PARALLEL PETROLEUM CORP
Form 10-Q/A
May 09, 2006

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D. C. 20549
FORM 10-Q/A
(Amendment No. 1 to Form 10-Q filed November 7, 2005)

(Mark One)

þ **Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the quarterly period ended September 30, 2005 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 0-13305
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 þ No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o Accelerated filer þ Non-accelerated filer o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ

At November 1, 2005, 34,140,211 shares of the Registrant s Common Stock, $0.01 par value, were outstanding.

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Explanatory Note

This Amendment No. 1 to the Quarterly Report on Form 10-Q of Parallel Petroleum Corporation (Parallel , the Company , we , our or us) for the quarterly period ended September 30, 2005, which was originally filed on November 7, 2005 (the Form 10-Q), is being filed to restate the financial statements and other disclosure included therein. As part of the preparation of our financial statements for the year ended December 31, 2005, we undertook a review of our accounting for oil and gas and interest rate derivatives. We use derivative instruments as a means of reducing financial exposure to fluctuating oil and gas prices and interest rates. We included changes from period to period in the fair value of derivatives classified as cash flow hedges (Hedges) as increases or decreases to Accumulated Other Comprehensive Income (AOCI) as allowed by Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities* (FAS 133). This Hedge accounting treatment is allowed for certain derivatives, including the types of derivatives used by us to reduce exposure to changes in oil and gas prices associated with the sale of oil and gas production and fluctuations in interest rates. In order to qualify for Hedge accounting treatment, specific standards and documentation requirements must be met. We believed that we met those requirements and that our derivative accounting treatment was permitted under FAS 133. However, after a review of FAS 133 and our accounting policies and procedures related to our derivative instruments, we determined that certain of our derivative instruments did not qualify for Hedge accounting treatment under FAS 133. Specifically, we determined that documentation of the relationship of hedged items and the derivative instruments being employed and designated as Hedges was insufficient for derivative instruments entered into during periods subsequent to June 30, 2004; and that accounting for derivative instruments entered into during periods subsequent to June 30, 2004 as cash flow Hedges was, therefore, inappropriate. Accordingly, we have restated our Consolidated Balance Sheets as of September 30, 2005 and December 31, 2004; our Consolidated Statements of Operations for the three and nine months ended September 30, 2005 and 2004; our Consolidated Statements of Cash Flows for the nine months ended September 30, 2005 and 2004; and our Consolidated Statements of Comprehensive Income (Loss) for the three and nine months ended September 30, 2005 and 2004 in the Form 10-Q to reflect these revisions (see Note 12 to our consolidated financial statements for a reconciliation of our restated results to previously reported results). We have also restated applicable disclosures in *ITEM 1. Notes to Consolidated Financial Statements* and *ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS* . Management has concluded, based on the circumstances involving the restatement of the aforementioned financial statements, that as of December 31, 2005, a material weakness in internal control over financial reporting existed with respect to the design of our controls over the proper recording and disclosure of derivative instruments in accordance with FAS 133. See *ITEM 4. CONTROLS AND PROCEDURES.*

This Amendment No. 1 amends and restates the Form 10-Q in its entirety. This Amendment No. 1 does not reflect events occurring after the original filing of the Form 10-Q, and does not modify or update the disclosures therein in any way other than as required to reflect the amendments as previously described and set forth hereinafter. In addition, the filing of this amendment to the Form 10-Q shall not be deemed an admission that the original filing, when made, included any untrue statement of material fact or omitted to state a material fact necessary to make a statement made therein not misleading. This Form 10-Q/A (Amendment No. 1) should be read in conjunction with our filings made with the SEC subsequent to the filing of the original Form 10-Q, including any amendments to those filings.

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PARALLEL PETROLEUM CORPORATION
Consolidated Balance Sheets
(dollars in thousands)

	September 30, 2005 (unaudited) *(restated)*	December 31, 2004 *(restated)*
Assets		
Current assets:		
Cash and cash equivalents	$ 6,135	$ 4,781
Accounts receivable:		
Oil and gas	14,215	6,642
Other, net of allowance for doubtful account of $9	740	389
Affiliates	10	7
	14,965	7,038
Other current assets	434	179
Deferred tax asset	6,456	2,531
Total current assets	27,990	14,529
Property and equipment, at cost:		
Oil and gas properties, full cost method (including $18,470 and $9,526 not subject to depletion)	264,178	229,245
Other	2,483	2,062
	266,661	231,307
Less accumulated depreciation, depletion and amortization	(86,941)	(78,782)
Net property and equipment	179,720	152,525
Restricted cash	149	2,287
Equity investment in Westfork Pipeline	2,209	595
Other assets, net of accumulated amortization of $792 and $581	575	735
	$ 210,643	$ 170,671
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 9,556	$ 5,568
Asset retirement obligations	133	150
Derivative obligations	18,808	7,965
Total current liabilities	28,497	13,683
Revolving credit facility	68,000	79,000
Asset retirement obligations	2,154	1,982

Derivative obligations		31,608		9,525
Deferred tax liability		4,233		6,487
Total long-term liabilities		105,995		96,994
Commitments and contingencies (Note 10)				
Stockholders equity:				
Series A preferred stock par value $0.10 per share, authorized 50,000 shares				
Preferred stock 6% convertible preferred stock par value of $0.10 per share (liquidation preference of $10 per share), authorized 10,000,000 shares, issued and outstanding 950,000, converted to common stock June, 2005				95
Common stock par value $0.01 per share, authorized 60,000,000 shares, issued and outstanding 34,140,211 and 25,439,292		341		254
Additional paid-in capital		76,747		48,328
Retained earnings		8,527		18,759
Accumulated other comprehensive loss		(9,464)		(7,442)
Total stockholders equity		76,151		59,994
	$	210,643	$	170,671

The accompanying notes are an integral part of these Consolidated Financial Statements.

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PARALLEL PETROLEUM CORPORATION
Consolidated Statements of Operations
(unaudited)
(in thousands, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
	(restated)	*(restated)*	*(restated)*	*(restated)*
Oil and natural gas revenues:				
Oil and natural gas sales	$ 25,501	$ 10,208	$ 53,474	$ 29,066
Loss on hedging and derivatives	(3,664)	(2,463)	(8,960)	(5,403)
Total revenues	21,837	7,745	44,514	23,663
Costs and expenses:				
Lease operating expense	2,663	1,894	7,399	5,437
Production taxes	1,334	458	2,615	1,407
General and administrative	1,735	1,438	4,771	3,881
Depreciation, depletion and amortization	3,104	1,984	8,159	6,030
Total costs and expenses	8,836	5,774	22,944	16,755
Operating income	13,001	1,971	21,570	6,908
Other income (expense), net:				
Change in fair market value of derivatives	(9,388)	(4,417)	(33,086)	(4,417)
Gain (loss) on ineffective portion of hedges	404	57	(456)	64
Interest and other income	83	10	124	168
Interest expense	(1,060)	(509)	(3,101)	(1,464)
Other expense	(75)	(25)	(77)	(110)
Equity in income (loss) of Westfork Pipeline	22	0	(72)	
Total other expense, net	(10,014)	(4,884)	(36,668)	(5,759)
Income (loss) before income taxes	2,987	(2,913)	(15,098)	1,149
Income tax benefit (expense), deferred	(998)	1,045	5,137	(432)
Net income (loss)	1,989	(1,868)	(9,961)	717
Cumulative preferred stock dividend		(142)	(271)	(429)
Net income (loss) available to common stockholders	$ 1,989	$ (2,010)	$ (10,232)	$ 288
Net income (loss) per common share:				
Basic	$ 0.06	$ (0.08)	$ (0.32)	$ 0.01

Diluted	$ 0.06	$ (0.08)	$ (0.32)	$ 0.01
Weighted average common share outstanding:				
Basic	34,033	25,382	31,585	25,284
Diluted	34,951	25,382	31,585	25,284

The accompanying notes are an integral part of these Consolidated Financial Statements.

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PARALLEL PETROLEUM CORPORATION
Consolidated Statements of Cash Flows
Nine Months Ended September 30, 2005 and 2004
(unaudited)
(dollars in thousands)

	2005 (restated)	2004 (restated)
Cash flows from operating activities:		
Net income (loss)	$ (9,961)	$ 717
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion and amortization	8,159	6,030
Accretion of asset retirement obligation	82	73
Deferred income tax (benefit) expense	(5,137)	432
Change in fair value of derivative instruments	33,086	4,417
(Gain) loss on ineffective portion of hedges	456	(64)
Common stock issued in lieu of cash for directors fees	99	99
Stock option expense	119	127
Equity in loss of Westfork Pipeline Company, LP	72	
Changes in assets and liabilities:		
Other assets, net	186	(120)
Restricted cash	(149)	
Increase in accounts receivable	(7,927)	(1,190)
Increase (decrease) in other current assets	61	(10)
Increase in accounts payable and accrued liabilities	3,988	1,563
Net cash provided by operating activities	23,134	12,074
Cash flows from investing activities:		
Additions to oil and gas properties	(37,888)	(41,944)
Use of restricted cash for acquisition of oil and gas properties	2,287	
Proceeds from disposition of oil and gas properties	3,028	1,693
Additions to other property and equipment	(421)	(591)
Settlements on derivatives	(3,424)	
Purchase of derivative instruments	(598)	
Investment in Westfork Pipeline Company LP	(1,686)	
Net cash used in investing activities	(38,702)	(40,842)
Cash flows from financing activities:		
Net borrowings (payments) on revolving credit facility	(11,000)	15,250
Deferred financing costs		(377)
Proceeds (net) from common stock issued	27,743	
Proceeds from exercise of stock options	450	523
Deferred stock offering costs		(7)
Payment of preferred stock dividend	(271)	(287)
Net cash provided by financing activities	16,922	15,102

Net increase (decrease) in cash and cash equivalents		1,354		(13,666)
Cash and cash equivalents at beginning of period		4,781		17,378
Cash and cash equivalents at end of period	$	6,135	$	3,712
Non-cash financing and investing activities:				
Oil and gas properties asset retirement obligations, net	$	73	$	232
Conversion of preferred stock	$	95	$	
Accrued preferred stock dividend	$		$	142
Other transactions:				
Interest paid	$	3,319	$	1,465

The accompany notes are an integral part of these Consolidated Financial Statements.

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PARALLEL PETROLEUM CORPORATION
Consolidated Statements of Comprehensive Income (Loss)
(unaudited)
(dollars in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	**2004**	**2005**	**2004**
	(restated)	*(restated)*	*(restated)*	*(restated)*
Net income (loss)	$ 1,989	$ (1,868)	$ (9,961)	$ 717
Other comprehensive loss:				
Unrealized losses on derivatives	(3,702)	(7,517)	(12,175)	(15,642)
Reclassification adjustments for losses on derivatives included in net income (loss)	3,694	2,545	9,112	5,716
Change in fair value of derivatives	(8)	(4,972)	(3,063)	(9,926)
Income tax benefit	3	1,690	1,041	3,375
Total other comprehensive loss	(5)	(3,282)	(2,022)	(6,551)
Total comprehensive income (loss)	$ 1,984	$ (5,150)	$ (11,983)	$ (5,834)

The accompany notes are an integral part of these Consolidated Financial Statements.

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PARALLEL PETROLEUM CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. DESCRIPTION OF BUSINESS NATURE OF OPERATIONS AND BASIS OF PRESENTATION

Parallel Petroleum Corporation was incorporated in Texas on November 26, 1979, and reincorporated in the State of Delaware on December 18, 1984.

We are engaged in the acquisition, development and exploitation of long life oil and natural gas reserves and, to a lesser extent, the exploration for new oil and natural gas reserves. Our activities are focused in the Permian Basin of west Texas and New Mexico, Liberty County in east Texas and the onshore Gulf Coast area of south Texas. We are actively evaluating, leasing and drilling new projects located in New Mexico, the Fort Worth Basin of Texas, the Cotton Valley Reef trend of east Texas and the Uinta Basin of Utah.

The financial information included herein is unaudited, except the balance sheet as of December 31, 2004 which has been derived from our audited Consolidated Financial Statements as of December 31, 2004, as restated (see Note 12). 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, accounting policies 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 in this Form 10-Q Report pursuant to certain rules and regulations of the Securities and Exchange Commission. These financial statements should be read in conjunction with the audited consolidated financial statements and notes included in our Annual Report on Form 10-K for the year ended December 31, 2004.

Unless otherwise indicated or unless the context otherwise requires, all references to Parallel , we , us , and our ar Parallel Petroleum Corporation and its consolidated subsidiaries, Parallel L.P. and Parallel, L.L.C.

NOTE 2. STOCKHOLDERS EQUITY

Options

In September, 2003, Parallel adopted the provisions of Statement of Financial Accounting Standards No. 148, *Accounting for Stock-Based Compensation Transition and Disclosure,* an amendment to SFAS No. 123, whereby certain transitional alternatives are available for a voluntary change to the fair value based method of accounting for stock-based employee compensation. Parallel used the prospective method which applied prospectively the fair value recognition method to all employee and director awards granted, modified or settled after the beginning of the fiscal year in which the fair value based method of accounting for stock-based compensation was adopted. The potential impact of using the fair value method for all options, on a pro forma basis, is presented in the table that follows.

For the three months ended September 30, 2005 and 2004, Parallel recognized compensation expense of approximately $0.049 million and $0.043 million respectively and for the nine months ended September 30, 2005 and 2004, Parallel recognized compensation expense of approximately $0.119 million and $0.127 million associated with its stock option grants. For the quarter ended September 30, 2005 there were 200,000 options granted. No options were granted during the quarter ended September 30, 2004.

The following table illustrates the effect on net income and earnings per share as if the fair value based method had been applied to all outstanding and unvested awards in each period. The fair value of each grant is estimated on the date of grant using the Black-Scholes option-pricing model.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
	(dollars in thousands, except per share data)			
	(restated)	*(restated)*	*(restated)*	*(restated)*
Net income, as reported	$ 1,989	$ (1,868)	$ (9,961)	$ 717
Add:				
Expense recorded in 2005 and 2004	49	43	119	127
Deduct:				
Total stock-based employee compensation expense determined under fair value based method for all awards, net of tax effects	(35)	(48)	(106)	(143)
Pro forma net income	$ 2,003	$ (1,873)	$ (9,948)	$ 701
Earnings per share:				
Basic as reported	$ 0.06	$ (0.08)	$ (0.32)	$ 0.01
Basic pro forma	$ 0.06	$ (0.07)	$ (0.32)	$ 0.03
Diluted as reported	$ 0.06	$ (0.08)	$ (0.32)	$ 0.01
Diluted pro forma	$ 0.06	$ (0.07)	$ (0.32)	$ 0.03

Sale of Equity Securities

On February 9, 2005, we sold 5,750,000 shares of our common stock, $.01 par value per share, pursuant to a public offering at a price of $5.27 per share. Gross cash proceeds were $30.3 million, and net proceeds were approximately $27.7 million. The common shares were issued under Parallel s $100.0 million Universal Shelf Registration Statement on Form S-3 which became effective in November 2004. The proceeds were used to reduce our bank debt under our revolving credit facility described in Note 3 below.

Preferred Stock

On May 4, 2005, notice was mailed that all 950,000 outstanding shares of our 6% Preferred Stock would be redeemed on June 6, 2005. All of the holders of the Preferred Stock elected to convert their shares of Preferred Stock into shares of Parallel common stock based on the conversion rate of $10.00 divided by $3.50. The holders of the Preferred Stock received approximately 2.8571 shares of common stock of Parallel for each share of Preferred Stock. Dividends on the Preferred Stock ceased to accrue, and as of June 6, 2005 the Preferred Stock is no longer outstanding.

NOTE 3. REVOLVING CREDIT FACILITY

We are a party to a Second Amended and Restated Credit Agreement, dated as of September 27, 2004 (the Credit Agreement), with Citibank Texas, N.A., BNP Paribas, Citibank, F.S.B. and Western National Bank, as amended on December 27, 2004, April 1, 2005 and October 13, 2005. The Credit Agreement provides for a revolving credit facility which means that we can borrow, repay and reborrow funds drawn under the credit facility. The total amount that we can borrow and have outstanding at any one time is limited to the lesser of $200.0 million or the borrowing

base established by our lenders. Our current borrowing base is $100.0 million. The principal amount outstanding under the credit facility at September 30, 2005 was $68.0 million, excluding $0.49 million reserved for our letters of credit. The amount of the borrowing base is based primarily upon the estimated value of our oil and gas reserves. The borrowing base amount is redetermined by the lenders semi-annually on or about April 1 and October 1 of each year or at other times required by the lenders or at our request. If, as a result of the lenders redetermination of the borrowing base, the outstanding principal amount of our loan exceeds the borrowing base, we

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must either provide additional collateral to the lenders or repay the principal of the note in an amount equal to the excess. Except for the principal payments that may be required because of our outstanding loans being in excess of the borrowing base, interest only is payable monthly.

Loans made to us under this credit facility bear interest at Citibank s base rate or the LIBOR rate, at our election. Generally, Citibank s base rate is equal to the prime rate published in the Wall Street Journal. At September 30, 2005, Parallel had $2.0 million in base rate loans outstanding under the credit facility.

The LIBOR rate is generally equal to the sum of (a) the rate designated as British Bankers Association Interest Settlement Rates and offered on one, two, three, six or twelve month interest periods for deposits of $1.0 million, and (b) a margin ranging from 2.00% to 2.50%, depending upon the outstanding principal amount of the loans. If the principal amount outstanding is equal to or greater than 75% of the borrowing base, the margin is 2.50%. If the principal amount outstanding is equal to or greater than 50%, but less than 75% of the borrowing base, the margin is 2.25%. If the principal amount outstanding is less than 50% of the borrowing base, the margin is 2.00%.

The interest rate we are required to pay on our borrowings, including the applicable margin, may never be less than 4.50%. At September 30, 2005, our Libor interest rate, plus margin, was 6.57% on $31.0 million and 6.27% on $35.0 million.

In the case of base rate loans, interest is payable on the last day of each month. In the case of LIBOR loans, interest is payable on the last day of each applicable interest period.

If the total outstanding borrowings under the credit facility are less than the borrowing base, an unused commitment fee is required to be paid to the lenders. The amount of the fee is .25% of the daily average of the unadvanced amount of the borrowing base. The fee is payable quarterly.

If the borrowing base is increased, we are required to pay a fee of .375% on the amount of any increase in the borrowing base.

Parallel, L.L.C., a subsidiary of Parallel Petroleum Corporation, guaranteed payment of the loans.

Parallel s obligations to the lenders are secured by substantially all of its oil and gas properties.

All outstanding principal under the revolving credit facility is due and payable on October 31, 2010. The maturity date of our outstanding loans may be accelerated by the lenders upon the occurrence of an event of default under the Credit Agreement.

The Credit Agreement contains various restrictive covenants and compliance requirements as follows:

- at the end of each quarter, a current ratio (as defined in the credit agreement) of at least 1.1 to 1.0;

- for each period (as calculated in the Credit Agreement) ending on December 31, March 31, June 30 and September 30, a funded debt ratio (as defined in the Credit Agreement) of not more than 3.70, 3.60 and 3.50, respectively, for December 31, 2005, 2006 and 2007; and

- at all times, adjusted consolidated net worth (as defined in the Credit Agreement) of at least (a) $50.0 million, plus (b) seventy-five percent (75%) of the net proceeds from any equity securities issued by Parallel, plus (c) fifty percent (50%) of consolidated net income for each fiscal quarter, if positive, and zero percent (0%) if negative.

As a result of the restatement of the financial statements concerning our accounting for certain oil and natural gas and interest rate derivative instruments (see Note 12), we were not in compliance with certain covenants in the Credit Agreement concerning financial reporting requirements. We have obtained waivers of our non-compliance with these covenants from our lenders.

The Credit Agreement also contains restrictions on all retained earnings and net income for payment of dividends on common stock.

If we have borrowing capacity under our Credit Agreement, we intend to borrow, repay and reborrow under the revolving credit facility from time to time as necessary, subject to borrowing base limitations, to fund:

- interpretation and processing seismic survey data;
- lease acquisitions and drilling activities;
- acquisitions of producing properties or companies owning producing properties; and,
- general corporate purposes.

Interest expense for the nine months ending September 30, 2005 was approximately $2.9 million not including approximately $0.102 million for interest capitalized associated with drilling projects.

NOTE 4. ACQUISITIONS

In September and October 2004, with two separate transactions, we purchased additional non-operated working interest in the Fullerton Field properties. The net purchase price for these transactions was approximately $20.9 million.

In October and December 2004, we purchased properties in the Carm-Ann San Andres and North Means Queen Unit located in Andrews and Gaines counties, Texas. The combined net purchase price was approximately $16.5 million. In the first quarter of 2005, we acquired additional interest in these properties for a net purchase price of approximately $2.3 million.

The table below reflects our actual consolidated restated results of operations for the three and nine months ended September 30, 2005, compared to the consolidated pro forma results of operations for the nine months ended September 30, 2004, assuming these acquisitions were consummated on January 1, 2004.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	Pro Forma 2004	2005	Pro Forma 2004
	(in thousands, except per share data)			
	(restated)		*(restated)*	
Oil and gas revenue, net of hedge losses	$21,837	$ 9,753	$ 44,514	$ 29,851
Operating income	$13,001	$ 3,012	$ 21,570	$ 9,363
Net income (loss) available to common stockholders	$ 1,989	$ 1,311	$(10,232)	$ 3,960
Net income (loss) per common share:				
Basic	$ 0.06	$ 0.05	$ (0.32)	$ 0.16
Diluted	$ 0.06	$ 0.05	$ (0.32)	$ 0.15

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 and asset retirement obligations, may not exceed a 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 as adjusted for qualifying cash flow hedges. 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 September 30, 2005, we had a cushion (i.e. the excess of the ceiling over our capitalized cost) in excess of $290.0 million. 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.

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 nine month periods

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ended September 30, 2005 and 2004, overhead costs capitalized were approximately $0.923 million and $0.779 million respectively.

NOTE 6. DERIVATIVE INSTRUMENTS

General

We enter into derivative contracts to provide a measure of stability in the cash flows associated with our oil and gas production 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 to limit variability in our cash interest payments. Our line of credit agreement as of September 30, 2005, required us to maintain derivative financial instruments which limit our exposure to fluctuating commodity prices covering at least 50% of our estimated monthly production of oil and natural gas extending 24 months into the future.

We designated all of our interest rate swaps, collars and commodity swaps entered into in 2002 through June 30, 2004 as cash flow hedges (hedges). The effective portion of the unrealized gain or loss on cash flow hedges is recorded in other comprehensive income (loss) until the forecasted transaction occurs. During the term of a cash flow hedge, the effective portion of the quarterly change in the fair value of the derivatives is recorded in stockholders equity as other comprehensive loss and then transferred to oil and gas revenues when the production is sold and interest expense as the interest accrues. Ineffective portions of hedges (changes in fair value resulting from changes in realized prices that do not match the changes in the hedge or reference price) are recognized in other expense as they occur.

As of September 30, 2005, we have recorded unrealized losses of $14.3 million ($9.5 million, net of tax) related to our derivative instruments designated as hedges, which represented the estimated aggregate fair values of our open hedge contracts, as of that date. These unrealized losses are presented in stockholders equity in the Consolidated Balance Sheet as accumulated other comprehensive loss. During the twelve month period ending September 30, 2006, we expect approximately $7.3 million, net of tax, in accumulated other comprehensive loss to be charged to earnings.

Derivative contracts not designated as hedges are marked-to-market at each period end and the increases or decreases in fair values recorded to earnings. No derivative instruments entered into subsequent to June 30, 2004 have been designated as cash flow hedges.

We are exposed to credit risk in the event of nonperformance by the counterparty to these contracts, BNP Paribas. However, we periodically assess the creditworthiness of the counterparty to mitigate this credit risk.

Interest Rate Sensitivity

We entered into fixed interest rate swap contracts with BNP Paribas based on the 90-day LIBOR rates at the time of the contracts. These interest rate swaps are treated as cash flow hedges as defined by Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities , as amended (SFAS 133), and are on $20.0 million of our variable rate debt for all of 2005 and on $10.0 million of our variable rate debt for all of 2006. We will continue to pay the variable interest rates for this portion of our borrowing under the Credit Agreement, but due to the interest rate swaps, we have fixed the rate at 4.05%. As of September 30, 2005, the fair market value of these interest rate swaps was an unrealized gain of $38,000.

As of September 30, 2005, we had also employed additional fixed interest rate swap contracts with BNP Paribas, based on the 90-day LIBOR rates at the time of the contracts. However, these contracts are accounted for by mark-to-market accounting as prescribed in SFAS 133. Nonetheless, we view these contracts as additional protection against future interest rate volatility.

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The table below recaps the nature of these interest rate swaps and the fair market value of these contracts as of September 30, 2005.

Period of Time	Notional Amount *($ in millions)*	Fixed Interest Rates	Fair Market Value *($ in thousands)*
October 1, 2005 thru December 31, 2005[1]	$ 20	4.05%	$ (2)
October 1, 2005 thru December 31, 2005	$ 30	2.89%	$ 83
January 1, 2006 thru December 31, 2006[1]	$ 10	4.05%	$ 40
January 1, 2006 thru December 31, 2006	$ 40	3.76%	$ 273
January 1, 2007 thru December 31, 2007	$ 50	4.30%	$ 73
January 1, 2008 thru December 30, 2008	$ 50	4.74%	$ (124)
Total Fair M arket Value			$ 343

(1) Designated as cash flow hedge.

Commodity Price Sensitivity

Except for the two commodity swaps noted in the table below under Commodity Swaps that are designated as hedges, all of our commodity derivatives are accounted for using mark-to-market accounting as prescribed in SFAS 133.

Put Options. We purchased put options or floors on volumes of 3,000 Mcf per day for a total of 642,000 Mcf during the seven month period from April 1, 2006 through October 31, 2006, at an average floor price of $7.17 per Mcf for a total consideration of approximately $0.230 million.

Collars. Collars are contracts which combine both a put option or floor and a call option or ceiling . These contracts may or may not involve payment or receipt of cash at inception, depending on the ceiling and floor pricing.

A summary of our collar positions at September 30, 2005 is as follows:

Period of Time	Barrels of Oil	Ny Mex Oil Prices Floor	Ny Mex Oil Prices Cap	M M Btu of Natural Gas	Houston Ship Channel Gas Prices Floor	Houston Ship Channel Gas Prices Cap	Fair M arket Value *($ in thousands)*
October 1, 2005 thru October 31, 2005		$	$	62,000	$ 5.00	$ 7.26	$ (226)
October 1, 2005 thru December 31, 2005	18,400	$ 36.00	$ 49.60		$	$	(307)
January 1, 2006 thru December 31, 2006	180,300	$ 44.11	$ 71.78		$	$	(1,691)
April 1, 2006 thru October 31, 2006		$	$	214,000	$ 6.00	$ 12.40	(176)
	109,500	$ 50.00	$ 86.50				(135)

January 1, 2007 thru December 31, 2007							
April 1, 2007 thru October 31, 2007	$	$	214,000	$ 6.00	$ 11.05		(151)
Total Fair M arket Value						$	(2,686)

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

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We have entered into oil and gas swap contracts with BNP Paribas. A recap for the period of time, number of MMBtu s, number of barrels, and weighted average swap prices are as follows:

Period of Time	Barrels of Oil	Nymex Oil Swap Price		Fair M arket Value	
				($ in thousands)	
October 1, 2005 thru December 31, 2005[1]	92,000	$	23.30	$	(3,946)
October 1, 2005 thru December 31, 2005	192,500	$	39.96	$	(1,695)
January 1, 2006 thru December 20, 2006[1]	265,500	$	23.04		(11,376)
January 1, 2006 thru December 20, 2006	182,500	$	36.36		(5,437)
January 1, 2007 thru December 31, 2007	474,500	$	34.36		(13,753)
January 1, 2008 thru December 31, 2008	439,200	$	33.37		(12,035)
Total fair market value				$	(48,242)

(1) Designated as cash flow hedge.

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NOTE 7. NET INCOME PER COMMON SHARE

Basic earnings per share (EPS) exclude any dilutive effects of option, warrants and convertible securities and is computed by dividing income available to common stockholders by the weighted average number of common shares outstanding for the period. Diluted earnings per share are computed similar to basic earnings per share. However, diluted earnings per share reflect the assumed conversion of all potentially dilutive securities.

The following table provides the computation of basic and diluted earnings per share for the three and nine months ended September 30, 2005 and 2004, as restated:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	**2004**	**2005**	**2004**
	(dollars in thousands, except per share data)			
	(restated)	*(restated)*	*(restated)*	*(restated)*
Basic EPS Computation:				
Numerator-				
Income (loss)	$ 1,989	$ (1,868)	$ (9,961)	$ 717
Preferred stock dividend		(142)	(271)	(429)
Income (loss) available to common stockholders	$ 1,989	$ (2,010)	$ (10,232)	$ 288
Denominator-				
Weighted average common shares outstanding	34,033	25,382	31,585	25,284
Basic EPS:				
Income (loss) per share	$ 0.06	$ (0.08)	$ (0.32)	$ 0.01
Diluted EPS Computation:				
Numerator-				
Income (loss)	$ 1,989	$ (1,868)	$ (9,961)	$ 717
Preferred stock dividend		(142)	(271)	(429)
Income (loss) available to common stockholders	$ 1,989	$ (2,010)	$ (10,232)	$ 288
Denominator -				
Weighted average common shares outstanding	34,033	25,382	31,585	25,284
Employee stock options	774			
Warrants	144			
Preferred stock				
Weighted average common shares for diluted earnings per share assuming conversion	34,951	25,382	31,585	25,284
Diluted EPS:				
Income (loss) per share	$ 0.06	$ (0.08)	$ (0.32)	$ 0.01

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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 No. 143 . SFAS No. 143 requires us to recognize a liability for the present value of all obligations associated with the retirement of tangible long-lived assets and to capitalize an equal amount as a cost of the related oil and gas properties.

The following table summarizes our asset retirement obligation activity:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
	(in thousands)			
Beginning asset retirement obligation	$ 2,251	$ 1,943	$ 2,132	$ 1,701
Additions related to new properties	25	204	155	435
Deletions related to property disposals	(17)	(160)	(82)	(202)
Accretion expense	28	20	82	73
Ending asset retirement obligation	$ 2,287	$ 2,007	$ 2,287	$ 2,007

NOTE 9. RECENTLY ANNOUNCED ACCOUNTING PRONOUNCEMENTS

In December 2004, the Financial Accounting Standards Board (FASB) issued *Statement of Financial Accounting Standards No. 123 (revised 2004)* , *Share-Based Payment* (SFAS No. 123(R)). SFAS No. 123(R) requires an entity to recognize the grant-date fair value of stock options and other equity-based compensation issued to employees in the income statement. SFAS No. 123(R) initially was to be effective for the Company beginning July 1, 2005. On April 14, 2005, the Securities and Exchange Commission announced a delay in the implementation of SFAS No. 123(R) until the beginning of the fiscal year after June 15, 2005. The Company does not expect SFAS No. 123(R) to have a material impact on its results of operations.

NOTE 10. COMMITMENTS AND CONTINGENCIES

From time to time, we are a party to routine litigation incidental to our business. We are currently a defendant in one such lawsuit. We do not believe the ultimate outcome of this lawsuit will have a material adverse effect on our financial condition or results of operations. We are not aware of any other threatened litigation and we have not been a party to any bankruptcy, receivership, reorganization, adjustment or similar proceeding.

Effective January 1, 2005, we established a 401(k) Plan and Trust for eligible employees. Employees may not participate in the former SEP plan with the establishment of the 401(k) Plan and Trust. As of the nine months ending September 30, 2005 Parallel had made contributions to the 401(k) Plan and Trust of approximately $0.118 million.

NOTE 11. SUBSEQUENT EVENTS

Parallel announced on October 17, 2005 that it had entered into a Purchase and Sale Agreement to acquire producing and undeveloped oil and gas properties for an estimated purchase price of $44.5 million. The properties have estimated proved reserves of 6.4 million equivalent barrels of oil. Parallel expects to finance the acquisition through its existing credit facility plus an increased borrowing base associated with the properties being acquired. Several separate closings are expected to occur during the period of November 15, 2005 through January 15, 2006. The effective date of the purchase will be November 1, 2005. Parallel has hedged barrels of oil associated with the acquisition beginning in 2006 and ending in 2010 with a floor of $55.00 and a cap ranging from $71.00 to $82.50.

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NOTE 12. RESTATEMENT

This amended quarterly report on Form 10-Q for the quarter ended September, 2005 includes detailed disclosures relative to the restatement of the consolidated financial statements for the three and nine months ended September 30, 2005 and 2004, and the consolidated balance sheet as of December 31, 2004.

During the course of our preparation of our December 31, 2005 Form 10-K, we identified errors with respect to our use of hedge accounting for certain transactions under SFAS 133. Specifically, we determined that our documentation of the relationship of hedged items and the derivative instruments being employed and designated as hedges was insufficient when compared to the documentation requirements in SFAS 133 for derivative instruments entered into during periods subsequent to June 30, 2004, and that accounting for derivative instruments entered into during periods subsequent to June 30, 2004 as cash flow hedges was, therefore, inappropriate.

Effects of the Restatement

The effect of the restatement on the Consolidated Balance Sheets as of September 30, 2005 and as of December 31, 2004 by line item is as follows:

	As of September 30, 2005		As of December 31, 2004	
	As previously reported	As restated	As previously reported	As restated
	(in thousands) *(unaudited)*			
Condensed Consolidated Balance Sheet data:				
Other current assets	$ 437	$ 434	$ 179	$ 179
Total current assets	27,993	27,990	14,529	14,529
Other assets, net of accumulated amortization of $792 and $581	828	575	735	735
Total assets	210,899	210,643	170,671	170,671
Derivative obligation current	18,811	18,808	7,965	7,965
Total current liabilities	28,500	28,497	13,683	13,683
Derivative obligation long term	31,861	31,608	9,525	9,525
Total long-term liabilities	106,248	105,995	96,994	96,994
Retained earnings	31,292	8,527	22,073	18,759
Accumulated other comprehensive loss	(32,229)	(9,464)	(10,756)	(7,442)
Total liabilities and stockholders equity	210,899	210,643	170,671	170,671
	(14)			

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The effect of the restatement on the Consolidated Statements of Operations for the three and nine months ended September 30, 2005 and 2004 is as follows:

	Three Months Ended			
	September 30, 2005		September 30, 2004	
	As previously reported	As restated	As previously reported	As restated
	(in thousands) (unaudited)			
Consolidated Statement of Operations data:				
Loss on hedging and derivatives	$ (5,565)	$ (3,664)	$ (2,463)	$ (2,463)
Total revenues	19,936	21,837	7,745	7,745
Operating income	11,039	13,001	1,971	1,971
Change in fair market value of derivatives		(9,388)		(4,417)
Gain (loss) on ineffective portion of hedges	2,864	404	57	57
Interest expense	(950)	(1,060)	(509)	(509)
Total other income (expense), net	1,944	(10,014)	(467)	(4,884)
Net income (loss) before income taxes	12,983	2,987	1,504	(2,913)
Income tax benefit (expense), deferred	(4,396)	(998)	(457)	1,045
Net income (loss)	8,587	1,989	1,047	(1,868)
Net income (loss) available to common stockholders	8,587	1,989	905	(2,010)
Net income (loss) per common share:				
Basic	$ 0.25	$ 0.06	$ 0.04	$ (0.08)
Diluted	$ 0.25	$ 0.06	$ 0.04	$ (0.08)

	Nine Months Ended			
	September 30, 2005		September 30, 2004	
	As previously reported	As restated	As previously reported	As restated
	(in thousands) (unaudited)			
Consolidated Statement of Operations data:				
Loss on hedging and derivatives	$ (12,422)	$ (8,960)	$ (5,403)	$ (5,403)
Total revenues	41,052	44,514	23,663	23,663
Operating income	17,929	21,570	6,908	6,908
Change in fair market value of derivatives		(33,086)		(4,417)
Gain (loss) on ineffective portion of hedges	(647)	(456)	64	64
Interest expense	(2,884)	(3,101)	(1,464)	(1,464)
Total other income (expense), net	(3,556)	(36,668)	(1,342)	(5,759)
Net income (loss) before income taxes	14,373	(15,098)	5,566	1,149
Income tax benefit (expense), deferred	(4,883)	5,137	(1,934)	(432)
Net income (loss)	9,490	(9,961)	3,632	717

Net income (loss) available to common stockholders		9,219		(10,232)		3,203		288
Net income (loss) per common share:								
Basic	$	0.29	$	(0.32)	$	0.13	$	0.01
Diluted	$	0.29	$	(0.32)	$	0.13	$	0.01

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The effect of the restatement on the Consolidated Statements of Cash Flows for the nine months ended September 30, 2005 and 2004 is as follows:

	Nine Months Ended			
	September 30, 2005		September 30, 2004	
	As previously reported	As restated	As previously reported	As restated
	(in thousands) *(unaudited)*			
Condensed Consolidated Statement of Cash Flows data:				
Net income (loss)	$ 9,490	$ (9,961)	$ 3,632	$ 717
Deferred income tax expense (benefit)	4,883	(5,137)	1,934	432
Change in fair value of derivative instruments		33,086		4,417
Gaine (loss) on ineffective portion of hedges	647	456	(64)	(64)
Other assets, net	(93)	186	(497)	(120)
(Increase) decrease in other current assets	(258)	61	(10)	(10)
Net cash provided by operating activities	19,112	23,134	11,697	12,074
Settlements on derivatives		(3,424)		
Purchase of derivative instruments		(598)		
Net cash used in investing activities	(34,680)	(38,702)	(40,842)	(40,842)
	(16)			

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The effect of the restatement on the Consolidated Statements of Comprehensive Income (Loss) for the three and nine months ended September 30, 2005 and 2004 is as follows:

	Three Months Ended			
	September 30, 2005		September 30, 2004	
	As previously reported	As restated	As previously reported	As restated
	(in thousands) (unaudited)			
Net income (loss)	$ 8,587	$ 1,989	$ 1,047	$ (1,868)
Other comprehensive loss:				
Unrealized losses on derivatives	(15,553)	(3,702)	(11,934)	(7,517)
Reclassification adjustments for losses on derivatives included in net income (loss)	5,548	3,694	2,545	2,545
Change in fair value of derivatives	(10,005)	(8)	(9,389)	(4,972)
Income tax benefit	3,402	3	3,192	1,690
Total other comprehensive loss	(6,603)	(5)	(6,197)	(3,282)
Total comprehensive income (loss)	$ 1,984	$ 1,984	$ (5,150)	$ (5,150)

	Nine Months Ended			
	September 30, 2005		September 30, 2004	
	As previously reported	As restated	As previously reported	As restated
	(in thousands) (unaudited)			
Net income (loss)	$ 9,490	$ (9,961)	$ 3,632	$ 717
Other comprehensive loss:				
Unrealized losses on derivatives	(45,071)	(12,175)	(20,059)	(15,642)
Reclassification adjustments for losses on derivatives included in net income (loss)	12,536	9,112	5,716	5,716
Change in fair value of derivatives	(32,535)	(3,063)	(14,343)	(9,926)
Income tax benefit	11,062	1,041	4,877	3,375
Total other comprehensive loss	(21,473)	(2,022)	(9,466)	(6,551)

Total comprehensive loss	$ (11,983)	$ (11,983)	$ (5,834)	$ (5,834)

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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 shareholder value of our common stock through increasing reserves, production, cash flow and earnings. We have shifted the balance of our investments from properties having high rates of production in early years to properties expected to produce more consistently 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 natural gas reserves are 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.

Since the latter part of 2002, we have reduced our emphasis on high risk exploration efforts and focused on established geologic trends where we 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 current business plan:

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

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:

- the prices we receive for the oil and natural gas we produce;
- the results of reprocessing and reinterpreting our 3-D seismic data;
- the results of our drilling activities;
- the costs of obtaining high quality field services;
- our ability to find and consummate acquisition opportunities; and
- 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 the oil and natural gas, 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.

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Operating Performance

Our operating performance is influenced by several factors, the most significant of which are the prices we receive for our oil and natural gas and our production volumes. The world price for oil has overall influence on the prices that 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. Natural gas prices we receive are influenced by:

- seasonal demand;
- weather;
- hurricane conditions in the Gulf of Mexico;
- availability of pipeline transportation to end users;
- proximity of our wells to major transportation pipeline infrastructures; and
- to a lesser extent, world oil prices.

Additional factors influencing our overall operating performance include:

- production expenses;
- overhead requirements; and
- costs of capital.

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

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

For the three months ended September 30, 2005, the sale price we received for our crude oil production (excluding hedges) averaged $58.95 per barrel compared with $41.30 per barrel for the three months ended September 30, 2004. The average sales price we received for natural gas for the three months ended September 30, 2005 (excluding hedges), was $9.88 per Mcf compared with $5.24 per Mcf for the three months ended September 30, 2004. For information regarding prices received including our hedges, refer to the selected operating data table in the Results of Operations on page 21. Hedge costs for oil and natural gas was $3.7 million and $2.5 million for the three months ended September 30, 2005 and September 30, 2004 respectively. The gain associated with the ineffective portion of our hedges was $404,000 for the third quarter ended September 30, 2005. The gain on ineffectiveness is caused by a narrowing of the differential price of West Texas Intermediate Light and current designated sales of West Texas Sour barrels. Actual gains or losses may increase or decrease until settlement of these contracts.

For the nine months ended September 30, 2005, the sale price we received for our crude oil production (excluding hedges) averaged $50.86 per barrel compared with $36.69 per barrel for the nine months ended September 30, 2004. The average sales price we received for natural gas for the nine months ended September 30, 2005 (excluding hedges), was $8.01 per Mcf compared with $5.45 per Mcf for the nine months ended September 30, 2004. For information regarding prices received including our hedges, refer to the selected operating data table in the Results of Operations on page 21. Hedge costs for oil and natural gas were $9.0 million and $5.4 million for the nine months ended September 30, 2005 and September 30, 2004 respectively. The hedge loss associated with the ineffective portion of

our hedges was $456,000 for the nine months ended September 30, 2005. The loss on ineffectiveness is caused by a widening of the differential price of West Texas Intermediate Light and current

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designated sales of West Texas Sour barrels. Actual gains or losses may increase or decrease until settlement of these contracts.

Our oil and natural gas producing activities are accounted for using the full cost method of accounting. Under this accounting method, we capitalize all costs incurred in connection with the acquisition of oil and natural gas properties and the exploration for and development of oil and natural gas reserves. These costs include lease acquisition costs, geological and geophysical expenditures, costs of drilling 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 natural gas properties are accounted for as a reduction in capitalized costs, with no gain or loss recognized unless a disposition involves a material change in reserves, in which case the gain or loss is recognized.

Depletion of the capitalized costs of oil and natural gas properties, including estimated future development costs, is provided using the equivalent unit-of-production method based upon estimates of proved oil and natural gas reserves and production, which are converted to a common unit of measure based upon their relative energy content. Unproved oil and natural 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. Depletion per BOE at September, 2005 and 2004 was $6.92 and $6.88 respectively.

Results of Operations

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

- reserve base;
- sources of production;
- product mix (gas versus oil volumes);
- the prices we receive for our oil and gas production;

Year-to-year or other periodic comparisons of the results of our operations can be difficult and may not fully and accurately describe our condition. The following table shows selected operating data for each of the three and nine months ended September 30, 2005 and September 30, 2004, as restated.

	Three Months Ended		Nine Months Ended	
	9/30/2005	9/30/2004	**9/30/2005**	9/30/2004
	(in thousands, except per unit data)			
	(restated)	*(restated)*	*(restated)*	*(restated)*
Production Volumes:				
Oil (Bbls)	**247**	168	**672**	495
Natural gas (Mcf)	**1,109**	619	**2,411**	1,995
BOE[(1)]	**432**	272	**1,074**	828
BOE per day	**4.7**	3.0	**3.9**	3.0
Sales Prices:				
Oil (per Bbl)[(2)]	**$ 58.95**	$ 41.30	**$ 50.86**	$ 36.69
Natural gas (per Mcf)[(2)]	**$ 9.88**	$ 5.24	**$ 8.01**	$ 5.45
BOE price [(2)]	**$ 59.09**	$ 37.56	**$ 49.81**	$ 35.10
BOE price[(3)]	**$ 50.60**	$ 28.49	**$ 41.46**	$ 28.58
Operating Revenues				
Oil	**$ 14,550**	$ 6,966	**$ 34,168**	$ 18,184
Oil hedge	**(3,664)**	(2,159)	**(8,759)**	(4,805)
Natural gas	**10,951**	3,242	**19,306**	10,882
Natural gas hedge		(304)	**(201)**	(598)
	$ 21,837	$ 7,745	**$ 44,514**	$ 23,663
Operating Expenses:				
Lease operating expense	**$ 2,663**	$ 1,894	**$ 7,399**	$ 5,437
Production taxes	**1,334**	458	**2,615**	1,407
General and administrative:				
General and administrative	**1,113**	839	**2,941**	2,379
Public reporting	**622**	599	**1,830**	1,502
Depreciation, depletion and amortization	**3,104**	1,984	**8,159**	6,030
	$ 8,836	$ 5,774	**$ 22,944**	$ 16,755
Operating income	**$ 13,001**	$ 1,971	**$ 21,570**	$ 6,908

(1) A BOE means one barrel of oil equivalent using the ratio of six Mcf of gas to one barrel oil.

(2)

Excludes hedge transactions.

(3) Includes hedge transactions.

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RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2005 AND 2004 (AS RESTATED):

Our oil and natural gas revenues and production product mix are displayed in the following table for the three months ended September 30, 2005 (as restated) and September 30, 2004.

Oil and Gas Revenues:

	Revenues[1]		Production	
	2005	2004	2005	2004
	(restated)	*(restated)*		
Oil (Bbls)	50%	62%	57%	62%
Natural gas (Mcf)	50%	38%	43%	38%
Total	100%	100%	100%	100%

(1) Includes hedge transactions

The following table outlines the detail of our operating revenues for the following periods.

	Three Months Ended September 30,		Increase	% Increase
	2005	2004	(Decrease)	(Decrease)
	(in thousands except per unit data)			
	(restated)	*(restated)*		
Production Volumes:				
Oil (Bbls)	247	168	79	47%
Natural gas (Mcf)	1,109	619	490	79%
BOE	432	272	160	59%
BOE/Day	4.7	3.0	1.7	57%
Sales Price:				
Oil (per Bbl)[1]	$ 58.95	$ 41.30	$ 17.65	43%
Natural gas (per Mcf)[1]	$ 9.88	$ 5.24	$ 4.64	89%
BOE price[1]	$ 59.09	$ 37.56	$ 21.53	57%
BOE price[2]	$ 50.60	$ 28.49	$ 22.11	78%
Operating Revenues:				
Oil	$ 14,550	$ 6,966	$ 7,584	109%
Oil hedges	(3,664)	(2,159)	1,505	70%
Natural gas	10,951	3,242	7,709	238%
Natural gas hedges		(304)	(304)	
Total	$ 21,837	$ 7,745	$ 14,092	182%

(1) Excludes hedge transactions.

(2)

Includes hedge transactions.

Oil revenues, excluding hedges, increased $7.6 million or 109% for the three months ended September 30, 2005 compared to the same period of 2004. Oil production volumes increased 47% attributable to acquisitions and re-stimulations in the Fullerton San Andres Field, acquisitions in the Carm-Ann San Andres Field/N. Means Queen

Unit and current drilling activity on Diamond M, Fullerton and Carm-Ann. The increase in oil production increased revenue approximately $3.3 million for 2005. Wellhead average realized crude oil prices increased $17.65 per Bbl or 43% to $58.95 per Bbl for 2005 compared to 2004. The increase in oil price increased revenue approximately $4.3 million for 2005.

Natural gas revenues, excluding hedges, increased $7.7 million or 238% for the three months ended September 30, 2005 compared to the same period of 2004. Natural gas production volumes increased due to a Wilcox natural gas discovery in south Texas and our Barnett Shale gas wells. The increase in natural gas volumes increased revenue approximately $2.6 million for 2005. Average realized wellhead natural gas prices increased 89% or $4.64 per Mcf to $9.88 per Mcf. The increase in natural gas prices had a positive effect on revenues of approximately $5.1 million for the three months ending September 30, 2005.

Losses on oil hedges increased $1.5 million or 70% for 2005 compared to 2004 due to the increase in oil prices. Natural gas hedge losses were approximately $0.3 million in 2004 compared to no gain or loss in 2005. On a BOE basis, hedges accounted for a realized loss of $8.49 per BOE in 2005 compared to $9.07 per BOE in 2004. We have hedged certain oil and natural gas volumes to try and mitigate price changes in our oil and natural gas product sales and to meet the requirements under our loan facility. BOE per day increased 1,700 BOE or 57% for 2005 compared to the same period in 2004.

With our current drilling program, we expect to maintain or increase our current production volumes in the fourth quarter of 2005.

Cost and Expenses:

	Three months ended September 30,		Increase	% Increase
	2005	2004	(Decrease)	(Decrease)
	(dollars in thousands)			
	(restated)	*(restated)*		
Lease operating expense	$ 2,663	$ 1,894	$ 769	41%
Production taxes	1,334	458	876	191%
General and administrative:				
General and administrative	1,113	839	274	33%
Public reporting	622	599	23	4%
Total general and administrative	1,735	1,438	297	21%
Depreciation, depletion and amortization	3,104	1,984	1,120	56%
Total	$ 8,836	$ 5,774	$ 3,062	53%

Lease operating costs increased approximately $0.8 million, or 41%, to $2.7 million during the three months ended September 30, 2005 compared with $1.9 million for the same period of 2004. The increase in lease operating expense is primarily due to our acquisitions in the Fullerton San Andres Field and the Carm-Ann San Andres Field/N. Means Queen Unit, increased ad valorem taxes and increased utility costs on our oil properties. Lifting costs were $6.17 per BOE in 2005 compared to $6.97 per BOE in 2004. As we continue to exploit and develop our long-life Permian Basin oil properties (Fullerton, Carm-Ann and Diamond M), we expect that lifting costs will continue around the same level or decline due to increased efficiencies on oil properties and increased development of gas properties which have lower lifting costs. The lifting costs per BOE are also expected to be reduced by the development of natural gas properties in south Texas, Barnett Shale and New Mexico.

Production taxes increased 191% or $0.9 million in 2005, associated with a wellhead increase in revenues of $15.3 million. Production taxes in future periods will be a function of product mix, production volumes and product prices.

General and administrative expenses in total increased 21% or $0.3 million in 2005 compared to 2004. Included in our total general and administrative expenses is public reporting cost which increased 4% for 2005. The increase in general and administrative costs is primarily related to increased salaries and bonuses and the addition of new employees related to current business activities. General and administrative expenses capitalized to the full cost pool were $0.3 million for 2005 compared to $0.3 million in 2004. On a BOE basis, general and administrative costs were $2.58 per BOE in 2005 compared to $3.09 per BOE in 2004, while public reporting costs were $1.44 per

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BOE and $2.20 per BOE for the same period.

Depreciation, depletion and amortization expense increased 56% or $1.1 million for 2005 compared to 2004. Depletion per BOE was $7.19 for 2005 and $7.30 for 2004. The increase in expense is attributable to increased production. Depletion costs are highly correlated with production volumes and capital expenditures. Fiscal year 2005 depletion costs will increase with increased production volumes and capital expenditures.

Other income (expense)

	Three months ended September 30,		Increase	% Increase
	2005	2004	(Decrease)	(Decrease)
	(dollars in thousands)			
	(restated)	*(restated)*		
Change in fair market value of derivatives	$ (9,388)	$ (4,417)	4,971	113%
Gain on ineffective portion of hedges	404	57	461	809%
Interest and other income	83	10	73	730%
Interest expense, net	(1,060)	(509)	551	108%
Other expense	(75)	(25)	50	200%
Equity loss in Westfork Pipeline Company LP	22		22	
Total	$ (10,014)	$ (4,884)	5,130	105%

The gain associated with the ineffective portion of our hedges increased $0.5 million for 2005 compared to 2004. The actual gain or loss may increase or decrease until settlement of these contracts. Interest expense increased with the increase of debt from approximately $55.0 million at September 30, 2004 to $68.0 million at September 30, 2005 along with an increase of our loan interest rate for 2005. Capitalized interest on work in progress decreased interest expense by approximately $0.052 million. Our equity investment in the construction phase of the Westfork Pipeline Company LP resulted in a gain for the third quarter of 2005.

Income tax expense was $1.0 million in 2005 compared to an income tax benefit of $1.0 million in 2004. Income tax expense for 2005 will be dependent on our earnings and is expected to be approximately 34% of income before income taxes.

We had basic net income per share of $0.06 and a net loss of $0.08 and diluted net income per share of $0.06 and a net loss of $0.08 for 2005 and 2004, respectively. Basic weighted average common shares outstanding increased from 25.3 million shares in 2004 to 34.0 million shares in 2005. The increase in common shares is due to the sale of 5.75 million shares of common stock in a public offering in February of 2005 and the redemption of preferred shares into approximately 2.7 million shares of common stock in June of 2005.

RESULTS OF OPERATIONS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2005 AND 2004 (AS RESTATED):

Our oil and natural gas revenues and production mix are displayed in the following table for the nine months ended September 30, 2005 (as restated) and September 30, 2004.

Oil and Gas Revenues:

	Revenues[1]		Production	
	2005	2004	2005	2004
	(restated)	*(restated)*		
Oil (Bbls)	57%	57%	63%	60%
Natural gas (Mcf)	43%	43%	37%	40%
Total	100%	100%	100%	100%

(1) Includes hedge transactions

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The following table outlines the detail of our operating revenues for the following periods.

	Nine Months Ended September 30, 2005	Nine Months Ended September 30, 2004	Increase (Decrease)	% Increase (Decrease)
	(in thousands except per unit data)			
	(restated)	*(restated)*		
Production Volumes:				
Oil (Bbls)	672	495	177	36%
Natural gas (Mcf)	2,411	1,995	416	21%
BOE	1,074	828	246	30%
BOE/Day	3.9	3.0	0.9	30%
Sales Price:				
Oil (per Bbl)(1)	$ 50.86	$ 36.69	$ 14.17	39%
Natural gas (per Mcf)(1)	$ 8.01	$ 5.45	$ 2.56	47%
BOE price(1)	$ 49.81	$ 35.10	$ 14.71	42%
BOE price(2)	$ 41.46	$ 28.58	$ 12.88	45%
Operating Revenues:				
Oil	$ 34,168	$ 18,184	$ 15,984	88%
Oil hedges	(8,759)	(4,805)	3,954	82%
Natural gas	19,306	10,882	8,424	77%
Natural gas hedges	(201)	(598)	(397)	(66)%
Total	$ 44,514	$ 23,663	$ 20,851	88%

(1) Excludes hedge transactions.

(2) Includes hedge transactions.

Oil revenues, excluding hedges, increased $16.0 million or 88% for the nine months ended September 30, 2005 compared to the same period of 2004. Oil production volumes increased 36% attributable to acquisitions in the Fullerton and Carm-Ann fields and increased drilling activity in the Diamond M Reef, Fullerton and Carm-Ann fields. The increase in oil production increased revenue approximately $6.5 million for 2005. Wellhead average realized crude oil prices increased $14.17 per Bbl or 39% to $50.86 per Bbl for 2005 compared to 2004. The increase in oil price increased revenue approximately $9.5 million for 2005.

Natural gas revenues, excluding hedges, increased $8.4 million or 77% for the nine months ended September 30, 2005 compared to the same period of 2004. Natural gas production volumes increased 21% primarily due to drilling activity in the Wilcox, Barnett Shale and New Mexico areas. The increase in natural gas volumes increased revenue approximately $2.3 million for 2005. Average realized wellhead natural gas prices increased 47% or $2.56 per Mcf to $8.01 per Mcf. The increase in natural gas prices had a positive effect on revenues of approximately $6.1 million for the nine months ending September 30, 2005.

Losses on oil hedges increased $4.0 million or 82% for 2005 compared to 2004 due to the increase in oil prices. Natural gas hedge losses were $0.2 million in 2005 compared to a loss of $0.6 million in 2004. On a BOE basis, hedges accounted for a realized loss of $8.35 per BOE in 2005 compared to $6.52 per BOE in 2004. The purpose of our hedges is to provide a measure of stability in our oil and gas prices and to comply with loan requirements.

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With our current drilling program we expect to maintain or increase our current production volumes in the fourth quarter of 2005.

Cost and Expenses:

	Nine months ended September 30,		Increase	% Increase
	2005	2004	(Decrease)	(Decrease)
	(dollars in thousands)			
	(restated)	*(restated)*		
Lease operating expense	$ 7,399	$ 5,437	$ 1,962	36%
Production taxes	2,615	1,407	1,208	86%
General and administrative:				
General and administrative	2,941	2,379	562	24%
Public reporting	1,830	1,502	328	22%
Total general and administrative	4,771	3,881	890	23%
Depreciation, depletion and amortization	8,159	6,030	2,129	35%
Total	$ 22,944	$ 16,755	$ 6,189	37%

Lease operating costs increased approximately $2.0 million, or 36%, to $7.4 million during the nine months ended September 30, 2005 compared with $5.4 million for the same period of 2004. The increase in lease operating expense is primarily due to our acquisitions in the Fullerton San Andres Field and the Carm-Ann San Andres Field/N. Means Queen Unit, increased ad valorem taxes and increased utility costs on our oil properties. Lifting costs were $6.89 per BOE in 2005 compared to $6.57 per BOE in 2004. As we continue to exploit and develop our long-life Permian Basin oil properties (Fullerton, Carm-Ann and Diamond M), we expect that lifting costs will continue around the same level or decline due to increased efficiencies on oil properties and increased development of gas properties which have lower lifting costs. The lifting costs per BOE are also expected to be reduced by the development of natural gas properties in south Texas, Barnett Shale and New Mexico.

Production taxes increased 86% or $1.2 million in 2005, associated with a wellhead increase in revenues of $24.4 million. Production taxes are a function of product mix, production volumes and product prices.

General and administrative expenses in total increased 23% or $0.9 million in 2005 compared to 2004. Included in our total general and administrative expenses is public reporting cost which increased 22% or $0.3 million for 2005. The SOX 404 costs continue to be a significant portion of our public reporting costs and we expect SOX 404 costs to continue. The remainder of the increase in general and administrative costs is due to salaries and related benefits related to additional staffing, computer tech support and rent for increased building space. General and administrative expenses capitalized to the full cost pool were $0.9 million for 2005 compared to $0.8 million in 2004. On a BOE basis, general and administrative costs were $2.74 per BOE in 2005 compared to $2.87 per BOE in 2004, while public reporting costs were $1.70 per BOE and $1.81 per BOE for the same period.

Depreciation, depletion and amortization expense increased 35% or $2.1 million for 2005 compared to 2004. Depletion per BOE was $7.60 for 2005 and $7.28 for 2004. This increase is attributable to increased production. Depletion costs are highly correlated with production volumes and capital expenditures. Fiscal year 2005 depletion costs will increase with increased production volumes and capital expenditures.

Other income (expense):

	Nine months ended September 30,		Increase	% Increase
	2005	2004	(Decrease)	(Decrease)
	(dollars in thousands)			
	(restated)	*(restated)*		
Change in fair market value of derivatives	$ (33,086)	$ (4,417)	$ 28,669	649%
Gain (loss) on ineffective portion of hedges	(456)	$ 64	(520)	(813)%
Interest and other income	124	168	(44)	(26)%
Interest expense, net	(3,101)	(1,464)	1,637	112%
Other expense	(77)	(110)	(33)	(30)%
Equity loss in Westfork Pipeline Company LP	(72)		(72)	
Total	$ (36,668)	$ (5,759)	$ 30,909	537%

The loss associated with the ineffective portion of our hedges increased $0.5 million for 2005 compared to 2004. The actual gain or loss may increase or decrease until settlement of these contracts. Interest expense increased with the increase of debt from approximately $55.0 million at September 30, 2004 to $68.0 million at September 30, 2005 along with an increase of our loan interest rate for 2005. Capitalized interest on work in progress decreased interest expense by approximately $0.102 million. Our equity investment in the construction phase of the Westfork Pipeline Company LP resulted in a loss for 2005.

Income tax expense was $4.9 million in 2005 compared to an expense of $1.9 million in 2004. Income tax expense for 2005 will be dependent on our earnings and is expected to be approximately 34% of income before income taxes.

We had basic net loss per share of $0.32 and net earnings of $0.01 and diluted net loss per share of $0.32 and net earnings of $0.01 for 2005 and 2004, respectively. Basic weighted average common shares outstanding increased from approximately 25.3 million shares in 2004 to approximately 31.6 million shares in 2005. The increase in common shares is due to the sale of 5,750,000 shares of common stock in a public offering in February of 2005 and the redeemed preferred shares to common shares in June, 2005.

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 gas we produce.

Working capital decreased 160% or approximately $1.4 million as of September 30, 2005 compared with December 31, 2004. Current liabilities exceeded current assets by $0.5 million at September 30, 2005. The working capital decrease was primarily due to the increased current maturity of derivative obligations of approximately $10.8 million partially offset by an increase in oil and gas accounts receivables associated with increased production and price.

Our net cash used in investing activities was $38.7 million for the nine months ended September 30, 2005 compared to $40.8 million for the same period in 2004. Our property expenditures were $37.9 million for the nine months ended September 30, 2005, which was partially offset by restricted cash utilized for property purchases of $2.3 million and proceeds from non-strategic property dispositions of $3.0 million. Parallel s investment in the Westfork Pipeline was $1.7 million for the nine months ended September 30, 2005. This includes equity invested in Westfork Pipeline Company I of $1.7 million and Westfork Pipeline Company II of $0.025 million. Included in our property basis for nine months ended September 30, 2005 and 2004 were net asset retirement costs of approximately $0.073 million and $0.232 million respectively (see Note 8 to Consolidated Financial Statements). Our property leasehold acquisition, development and enhancement activities were financed by our revolving credit facility, the utilization of cash flows provided by operations, cash on hand and proceeds from non strategic property sales and bank borrowings.

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On February 9, 2005, we had gross cash proceeds of $30.3 million and net proceeds of approximately $27.7 million from the sale of common stock (see Note 2 to Consolidated Financial Statements). These proceeds and cash available were used to reduce our borrowings on the revolving line of credit by approximately $29.0 million.

Stockholders equity is $76.2 million for September 30, 2005 compared to $60.0 million at December 31, 2004, an increase of 27%. The increase is attributable to the net proceeds of approximately $27.7 million received from the sale of 5,750,000 shares of our common stock offset by the increase in accumulated comprehensive income (loss) of $2.0 million related to our derivative instruments (see Note 6 to Consolidated Financial Statements) and net loss of $10.2 million. Proceeds from the stock offering were used to reduce our long-term debt.

Based on our 2006 projected oil and gas revenues and related expenses, available bank borrowings and expected cash derived from non-strategic asset divestitures, we believe that we will have sufficient capital resources to fund normal operations and capital requirements, including interest expense. We continually review and consider alternative methods of financing.

Bank Borrowings

We are a party to a Second Amended and Restated Credit Agreement, dated as of September 27, 2004 (the Credit Agreement), with Citibank Texas, N.A. BNP Paribas, Citibank, F.S.B. and Western National Bank, as amended on December 27, 2004, April 1, 2005 and October 13, 2005. The Credit Agreement provides for a revolving credit facility which means that we can borrow, repay and reborrow funds drawn under the credit facility. The total amount that we can borrow and have outstanding at any one time is limited to the lesser of $200.0 million or the borrowing base established by our lenders. Our current borrowing base is $100.0 million. The principal amount outstanding under the credit facility at September 30, 2005 was $68.0 million, excluding $0.49 million reserved for our letters of credit. The amount of the borrowing base is based primarily upon the estimated value of our oil and gas reserves. The borrowing base amount is redetermined by the lenders semi-annually on or about April 1 and October 1 of each year or at other times required by the lenders or at our request. If, as a result of the lenders redetermination of the borrowing base, the outstanding principal amount of our loan exceeds the borrowing base, we must either provide additional collateral to the lenders or repay the principal of the note in an amount equal to the excess. Except for the principal payments that may be required because of our outstanding loans being in excess of the borrowing base, interest only is payable monthly.

Loans made to us under this credit facility bear interest at Citibank s base rate or the LIBOR rate, at our election. Generally, Citibank s base rate is equal to the prime rate published in the Wall Street Journal. At September 30, 2005, Parallel had $2.0 million in base rate loans outstanding under the credit facility.

The LIBOR rate is generally equal to the sum of (a) the rate designated as British Bankers Association Interest Settlement Rates and offered on one, two, three, six or twelve month interest periods for deposits of $1.0 million, and (b) a margin ranging from 2.00% to 2.50%, depending upon the outstanding principal amount of the loans. If the principal amount outstanding is equal to or greater than 75% of the borrowing base, the margin is 2.50%. If the principal amount outstanding is equal to or greater than 50%, but less than 75% of the borrowing base, the margin is 2.25%. If the principal amount outstanding is less than 50% of the borrowing base, the margin is 2.00%.

The interest rate we are required to pay on our borrowings, including the applicable margin, may never be less than 4.50%. At September 30, 2005, our Libor interest rate, plus margin, was 6.57% on $31.0 million and 6.27% on $35.0 million.

In the case of base rate loans, interest is payable on the last day of each month. In the case of LIBOR loans, interest is payable on the last day of each applicable interest period.

If the total outstanding borrowings under the credit facility are less than the borrowing base, an unused commitment fee is required to be paid to the lenders. The amount of the fee is .25% of the daily average of the unadvanced amount of the borrowing base. The fee is payable quarterly.

If the borrowing base is increased, we are required to pay a fee of .375% on the amount of any increase in the borrowing base.

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Parallel, L.L.C., a subsidiary of Parallel Petroleum Corporation, guaranteed payment of the loans.

Parallel s obligations to the lenders are secured by substantially all of its oil and gas properties.

All outstanding principal under the revolving credit facility is due and payable on October 31, 2010. The maturity date of our outstanding loans may be accelerated by the lenders upon the occurrence of an event of default under the Credit Agreement.

The Credit Agreement contains various restrictive covenants and compliance requirements as follows:

- at the end of each quarter, a current ratio (as defined in the credit agreement) of at least 1.1 to 1.0;
- for each period (as calculated in the Credit Agreement) ending on December 31, March 31, June 30 and September 30, a funded debt ratio (as defined in the Credit Agreement) of not more than 3.70, 3.60 and 3.50, respectively, for December 31, 2005, 2006 and 2007; and
- at all times, adjusted consolidated net worth (as defined in the Credit Agreement) of at least (a) $50.0 million, plus (b) seventy-five percent (75%) of the net proceeds from any equity securities issued by Parallel, plus (c) fifty percent (50%) of consolidated net income for each fiscal quarter, if positive, and zero percent (0%) if negative.

As a result of the restatement of the financial statements concerning our accounting for certain oil and natural gas and interest rate derivative instruments (see Note 12), we were not in compliance with certain covenants concerning financial reporting requirements. We have obtained waivers of our non-compliance with these covenants from our lenders.

The Credit Agreement also contains restrictions on all retained earnings and net income for payment of dividends on common stock.

If we have borrowing capacity under our Credit Agreement, we intend to borrow, repay and reborrow under the revolving credit facility from time to time as necessary, subject to borrowing base limitations, to fund:

- interpretation and processing of 3-D seismic survey data;
- lease acquisitions and drilling activities;
- acquisitions of producing properties or companies owning producing properties; and,
- general corporate purposes.

Interest expense for the nine months ending September 30, 2005 was approximately $2.9 million not including approximately $0.102 million for interest capitalized associated with drilling projects.

Sale of Equity Securities

On February 9, 2005, we sold 5,750,000 shares of our common stock, $.01 par value per share, pursuant to a public offering at a price of $5.27 per share. Gross cash proceeds were $30.3 million, and net proceeds were approximately $27.7 million. The common shares were issued under Parallel s $100.0 million Universal Shelf Registration Statement on Form S-3 which became effective in November 2004. The proceeds were used to reduce our long-term debt.

Preferred Stock

On May 4, 2005, notice was mailed that all 950,000 outstanding shares of our 6% Preferred Stock would be redeemed on June 6, 2005. All of the holders of the Preferred Stock elected to convert their shares of Preferred Stock into shares of Parallel common stock based on the conversion rate of $10.00 divided by $3.50. The holders of the Preferred Stock will receive approximately 2.8571 shares of common stock of Parallel for each share of Preferred Stock. Dividends on the Preferred Stock ceased to accrue, and as of June 6, 2005 the Preferred Stock is no longer outstanding.

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Commodity Price Risk Management Transactions

The purpose of all of our derivative trades is to provide a measure of stability in cash flow as a result of our daily activities associated with the selling of oil and gas production and expenditures associated with the borrowings that we have secured through our bank borrowings. The derivative trade arrangements we have employed include collars, costless collars, floors or purchased puts, oil and natural gas swaps and interest rate swaps. In 2003, we designated our derivative trades as cash flow hedges under the provisions of SFAS 133, as amended. Although our purpose for entering into derivative trades has remained the same, contracted entered into after June 30, 2004 were not designated as cash flow hedges.

Under cash flow hedge accounting for oil and natural gas production, the quarterly effective portion of the change in fair value of the commodity derivatives is recorded in stockholders equity as other comprehensive income (loss) and then transferred to revenue in the period the related oil and gas production is sold. Ineffective portions of cash flow hedges (changes in the fair value of derivative instruments due to changes in realized prices that do not match the changes in the hedge price) are recognized in other expenses as they occur. While the cash flow hedge contract is open, the ineffective gain or loss may increase or decrease until settlement of the contract. As of September 30, 2005, we had designated as cash flow hedges, 1,000 Bbls per day of production from April 1, 2005 through December 31, 2005 and 750 Bbls per day of production from January 1, 2006 through December 20, 2006. All other commodity derivative trades are accounted for by mark-to-market accounting whereby changes in fair value are charged to earnings. Changes in the fair value of derivatives are recorded in our Consolidated Statements of Operations as these changes occur in the Other income (expense), net section of this statement. To the extent these trades relate to production in 2006 and beyond and oil prices increase, we report a loss currently, but if there is no further change in prices, our revenue will be correspondingly higher (than if there had been no price increase) when the production is sold.

Under cash flow hedge accounting for interest rates, the quarterly change in the fair value of the derivative is recorded in stockholders equity as other comprehensive income (loss). The gain or loss is transferred, on a contract by contract basis, to interest expense as the interest accrues. Ineffective portions of cash flow hedges are recognized in other expense as they occur. As of September 30, 2005, the floating interest rate on only $20.0 million of the bank borrowings in 2005 and $10.0 million of the bank borrowings in 2006 was hedged. All other interest rate swaps that have been entered into are accounted for by mark-to-market accounting as prescribed by SFAS 133.

We are exposed to credit risk in the event of nonperformance by the counterparty in our derivative trade instruments. However, we periodically assess the creditworthiness of the counterparty to mitigate this credit risk.

Certain of our commodity price risk management arrangements have required us to deliver cash collateral or other assurances of performance to the counterparties in the event that our payment obligations with respect to our commodity price risk management transactions exceed certain levels.

Contractual Obligations, Commitments and Off-Balance Sheet Arrangements

We have contractual obligations and commitments that may affect our financial position. However, based on our assessment of the provisions and circumstances of our contractual obligation and commitments, we do not feel there would be an adverse effect on our consolidated results of operations, financial condition or liquidity.

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The following table is a summary of significant contractual obligations as of September 30, 2005:

	Obligation Due in Period						
	Three months ending December 31,	Year ended December 31,					
Contractual Cash Obligations	2005	2006	2007	2008	2009	After 5 years	Total
			(in thousands)				
Revolving Credit Facility (secured)	$	$	$	$ 68,000	$	$	$ 68,000
Office Lease (Dinero Plaza)	39	105					144
Andrews and Snyder Field Offices [1]	6	23	23	14	14		80
Asset retirement obligations[2]	106	39	223	19	151	1,749	2,287
Derivative Obligations	6,174	18,378	13,828	12,036			50,416
Drilling contract	292	964	613				1,869
Total	$ 6,617	$ 19,509	$ 14,687	$ 80,069	$ 165	$ 1,749	$ 122,796

(1) The Snyder field office lease remains in effect until the termination of our trade agreement with a third party working interest owner in the Diamond M project. The Andrews field office lease expires in December 2007. The lease cost for these two office facilities are billed to nonaffiliated third party working interest owners under our joint

operating agreements with these third parties.

(2) Assets retirement obligations of oil and natural gas assets, excluding salvage value and accretion.

Outlook

The oil and natural gas industry is capital intensive. We make, and anticipate that we will continue to make, substantial capital expenditures in the exploration for, development and acquisition of oil and natural gas reserves. Historically, our capital expenditures have been financed primarily with:

- internally generated cash from operations;
- proceeds from bank borrowings; and
- proceeds from sales of equity securities.

The continued availability of these capital sources depends upon a number of variables, including:

- our proved reserves;
- the volumes of oil and natural gas we produce from existing wells;
- the prices at which we sell oil and gas; and
- our ability to acquire, locate and produce new reserves.

Each of these variables materially affects our borrowing capacity. We may from time to time seek additional financing in the form of:

- increased bank borrowings;
- sales of Parallel s securities;
- sales of non-core properties; or
- other forms of financing.

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Except for the revolving credit facility we have with our bank lenders, we do not have agreements for any future financing and there can be no assurance as to the availability or terms of any such financing.

Inflation

Our drilling costs have escalated due to increased demand for drilling services in the industry and we would expect this trend to continue, but our commodity prices have also increased at the same time.

Critical Accounting Policies

This discussion should be read in conjunction with the financial statements and the accompanying notes and Management s Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report or Form 10-K for the year ended December 31, 2004, filed with the Securities and Exchange Commission on March 15, 2005.

In December 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 123 (revised 2004), Share-Based Payment (SFAS No. 123(R)). SFAS No. 123(R) requires an entity to recognize the grant-date fair value of stock options and other equity-based compensation issued to employees in the income statement. SFAS No. 123(R) initially was effective for Parallel beginning July 1, 2005. On April 14, 2005, the Securities and Exchange Commission announced a delay in the implementation of SFAS No. 123(R) until the beginning of the fiscal year after June 15, 2005. We do not expect SFAS No. 123(R) to have a material impact on its results of operations.

RESTATEMENT

As part of the preparation of our financial statements for the year ended December 31, 2005, we undertook a review of our accounting for oil and gas and interest rate derivatives. We use derivative instruments as a means of reducing financial exposure to fluctuating oil and gas prices and interest rates. We included changes from period to period in the fair value of derivatives classified as cash flow hedges (Hedges) as increases or decreases to Accumulated Other Comprehensive Income (AOCI) as allowed by Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities* (FAS 133). This Hedge accounting treatment is allowed for certain derivatives, including the types of derivatives used by us to reduce exposure to changes in oil and gas prices associated with the sale of oil and gas production and fluctuations in interest rates. In order to qualify for Hedge accounting treatment, specific standards and documentation requirements must be met. We believed that we met those requirements and that our derivative accounting treatment was permitted under FAS 133. However, after a review of FAS 133 and our accounting policies and procedures related to our derivative instruments, we determined that certain of our derivative instruments did not qualify for Hedge accounting treatment under FAS 133. Specifically, we determined that documentation of the relationship of hedged items and the derivative instruments being employed and designated as Hedges was insufficient for derivative instruments entered into during periods subsequent to June 30, 2004, and that accounting for derivative instruments entered into during periods subsequent to June 30, 2004 as cash flow Hedges was, therefore, inappropriate. Accordingly, we have restated our Consolidated Balance Sheets as of September 30, 2005 and December 31, 2004; our Consolidated Statements of Operations for the three and nine months ended September 30, 2005 and 2004; our Consolidated Statements of Cash Flows for the nine months ended September 30, 2005 and 2004; and our Consolidated Statements of Comprehensive Income (Loss) for the three and nine months ended September 30, 2005 and 2004 in the Form 10-Q to reflect these revisions (see Note 12 to our consolidated financial statements for a reconciliation of our restated results to previously reported results). We have also restated applicable disclosures in *ITEM 1. Notes to Consolidated Financial Statements* and *ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS* . Management has concluded, based on the circumstances involving the restatement of the aforementioned financial statements that as of December 31, 2005, a material weakness in internal control over financial reporting existed with respect to the design of our controls over the proper recording and disclosure of derivative instruments in accordance with FAS 133. See *ITEM 4. CONTROLS AND PROCEDURES.*

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TRENDS AND PRICES

Changes in oil and gas prices significantly affect our revenues, cash flows and borrowing capacity. Markets for oil and natural gas have historically been, and will continue to be, volatile. Prices for oil and natural 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 natural gas.

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

During fiscal year 2004 the average realized sales price for our oil and natural gas was $37.55 (unhedged) per BOE. For the nine months ended September 30, 2005, our average realized price was $49.81 (unhedged) per BOE.

FORWARD-LOOKING STATEMENTS

Cautionary Statement Regarding Forward-Looking Statements

Some statements contained in this Quarterly Report on Form 10-Q/A are forward-looking statements . These forward looking statements relate to, among others, the following:

- our future financial and operating performance and results;
- our business strategy;
- changes in prices and demand for oil and natural gas;
- sources of funds necessary to conduct operations and complete acquisitions;
- development costs;
- number and location of planned wells;
- our future commodity price risk management activities; and
- our plans and forecasts.

We have based these forward-looking statements on our current assumptions, expectations and projections about future events.

We use the words may, will, expect, anticipate, estimate, believe, continue, intend, plan, budge future or reserves or other similar words to identify forward-looking statements. These statements also involve risks and uncertainties that could cause our actual results or financial condition to materially differ for our expectations. We believe the assumptions and expectations reflected in these forward-looking statements are reasonable. However, we cannot give any assurance that our expectations will prove to be correct or that we will be able to take any actions that are presently planned. All of these statements involve assumptions of future events and risks and uncertainties. Risks and uncertainties associated with forward-looking statements include, but are not limited to:

- fluctuations in prices of oil and natural gas;
- demand for oil and natural gas;
- losses due to potential or future litigation;
- future capital requirements and availability of financing;
- geological concentration of our reserves;

risks associated with drilling and operating wells;

competition;

general economic conditions;

governmental regulations;

receipt of amounts owed to us by purchasers of our production and counterparties to our hedging contracts;

hedging decisions, including whether or not to hedge;

events similar to 911;

actions of third party co-owners of interests in properties in which we also own an interest; and

fluctuations in interest rates and availability of capital.

For these and other reasons, actual results may differ materially from those projected or implied. We believe it is important to communicate our expectations of future performance to our investors. However, events may occur in the future that we are unable to accurately predict, or over which we have no control. We caution you against putting undue reliance on forward-looking statements or projecting any future results based on such statements.

Before you invest in our common stock, you should be aware that there are various risks associated with an investment. We have described some of these risks under Risks Related to Our Business beginning on page 20 of our Form 10-K for year ended December 31, 2004.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The following quantitative and qualitative information is provided about market risks and derivative instruments to which Parallel was a party at September 30, 2005, and from which Parallel may incur future earnings, gains or losses from changes in market interest rates and oil and natural gas prices.

Interest Rate Sensitivity as of September 30, 2005

Our only financial instruments sensitive to changes in interest rates are our bank debt and interest rate swaps. As the interest rate is variable and reflects current market conditions, the carrying value of our bank debt 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 September, 2005. You should read Note 3 to the Consolidated Financial Statements for further discussion of our debt that is sensitive to interest rates.

	2005	**2006**	**2007**	**2008**	**2009**	**Total**
			($ in thousands)			
Variable rate debt:						
Revolving facility (secured)	$	$	$	$ 68,000	$	$ 68,000
Weighted average interest rate	6.42%	6.42%	6.42%	6.42%		

At September 30, 2005, we had bank loans in the amount of approximately $68.0 million outstanding on our revolving credit facility at an average interest rate of 6.42%. Under our credit facility, we may elect an interest rate based upon the agent bank s base lending rate or the LIBOR rate, plus a margin ranging from 2.25% to 2.75% per annum, depending upon the outstanding principal amount of the loans. The interest rate we are required to pay, including the applicable margin, may never be less than 4.50%.

As of September 30, 2005, we had employed fixed interest rate swap contracts with BNP Paribas, based on the 90-day LIBOR rates at the time of the contracts. These interest rate swaps are treated as a cash flow hedge as defined in SFAS 133, and are on $20 million of our variable rate debt for all of 2005 and on $10 million of our variable rate debt for all of 2006. We will continue to pay the variable interest rates for this portion of our bank borrowings, but due to the interest rate swaps, we have fixed the rate at 4.05%. Under the terms of these contracts, in periods during which the fixed interest rate stated in the agreement exceeds the variable rate (which is based on the 90-day LIBOR rate), we pay to the counterparty an amount determined by applying this excess fixed rate to the notional amount of the contract. In periods when the variable rate exceeds the fixed rate stated in the respective swap contract, the counterparty pays an amount to us determined by applying the excess of the variable rate over the stated fixed rate. As of September 30, 2005, the fair market value of these interest rate swaps was an unrealized loss of $38,000.

As of September 30, 2005, we had also employed additional fixed interest rate swap contracts with BNP Paribas based on the 90-day LIBOR rates at the time of the contracts. However, these contracts are accounted for by mark-to-market accounting as prescribed in SFAS 133. Nonetheless, we view these contracts as additional protection against future interest rate volatility.

A recap for the period of time, notional amounts, fixed interest rates, and fair market value of these contracts at September 30, 2005 follows:

Period of Time	Notional Amounts *($ in millions)*	Fixed Interest Rates	Fair Market Value *($ in thousands)*
October 1, 2005 thru December 31, 2005[(1)]	$ 20	4.05%	$ (2)
October 1, 2005 thru December 31, 2005	$ 30	2.89%	$ 83
January 1, 2006 thru December 31, 2006[(1)]	$ 10	4.05%	$ 40
January 1, 2006 thru December 31, 2006	$ 40	3.76%	$ 273
January 1, 2007 thru December 31, 2007	$ 50	4.30%	$ 73
January 1, 2008 thru December 30, 2008	$ 50	4.74%	$ (124)
Total Fair Market Value			$ 343

(1) Designated as cash flow hedge.

Commodity Price Sensitivity as of September 30, 2005

Our major market risk exposure is in the pricing applicable to our oil 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. We expect pricing volatility to continue. Oil prices ranged from a low of $26.76 per barrel to a high of $52.82 per barrel during 2004. Natural gas prices we received during 2004 ranged from a low of $2.31 per Mcf to a high of $8.79 per Mcf. During 2005, oil prices ranged from a low of $36.43 to a high of $63.19. Natural gas prices we received during 2005, ranged from a low of $2.22 per Mcf to a high of $10.67 per Mcf. A significant decline in the prices of oil or natural gas could have a material adverse effect on our financial condition and results of operations.

We employ various derivative instruments in order to minimize our exposure to the aforementioned commodity price volatility. As of September 30, 2005, we had employed costless collars, collars, and swaps in order to protect against this price volatility. Although all of the contracts that we have entered into are viewed as protection against this price volatility, all but two of these contracts are accounted for by the mark-to-market accounting method as

prescribed in SFAS 133.

As of September 30, 2005, we had commodity swap contracts designated as cash flow hedges totaling 1,000 Bbls per day for the remainder of 2005 at an average NYMEX swap price of $23.33 per Bbl and an additional 750 Bbls per day from January 1, 2006 through December 20, 2006 at a NYMEX swap price of $23.04 per Bbl.

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A description of our active commodity derivative contracts as of September 30, 2005 follows:

Collars. Collars are contracts which combine both a put option or floor and a call option or ceiling . These contracts may or may not involve payment or receipt of cash at inception, depending on the ceiling and floor pricing. .

A summary of our collar positions at September 30, 2005 is as follows:

Period of Time	Barrels of Oil	NyMex Oil Prices Floor	NyMex Oil Prices Cap	M M Btu of Natural Gas	Houston Ship Channel Gas Prices Floor	Houston Ship Channel Gas Prices Cap	Fair Market Value *($ in thousands)*
October 1, 2005 thru October 31, 2005		$	$	62,000	$ 5.00	$ 7.26	$ (226)
October 1, 2005 thru December 31, 2005	18,400	$ 36.00	$ 49.60		$	$	(307)
January 1, 2006 thru December 31, 2006	180,300	$ 44.11	$ 71.78		$	$	(1,691)
April 1, 2006 thru October 31, 2006		$	$	214,000	$ 6.00	$ 12.40	(176)
January 1, 2007 thru December 31, 2007	109,500	$ 50.00	$ 86.50				(135)
April 1, 2007 thru October 31, 2007		$	$	214,000	$ 6.00	$ 11.05	(151)
Total Fair Market Value							$ (2,686)

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

We have entered into oil swap contracts with BNP Paribas. A recap for the period of time, number of barrels, swap prices and fair market values as of September 30, 2005 for these swaps follows:

Period of Time	Barrels of Oil	Nymex Oil Swap Price	Fair Market Value *($ in thousands)*
October 1, 2005 thru December 31, 2005[1]	92,000	$ 23.30	$ (3,946)
October 1, 2005 thru December 31, 2005	192,500	$ 39.96	$ (1,695)
January 1, 2006 thru December 20, 2006[1]	265,500	$ 23.04	(11,376)
January 1, 2006 thru December 20, 2006	182,500	$ 36.36	(5,437)
January 1, 2007 thru December 31, 2007	474,500	$ 34.36	(13,753)

January 1, 2008 thru December 31, 2008	439,200	$ 33.37		(12,035)
Total fair market value			$	(48,242)

(1) Designated as cash flow hedge.

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ITEM 4. CONTROLS AND PROCEDURES

We maintain disclosure controls and procedures that are designed to provide reasonable assurance that information required to be disclosed by us in the reports that we file or submit to the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended (the Exchange Act), is recorded, processed, summarized and reported within the time periods specified by the Commission s rules and forms, and that information is accumulated and communicated to our management, including our Chief Executive Officer, Larry C. Oldham (principal executive officer, and our Chief Financial Officer, Steven D. Foster (principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

As part of the preparation of our financial statements for the year ended December 31, 2005, we undertook a review of our accounting for oil and gas and interest rate derivatives. We use derivative instruments as a means of reducing financial exposure to fluctuating oil and gas prices and interest rates. We included changes from period to period in the fair value of derivatives classified as cash flow hedges (Hedges) as increases or decreases to Accumulated Other Comprehensive Income (AOCI) as allowed by Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities* (FAS 133). This Hedge accounting treatment is allowed for certain derivatives, including the types of derivatives used by us to reduce exposure to changes in oil and gas prices associated with the sale of oil and gas production and fluctuations in interest rates. In order to qualify for Hedge accounting treatment, specific standards and documentation requirements must be met. We believed that we met those requirements and that our derivative accounting treatment was permitted under FAS 133. However, after a review of FAS 133 and our accounting policies and procedures related to our derivative instruments, we determined that certain of our derivative instruments did not qualify for Hedge accounting treatment under FAS 133. Specifically, we determined that documentation of the relationship of hedged items and the derivative instruments being employed and designated as Hedges was insufficient for derivative instruments entered into during periods subsequent to June 30, 2004, and that accounting for derivative instruments entered into during periods subsequent to June 30, 2004 as cash flow Hedges was, therefore, inappropriate. Accordingly, we have restated our Consolidated Balance Sheets as of September 30, 2005 and December 31, 2004; our Consolidated Statements of Operations for the three and nine months ended September 30, 2005 and 2004; our Consolidated Statements of Cash Flows for the nine months ended September 30, 2005 and 2004; and our Consolidated Statements of Comprehensive Income (Loss) for the three and nine months ended September 30, 2005 and 2004 in this Amendment No. 1 to our Form 10-Q to reflect these revisions. We have also restated applicable disclosures in the footnotes to such consolidated financial statements. Management has concluded, based on the circumstances involving the restatement of the aforementioned financial statements that as of December 31, 2005, a material weakness in internal control over financial reporting existed with respect to the design of the Company s controls over the proper recording and disclosure of derivative instruments in accordance with FAS 133.

In light of our decision to restate the financial statements and the identification of a material weakness, we carried out an evaluation in accordance with Exchange Act Rules 13a-15 and 15d-15 and under the supervision and with the participation of management, including our Chief Executive Officer and our Chief Financial Officer, of the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, due to the aforementioned material weakness, our disclosure controls and procedures were not effective as of September 30, 2005.

There has been no change in our internal controls over financial reporting that occurred during the three months ended September 30, 2005 that has materially affected, or is reasonably likely to material affect, our internal controls over financial reporting.

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

From time to time, we are a party to ordinary routine litigation incidental to our business. We are currently a defendant in one lawsuit incidental to our business. We do not believe the ultimate outcome of this lawsuit will have a material adverse effect on our financial condition or results of operations. We are not aware of any other threatened litigation and we have not been a party to any bankruptcy, receivership, reorganization, adjustment or similar proceeding.

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ITEM 6. EXHIBITS

(a) Exhibits

The following exhibits are filed herewith or incorporated by reference, as indicated:

No.	Description of Exhibit
3.1	Certificate of Incorporation of Registrant (Incorporated by reference to Exhibit 3.1 to Form 10-Q of the Registrant for the fiscal quarter ended June 30, 2004)
3.2	Bylaws of Registrant (Incorporated by reference to Exhibit 3 of the Registrant s Form 8-K, dated October 9, 2000, as filed with the Securities and Exchange Commission on October 10, 2000)
3.3	Certificate of Formation of Parallel, L.L.C. (Incorporated by reference to Exhibit No. 3.3 of the Registrant s Registration Statement on Form S-3, No. 333-119725 filed on October 13, 2004)
3.4	Limited Liability Company Agreement of Parallel, L.L.C. (Incorporated by reference to Exhibit No. 3.4 of the Registrant s Statement on Form S-3, No. 333-119725 filed on October 13, 2004)
3.5	Certificate of Limited Partnership of Parallel, L.P. (Incorporated by reference to Exhibit No. 3.5 of the Registrant s Registration Statement on Form S-3, No. 333-119725 filed on October 13, 2004)
3.6	Agreement of Limited Partnership of Parallel, L.P. (Incorporated by reference to Exhibit No. 3.6 of the Registrant s Registration Statement on Form S-3, No. 333-119725 filed on October 13, 2004)
4.1	Certificate of Designations, Preferences and Rights of Serial Preferred Stock - 6% Convertible Preferred Stock (Incorporated by reference to Exhibit 4.1 of Form 10-Q of the Registrant for the fiscal quarter ended June 30, 2004)
4.2	Certificate of Designation, Preferences and Rights of Series A Preferred Stock (Incorporated by reference to Exhibit 4.2 of Form 10-K of the Registrant 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 of the Registrant for the fiscal year ended December 31, 2000)
4.4	Form of Indenture relating to senior debt securities of the Registrant (Incorporated by reference to Exhibit No. 4.4 of the Registrant s Statement on Form S-3, No. 333-119725 filed on October 13, 2004)
4.5	Form of Indenture relating to subordinated debt securities of the Registrant (Incorporated by reference to Exhibit No. 4.5 of the Registrant s Registration Statement on Form S-3, No. 333-119725 filed on October 13, 2004)
4.6	Form of common stock certificate of the Registrant (Incorporated by reference to Exhibit No. 4.6 of the Registrant s Registration Statement on Form S-3, No. 333-119725 filed on October 13, 2004)
4.7	Warrant Purchase Agreement, dated November 20, 2001, between the Registrant and Stonington Corporation (Incorporated by reference to Exhibit 4.7 of Form 10-K of the Registrant for the fiscal year ended December 31, 2004)

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No.	Description of Exhibit
4.8	Warrant Purchase Agreement, dated December 23, 2003, between the Registrant and Stonington Corporation (Incorporated by reference to Exhibit 4.8 of Form 10-K of the Registrant for the fiscal year ended December 31, 2004)
	Executive Compensation Plans and Arrangements (Exhibit No. s 10.1 through 10.8):
10.1	1992 Stock Option Plan (Incorporated by reference to Exhibit 10.1 of Form 10-K of the Registrant for the fiscal year ended December 31, 2004)
10.2	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)
10.3	Non-Employee Directors Stock Option Plan (Incorporated by reference to Exhibit 10.3 of Form 10-Q of the Registrant for the fiscal quarter ended June 30, 2005)
10.4	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)
10.5	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 Form 10-K of the Registrant for the fiscal year ended December 31, 2001)
10.6	2001 Non-Employee Directors Stock Option Plan (Incorporated by reference to Exhibit 10.7 of the Registrant s Form 10-Q Report for the first fiscal quarter ended March 31, 2004)
10.7	2004 Non-Employee Director Stock Grant Plan (Incorporated by reference to Exhibit 10.1 of the Registrant s Form 8-K Report dated September 22, 2004)
10.8	Incentive and Retention Plan (Incorporated by reference to Exhibit 10.1 of the Registrant s Form 8-K Report dated September 23, 2004 and filed with the Securities and Exchange Commission on September 29, 2004)
10.9	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)
10.10	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)
10.11	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 of the Registrant for the fiscal year ended December 31, 2000)
10.12	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)

No.	Description of Exhibit
10.13	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)
10.14	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 of the Registrant for the fiscal year ended December 31, 2000)
10.15	Loan Agreement, dated as of January 25, 2002, between the Registrant and First American Bank, SSB (Incorporated by reference to Exhibit 10.25 of Form 10-K of the Registrant for the fiscal year ended December 31, 2001)
10.16	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)
10.17	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)
10.18	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)
10.19	First Amendment to First Amended and Restated Credit Agreement, dated as of September 12, 2003, 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 10.29 of Form 10-Q of the Registrant for the quarter ended September 30, 2003)
10.20	Second Amended and Restated Credit Agreement, dated September 27, 2004, by and among Parallel Petroleum Corporation, Parallel, L.P., Parallel, L.L.C., First American Bank, SSB, BNP Paribas, Citibank, F.S.B. and Western National Bank (Incorporated by reference to Exhibit 10.1 of the Registrant s Form 8-K Report dated September 27, 2004 and filed with the Securities and Exchange Commission on October 1, 2004)
10.21	Agreement of Limited Partnership of West Fork Pipeline Company LP (Incorporated by reference to Exhibit 10.21 of Form 10-K of the Registrant for the fiscal year ended December 31, 2004)
10.22	First Amendment to Second Amended and Restated Credit Agreement, dated as of December 27, 2004, by and among Parallel Petroleum Corporation, Parallel, L.P., Parallel, L.L.C., First American Bank, SSB, BNP Paribas, Citibank, F.S.B. and Western National Bank (Incorporated by reference to Exhibit 10.1 of the Registrant s Form 8-K Report dated December 30, 2004 and filed with the Securities and Exchange Commission on December 30, 2004)
10.23	Second Amendment to Second Amended and Restated Credit Agreement, dated as of April 1, 2005, by and among Parallel Petroleum Corporation, Parallel, L.P., Parallel, L.L.C., First American Bank, SSB, BNP Paribas, Citibank, F.S.B. and Western National Bank (Incorporated by reference to Exhibit 10.1 of the Registrant s Form 8-K Report dated April 4, 2005 and filed with the Securities and Exchange Commission on

April 8, 2005)

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No.	Description of Exhibit
10.24	Third Amendment to Second Amended and Restated Credit Agreement (Incorporated by referenced to Exhibit 10.1 of the Registrant s Form 8-K Report dated October 14, 2005 and filed with the Securities and Exchange Commission on October 20, 2005)
10.25	Purchase and Sale Agreement, dated as of October 14, 1005, among Parallel, L.P., Lynx Production Company, Inc., Elton Resources, Inc., Cascade Energy Corporation, Chelsea Energy, Inc., William P. Sutter, Trustee, William P. Sutter Trust, J. Leroy Bell, E. L. Brahaney, Brent Beck, Cavic Interests, LLC and Stanley Talbott (Incorporated by reference to Exhibit 10.2 of the Registrant s Form 8-K Report dated October 14, 2005 and filed with the Securities and Exchange Commission on October 20, 2005)
10.26	Ancillary Agreement to Purchase and Sale Agreement, dated October 14, 2005, between Parallel, L.P. and Lynx Production Company, Inc. (Incorporated by reference to Exhibit 10.3 of the Registrant s Form 8-K Report dated October 14, 2005 and filed with the Securities and Exchange Commission on October 20, 2005)
10.27	Guarantee of Parallel, L.P., dated October 13, 2004 (Incorporated by reference to Exhibit 10.4 of the Registrant s Form 8-K Report dated October 14, 2005 and filed with the Securities and Exchange Commission on October 20, 2005)
10.28	ISDA Master Agreement, dated as of October 13, 2005, between Parallel, L.P. and Citibank, N.A. (Incorporated by reference to Exhibit 10.5 of the Registrant s Form 8-K Report dated October 14, 2005 and filed with the Securities and Exchange Commission on October 20, 2005)
14	Code of Ethics (Incorporated by reference to Exhibit No. 14 of the Registrant s Form 10-K Report for the fiscal year ended December 31, 2003 and filed with the Securities and Exchange Commission on March 22, 2004)
21	Subsidiaries (Incorporated by reference to Exhibit No. 21 of the Registrant s Form 10-K Report for the fiscal year ended December 31, 2003 and filed with the Securities and Exchange Commission on March 22, 2004)
*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. Section 1350, as adopted pursuant to Section 906 of the Sarbanes - Oxley Act of 2002.

* Filed herewith.

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SIGNATURES

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

	PARALLEL PETROLEUM CORPORATION
Date: May 9, 2006	BY: /s/ Larry C. Oldham
	Larry C. Oldham President and Chief Executive Officer
Date: May 9, 2006	BY: /s/ Steven D. Foster
	Steven D. Foster, Chief Financial Officer

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INDEX TO EXHIBITS

No.	Description of Exhibit
3.1	Certificate of Incorporation of Registrant (Incorporated by reference to Exhibit 3.1 to Form 10-Q of the Registrant for the fiscal quarter ended June 30, 2004)
3.2	Bylaws of Registrant (Incorporated by reference to Exhibit 3 of the Registrant s Form 8-K, dated October 9, 2000, as filed with the Securities and Exchange Commission on October 10, 2000)
3.3	Certificate of Formation of Parallel, L.L.C. (Incorporated by reference to Exhibit No. 3.3 of the Registrant s Registration Statement on Form S-3, No. 333-119725 filed on October 13, 2004)
3.4	Limited Liability Company Agreement of Parallel, L.L.C. (Incorporated by reference to Exhibit No. 3.4 of the Registrant s Statement on Form S-3, No. 333-119725 filed on October 13, 2004)
3.5	Certificate of Limited Partnership of Parallel, L.P. (Incorporated by reference to Exhibit No. 3.5 of the Registrant s Registration Statement on Form S-3, No. 333-119725 filed on October 13, 2004)
3.6	Agreement of Limited Partnership of Parallel, L.P. (Incorporated by reference to Exhibit No. 3.6 of the Registrant s Registration Statement on Form S-3, No. 333-119725 filed on October 13, 2004)
4.1	Certificate of Designations, Preferences and Rights of Serial Preferred Stock - 6% Convertible Preferred Stock (Incorporated by reference to Exhibit 4.1 of Form 10-Q of the Registrant for the fiscal quarter ended June 30, 2004)
4.2	Certificate of Designation, Preferences and Rights of Series A Preferred Stock (Incorporated by reference to Exhibit 4.2 of Form 10-K of the Registrant 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 of the Registrant for the fiscal year ended December 31, 2000)
4.4	Form of Indenture relating to senior debt securities of the Registrant (Incorporated by reference to Exhibit No. 4.4 of the Registrant s Statement on Form S-3, No. 333-119725 filed on October 13, 2004)
4.5	Form of Indenture relating to subordinated debt securities of the Registrant (Incorporated by reference to Exhibit No. 4.5 of the Registrant s Registration Statement on Form S-3, No. 333-119725 filed on October 13, 2004)
4.6	Form of common stock certificate of the Registrant (Incorporated by reference to Exhibit No. 4.6 of the Registrant s Registration Statement on Form S-3, No. 333-119725 filed on October 13, 2004)
4.7	Warrant Purchase Agreement, dated November 20, 2001, between the Registrant and Stonington Corporation (Incorporated by reference to Exhibit 4.7 of Form 10-K of the Registrant for the fiscal year ended December 31, 2004)

No.	Description of Exhibit
4.8	Warrant Purchase Agreement, dated December 23, 2003, between the Registrant and Stonington Corporation (Incorporated by reference to Exhibit 4.8 of Form 10-K of the Registrant for the fiscal year ended December 31, 2004)
	Executive Compensation Plans and Arrangements (Exhibit No. s 10.1 through 10.8):
10.1	1992 Stock Option Plan (Incorporated by reference to Exhibit 10.1 of Form 10-K of the Registrant for the fiscal year ended December 31, 2004)
10.2	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)
10.3	Non-Employee Directors Stock Option Plan (Incorporated by reference to Exhibit 10.3 of Form 10-Q of the Registrant for the fiscal quarter ended June 30, 2005)
10.4	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)
10.5	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 Form 10-K of the Registrant for the fiscal year ended December 31, 2001)
10.6	2001 Non-Employee Directors Stock Option Plan (Incorporated by reference to Exhibit 10.7 of the Registrant s Form 10-Q Report for the first fiscal quarter ended March 31, 2004)
10.7	2004 Non-Employee Director Stock Grant Plan (Incorporated by reference to Exhibit 10.1 of the Registrant s Form 8-K Report dated September 22, 2004)
10.8	Incentive and Retention Plan (Incorporated by reference to Exhibit 10.1 of the Registrant s Form 8-K Report dated September 23, 2004 and filed with the Securities and Exchange Commission on September 29, 2004)
10.9	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)
10.10	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)
10.11	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 of the Registrant for the fiscal year ended December 31, 2000)
10.12	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)

10.13 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)

No.	Description of Exhibit
10.14	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 of the Registrant for the fiscal year ended December 31, 2000)
10.15	Loan Agreement, dated as of January 25, 2002, between the Registrant and First American Bank, SSB (Incorporated by reference to Exhibit 10.25 of Form 10-K of the Registrant for the fiscal year ended December 31, 2001)
10.16	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)
10.17	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)
10.18	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)
10.19	First Amendment to First Amended and Restated Credit Agreement, dated as of September 12, 2003, 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 10.29 of Form 10-Q of the Registrant for the quarter ended September 30, 2003)
10.20	Second Amended and Restated Credit Agreement, dated September 27, 2004, by and among Parallel Petroleum Corporation, Parallel, L.P., Parallel, L.L.C., First American Bank, SSB, BNP Paribas, Citibank, F.S.B. and Western National Bank (Incorporated by reference to Exhibit 10.1 of the Registrant s Form 8-K Report dated September 27, 2004 and filed with the Securities and Exchange Commission on October 1, 2004)
10.21	Agreement of Limited Partnership of West Fork Pipeline Company LP (Incorporated by reference to Exhibit 10.21 of Form 10-K of the Registrant for the fiscal year ended December 31, 2004)
10.22	First Amendment to Second Amended and Restated Credit Agreement, dated as of December 27, 2004, by and among Parallel Petroleum Corporation, Parallel, L.P., Parallel, L.L.C., First American Bank, SSB, BNP Paribas, Citibank, F.S.B. and Western National Bank (Incorporated by reference to Exhibit 10.1 of the Registrant s Form 8-K Report dated December 30, 2004 and filed with the Securities and Exchange Commission on December 30, 2004)
10.23	Second Amendment to Second Amended and Restated Credit Agreement, dated as of April 1, 2005, by and among Parallel Petroleum Corporation, Parallel, L.P., Parallel, L.L.C., First American Bank, SSB, BNP Paribas, Citibank, F.S.B. and Western National Bank (Incorporated by reference to Exhibit 10.1 of the Registrant s Form 8-K Report dated April 4, 2005 and filed with the Securities and Exchange Commission on April 8, 2005)
10.24	Third Amendment to Second Amended and Restated Credit Agreement (Incorporated by referenced to Exhibit 10.1 of the Registrant s Form 8-K Report dated October 14, 2005 and filed with the Securities and

Exchange Commission on October 20, 2005)

No.	Description of Exhibit
10.25	Purchase and Sale Agreement, dated as of October 14, 1005, among Parallel, L.P., Lynx Production Company, Inc., Elton Resources, Inc., Cascade Energy Corporation, Chelsea Energy, Inc., William P. Sutter, Trustee, William P. Sutter Trust, J. Leroy Bell, E. L. Brahaney, Brent Beck, Cavic Interests, LLC and Stanley Talbott (Incorporated by reference to Exhibit 10.2 of the Registrant s Form 8-K Report dated October 14, 2005 and filed with the Securities and Exchange Commission on October 20, 2005)
10.26	Ancillary Agreement to Purchase and Sale Agreement, dated October 14, 2005, between Parallel, L.P. and Lynx Production Company, Inc. (Incorporated by reference to Exhibit 10.3 of the Registrant s Form 8-K Report dated October 14, 2005 and filed with the Securities and Exchange Commission on October 20, 2005)
10.27	Guarantee of Parallel, L.P., dated October 13, 2004 (Incorporated by reference to Exhibit 10.4 of the Registrant s Form 8-K Report dated October 14, 2005 and filed with the Securities and Exchange Commission on October 20, 2005)
10.28	ISDA Master Agreement, dated as of October 13, 2005, between Parallel, L.P. and Citibank, N.A. (Incorporated by reference to Exhibit 10.5 of the Registrant s Form 8-K Report dated October 14, 2005 and filed with the Securities and Exchange Commission on October 20, 2005)
14	Code of Ethics (Incorporated by reference to Exhibit No. 14 of the Registrant s Form 10-K Report for the fiscal year ended December 31, 2003 and filed with the Securities and Exchange Commission on March 22, 2004)
21	Subsidiaries (Incorporated by reference to Exhibit No. 21 of the Registrant s Form 10-K Report for the fiscal year ended December 31, 2003 and filed with the Securities and Exchange Commission on March 22, 2004)
*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. Section 1350, as adopted pursuant to Section 906 of the Sarbanes - Oxley Act of 2002.

* Filed herewith