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Parallel Petroleum Corporation Q3 2008 Earnings Call Transcript

Question-and-Answer Session

Operator

(Operator Instructions) Your first question comes from [Unidentified Analyst] - Jefferies.

Unidentified Analyst - Jefferies

First, on the \$118 million of CapEx within cash flows, what sort of an estimated commodity price?

Larry Oldham

\$70 oil and \$7 gas.

Unidentified Analyst - Jefferies

Okay, \$70 and \$7 net realized.

Larry Oldham

No, sir. NYMEX.

Unidentified Analyst - Jefferies

And what's the cash position after you took the bank debt down? Should I just add your sort of cash in the quarter to what you took down?

Larry Oldham

We'll be around \$60 million today.

Unidentified Analyst - Jefferies

And is this sort of dry powder or how shall we think about sort of the use of that money? Or is there a market unfolding here where you could make sort of a countercyclical purchase of some type?

Larry Oldham

Basically, it's dry powder. And yes, we are positioning. We're always looking for a quality acquisition. And, of course, during a very depressed, I'd say, down market now with oil prices dropping from \$140 to the \$60 plus dollar range. I believe it's up today to \$70, but we're in a very, very volatile environment. But the primary purpose, [Sabash], was to have dry powder and have a high degree of liquidity so we can maintain financial flexibility at all times.

Unidentified Analyst - Jefferies

And in the Barnett position, I guess, you know, Chesapeake's committed, it looks like. Some other parts of the Barnett they're not, but here they're committed with a four-rig program. Longer term, is this sort of an asset base you could flip for something else or do you see this core to your operations over the long term?

Larry Oldham

Well, today it's core because it's in the early development stage, Sabash. As you can appreciate, we have about 10,000 net acres, and on 40-acre spacing, you're looking at - let's see, well, we have 32,000 gross acres - on 40-acre spacing, we're looking at probably 750 gross wells. And to date we've only drilled about 110 wells, so it is a multi-year project.

And the big part of this project is getting the leasehold costs, which we now have; getting the infrastructure built, which Chesapeake is in process of building; and once that infrastructure's in place, it's going to be perpetual motion and basically a cookie cutter and a gas manufacturing project.

So it is a core piece of what we're doing today but, in answer to your other question, there's always the possibility that we might sell the project in the future and then reinvest that capital in either a quality acquisition, the Permian Basin, or pay down debt. We have a lot of options available to us.

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