, 2000 .... -- -- -- -- -- (5,269) (5,269) --------- --------- ----------- ----------- ----------- ----------- ----------- BALANCE, APRIL 30, 2000 .... -- -- 1,230,000 2,673 2,500 (8,377) (3,204) Contributed rent (Note B) .... -- -- -- -- 1,100 -- 1,100 Net loss for eleven months ended March 31, 2001 .... -- -- -- -- -- (6,438) (6,438) --------- --------- ----------- ----------- ----------- ----------- ----------- BALANCE, MARCH 31, 2001 .... -- -- 1,230,000 2,673 3,600 (14,815) (8,542) April 2001, sale of common stock, $.01 per share (Note D) (unaudited) .... -- -- 3,300,000 33,000 -- -- 33,000 June 2001, sale of common stock, $.10 per share (Note D) (unaudited) .... -- -- 750,000 75,000 -- -- 75,000 June 2001, sale of common stock, $.25 per share (Note D) (unaudited) .... -- -- 360,000 90,000 -- -- 90,000 December 2001, sale of common stock, $.10 per share (Note D) (unaudited) .... -- -- 250,000 25,000 -- -- 25,000 Offering costs incurred (Note D) (unaudited) .... -- -- -- (30,562) -- -- (30,562) Net loss for the nine months ended December 31, 2001 (unaudited) -- -- -- -- -- (155,625) (155,625) --------- --------- ----------- ----------- ----------- ----------- ----------- BALANCE, DECEMBER 31, 2001 (Unaudited) .... -- $ -- 5,890,000 $ 195,111 $ 3,600 $ (170,440) $ 28,271 ========= ========= =========== =========== =========== =========== =========== See accompanying notes to financial statements F-5 VISTA

Goodwill	North America	Latin America	Europe/ROW	Total

EXPLORATION CORPORATION ---------------------------- (Formerly Bail Corporation) (A Development Stage Company) Statements of Cash Flows April 9, 1998 April 9, 1998 Eleven Months Ended (Inception) Nine Months Ended (Inception) March 31, Year Ended Through December 31, Through --------------------- April 30, March 31, ---------------------- December 31, 2001 2000 2000 2001 2001 2000 2001 -- (Unaudited) (Unaudited) (Unaudited) (Unaudited) Cash flows from operating activities: Net loss .... $ (6,438) $ (3,920) $ (5,269) $ (14,815) $(155,625) $ (3,233) $(170,440) Transactions not requiring cash: Common stock issued for services .... -- -- -- 500 -- -- 500 Contributed rent (Note B) .... 1,100 1,100 1,200 3,600 -- 900 3,600 Gain on extinguishment of debt (Note A) .... (5,155) -- -- (5,155) -- -- (5,155) Changes in operating assets and liabilities: Receivables and advances ...... 106 (49) (57) -- (2,972) (8) (2,972) Accounts payable and accrued liabilities .... 9,799 1,598 2,203 13,270 18,867 1,633 32,137 --------- --------- --------- --------- --------- --------- --------- Net cash used in operating activities .... (588) (1,271) (1,923) (2,600) (139,730) (708) (142,330) --------- --------- --------- --------- --------- --------- --------- Cash flows from investing activities: Investment in oil and gas properties .... -- -- -- -- (49,832) -- (49,832) --------- --------- --------- --------- --------- --------- --------- Net cash used in financing activities .... -- -- -- -- (49,832) -- (49,832) --------- --------- --------- --------- --------- --------- --------- Cash flows from financing activities: Advances from officer (Note B) ..... 10,500 -- -- 10,500 (10,500) -- -- Sale of common stock .... -- -- -- 2,300 223,000 -- 225,300 Offering costs incurred .... (10,000) -- -- (10,127) (20,561) -- (30,688) --------- --------- --------- --------- --------- --------- --------- Net cash provided by financing activities .... 500 -- -- 2,673 191,939 -- 194,612 --------- --------- --------- --------- --------- --------- --------- Net change in cash .... (88) (1,271) (1,923) 73 2,377 (708) 2,450 Cash, beginning of period .... 161 2,084 2,084 -- 73 813 -- --------- --------- --------- --------- --------- --------- --------- Cash, end of period .... $ 73 $ 813 $ 161 $ 73 $ 2,450 $ 105 $ 2,450 ========= ========= ========= ========= ========= ========= ========= Supplemental disclosure of cash flow information: Cash paid during the period for: Interest .... $ -- $ -- $ -- $ -- $ -- $ -- $ -- ========= ========= ========= ========= ========= ========= ========= Income taxes .... $ -- $ -- $ -- $ -- $ -- $ -- $ -- ========= ========= ========= ========= ========= ========= ========= See accompanying notes to financial statements F-6 VISTA EXPLORATION CORPORATION ---------------------------- (Formerly Bail Corporation) (A Development Stage Company) Notes to Financial Statements ---------------------------- Note A: Organization and summary of significant accounting policies Organization Vista Exploration Corporation (the "Company") (formerly Bail Corporation) was incorporated under the laws of Colorado on April 9, 1998 to engage in any lawful corporate undertaking. The Company is a development stage enterprise in accordance with Statement of Financial Accounting Standard (SFAS) No. 7. The Company was originally formed as a "blank check" company with the purpose to evaluate, structure and

Goodwill	North America	Latin America	Europe/ROW	Total

complete a merger with, or acquisition of, a privately owned corporation. Effective March 3, 2001, 900,000 shares (approximately 73 percent) of the Company's issued and outstanding common stock was sold, resulting in a change in control of the Company. The Company's new business plan is to engage in the oil and gas business by acquiring oil and gas properties and developing those properties and/or purchasing producing properties principally located in the mid-western and western United States. The Company's management is currently seeking to acquire oil and gas leases in portions of southeast Kansas to drill for coal bed methane gas. The Company opened an office in Burlington, Kansas and plans to lease land in the south half of Coffey County, Kansas with the help of its geological consultant. If the Company is successful at leasing enough land to move forward with drilling activities, the Company will need additional capital to develop the properties. It is the Company's intent to complete drilled wells; however, the Company may have to acquire a partner or out-source certain properties to rapidly develop leases. Following the change in control, the Company sold 4,660,000 shares of its no par value common stock through three private offerings for net proceeds of $192,438 (unaudited) after deducting offering costs of $30,562 (unaudited). The Company intends to use the net proceeds from those offerings for administrative and professional fees required to transition the business and to acquire oil and gas properties and develop a drilling program. The Company will require additional funds to commence drilling operations and there are no commitments in place for any additional funds. During August 2001, the Company changed its name from Bail Corporation to Vista Exploration Corporation. During the period from April 9, 1998 (inception) through February 28, 2001, Corporate Management Services, Inc. ("CMS"), an affiliate and previous majority shareholder, paid professional fees and administrative expenses on behalf of the Company totaling $5,155, which were unpaid as of February 28, 2001. As part of the stock purchase agreement that resulted in the change in control, CMS released the Company from its obligation to repay the $5,155. The $5,155 is included in the accompanying statements of operations as extraordinary gain on extinguishment of debt. The accompanying financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The Company is in the development stage. It has incurred losses since inception and has a net capital deficit at March 31, 2001. These factors, among others, may indicate that the Company will be unable to continue as a going concern for reasonable period of time. F-7 VISTA EXPLORATION CORPORATION ---------------------------- (Formerly Bail Corporation) (A Development Stage Company) Notes to Financial Statements ---------------------------- The financial statements do not include any adjustments relating to the recoverability and classification of liabilities that might be necessary should the Company be unable to continue as a going concern. The Company's continuation as a going concern is dependent upon its ability to generate sufficient cash flow to meet its obligations on a timely basis and ultimately to attain profitability. The Company raised gross proceeds of $223,000 (unaudited) through private stock offerings subsequent to March 31, 2001 (see Note E), to fund its operations. However, the Company believes it

Goodwill	North America	Latin America	Europe/ROW	Total

will need additional capital to develop the property leases discussed above. There is no assurance that the Company will obtain the additional capital or that it will attain profitability. Summary of significant accounting policies Basis of presentation On April 18, 2001, the Company changed its year-end from April 30 to March 31. The accompanying statements of operations, shareholders' equity (deficit) and cash flows reflect the eleven-month transition period ended March 31, 2001 and the historical fiscal year results for April 30, 2000. The comparative figures for the eleven months ended March 31, 2000 have been included in the accompanying statements of operations and cash flows on an unaudited basis. Cash equivalents For financial accounting purposes and the statement of cash flows, cash equivalents include all highly liquid debt instruments purchased with an original maturity of three months or less. The Company had no cash equivalents at March 31, 2001. Fair value of financial instruments The Company has determined, based on available market information and appropriate valuation methodologies, the fair values of its financial instruments approximate carrying values. The carrying amounts of cash, accounts payable, and other current liabilities approximate fair value due to the short-term maturity of the instruments. Use of estimates The preparation of the financial statements in conformity with generally accepted accounting principals requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities; disclosure of contingent assets and liabilities at the date of the financial statements; and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates. Organization costs Costs related to the organization of the Company have been expensed as incurred. Deferred offering costs Costs related to common stock offerings are recorded initially as a deferred asset until the offering is successfully completed, at which time they are recorded as a reduction of gross proceeds in shareholders' deficit. If an offering is not successful, the costs are charged to operations at that time. F-8 VISTA EXPLORATION CORPORATION ---------------------------- (Formerly Bail Corporation) (A Development Stage Company) Notes to Financial Statements ---------------------------- Oil and gas properties The Company follows the full cost method of accounting for oil and gas properties. Accordingly, all costs associated with acquisition, exploration, and development of oil and gas reserves, including directly related overhead costs, are capitalized. No internal overhead costs have been capitalized to date. All capitalized costs of oil and gas properties, including the estimated future costs to develop proved reserves, are amortized on the unit-of-production method using estimates of proved reserves. Investments in unproved properties and major development projects are not amortized until proved reserves associated with the projects can be determined or until impairment occurs. If the results of an assessment indicate that the properties are impaired, the amount of the impairment is added to the capitalized costs to be amortized. The capitalized costs are subject to a "ceiling test," which limits capitalized costs to the aggregate of the "estimated present value," discounted at a 10-percent interest rate, of future net revenues from proved reserves (based on current economic and operating conditions), plus the lower of cost or fair market value of unproved properties. Sales of proved and unproved properties are accounted

Goodwill	North America	Latin America	Europe/ROW	Total

for as adjustments of capitalized costs with no gain or loss recognized, unless such adjustments would significantly alter the relationship between capitalized costs and proved reserves of oil and gas, in which case the gain or loss is recognized in income. Abandonments of properties are accounted for as adjustments of capitalized costs with no loss recognized. Loss per common share The Company reports loss per share using a dual presentation of basic and diluted loss per share. Basic loss per share excludes the impact of common stock equivalents. Diluted loss per share uses the average market price per share when applying the treasury stock method in determining common stock equivalents. However, the Company has a simple capital structure for the period presented and, therefore, there is no variance between the basic and diluted loss per share. Income taxes The Company reports income taxes in accordance with SFAS No. 109, "Accounting for Income Taxes", which requires the liability method in accounting for income taxes. Deferred tax assets and liabilities arise from the difference between the tax basis of an asset or liability and its reported amount on the financial statements. Deferred tax amounts are determined by using the tax rates expected to be in effect when the taxes will actually be paid or refunds received, as provided under currently enacted law. Valuation allowances are established when necessary to reduce the deferred tax assets to the amounts expected to be realized. Income tax expense or benefit is the tax payable or refundable, respectively, for the period plus or minus the change during the period in the deferred tax assets and liabilities. Stock based compensation SFAS No. 123, "Accounting for Stock-Based Compensation" permits the use of either a "fair value based method" or the "intrinsic value method" defined in Accounting Principles Board Opinion 25, "Accounting for Stock Issued to Employees" (APB 25) to account for stock-based compensation arrangements. F-9 VISTA EXPLORATION CORPORATION ---------------------------- (Formerly Bail Corporation) (A Development Stage Company) Notes to Financial Statements ---------------------------- Companies that elect to use the method provided in APB 25 are required to disclose pro forma net income and pro forma earnings per share information that would have resulted from the use of the fair value based method. The Company has elected to continue to determine the value of stock-based compensation arrangements with employees under the provisions of APB 25. No pro forma disclosures have been included with the accompanying financial statements as there was no pro forma effect on the Company's net loss or loss per share. Unaudited financial statements The financial statements presented as of December 31, 2001, for the eleven months ended March 31, 2000, for the nine months ended December 31, 2001 and 2000, and for the period from April 9, 1998 (inception) through December 31, 2001 are unaudited. In the opinion of management, all adjustments (consisting only of normal recurring adjustments), which are necessary to provide a fair presentation of financial position as of December 31, 2001 and the operating results for the eleven months ended March 31, 2000, for the nine months ended December 31, 2001 and 2000, and for the period from April 9, 1998 (inception) through December 31, 2001, have been made. Note B: Related party transactions During the nine months ended December 31, 2001, an officer paid travel and administrative expenses totaling $24,118 (unaudited) on behalf of

Goodwill	North America	Latin America	Europe/ROW	Total

the Company, in addition to the $6,115 paid prior to March 31, 2001. The Company repaid the $30,233 (unaudited) and advanced the officer an additional $ 2,972 (unaudited). The advance is expected to be offset against future travel expenses. The $ 2,972 (unaudited) is included in the accompanying financial statements as expense advance to officer. The Company incurred an expense of $100 per month through March 31, 2001 for office space contributed by Corporate Management Services, Inc. ("CMS"), an affiliate of the Company. The Company reported rent expense of $1,100, $1,100 (unaudited), $1,200, and $3,600, respectively, for the eleven months ended March 31, 2001 and 2000, the year ended April 30, 2000, and the period from April 9, 1998 (inception) through March 31, 2001. The rent expense has been offset by charges to additional paid-in capital. In July 2001, the Company leased office space in Burlington, Kansas for $350 per month. On February 28, 2001, an officer advanced the Company $10,500 for working capital. The advance carries no interest rate and is payable on demand. The $10,500 is included in the accompanying financial statements as due to officer. The Company repaid the advance subsequent to March 31, 2001. The officer also paid travel and administrative expenses totaling $6,115 on behalf of the Company during the eleven months ended March 31, 2001. The $6,115 is included in the accompanying financial statements as accounts payable, related party. The Company repaid the expenses subsequent to March 31, 2001. On April 11, 1998, the Company issued an affiliate 1,000,000 shares of common stock in exchange for services related to management and organization costs of $500. The affiliate will provide administrative and marketing services as needed. The affiliate may, from time to time, advance to the Company any additional funds that the Company needs for operating capital and for costs in connection with searching for or completing an acquisition or merger. F-10 VISTA EXPLORATION CORPORATION ---------------------------- (Formerly Bail Corporation) (A Development Stage Company) Notes to Financial Statements ---------------------------- During 1998, the Company sold 230,000 shares of common stock in a private placement for $2,300. The private placement also included the offering of common shares in nineteen other corporations. The costs related to the offering and certain legal fees and general and administrative fees were allocated to each of the twenty companies participating in the offering. The Company's pro rate one twentieth share of the costs and expenses were deducted from the gross proceeds from the sale of the Company's common shares. The gross proceeds of $2,300 were transferred to the Company net of offering costs of $127 and certain general and administrative costs incurred by the affiliate of $89. Note C: Income taxes Following are reconciliations of U.S. statutory federal income tax rate to the effective rate: Eleven Nine Months ended Year Ended Months ended March 31, April 30, December 31, 2001 2000 2001 (Unaudited) -------- --------- --------- U.S. statutory federal rate .... 15.00% 15.00% 15.00% State income tax rate, net of federal benefit .... 4.04% 4.04% 4.04% Net operating loss (NOL) for which no tax benefit is benefit is currently available .... -19.04% -19.04% -19.04% ----- ----- ----- 0.00% 0.00% 0.00% ===== ===== ===== The valuation allowance offsets the net deferred tax asset for which there is no assurance of recovery. The change in the valuation allowance

Goodwill	North America	Latin America	Europe/ROW	Total

for the eleven months ended March 31, 2001, the year ended April 30, 2000, and for the period from April 9, 1998 (inception) through March 31, 2001 were $1,226, $657, and $2,483, respectively. NOL carryforwards at March 31, 2001 will expire through 2021. The change in the valuation allowance for the nine months ended December 31, 2001 was $43,575 (unaudited). The valuation allowance will be evaluated at the end of each year, considering positive and negative evidence about whether the asset will be realized. At that time, the allowance will either be increased or reduced; reduction could result in the complete elimination of the allowance if positive evidence indicates that the value of the deferred tax asset is no longer impaired and the allowance is no longer required. Should the Company undergo an ownership change, as defined in Section 382 of the Internal Revenue Code, the Company's tax net operating loss carryforwards generated prior to the ownership change will be subject to an annual limitation which could reduce or defer the utilization of those losses. Note D: Shareholders' equity (deficit) The preferred stock may be issued in series as determined by the Board of Directors. As required by law, each series must designate the number of share in the series and each share of a series must have identical rights of (1) dividend, (2) redemption, (3) rights in liquidation, (4) sinking fund provisions for the redemption of the share, (5) terms of conversion and (6) voting rights. F-11 VISTA EXPLORATION CORPORATION ---------------------------- (Formerly Bail Corporation) (A Development Stage Company) Notes to Financial Statements ---------------------------- During April of 2001, the Company conducted a private placement offering of 5,000,000 shares of its no par value common stock for $.01 per share pursuant to an exemption from registration claimed under Rule 506 of Regulation D of the Securities Act of 1933, as amended (the "Act"). The Company closed the offering after selling 3,300,000 (unaudited) shares. The Company received net proceeds of $22,813 (unaudited) after deducting offering costs totaling $10,187 (unaudited). During June of 2001, the Company conducted a private placement offering of 800,000 shares of its no par value common stock for $.10 per share pursuant to an exemption from registration claimed under Rule 506 of Regulation D of the Act. The Company closed the offering after selling 750,000 (unaudited) shares. The Company received net proceeds of $64,813 (unaudited) after deducting offering costs totaling $10,187 (unaudited). During June of 2001, the Company conducted a private placement offering of 1,000,000 shares of its no par value common stock for $.25 per share pursuant to an exemption from registration claimed under Rule 506 of Regulation D of the Act. The Company closed the offering after selling 360,000 (unaudited) shares. The Company received net proceeds of $79,812 (unaudited) after deducting offering costs totaling $10,188 (unaudited). During December of 2001, the Company sold 250,000 shares of its no par value common stock for $.10 per share to one accredited investor without registering the shares under the Securities Act of 1933. This sale was made pursuant to Section 4(2) and Rule 506 of Regulation D adopted under the Securities Act of 1933. The Company received net proceeds of $25,000 (unaudited). F-12 VISTA EXPLORATION CORPORATION 1,440,000 Shares of Common Stock ---------------- PROSPECTUS ---------------- ______, 2002 You should only rely on the information contained in this prospectus. We have

Goodwill	North America	Latin America	Europe/ROW	Total

not authorized anyone to provide you with information different from that contained in this prospectus. The selling security holders are offering to sell, and seeking offers to buy, shares of common stock only in jurisdictions where offers and sales are permitted. The information contained in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or of any sale of common stock. Until ________, 2002 (25 days after the commencement of the offering), all dealers that effect transactions in these securities, whether or not participating in this offering, may be requested to deliver a prospectus. This is in addition to the dealers' obligation to deliver a prospectus when acting as underwriters and with respect to their unsold allotments or subscriptions. PART II - Information Not Required In Prospectus Item 24. Indemnification of Directors and Officers. The Registrant's Articles of Incorporation eliminate the personal liability of its directors to the Registrant or its shareholders for monetary damages for breach of fiduciary duty to the extent permitted by Colorado law. The Colorado Business Corporation Act does not eliminate personal liability for monetary damages for (i) any breach of the director's duty of loyalty to the Registrant or its shareholders, (ii) acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) voting for or assenting to a distribution in violation of Colorado law or the Registrant's Articles of Incorporation, or (iv) any transaction from which the director directly or indirectly derived an improper personal benefit. The Registrant's Articles of Incorporation and Bylaws provide that the Registrant shall indemnify its officers and directors to the extent permitted by Colorado law, which authorizes a corporation to indemnify directors, officers, employees or agents of the corporation in non-derivative suits if such party acted in good faith and in a manner such party reasonably believed to be in or not opposed to the best interest of the corporation and, with respect to any criminal action or proceeding, had no reasonable cause to believe his or her conduct was unlawful. The Colorado Business Corporation Act further provides that indemnification shall be provided if the party in question is wholly successful, on the merits or otherwise. There is no litigation pending, and neither the Registrant nor any of its directors know of any threatened litigation, which might result in a claim for indemnification by any director or officer. Item 25. Other Expenses of Issuance and Distribution. The estimated expenses of the offering, all of which are to be borne by the Registrant, are as follows: Total Registration Fee under Securities Act of 1933 $90.00 Printing and Engraving $10,000* Accounting Fees and Expenses $10,000* Legal Fees and Expenses $50,000* Blue Sky Fees and Expenses (including related legal fees) $3,000* Transfer Agent Fees $1,000* Miscellaneous $6,000* Total $80,100* * Estimated Item 26. Recent Sales of Unregistered Securities. Since its inception, the Registrant has sold securities which were not registered as follows: Date Name No. of Shares Consideration ---- ---- ------------- ------------- (1) April 11, 1998 Corporate Management Services, Inc.* 1,000,000 Management services and organization costs of $500 (2) April 22, 1998 to 46 shareholders (listed under "Selling 5,000 each/ $50.00 each/ August 26, 1998 Security Holders") 230,000 total $2,300 total (3) April 23, 2001 Jeffery P. Frazier 1,000,000 $10,000 (4) April 23, 2001 Terrie L. Pham 1,000,000 $10,000 (5) April 25,

Goodwill	North America	Latin America	Europe/ROW	Total

2001 Gary J. Grieco 1,000,000 $10,000 (6) April 30, 2001 3 shareholders 100,000 each/ $1,000 each/ II-1 Date Name No. of Shares Consideration -------- ------------- ------------- 300,000 total $3,000 total (7) June 7, 2001 Gary J. Grieco 250,000 $25,000 (8) June 7, 2001 Mallard Management Inc. 250,000 $25,000 (9) June 7, 2001 Harvey M. Burstein 250,000 $25,000 (10) June 28, 2001 The Hedge Fund, LLC 360,000 $90,000 (11) Dec. 1, 2001 U. S. Capital Growth Fund, L.L.C. 250,000 $25,000 (12) Jan. 14, 2002 2 shareholders in Verona, Italy 100,000 each/ $15,000 each/ 200,000 total $30,000 total * Mr. George Andrews, the sole officer and director of the Registrant until April of 2001, is the sole director and a 50% shareholder of Corporate Management Services, Inc. Mr. Andrews is also a selling security holder. The sales by the Registrant listed in lines (1) and (2) were made pursuant to Section 4(2) of the Securities Act of 1933. 23 of the purchasers listed in lines (1) and (2) were "accredited investors" as defined in Rule 501 of Regulation D and represented their status as such to the Registrant in writing. The sales by the Registrant listed in lines (3) through (12) were made pursuant to Section 4(2) and Rule 506 of Regulation D adopted under the Securities Act of 1933. All of the purchasers listed in lines (3) through (12) are "accredited investors" as defined in Rule 501 of Regulation D and represented their status as such to the Registrant in writing. No underwriter or selling or placement agent was involved in any of the transactions described in lines (1) through (11) above. A finders fee of approximately $1,500 was paid to a non-U.S. finder with respect to the overseas sales listed in line (12). All of the individuals and/or entities listed above that purchased the unregistered securities were all known to the Registrant and its management through pre-existing business or personal relationships, as long standing business associates, friends, employees, relatives or members of the immediate family of management or other shareholders. All purchasers were provided access to the material information which they requested and all information necessary to verify such information, and were afforded access to management of the Registrant in connection with their purchases. All purchasers of the unregistered securities acquired such securities for investment and not with a view toward distribution, acknowledging such intent to the Registrant. Item 27. Exhibits. Reference is made to the Exhibit Index appearing on Page 29. Item 28. Undertakings. The undersigned Registrant hereby undertakes: (1) To file, during any period in which offers or sales are being made, a post-effective amendment to this Registration Statement: (i) to include any prospectus required by Section 10(a)(3) of the Securities Act of 1933; (ii) to reflect in the prospectus any facts or events arising after the effective date of this Registration Statement (or the most recent post-effective amendment thereto) which, individually or the aggregate, represent a fundamental change in the information set forth in this Registration Statement. Notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the Securities and Exchange Commission pursuant to Rule 424(b) if, in the aggregate, the changes in volume and price represent no more than a 20% change in the maximum aggregate offering price set forth in

Goodwill	North America	Latin America	Europe/ROW	Total

the "Calculation of Registration Fee" table in this Registration Statement; and (iii) to include any material information with respect to the plan of distribution not previously disclosed in this Registration Statement or any material change to such information in this Registration Statement. (2) That, for the purpose of determining any liability under the Securities Act of 1933, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof. (3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering. (4) Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the Registrant pursuant to the foregoing provisions, or otherwise, the Registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act of 1933 and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant of expenses incurred or paid by a director, officer or controlling person of the Registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act of 1933 and will be governed by the final adjudication of such issue. II-2 SIGNATURES In accordance with the requirements of the Securities Act of 1933, the Registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form SB-2 and has authorized this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Shawnee Mission, State of Kansas, on March 7, 2002. VISTA EXPLORATION CORPORATION By: /s/ Charles A. Ross, Sr. -- Charles A. Ross, Sr., chief executive officer and principal financial and accounting officer Pursuant to the requirements of the Securities Act of 1933, this registration statement has been signed by the following persons in the capacities and on the dates indicated. Signature Title Date --------- ----- ---- /s/ Charles A. Ross, Sr. Director March 7, 2002 -------------------------- Charles A. Ross, Sr. SECURITIES AND EXCHANGE COMMISSION Washington, D.C. ------------------ EXHIBITS TO FORM SB-2 REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933, AS AMENDED VISTA EXPLORATION CORPORATION ---------------------------- (Name of Company as specified in its charter) VISTA EXPLORATION CORPORATION FORM SB-2 REGISTRATION STATEMENT EXHIBIT INDEX The following exhibits are filed as part of Registrant's Registration Statement on Form SB-2: Exhibit No. Description --- ----------- 3.1 Articles of Incorporation (incorporated by reference to Exhibit 2.1 to Registrant's Registration Statement on Form 10-SB filed with the Commission on September 13, 1999). 3.2 First Articles of Amendment to Articles of Incorporation (incorporated by reference to Exhibit

Goodwill	North America	Latin America	Europe/ROW		Total
				3.1 of the Form 8-K filed August 16, 2001). 3.3 Bylaws (incorporated by reference to Exhibit 2.2 to Registrant's Registration Statement on Form 10-SB filed with the Commission on September 13, 1999). 3.4 Amended and Restated Bylaws (incorporated by reference to Exhibit 3.1 of the Form 8-K filed August 16, 2001). 5.1 Opinion of Ballard Spahr Andrews & Ingersoll, LLP* 10.1 Agreement for the Purchase of Common Stock dated as of February 27, 2001, and effective as of March 3, 2001, by and between Corporate Management Services, Inc., Bail Corporation and Charles A. Ross, Sr. (incorporated by reference herein to Exhibit 7.1 of the Form 8-K filed March 9, 2001). 10.2 Mutual Release dated as of April 30, 2001, between Bail Corporation and Corporate Management Services, Inc. (incorporated by reference herein to Exhibit 10.2 of the Registrant's 10-KSB for the period ended March 31, 2001). 10.3 Agreement dated June 22, 2001, between Bail Corporation, TCC Royalty Corp. and Austin Exploration L.L.C. regarding Shiloh Project / Cherokee Basin Coalbed Methane (incorporated by reference herein to Exhibit 10.3 of the Registrant's 10-KSB for the period ended March 31, 2001). 10.4 Form of Oil and Gas Lease** 23.1 Consent of Cordovano & Harvey, P.C.** 23.2 Consent of Ballard Spahr Andrews & Ingersoll, LLP (included in Exhibit 5.1)* ------------------------ * Previously filed. ** Filed herewith.	