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PARALLEL PETROLEUM CORP /DE/  
Form 10-Q  
August 14, 2003

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D. C. 20549

FORM 10-Q

-----  
(Mark One)

/X/ Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended June 30, 2003 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 0-13305  
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PARALLEL PETROLEUM CORPORATION

(Exact name of registrant as specified in its charter)

DELAWARE  
(State of other jurisdiction of  
incorporation or organization)

75-1971716  
(I.R.S. Employer  
Identification Number)

1004 N. Big Spring, Suite 400,  
Midland, Texas  
(Address of principal executive offices)

79701  
(Zip Code)

(432) 684-3727  
(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 'X'                      No

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

Yes                              No X

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At August 5, 2003, 21,150,406 shares of the Registrant's Common Stock, \$0.01 par value, were outstanding.

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ITEM 1. FINANCIAL STATEMENTS

PARALLEL PETROLEUM CORPORATION  
CONSOLIDATED BALANCE SHEETS

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### ASSETS

#### Current assets:

Cash and cash equivalents

#### Accounts receivable:

Oil and gas

Others, net of allowance for doubtful account of \$12,681 in 2002 and 2003

Affiliate

Income tax receivable

Other assets

Fair value of derivative instruments

Total current assets

#### Property and equipment, at cost:

Oil and gas properties, full cost method (Note 5)

Other

Less accumulated depreciation and depletion

Net property and equipment (Note 8)

Other assets, net of accumulated amortization of \$78,520 in 2002 and \$88,439 in 2003

### LIABILITIES AND STOCKHOLDERS' EQUITY

#### Current liabilities:

Accounts payable and accrued liabilities

Current maturities of long-term debt (Note 2)

Current maturity of derivative obligations

Long-term debt, excluding current maturities (Note 2)

Long-term asset retirement obligation (Note 8)

Long-term maturity of derivative obligations (Note 6)

Deferred tax liability

#### Stockholders' equity:

Series A preferred stock -- par value \$.10 per share (aggregate liquidation preference of \$26) authorized 50,000 shares

Preferred stock -- \$.60 cumulative convertible preferred stock -- par value of \$.10 per share (aggregate liquidation preference of \$10) authorized 10,000,000 shares, issued and outstanding 974,500 in 2002 and 2003

Common stock -- par value \$.01 per share, authorized 60,000,000 shares, issued and outstanding 21,143,406 in 2002 and 21,150,406 in 2003

Additional paid-in capital

Retained earnings

Other comprehensive income (loss) net of tax (Note 6)

Total stockholders' equity

Commitments and contingencies (Note 10)

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\*The balance sheet as of December 31, 2002 has been derived from Parallel's audited financial statements. The accompanying notes are an integral part of these financials.

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PARALLEL PETROLEUM CORPORATION  
CONSOLIDATED STATEMENTS OF OPERATIONS  
(Unaudited)

	Three Months Ended June 30	
	2002	2003
Oil and gas revenues	\$ 2,808,807	\$ 8,531,900
Cost and expenses:		
Lease operating expense (Note 8)	721,614	2,185,100
General and administrative, includes \$1,471,000 for incentive awards in 2002	1,974,686	968,100
Depreciation, depletion and amortization	1,333,166	1,989,100
Total costs and expenses	4,029,466	5,142,500
Operating income (loss)	(1,220,659)	3,389,400
Other income (expense), net:		
Equity in income of First Permian, L.P., includes a \$31,082,041 gain on sale of substantially all net assets	31,082,041	
Change in fair market value of derivatives (Note 6)	(54,974)	274,200
Interest and other income	21,066	1,300
Dividend income	163,378	
Interest expense	(158,207)	(521,800)
Other expense	(107,582)	(25,400)
Total other income (expense), net	30,945,722	(271,700)
Income before income taxes	29,725,063	3,117,700
Income tax (expense), net	(10,063,560)	(446,600)
Net income before cumulative effect of change in accounting principle	19,661,503	2,671,000
Cumulative effect on prior years of a change in accounting principle, less applicable income taxes of \$31,659 (Note 8)	-	
Net income	19,661,503	2,671,000
Cumulative preferred stock dividend	(146,175)	(146,100)
Net income available to common stockholders	\$ 19,515,328	\$ 2,524,900
Net income per common share:		
Basic - before cumulative effect of a change in accounting principal	\$ 0.94	\$ 0.94
Cumulative effect of a change in accounting principle, net of tax	-	
Basic - after cumulative effect of a change in acocounting principle	\$ 0.94	\$ 0.94

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	=====	=====
Diluted - before cumulative effect of a change in accounting principle	\$ 0.84	\$ 0.
Cumulative effect of a change in accounting principle, net of tax	-	
	-----	-----
Diluted - after cumulative effect of a change in accounting principle	\$ 0.84	\$ 0.
	=====	=====
Weighted average common share outstanding:		
Basic	20,663,861	21,144,6
	=====	=====
Diluted	23,541,120	24,078,4
	=====	=====

The accompanying notes are an integral part of these financials.

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PARALLEL PETROLEUM CORPORATION  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Unaudited)

	-----	Si
		2
		-----
Cash flows from operating activities:		
Net income		\$ 18
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and depletion		2
Accretion expense		
Equity in income of First Permian, L.P. net of cash distributions of \$5,501,703		(25
Change in fair value of derivative instruments		
Deferred income taxes		9
Cumulative effect on prior years of a change in accounting principle, net of tax		
Changes in assets and liabilities:		
Other, net		
Increase in accounts receivables		
Increase in prepaid expenses and other assets		
(Decrease) Increase in accounts payable and accrued liabilities		
Accrued bonus payable		1
Purchase of derivative instruments		
		-----
Net cash provided by operating activities		5
		-----
Cash flows from investing activities:		
Additions to property and equipment		(6
Proceeds from disposition of property and equipment		
		-----
Net cash used in investing activities		(6
		-----
Cash flows from financing activities:		

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Borrowings from bank line of credit	
Payments on bank line of credit	
Proceeds from exercise of stock options	
Payment of preferred stock dividend	
Net cash used in financing activities	
Net decrease in cash and cash equivalents	(1)
Beginning cash and cash equivalents	3
Ending cash and cash equivalents	\$ 2
Non-cash financing and investing activities:	
Non-cash proceeds from sale of investment	\$ (25)
Unrealized gain on investment in securities	\$
Accrued asset retirement obligation related to oil and gas properties	\$
Accrued preferred stock dividend	\$

The accompany notes are an integral part of these financials.

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PARALLEL PETROLEUM CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(unaudited)

	THREE MONTHS ENDED JUNE 30,	
	2002	2003
Net income	\$ 19,661,503	\$ 2,671,090
Oil, natural gas and interest rate derivatives adjustments, net of tax	-	(821,997)
Comprehensive income, net of tax	\$ 19,661,503	\$ 1,849,093

The accompanying notes are an integral part of these financials.

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PARALLEL PETROLEUM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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The financial information included herein, except the balance sheet as of December 31, 2002, is unaudited. However, such information includes all adjustments (consisting solely of normal recurring adjustments), which are, in the opinion of management, necessary for a fair statement of the results of operations for the interim periods. The results of operations for the interim period are not necessarily indicative of the results to be expected for an entire year.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted in this Form 10-Q pursuant to certain rules and regulations of the Securities and Exchange Commission. These financial statements should be read in conjunction with the financial statements and notes included in our 2002 Form 10-K.

We account for stock-based compensation utilizing the intrinsic value method prescribed by Accounting Principles Board Opinion No. 25 "Accounting for Stock Issued to Employees" ("APB 25") and related interpretations. The following pro forma information, as required by Statement of Financial Accounting Standards No. 123 "Accounting for Stock-Based Compensation" (SFAS 123) as amended by Statement of Financial Accounting Standards No. 148 ("SFAS 148"), presents net income and earnings per share information as if the stock options issued since May 2, 2002 were accounted for using the fair value method. The fair value of stock options issued for each year was estimated at the date of grant using the Black-Scholes option pricing model. A total of 180,000 options were granted during quarter ending June 30, 2003.

The SFAS 123 pro forma information for the three months and six months ended June 30, 2002 and 2003 is as follows:

	Three Months Ended June 30,	
	2002	2003
Net income (loss), as reported	\$ 19,661,503	\$ 2,671,090
Add: Stock-based employee compensation expense included in net income (loss), net of tax	-	-
Deduct: Stock-based employee compensation expense determined under fair value based method (SFAS 123), net of tax	(339,567)	(61,754)
Net income (loss), pro forma	\$ 19,321,936	\$ 2,609,336
Basic:		
Net income (loss) per common share, as reported	\$ 0.94	\$ 0.12
Net income (loss) per common share, pro forma	\$ 0.92	\$ 0.11
Diluted:		
Net income (loss) per common share, as reported	\$ 0.84	\$ 0.11
Net income (loss) per common share, pro forma	\$ 0.82	\$ 0.10

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## NOTE 2. LONG TERM DEBT

Long-term debt consists of the following at June 30, 2003:

Revolving Facility note payable to bank, at bank's base lending rate  
(4.5% at June 30, 2003)

	\$42,750,000
Less: current maturities	7,837,500
	-----
	\$34,912,500
	=====

Scheduled maturities of long-term debt at June 30, 2003 are as follows:

2003	\$ 3,562,500
2004	8,550,000
2005	8,550,000
2006	8,550,000
2007	8,550,000
2008	4,987,500
	-----
	\$42,750,000
	=====

Revolving Credit Facility. Under our revolving credit facility, we may borrow the lesser of \$100,000,000 or the "borrowing base" then in effect. The borrowing base at June 30, 2003, was \$45,000,000, which is secured by substantially all of our oil and gas reserves. The total outstanding principal amount of our bank indebtedness at June 30, 2003 was \$42,750,000, excluding \$250,000 reserved for our letters of credit, leaving an availability of \$2,000,000 on our borrowing base. The borrowing base is subject to redetermination semi-annually, on or about May 1 and November 1 of each year. The bank may also require a redetermination of the borrowing base and monthly commitment reduction at any time in its sole discretion. Monthly commitment reductions begin August 31, 2003 in an amount equal to the amount of the borrowing base on the day immediately preceeding the date of each such monthly commitment reduction divided by the number of months then remaining prior to July 31, 2008. All indebtedness under the revolving facility matures December 20, 2006.

The unpaid principal balance of our outstanding borrowings bears interest at our election at a rate equal to (i) the bank's base lending rate, or (ii) the libor rate plus a libor margin of

2.75% per annum whenever the borrowing base usage is equal to or greater than 75%;

2.50% per annum whenever the borrowing base usage is equal to or greater than 50% but less than 75%;

2.25% per annum whenever the borrowing base usage is less than 50%.

However, the interest rate may never be less than 4.50%. Interest on borrowings bearing interest at the libor rate is due and payable on the day on



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which the related labor interest period ends or if the interest period is longer than three months, at three month intervals. Interest on borrowings bearing interest at the base rate is due and payable on the last day of each month.

We are required to pay a commitment fee of one-quarter of one percent times the daily average of the unadvanced amount of the commitment. The commitment fee is payable quarterly in arrears on the last day of each calendar quarter.

In addition to customary affirmative covenants, the loan agreement contains various restrictive covenants and compliance requirements, including:

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- o maintaining certain financial requirements;
- o limitation on additional indebtedness;
- o prohibiting the payment of dividends on our common stock;
- o limitations on the disposition of assets;
- o prohibiting liens (other than in favor of the bank) to exist on any of our properties;
- o limitations on investments, mergers, forming subsidiaries, affiliate transactions, changes in accounting methods, rental and lease payments and derivative transactions
- o limitations on the purchase, redemption or retirement of stock; and
- o limitations on hedging activities.

### NOTE 3. PREFERRED STOCK

We have outstanding 974,500 shares of 6% Convertible Preferred Stock, \$0.10 par value per share. Cumulative annual dividends of \$0.60 per share are payable semi-annually on June 15 and December 15 of each year. Each share of Convertible Preferred Stock may be converted, at the option of the holder, into 2.8571 shares of common stock at an initial conversion price of \$3.50 per share, subject to adjustment in certain events. The Convertible Preferred Stock has a liquidation preference of \$10 per share and has no voting rights, except as required by law. We may redeem the preferred stock, in whole or part, for \$10 per share plus accrued and unpaid dividends.

### NOTE 4. INCOME TAX LIABILITY

For the six months ended June 30, 2003, we recorded income tax expense of \$1,638,264 resulting in a net deferred tax liability of \$4,181,501. Our income tax expense was largely due to generating taxable income in the current period. Our effective tax rate for the six months ended June 30, 2003 was 25%, which is less than the expected rate of 37% due to the recognition of state income tax, net operating loss carryover and certain federal income tax credits not previously recognized.

### NOTE 5. FULL COST CEILING TEST

We use the full cost method to account for our oil and gas producing activities. Under the full cost method of accounting, the net book value of oil and gas properties, less related deferred income taxes, may not exceed a

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calculated "ceiling". The ceiling limitation is the discounted estimated after-tax future net cash flows from proved oil and gas properties. In calculating future net cash flows, current prices and costs are generally held constant indefinitely. The net book value of oil and gas properties, less related deferred income taxes over the ceiling, is compared to the ceiling on a quarterly and annual basis. Any excess of the net book value, less related deferred income taxes, is generally written off as an expense. Under rules and regulations of the SEC, the excess above the ceiling is not written off if, subsequent to the end of the quarter or year but prior to the release of the financial results, prices have increased sufficiently that such excess above the ceiling would not have existed if the increased prices were used in the calculations.

At June 30, 2003 the net book value of our oil and gas properties, less related deferred income taxes, was below the calculated ceiling. As a result, we were not required to record a reduction of our oil and gas properties under the full cost method of accounting at that time.

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Under the full cost method of accounting, all costs incurred in the acquisition, exploration and development of oil and natural gas properties, including a portion of our overhead, are capitalized. In the six month period ended June 30, 2003 overhead costs capitalized were \$430,780.

### NOTE 6. DERIVATIVE INSTRUMENTS

#### General

For the year ended December 31, 2002, we used mark-to-market accounting for our hedge contracts. As of January 1, 2003 we adopted hedge accounting for the costless collars, oil and gas swaps, and interest rate swaps described below. We continued market-to-market accounting for our put positions described below. The purpose of our hedges is to provide a measure of stability in our oil and gas prices and interest rate payments and to manage exposure to commodity price and interest rate risk. Our objective is to lock in a range of oil and gas prices and a fixed interest rate for certain notional amounts.

During the terms of a hedge, the quarterly change in the fair value of the derivatives is recorded in stockholders' equity as other comprehensive income (loss) and then transferred to earnings when the production is sold. Ineffective portions of hedges (changes in realized prices that do not match the changes in the hedge price) are recognized in earnings as they occur. While the hedge contract is open, the ineffective gain or loss may increase or decrease until settlement of the contract. For the six months ended June 30, 2003, there was no ineffective portion of our natural gas and interest rate hedges. For the six months ended June 30, 2003, we recorded a cumulative charge of \$103,473 to other income (expense) for the ineffective portion of the crude oil hedges.

For the six months ended June 30, 2003, \$251,017 was transferred from comprehensive income (loss) and charged to earnings along with the expiration of the associated hedge contracts. During the twelve month period ended June 30, 2004, we expect approximately \$1,023,647 to be transferred out of other comprehensive income (loss) and charged to earnings.

We are exposed to credit risk in the event of nonperformance by BNP Paribas in its derivative instruments. However, we periodically assess its credit worthiness to mitigate this credit risk.

#### Interest Rate Sensitivity

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In January, 2003, we entered into a 45-month libor fixed interest rate swap contract with BNP Paribas. We will receive a fixed interest rate, as noted in the table below, for the 45-month period beginning June 30, 2003 through December 20, 2006.

Under our revolving credit facility, we may elect an interest rate based upon the agent lender's base lending rate, or the libor rate, plus a margin ranging from 2.25% to 2.75% per annum, depending on our borrowing base usage. The interest rate we are required to pay, including the applicable margin, may never be less than 4.50%.

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A recap for the period of time, notional amounts, libor fixed interest rates, expected margin rates and expected fixed interest rates for the contract are as follows:

Period of Time	Notional Amounts (1)	Libor Fixed Interest Rates (2)	Expected Margin Rates (3)
March 31, 2003 thru December 31, 2003	\$ 35,000,000	1.675%	2.750%
December 31, 2003 thru December 31, 2004	\$ 30,000,000	2.660%	2.500%
December 31, 2004 thru December 31, 2005	\$ 20,000,000	4.050%	2.250%
December 31, 2005 thru December 20, 2006	\$ 10,000,000	4.050%	2.250%

- 
- (1)Based on the anticipated principal reductions under our credit facility.
  - (2)Our swap contract with BNP Paribas.
  - (3)Based on the anticipated borrowing base usage under our credit facility.
  - (4)Total of the libor fixed interest rate plus the expected margin rate under our credit facility. Our credit agreement requires the interest rate to not be below 4.50%.

### Commodity Price Sensitivity

Puts. On May 24, 2002 we purchased put floors on volumes of 100,000 Mcf per month for a total of 700,000 Mcf during the seven month period from April, 2003 through October, 2003 at a floor price of \$3.00 per Mcf for a total consideration of approximately \$139,500. These derivatives are not held for trading purposes.

A decrease in fair value of the put floors of \$21,400 was recognized for the six months ended June 30, 2003 in the Consolidated Statements of Operations.

The following table illustrates our put options.

Period	Commodity	Mcf Volume	Floor Price	Cost of Floor	Fair Va at June 30,
-----					

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April 2003 thru October 2003      natural gas      700,000      \$ 3.00      \$ 139,500      \$

Costless Collars. Collars are created by purchasing puts to establish a floor price and then selling a call which establishes a maximum amount the producer will receive for the oil or gas hedged. Calls are sold to offset or reduce the premium paid for buying the put. In January and June, 2003, we entered into several costless, seven-month Houston ship channel gas collars. A majority of our natural gas production is sold based on Houston ship channel prices. A recap for the period of time, number of MMBtu's and average gas prices is as follows:

Period of Time	MMBtu of Natural Gas	Houston Ship Channel Gas Prices	
		Floor	Cap
April 1, 2003 thru October 31, 2003	642,000	\$ 4.25	\$ 5.30
November 1, 2003 thru March 31, 2004	302,000	\$ 5.70	\$ 6.80

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Subsequent to June 30, 2003, we added additional Houston Ship Channel costless collars for November 1, 2003 through March 31, 2004 on 151,000 MMBtu of gas with a floor of \$4.90 and a cap of \$6.15.

Swaps. Generally, swaps are an agreement to buy or sell a specified commodity for delivery in the future, but at an agreed fixed price. Swap transactions convert a floating price into a fixed price. For any particular swap transaction, the counterparty is required to make a payment to the hedge party if the reference price for any settlement period is less than the swap price for such hedge, and the hedge party is required to make a payment to the counterparty if the reference price for any settlement period is greater than the swap price for such hedge.

In January and February, 2003, we entered into additional oil and gas swap contracts with BNP Paribas. A recap for the period of time, number of MMBtu's, number of barrels, and swap prices are as follows:

Period of Time	Barrels of Oil	Nymex Oil Swap Prices	MMBtu of Natural Gas	Houston Chan Gas Swa
April 1, 2003 thru October 31, 2003	-	\$ -	214,000	
April 1, 2003 thru October 31, 2003	-	\$ -	428,000	
April 1, 2003 thru December 31, 2003	275,000	\$ 24.58	-	
January 1, 2004 thru December 31, 2004	329,400	\$ 23.19	-	
January 1, 2005 thru December 31, 2005	292,000	\$ 22.77	-	



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	=====	=====
Weighted average common shares outstanding	20,663,861	21,144,
Employee stock options	93,015	149,
Preferred stock	2,784,244	2,784,
	-----	-----
Weighted average common shares for diluted earnings per share assuming conversion	23,541,120	24,078,
	=====	=====
Diluted EPS:		
Net income before cumulative effect of a change in accounting principle	\$ 0.84	\$ 0
Cumulative effect of a change in accounting principle, net of tax	-	-
	-----	-----
Net income	\$ 0.84	\$ 0
	=====	=====

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NOTE 8: ASSET RETIREMENT OBLIGATIONS

On January 1, 2003 we adopted Statement of Financial Accounting Standards No. 143, Accounting for Asset Retirement Obligations "SFAS 143". Adoption of SFAS 143 is required for all companies with fiscal years beginning after June 15, 2002. The new standard requires us to recognize a liability for the present value of all legal obligations associated with the retirement of tangible long-lived assets and to capitalize an equal amount as a cost of the asset, depreciating the additional cost through the unit-of-production method on the life of the asset. Through June 30, 2003 we recorded additional oil and gas property costs, net of disposals, of \$1,221,371, a reduction in accumulated depletion of \$394,230, a non-current liability of \$1,708,716 and an after tax charge of \$61,456 for the cumulative effect on prior years for depreciation and accretion expense on the liability related to expected abandonment costs of our oil and natural gas properties. The accretion expense for the current quarter is \$34,526 and recorded as a charge to lease operating expense with a corresponding additional long-term liability.

The following table summarizes our asset retirement obligation transactions during the three months and six months ended June 30, 2003.

	Three Months Ended June 30, 2003	Six Months End June 30, 2003
	-----	-----
Beginning asset retirement obligation	\$ 1,727,165	\$ 1,6
Additions related to new properties	16,074	
Deletions related to property disposals	(688)	
Accretion expense	34,526	

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Ending asset retirement obligation

\$ 1,777,077

\$ 1,7

Prior years pro forma were not shown since the change was not significant.

NOTE 9: RECENTLY ANNOUNCED ACCOUNTING PRONOUNCEMENTS

SFAS No. 148, Accounting for Stock-Based Compensation-Transition and Disclosure, which amends SFAS No. 123, Accounting for Stock-Based Compensation. SFAS No. 148 provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. The statement also amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The statement is required to be adopted for fiscal years ending after December 15, 2002.

We currently account for stock-based compensation in accordance with APB Opinion No. 25 which requires us to recognize compensation expense only to the extent that the fair market value is greater than the option price at the date of grant.

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On April 22, 2003, the FASB announced its decision to require all companies to expense the value of employee stock options. Companies will be required to measure the cost according to the fair value of the options. The new guidelines have not been released to measure the cost according to the fair value of the options. Although the new guidelines have not been released, it is expected that they will be finalized and become effective in 2004. When final rules are announced, we will assess the impact to our consolidated financial statements.

FIN No. 45, Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others, FIN No. 45 requires that a liability be recorded in the guarantor's balance sheet upon issuance of certain guarantees. Initial recognition and measurement of the liability will be applied on a prospective basis to guarantees issued or modified after December 31, 2002. FIN No. 45 also requires disclosures about guarantees in financial statements for interim or annual periods ending after December 15, 2002. We do not expect the adoption of FIN No. 45 to have a material impact on our consolidated financial statements.

FIN No. 46, Consolidation of Variable Interest Entities, an Interpretation of Accounting Research Bulletin No. 51. FIN No. 46 requires certain variable interest entities to be consolidated by the primary beneficiary of the entity if the equity investors in the entity do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without financial support from other parties. We do not expect the adoption of FIN No. 46 to have a material impact on our consolidated financial statements.

In May 2003, the FASB issued Statement No. 150 "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." This statement establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. This statement is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the

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first interim period beginning after June 15, 2003. We do not expect the adoption of FAS 150 to have a material impact on our consolidated financial statements.

### NOTE 10.COMMITMENTS AND CONTINGENCIES

At June 30, 2003, we were involved in one lawsuit incidental to our business. In the opinion of management, the ultimate outcome of this lawsuit will not have a material adverse effect on our financial position or results of operations. We are not aware of any threatened litigation. We have not been a party to any bankruptcy, receivership, reorganization, adjustment or similar proceeding.

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

The following discussion and analysis should be read in conjunction with our Consolidated Financial Statements and the related notes.

#### OVERVIEW

##### Strategy

Our primary objective is to increase the per share net asset value of our common stock through increasing reserves, production, cash flow and earnings. We are shifting the balance of our investments from properties having high rates of production in early years to properties with more consistent production over a longer term. We attempt to reduce our financial risks by dedicating a smaller portion of our capital to high risk projects, while reserving the majority of our available capital for exploitation and development drilling opportunities. Obtaining positions in long-lived oil and gas reserves will be given priority over properties that might provide more cash flow in the early years of production, but which have shorter reserve lives. We also attempt to further reduce risk by emphasizing acquisition possibilities over high risk exploration projects.

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During the latter part of 2002, we reduced our emphasis on high risk exploration efforts and started focusing on established geologic trends where we can utilize the engineering, operational, financial and technical expertise of our entire staff. Although we anticipate participating in exploratory drilling activities in the future, reducing financial, reservoir, drilling and geological risks and diversifying our property portfolio are important criteria in the execution of our business plan. In summary, our business plan:

- o focuses on projects having less geological risk;
- o entails less exploratory activity in the down dip Wilcox trend of our south Texas properties;
- o emphasizes exploitation and enhancement activities;
- o focuses on acquiring producing properties; and
- o expands the scope of our operations by diversifying our exploratory and development efforts, both in and outside of our current areas of operation.



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Although the direction of our exploration and development activities has shifted from high risk exploratory activities to lower risk development opportunities, we will continue our efforts, as we have in the past, to maintain low general and administrative expenses relative to the size of our overall operations, utilize advanced technologies, serve as operator in appropriate circumstances, and reduce operating costs.

The extent to which we are able to implement and follow through with our business plan will be influenced by:

- o the prices we receive for the oil and gas we produce;
- o the results of reprocessing and reinterpreting our 3-D seismic data;
- o the results of our drilling activities;
- o the costs of obtaining high quality field services;
- o our ability to find and consummate acquisition opportunities; and
- o our ability to negotiate and enter into work to earn arrangements, joint venture or other similar agreements on terms acceptable to us.

Significant changes in the prices we receive for our oil and gas, drilling results, or the occurrence of unanticipated events beyond our control may cause us to defer or deviate from our business plan, including the amounts we have budgeted for our activities.

Operating Performance. Our operating performance is influenced by several factors, the most significant of which are the prices we receive for our oil and gas and production volumes. The world price for oil has overall influence on the prices we receive for our oil production. The prices received for different grades of oil are based upon the world price for oil, which is then adjusted based upon the particular grade. Typically, light oil is sold at a premium, while heavy grades of crude are discounted. Gas prices we receive are primarily influenced by seasonal demand, weather, hurricane conditions in the Gulf of Mexico, and availability of pipeline transportation to end users and proximity of our wells to major transportation pipeline infrastructure and, to a lesser extent, world oil prices. Additional factors influencing our operating performance include production expenses, overhead requirements, and cost of capital.

Our oil and gas exploration, development and acquisition activities require substantial and continuing capital expenditures. Historically, the sources of financing to fund our capital expenditures have

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included:

- o cash flow from operations,
- o sales of our equity securities,
- o bank borrowings, and
- o industry joint ventures

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For the three months ended June 30, 2003, the sales price we received for our crude oil production (excluding hedges) averaged \$26.09 per barrel compared with \$22.29 per barrel for the three months ended June 30, 2002. The average sales price we received for natural gas for the three months ended June 30, 2003 (excluding hedges), was \$6.10 per mcf compared with \$3.39 per mcf for the three months ended June 30, 2002. Our hedged sales price that we received for the three months ended June 30, 2003, averaged \$24.00 per barrel for crude oil and \$5.84 per mcf for natural gas.

Our oil and gas producing activities are accounted for using the full cost method of accounting. Under this method, we capitalize all costs incurred in connection with the acquisition of oil and gas properties and the exploration for and development of oil and gas reserves. See Note 5 to Financial Statements. These costs include lease acquisition costs, geological and geophysical expenditures, costs of drilling both productive and non-productive wells, and overhead expenses directly related to land and property acquisition and exploration and development activities. Proceeds from the disposition of oil and gas properties are accounted for as a reduction in capitalized costs, with no gain or loss recognized unless the disposition involves a material change in reserves, in which case the gain or loss is recognized.

Depletion of the capitalized costs of oil and gas properties, including estimated future development costs, is provided using the equivalent unit-of-production method based upon estimates of proved oil and gas reserves and production, which are converted to a common unit of measure based upon their relative energy content. Unproved oil and gas properties are not amortized, but are individually assessed for impairment. The cost of any impaired property is transferred to the balance of oil and gas properties being depleted.

### RESULTS OF OPERATIONS

Our business activities are characterized by frequent, and sometimes significant, changes in our:

- o sources of production;
- o product mix (oil vs. gas volumes); and
- o the prices we receive for our oil and gas production.

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Year-to-year or other periodic comparisons of the results of our operations can be difficult and may not accurately describe our condition. A BOE means one barrel of oil equivalent using the ratio of six Mcf of gas to one barrel of oil.

	Three Months Ended		S
	6/30/2002	6/30/2003	6/30
Sales Volume:			
Oil (Bbls)	33,126	159,739	63
Natural gas (Mcf)	609,812	805,137	1,200
Equivalent barrels of oil (BOE)	134,761	293,929	263
Equivalent barrels of oil (BOE) per day	1,497	3,266	1

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Prices:

Bbls (unhedged)	\$ 22.29	\$ 26.09	\$ 2
Bbls (hedged)		\$ 24.00	\$
Mcf (unhedged)	\$ 3.39	\$ 6.10	\$
Mcf (hedged)		\$ 5.84	\$
BOE (unhedged)	\$ 20.84	\$ 30.89	\$ 1
BOE (hedged)		\$ 29.03	\$

### CRITICAL ACCOUNTING POLICIES AND PRACTICES

**Full Cost.** We account for our oil and natural gas exploration and development activities using the full cost method of accounting. Under this method, all costs incurred in the acquisition, exploration and development of oil and natural gas properties are capitalized. Costs of nonproducing properties, wells in process of being drilled and significant development projects are excluded from depletion until such time as the related project is developed and proved reserves are established or impairment is determined. At the end of each quarter, the net capitalized costs of our oil and natural gas properties is limited to the lower of unamortized cost or a ceiling.

**Depletion.** Provision for depletion of oil and gas properties, under the full cost method, is calculated using the unit of production method based upon estimates of proved oil and gas reserves with oil and gas production being converted to a common unit of measure based upon relative energy content. 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. The cost of any impaired property is transferred to the balance of oil and gas properties being depleted.

**Impairment of Assets.** Under the full cost accounting rules, the capitalized costs of oil and gas properties may not exceed a "ceiling limit", which is based on the present value of estimated future net revenues, net of income tax effects, from proved reserves, discounted at 10%, plus the lower of cost or fair market value of unproved properties. If the net capitalized costs of our oil and natural gas properties exceed the ceiling, we are subject to a ceiling test write-down to the extent of such excess. A ceiling test write-down is a non-cash charge to earnings. It reduces earnings and impacts stockholders' equity in the period of occurrence and results in lower depreciation, depletion and amortization expense in future periods.

The risk that we will be required to write down the carrying value of oil and gas properties increases when oil and gas prices decline. If commodity prices deteriorate, it is possible that we could incur impairment in 2003.

**Proved Reserve Estimates.** Our discounted present value of proved oil and natural gas reserves is a major component of the ceiling calculation, and represents the component that requires the most

subjective judgments. Estimates of reserves are forecasts based on engineering data, projected future rates of production and the timing of future expenditures. The process of estimating oil and natural gas reserves requires substantial judgment, resulting in imprecise determinations, particularly for new discoveries. Different reserve engineers may make different estimates of reserve quantities based on the same data. Our reserve estimates are prepared by outside consultants.

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The passage of time provides more qualitative information regarding estimates of reserves, and revisions are made to prior estimates to reflect updated information. However, there can be no assurance that more significant revisions will not be necessary in the future. If future significant revisions are necessary that reduce previously estimated reserve quantities, it could result in a full cost property write-down. In addition to the impact of these estimates of proved reserves on calculation of the ceiling, estimates of proved reserves are also a significant component of the calculation of depreciation, depletion and amortization.

While the quantities of proved reserves require substantial judgment, the associated prices of oil and natural gas reserves that are included in the discounted present value of the reserves do not require judgment. The ceiling calculation dictates that prices and costs in effect as of the last day of the period are held constant indefinitely. Because the ceiling calculation dictates that we use prices in effect as of the last day of the applicable quarter, the resulting value is not indicative of the true fair value of the reserves. Oil and natural gas prices have historically been cyclical and, on any particular day at the end of a quarter, can be either substantially higher or lower than prices we actually receive in the long-term, which are a barometer for true fair value.

Derivatives. SFAS No. 133 and SFAS No. 138 require that all derivative instruments be recorded on the balance sheet at their respective values. SFAS No. 133 and SFAS No. 138 are effective for all fiscal quarters of all fiscal years beginning after June 30, 2000. We adopted SFAS No. 133 and SFAS No. 138 on January 1, 2001. For the year ended December 31, 2002, we used mark-to-market accounting for our hedge contracts. As of January 1, 2003 we adopted hedge accounting for the costless collars, oil and gas swaps, and interest rate swaps. We continued market-to-market accounting for our put positions. The purpose of our hedges is to provide a measure of stability in our oil and gas prices and interest rate payments and to manage exposure to commodity price and interest rate risk under existing sales contracts.

### RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED JUNE 30, 2003 AND 2002:

Oil and Gas Revenues. Oil and gas revenues increased \$5,723,167 or 204%, to \$8,531,974 for the three months ended June 30, 2003, from \$2,808,807 for the same period of 2002. The increase was primarily the result of a 118% increase in oil and gas production due to the Fullerton acquisition on December 20, 2002 and increased production at Cook Mountain and a 39% increase in the average sales price per BOE including hedges.

Lease Operating Costs. Lease operating costs increased \$1,463,582, or 203%, to \$2,185,196 during the three months ended June 30, 2003, compared with \$721,614 for the same period of 2002. The increase was primarily attributable to higher lease operating costs associated with the Fullerton acquisition and Diamond M operations, and outside operated properties acquired at year-end.

General and Administrative Expenses. General and administrative expenses (excluding the incentive award payments paid and accrued during the three months ended June 30, 2002 of approximately \$1,471,000 related to the First Permian, L.P. divestiture) increased by \$464,468, or 92%, to \$968,154 for the three months ended June 30, 2003 from \$503,686 for the same period of 2002. The increase was primarily due to costs associated with additional personnel hired to implement our new business plan.

Depreciation, Depletion and Amortization Expense. Depreciation, depletion and amortization expense increased by \$656,028, or 49%, to \$1,989,194 for the three months ended June 30, 2003 compared with \$1,333,166 for the same

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period of 2002 primarily because of a 118% increase in production volumes.

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**Interest Expense.** Interest expense increased \$363,684, or 230%, to \$521,891 for the three months ended June 30, 2003 compared with \$158,207 for the same period of 2002 due principally to increased bank borrowings of \$30,600,000 associated with our acquisitions, partially offset by a decrease in the minimum interest rate under our revolving credit facility. The minimum interest rate decreased from 4.75% to 4.50% in December 2002.

**Interest and Other Income.** Interest and other income decreased \$19,730, or 94% to \$1,336 for the three month period ended June 30, 2003 compared to \$21,066 for the same period of 2002 due to decreased other miscellaneous income.

**Income Tax Expense.** For the three months ended June 30, 2003, we recorded a tax expense of \$446,610. During the second quarter we recognized state income tax, net operating loss carryover and certain federal income tax credits not previously recognized. For further discussion see Note 4.

**Net Income.** We reported net income of \$2,671,090 for the three months ended June 30, 2003 compared with net income of \$19,661,503 for the three months ended June 30, 2002. The decrease of \$16,990,413 or 86% resulted from the gain on sale of First Permian, L.P. and dividend income from the Energen stock, partially offset by accrued incentive award payments to employees reported during the three months ended June 30, 2002 and increased oil and gas revenues for the three months ended June 30, 2003.

### RESULTS OF OPERATIONS FOR THE SIX MONTHS ENDED JUNE 30, 2003 AND 2002:

**Oil and Gas Revenues.** Oil and gas revenues increased \$12,244,768, or 256%, to \$17,024,766 for the six months ended June 30, 2003, from \$4,779,998 for the same period of 2002. The increase was primarily the result of a 119% increase in oil and gas production due to the Fullerton acquisition on December 20, 2002, increased production at Cook Mountain and a 62% increase in the average sales price per BOE including hedges.

**Lease Operating Costs.** Lease operating costs increased \$2,369,866 or 186%, to \$3,640,856 during the first six months of 2003, compared with \$1,270,990 for the same period of 2002. The increase was primarily attributable to higher lease operating costs associated with the Fullerton acquisition and Diamond M operations and outside operated properties acquired at year end.

**General and Administrative Expenses.** General and administrative expenses (excluding the incentive award payments paid and accrued during the six months ended June 30, 2002 of approximately \$1,471,000 related to the First Permian, L.P. divestiture) increased by \$916,472 or 107%, to \$1,769,922 for the six months ended June 30, 2003 from \$853,450 for the same period of 2002. The increase was primarily due to costs associated with additional personnel hired to implement the business plan.

**Depreciation, Depletion and Amortization Expense.** Depreciation, depletion and amortization expense increased by \$1,367,089, or 51%, to \$4,054,885 for the first six months of 2003 compared with \$2,687,796 for the same period of 2002, primarily because of a 119% increase in production volumes.

**Interest Expense.** Interest expense increased \$697,091 or 224%, to \$1,008,355 for the six months ended June 30, 2003 compared with \$311,264 for the same period of 2002; due principally to increased bank borrowings of \$30,600,000 associated with our acquisitions, partially offset by a decrease in the minimum interest rate under our revolving credit facility. The minimum interest rate

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decreased from 4.75% to 4.50% in December 2002.

Interest and Other Income. Interest and other income increased \$8,551, or 23% to \$45,992 for the six month period ended June 30, 2003 compared to \$37,441 for the same period of 2002 due to increased cash balances associated with increased cash flow.

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Income Tax Expense. For the six months ended June 30, 2003 we recorded a tax expense of \$1,638,264. Our effective tax rate for the six months ended June 30, 2003 was 25%, which is less than the expected rate of 37% due to the recognition of state income tax, net operating loss carryover and certain federal income tax credits not previously recognized. For further discussion see Note 4.

Net Income. We reported net income of \$4,922,844 for the six months ended June 30, 2003 compared to \$18,892,752 for the six months ended June 30, 2002. The decrease of \$13,969,908 or 74% resulted from the gain on sale of First Permian, L.P., dividend income from the Energen stock, partially offset by accrued incentive award payments to employees reported during the three months ended June 30, 2002.

Cash flow from operations for the six months ended June 30, 2003 increased \$3,607,971 or 68% to \$8,940,781 compared with a net cash flow from operations of \$5,332,810 for the six months ended June 30, 2002.

### LIQUIDITY AND CAPITAL RESOURCES

Our capital resources consist primarily of cash flows from our oil and gas properties and bank borrowings supported by our oil and gas reserves. Our level of earnings and cash flows depends on many factors, including the prices we receive for oil and natural gas we produce.

Working capital decreased \$9,415,523 as of June 30, 2003 compared with December 31, 2002. Current liabilities exceeded current assets by \$876,140 at June 30, 2003 compared with current assets exceeding current liabilities by \$8,539,383 at December 31, 2002. Working capital decreased primarily due to the payment of \$7,000,000 on our bank debt requirements, current derivative obligations, increased receivables and current maturities of long-term debt.

We incurred net property costs of \$7,512,425 for the six months ended June 30, 2003, primarily for our oil and gas property acquisition, development, and enhancement activities. Also added to our property basis were asset retirement costs of \$1,221,371 for the adoption of SFAS 143 (see Note 8). The property acquisition, development and enhancement activities were financed by the utilization of cash flows provided by operations.

Based on our projected oil and gas revenues and related expenses and available bank borrowings, we believe that we will have sufficient capital resources to fund normal operations, interest expense and principal reduction payments on bank debt, if required, and preferred stock dividends. We continually review and consider alternative methods of financing.

The following table is a summary of significant contractual cash obligations:

	Obligation Due in Period				
	2003	2004	2005	2006	2007
Contractual Cash Obligations					

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(000)

Revolving Credit Facility (Secured)	\$ 3,563	\$ 8,550	\$ 8,550	\$ 8,550	\$ 8,5
Office Lease (Dinero Plaza)	\$ 102	\$ 102	\$ 102	\$ 68	\$

As of May 31, 2003 we found a tenant for our former office space and our lease agreement was terminated.

### TRENDS AND PRICES

Changes in oil and gas prices significantly affect our revenues, cash flows and borrowing capacity. Markets for oil and gas have historically been, and will continue to be, volatile. Prices for oil and gas typically fluctuate in response to relatively minor changes in supply and demand, market uncertainty, seasonal, political and other factors beyond our control. We are unable to accurately predict domestic or worldwide political events or the effects of other such factors on the prices we receive for our oil and gas. Please refer to Note 6 Derivative Instruments.

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Our capital expenditure budgets are highly dependent on future oil and gas prices and will be consistent with internally generated cash flows.

During fiscal year 2002 the average sales price for our oil was approximately \$24.59 per barrel while the average sales prices we received for natural gas was approximately \$3.33 per thousand cubic feet ("Mcf"). For the six months ended June 30, 2003, the average price for our oil production was approximately \$29.28 (unhedged) per Bbl, while the average price received at that same date for our natural gas production was approximately \$5.96 per Mcf (unhedged).

### FORWARD-LOOKING STATEMENTS

In addition to historical information contained herein, this Form 10-Q Report contains forward-looking statements subject to various risks and uncertainties that could cause our actual results to differ materially from those in the forward-looking statements. Forward-looking statements can be identified by the use of forward-looking terminology such as "may", "will", "expect," "intend," "anticipate," "estimate," "continue," "present value," "future," "reserves" or other variations thereof or comparable terminology. Factors that could cause or contribute to such differences include, but are not limited to:

- o those relating to the results of exploratory drilling activity,
- o changes in oil and natural gas prices,
- o operating risks,
- o availability of drilling equipment,
- o outstanding indebtedness,
- o changes in interest rates,
- o dependence on weather conditions,
- o seasonality,

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- o expansion and other activities of competitors,
- o changes in federal or state environmental laws and the administration of such laws,
- o the general condition of the economy and effect on the .

While we believe our forward-looking statements are based upon reasonable assumptions, these are factors that are difficult to predict and that are influenced by economic and other conditions beyond our control. Investors are urged to consider such risks and other uncertainties discussed in documents filed by us with the SEC.

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### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our only financial instrument sensitive to changes in interest rates is our bank debt. Our annual interest costs in 2003 could fluctuate based on short-term interest rates. As the interest rate is variable and reflects current market conditions, the carrying value approximates the fair value. The table below shows principal cash flows and related weighted average interest rates by expected maturity dates. Weighted average interest rates were determined using weighted average interest paid and accrued in June 2003.

	July 2003	July 2004	July 2005	July 2006	Jul 2007
(In 000's, except interest rates)					
Variable rate debt:					
Revolving facility (secured)	\$ 3,563	\$ 8,550	\$ 8,550	\$ 8,550	\$ 8,550
Average interest rate (unhedged)	4.50%	4.50%	4.50%	4.50%	4.50%
Average interest rate (hedged) (1)	4.425%	5.16%	6.30%	6.30%	-

- (1) Total of the libor fixed interest rate plus the expected margin rate under our revolving credit facility. Our credit agreement requires the interest rate to not be below 4.50%.

At June 30, 2003, we had bank loans in the amount of \$42,750,000 outstanding at an average interest rate of 4.50%. Borrowings under our revolving credit facility bear interest, at our election, at (i) the bank's base rate or (ii) the Eurodollar rate, plus 2.75%, but in no event less than 4.50%. As a result, our annual interest costs in 2003 could fluctuate based on short-term interest rates. Assuming no change in the amount outstanding during 2003, the impact on interest expense of a one-half of one percent change in the average interest rate above the 4.50% floor would be approximately \$107,753 for the remainder of the year. As the interest rate is variable and is reflective of current market conditions, the carrying value approximates the fair value.

We periodically hedge a portion of our interest rates to manage exposure to interest rate movements. In January 2003 we entered into several libor fixed rate swap contracts extending throughout our loan period. See Note 6.

Our major market risk exposure is in the pricing applicable to our oil



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and natural gas production. Market risk refers to the risk of loss from adverse changes in oil and natural gas prices. Realized pricing is primarily driven by the prevailing domestic price for crude oil and spot prices applicable to the region in which we produce natural gas. Historically, prices received for oil and gas production have been volatile and unpredictable. Pricing volatility is expected to continue. Oil prices ranged from a low of \$14.26 per barrel to a high of \$29.57 per barrel during 2002. Natural gas prices we received during 2002 ranged from a low of \$1.05 per Mcf to a high of \$4.94 per Mcf. During 2003 oil prices ranged from a low of \$22.78 high of \$35.95. Natural gas prices we received during 2003 ranged from a low of \$1.98 per Mcf to a high of \$10.28 per Mcf. A significant decline in the prices of natural gas or oil could have a material adverse effect on our financial condition and results of operations.

We periodically hedge a portion of our oil and natural gas to manage exposure to commodity price risk under existing sales contracts. Our objective is to lock in a range of oil and gas prices. We try to meet this objective by entering into costless collars and swap hedge contracts. For the remainder of fiscal 2003 hedged oil and natural gas volumes represent approximately 56% and 54% respectively of expected production from July thru December 2003. See Note 6.

### ITEM 4. CONTROLS AND PROCEDURES

As of the end of the period covered by this Quarterly Report on Form 10-Q, the effectiveness of our disclosure controls and procedures was evaluated by our management, with the participation of our chief executive officer, Thomas R. Cambridge (principal executive officer), and our chief financial officer, Steven

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D. Foster (principal financial officer). Our disclosure controls and procedures are designed to help ensure that information we are required to disclose in reports that we file with the SEC is accumulated and communicated to our management and recorded, processed, summarized and reported within the time periods prescribed by the SEC. Mr. Cambridge and Mr. Foster have concluded that our disclosure controls and procedures are effective for their intended purposes. There were no changes in internal control over financial reporting that occurred during the last fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II - OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

At June 30, 2003, we were involved in one lawsuit incidental to our business. In the opinion of management, the ultimate outcome of this lawsuit will not have a material adverse effect on our financial position or results of operations. We are not aware of any threatened litigation. We have not been a party to any bankruptcy, receivership, reorganization, adjustment or similar proceeding.

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

Our annual meeting of stockholders was held on June 19, 2003. At the meeting, the following persons were elected to serve as directors of Parallel for a term of one year expiring in 2004 and until their respective successors are duly qualified and elected: (1) Thomas R. Cambridge, (2) Larry C. Oldham, (3) Dewayne E. Chitwood, (4) Martin B. Oring, (5) Charles R. Pannill, (6) Ray M. Poage, and (7) Jeffrey G. Shrader. Set forth below is a tabulation of votes with

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respect to each nominee for director.

NAME	VOTES CAST FOR	VOTES WITHHELD	BROKER NON-VOTES
Thomas R. Cambridge	18,975,312	333,435	-
Larry C. Oldham	18,998,812	309,935	-
Dewayne E. Chitwood	18,999,517	309,230	-
Martin B. Oring	18,975,017	333,730	-
Charles R. Pannill	18,973,197	335,550	-
Ray M. Poage	18,998,947	309,800	-
Jeffrey G. Shrader	18,975,797	332,950	-

In addition to electing directors, the stockholders also voted upon and ratified the appointment of KPMG LLP to serve as our independent public accountants for 2003. Set forth below is a tabulation of votes with respect to the proposal to ratify the appointment of our independent public accountants:

FOR	AGAINST	ABSTAIN	BROKER NON-VOTES
18,912,509	383,249	12,989	-

ITEM 6. EXHIBIT AND REPORTS ON FORM 8-K

(a) Exhibits

No.	Description of Exhibit
3.1	Certificate of Incorporation of Registrant (incorporated by reference to Exhibit 3.1 to Form 10-K of the Registrant for the fiscal year ended December 31, 1998.)
3.2	Bylaws of Registrant (Incorporated by reference to Exhibit 3 to the Registrant's Form 8-K, dated October 9, 2000, as filed with the Securities and Exchange Commission on October 10, 2000.)
4.1	Certificate of Designations, Preferences and Rights of Serial Preferred Stock - 6% Convertible Preferred Stock (Incorporated by reference to Exhibit 4.1 to Form 10-Q of the Registrant for the fiscal quarter ended September 30, 1998.)
4.2	Certificate of Designation, Preferences and Rights of Series A Preferred Stock. (Incorporated by reference to Exhibit 4.2 of Form 10-K for the fiscal year ended December 31, 2000.)
4.3	Rights Agreement, dated as of October 5, 2000, between the Registrant and Computershare Trust Company, Inc., as Rights

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Agent. (Incorporated by reference to Exhibit 4.3 of Form 10-K for the fiscal year ended December 31, 2000.)

Executive Compensation Plans and Arrangements (Exhibit No.'s 10.1 through 10.9):

- 
- 10.1 1983 Incentive Stock Option Plan (Incorporated by reference to Exhibit 10.2 to Form S-1 of the Registrant (File No. 2-92397) as filed with the Securities and Exchange Commission on July 26, 1984, as amended by Amendments No. 1 and 2 on October 5, 1984, and October 25, 1984, respectively.)
  - 10.2 1992 Stock Option Plan (Incorporated by reference to Exhibit 28.1 to Form S-8 of the Registrant (File No. 33-57348) as filed with the Securities and Exchange Commission on January 25, 1993.)
  - 10.3 Stock Option Agreement between the Registrant and Thomas R. Cambridge dated December 11, 1991 (Incorporated by reference to Exhibit 10.4 of Form 10-K of the Registrant for the fiscal year ended December 31, 1992.)
  - 10.4 Stock Option Agreement between the Registrant and Thomas R. Cambridge dated October 18, 1993 (Incorporated by reference to Exhibit 10.4(e) of Form 10-K of the Registrant for the fiscal year ended December 31, 1993.)
  - 10.5 Merrill Lynch, Pierce, Fenner & Smith Incorporated Prototype Simplified Employee Pension Plan (Incorporated by reference to Exhibit 10.6 of the Registrant's Form 10-K for the fiscal year ended December 31, 1995.)
  - 10.6 Non-Employee Directors Stock Option Plan (Incorporated by reference to Exhibit 10.6 of the Registrant's Form 10-K Report for the fiscal year ended December 31, 1997).
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- 10.7 1998 Stock Option Plan (Incorporated by reference to Exhibit 10.7 of Form 10-K of the Registrant for the fiscal year ended December 31, 1998.)
  - 10.8 Form of Incentive Award Agreements, dated December 12, 2001, between the Registrant and Thomas R. Cambridge, Larry C. Oldham, Eric A. Bayley and John S. Rutherford granting 2,394 Unit Equivalent Rights to Mr. Cambridge; 9,564 Unit Equivalent Rights to Mr. Oldham; 2,869 Unit Equivalent Rights to Mr. Bayley; and 7,173 Unit Equivalent Rights to Mr. Rutherford. (Incorporated by reference to Exhibit 10.8 of the Registrant's Form 10-K Report for the fiscal year ended December 31, 2001).
  - 10.9 Form of Change of Control Agreements, dated June 1, 2001, between the Registrant and Thomas R. Cambridge, Larry C. Oldham, Eric A. Bayley and John S. Rutherford. (Incorporated by reference to Exhibit 10.9 of the Registrant's Form 10-K Report for the fiscal year ended December 31, 2001).
  - 10.10 Restated Loan Agreement, dated December 27, 1999, between the

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- Registrant and Bank One, Texas, N.A. (Incorporated by reference to Exhibit 10.8 of Form 10-K of the Registrant for the fiscal year ended December 31, 1999).
- 10.11 Loan Agreement dated December 18, 2000, between the Registrant and Bank One, Texas, N.A. (Incorporated by reference to Exhibit 10.8 of Form 10-K of the Registrant for the fiscal year ended December 31, 2000.)
- 10.12 Letter agreement, dated March 24, 1999, between the Registrant and Bank One, Texas, N.A. (Incorporated by reference to Exhibit 10.9 of Form 10-K of the Registrant for the fiscal year ended December 31, 1998.)
- 10.13 Certificate of Formation of First Permian, L.L.C. (Incorporated by reference to Exhibit 10.1 of the Registrant's Form 8-K report dated June 30, 1999.)
- 10.14 Limited Liability Company Agreement of First Permian, L.L.C. (Incorporated by reference to Exhibit 10.2 of the Registrant's Form 8-K report dated June 30, 1999.)
- 10.15 Merger Agreement dated June 25, 1999. (Incorporated by reference to Exhibit 10.3 of the Registrant's Form 8-K report dated June 30, 1999.)
- 10.16 Agreement and Plan of Merger of First Permian, L.L.C. and Nash Oil Company, L.L.C. (Incorporated by reference to Exhibit 10.4 of the Registrant's Form 8-K report dated June 30, 1999.)
- 10.17 Certificate of Merger of First Permian, L.L.C. and Nash Oil Company, L.L.C (Incorporated by reference to Exhibit 10.5 of the Registrant's Form 8-K Report dated June 30, 1999.)
- 10.18 Amended and Restated Limited Liability Company Agreement of First Permian, L.L.C. dated as of May 31, 2000. (Incorporated by reference to Exhibit 10.16 of Form 10-K for the fiscal year ended December 31, 2000.)
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- 10.19 Credit Agreement dated June 30, 1999, by and among First Permian, L.L.C., Parallel Petroleum Corporation, Baytech, Inc., and Bank One, Texas, N.A. (Incorporated by reference to Exhibit 10.6 of the Registrant's Form 8-K report dated June 30, 1999.)
- 10.20 Limited Guaranty, dated June 30, 1999, by and among First Permian, L.L.C., Parallel Petroleum Corporation, and Bank One, Texas, N.A. (Incorporated by reference to Exhibit 10.7 of the Registrant's Form 8-K report dated June 30, 1999.)
- 10.21 Intercreditor Agreement, dated as of June 30, 1999, by and among First Permian, L.L.C., Bank One, Texas, N.A., Tejon Exploration Company, and Mansefeldt Investment Corporation (Incorporated by reference to Exhibit 10.8 of the Registrant's Form 8-K report dated June 30, 1999.)
- 10.22 Subordinated Promissory Note, dated June 30, 1999, in the original principal amount of \$8.0 million made by First Permian,

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- L.L.C. payable to the order of Tejon Exploration Company  
(Incorporated by reference to Exhibit 10.9 of the Registrant's  
Form 8-K report dated June 30, 1999.)
- 10.23 Subordinated Promissory Note, dated June 30, 1999, in the  
original principal amount of \$8.0 million made by First Permian,  
L.L.C. payable to the order of Mansefeldt Investment Corporation  
(Incorporated by reference to Exhibit 10.10 of the Registrant's  
Form 8-K report dated June 30, 1999.)
- 10.24 Second Restated Credit Agreement, dated October 25, 2000, among  
First Permian, L.L.C., Bank One, Texas, N.A., and Bank One  
Capital Markets, Inc. (Incorporated by reference to Exhibit  
10.22 of Form 10-K for the fiscal year ended December 31, 2000.)
- 10.25 Loan Agreement, dated January 25, 2002, between the Registrant  
and First American Bank, SSB (Incorporated by reference to  
Exhibit 10.25 of Form 10-K for the fiscal year ended December  
31, 2001.)
- 10.26 Purchase and Sale Agreement, dated as of November 27, 2002,  
among JMC Exploration, Inc., Arkoma Star L.L.C., Parallel, L.P.  
and Texland Petroleum, Inc. (Incorporated by reference to  
Exhibit 10.1 of Form 8-K of the Registrant, dated December 20,  
2002)
- 10.27 First Amended and Restated Credit Agreement, dated December 20,  
2002, by and among Parallel Petroleum Corporation, Parallel,  
L.P. Parallel, L.L.C., First American Bank, SSB, Western  
National Bank and BNP Paribas (Incorporated by reference to  
Exhibit 10.2 of Form 8-K of the Registrant, dated December 20,  
2002)
- 10.28 Guaranty dated December 20, 2002, between Parallel, L.L.C. and  
First American Bank, SSB, as Agent (Incorporated by reference to  
Exhibit 10.3 of Form 8-K of the Registrant, dated December 20,  
2002)
- 21 Subsidiaries (Incorporated by reference to Exhibit 21 of Form  
10-K of the Registrant for the fiscal year ended December 31,  
2002)
- \*31.1 Certification of Principal Executive Officer pursuant to 18  
U.S.C. Section 1350, as adopted pursuant to Section 302 of the  
Sarbanes - Oxley Act of 2002.
- 27
- \*31.2 Certification of Principal Financial Officer pursuant to 18  
U.S.C. Section 1350, as adopted pursuant to Section 302 of the  
Sarbanes - Oxley Act of 2002.
- \*32.1 Certification of Chief Executive Officer pursuant to 18 U.S.C.  
Section 1350, as adopted pursuant to Section 906 of the Sarbanes  
- Oxley Act of 2002.
- \*32.2 Certification of Chief Financial Officer 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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\* Filed herewith.

(b) Reports on Form 8-K

During the fiscal quarter ended June 30, 2003, we filed one report on Form 8-K.

On May 15, 2003, we filed Form 8-K, dated May 15, 2003, reporting matters furnished under Item 9 - Regulation FD Disclosure, and Item 12 - Disclosure of Results of Operations and Financial Condition. This report included our May 15, 2003 press release announcing our results of operations and financial condition for the first quarter ended March 31, 2003.

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.

PARALLEL PETROLEUM CORPORATION

Date: August 13, 2003

BY: /s/ Thomas R. Cambridge  
-----  
Thomas R. Cambridge  
Chairman of the Board of Directors  
and Chief Executive Officer

Date: August 13, 2003

BY: /s/ Steven D. Foster  
-----  
Steven D. Foster,  
Chief Financial Officer

INDEX TO EXHIBITS

(a) Exhibits

No.	Description of Exhibit
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3.1	Certificate of Incorporation of Registrant (incorporated by reference to Exhibit 3.1 to Form 10-K of the Registrant for the fiscal year ended December 31, 1998.)
3.2	Bylaws of Registrant (Incorporated by reference to Exhibit 3 to the Registrant's Form 8-K, dated October 9, 2000, as filed with the Securities and Exchange Commission on October 10, 2000.)

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- 4.1 Certificate of Designations, Preferences and Rights of Serial Preferred Stock - 6% Convertible Preferred Stock (Incorporated by reference to Exhibit 4.1 to Form 10-Q of the Registrant for the fiscal quarter ended September 30, 1998.)
- 4.2 Certificate of Designation, Preferences and Rights of Series A Preferred Stock. (Incorporated by reference to Exhibit 4.2 of Form 10-K for the fiscal year ended December 31, 2000.)
- 4.3 Rights Agreement, dated as of October 5, 2000, between the Registrant and Computershare Trust Company, Inc., as Rights Agent. (Incorporated by reference to Exhibit 4.3 of Form 10-K for the fiscal year ended December 31, 2000.)

Executive Compensation Plans and Arrangements (Exhibit No.'s 10.1 through 10.9):

- 10.1 1983 Incentive Stock Option Plan (Incorporated by reference to Exhibit 10.2 to Form S-1 of the Registrant (File No. 2-92397) as filed with the Securities and Exchange Commission on July 26, 1984, as amended by Amendments No. 1 and 2 on October 5, 1984, and October 25, 1984, respectively.)
- 10.2 1992 Stock Option Plan (Incorporated by reference to Exhibit 28.1 to Form S-8 of the Registrant (File No. 33-57348) as filed with the Securities and Exchange Commission on January 25, 1993.)
- 10.3 Stock Option Agreement between the Registrant and Thomas R. Cambridge dated December 11, 1991 (Incorporated by reference to Exhibit 10.4 of Form 10-K of the Registrant for the fiscal year ended December 31, 1992.)
- 10.4 Stock Option Agreement between the Registrant and Thomas R. Cambridge dated October 18, 1993 (Incorporated by reference to Exhibit 10.4(e) of Form 10-K of the Registrant for the fiscal year ended December 31, 1993.)
- 10.5 Merrill Lynch, Pierce, Fenner & Smith Incorporated Prototype Simplified Employee Pension Plan (Incorporated by reference to Exhibit 10.6 of the Registrant's Form 10-K for the fiscal year ended December 31, 1995.)
- 10.6 Non-Employee Directors Stock Option Plan (Incorporated by reference to Exhibit 10.6 of the Registrant's Form 10-K Report for the fiscal year ended December 31, 1997).
- 10.7 1998 Stock Option Plan (Incorporated by reference to Exhibit 10.7 of Form 10-K of the Registrant for the fiscal year ended December 31, 1998.)
- 10.8 Form of Incentive Award Agreements, dated December 12, 2001, between the Registrant and Thomas R. Cambridge, Larry C. Oldham, Eric A. Bayley and John S. Rutherford granting 2,394 Unit Equivalent Rights to Mr. Cambridge; 9,564 Unit Equivalent Rights to Mr. Oldham; 2,869 Unit Equivalent Rights to Mr. Bayley; and 7,173 Unit Equivalent Rights to Mr. Rutherford. (Incorporated by

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- reference to Exhibit 10.8 of the Registrant's Form 10-K Report for the fiscal year ended December 31, 2001).
- 10.9 Form of Change of Control Agreements, dated June 1, 2001, between the Registrant and Thomas R. Cambridge, Larry C. Oldham, Eric A. Bayley and John S. Rutherford. (Incorporated by reference to Exhibit 10.9 of the Registrant's Form 10-K Report for the fiscal year ended December 31, 2001).
  - 10.10 Restated Loan Agreement, dated December 27, 1999, between the Registrant and Bank One, Texas, N.A. (Incorporated by reference to Exhibit 10.8 of Form 10-K of the Registrant for the fiscal year ended December 31, 1999).
  - 10.11 Loan Agreement dated December 18, 2000, between the Registrant and Bank One, Texas, N.A. (Incorporated by reference to Exhibit 10.8 of Form 10-K of the Registrant for the fiscal year ended December 31, 2000.)
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  - 10.21 Intercreditor Agreement, dated as of June 30, 1999, by and among



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First Permian, L.L.C., Bank One, Texas, N.A., Tejon Exploration Company, and Mansefeldt Investment Corporation (Incorporated by reference to Exhibit 10.8 of the Registrant's Form 8-K report dated June 30, 1999.)

- 10.22 Subordinated Promissory Note, dated June 30, 1999, in the original principal amount of \$8.0 million made by First Permian, L.L.C. payable to the order of Tejon Exploration Company (Incorporated by reference to Exhibit 10.9 of the Registrant's Form 8-K report dated June 30, 1999.)
- 10.23 Subordinated Promissory Note, dated June 30, 1999, in the original principal amount of \$8.0 million made by First Permian, L.L.C. payable to the order of Mansefeldt Investment Corporation (Incorporated by reference to Exhibit 10.10 of the Registrant's Form 8-K report dated June 30, 1999.)
- 10.24 Second Restated Credit Agreement, dated October 25, 2000, among First Permian, L.L.C., Bank One, Texas, N.A., and Bank One Capital Markets, Inc. (Incorporated by reference to Exhibit 10.22 of Form 10-K for the fiscal year ended December 31, 2000.)
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- 21 Subsidiaries (Incorporated by reference to Exhibit 21 of Form 10-K of the Registrant for the fiscal year ended December 31, 2002)
- \*31.1 Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes - Oxley Act of 2002.
- \*31.2 Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes - Oxley Act of 2002.
- \*32.1 Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes - Oxley Act of 2002.
- \*32.2 Certification of Chief Financial Officer pursuant to 18 U.S.C.

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Section 1350, as adopted pursuant to Section 906 of the Sarbanes  
- Oxley Act of 2002.

Exhibit 31.1

### CERTIFICATION

I, Thomas R. Cambridge, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Parallel Petroleum Corporation:
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report.
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

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Date: August 13, 2003

/s/ Thomas R. Cambridge

-----  
Thomas R. Cambridge  
Chief Executive Officer

Exhibit 31.2

## CERTIFICATION

I, Steven D. Foster, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Parallel Petroleum Corporation:
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report.
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

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- (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Date: August 13, 2003

/s/ Steven D. Foster

-----  
Steven D. Foster  
Chief Financial Officer

EXHIBIT 32.1

CERTIFICATION

(Not filed pursuant to the Securities Exchange Act of 1934)

Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes - Oxley Act of 2002, the undersigned, Thomas R. Cambridge, the Chairman of the Board of Directors and Chief Executive Officer of Parallel Petroleum Corporation ("Parallel"), hereby certifies that the Quarterly Report on Form 10-Q of Parallel for the quarter ended June 30, 2003 fully complies with the periodic reporting requirements of the Securities Exchange Act of 1934, as amended, and the information contained in that Form 10-Q Report fairly presents, in all material respects, the financial condition and results of operations of Parallel.

Dated: August 13, 2003

/s/ Thomas R. Cambridge

-----  
Thomas R. Cambridge, Chairman  
of the Board of Directors and Chief  
Executive Officer

A signed original of this written statement required by Section 906 has been provided to Parallel Petroleum Corporation and will be retained by Parallel Petroleum Corporation and furnished to the Securities Exchange Commission or its staff upon request.

EXHIBIT 32.2

CERTIFICATION

(Not filed pursuant to the Securities Exchange Act of 1934)

Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes - Oxley Act of 2002, the undersigned, Steven D. Foster, the Chief Financial Officer of Parallel Petroleum Corporation ("Parallel"), hereby certifies that the Quarterly Report on Form 10-Q of Parallel for the quarter ended June 30, 2003 fully complies with the periodic reporting requirements of the Securities Exchange Act of 1934, as amended, and the information contained in that Form 10-Q Report fairly presents, in all material respects, the financial condition and results of operations of Parallel.

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Dated: August 13, 2003

/s/ Steven D. Foster

-----  
Steven D. Foster,  
Chief Financial Officer

A signed original of this written statement required by Section 906 has been provided to Parallel Petroleum Corporation and will be retained by Parallel Petroleum Corporation and furnished to the Securities Exchange Commission or its staff upon request.