

Edgar Filing: PRIMA ENERGY CORP - Form 10-Q

PRIMA ENERGY CORP
Form 10-Q
May 15, 2001

1

=====

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2001

OR

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

For the transition period from _____ to _____

Commission file number 0-9408

PRIMA ENERGY CORPORATION
(Exact name of Registrant as specified in its charter)

DELAWARE 84-1097578
(State or other jurisdiction of (I.R.S. Employer Identification No.)
incorporation or organization)

1099 18TH STREET, SUITE 400, DENVER CO 80202
(Address of principal executive offices) (Zip Code)

(303) 297-2100
(Registrant's telephone number, including area code)

NO CHANGE
(Former name, former address and former fiscal year, if
changed from last report.)

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

Yes No

As of April 30, 2001, the Registrant had 12,731,373 shares of Common Stock, \$0.015 Par Value, outstanding.

=====

2

Edgar Filing: PRIMA ENERGY CORP - Form 10-Q

PRIMA ENERGY CORPORATION

INDEX

PART I - FINANCIAL INFORMATION	Page ----
Item 1. Financial Statements	
Unaudited Consolidated Balance Sheets	3
Unaudited Consolidated Statements of Income	5
Unaudited Consolidated Statements of Comprehensive Income	6
Unaudited Consolidated Statements of Cash Flows	7
Notes to Unaudited Consolidated Financial Statements	8
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	11
Item 3. Quantitative and Qualitative Disclosures About Market Risk	14
Cautionary Statement for Purposes of the "Safe Harbor" Provisions of the Private Securities Litigation Reform Act of 1995	15
PART II - OTHER INFORMATION	
Item 6. Exhibits and Reports on Form 8-K	16
Signatures	17

PRIMA ENERGY CORPORATION CONSOLIDATED BALANCE SHEETS

ASSETS

	MARCH 31, 2001 ----- (Unaudited)	DECEMBER 31, 2000 -----
CURRENT ASSETS		
Cash and cash equivalents	\$ 24,184,000	\$ 20,382,000
Available for sale securities, at market	2,437,000	2,311,000

Edgar Filing: PRIMA ENERGY CORP - Form 10-Q

Receivables (net of allowance for doubtful accounts: 3/31/01, \$45,000; 12/31/00, \$44,000)	8,431,000	8,902,000
Derivatives, at fair value	2,058,000	0
Tubular goods inventory	1,759,000	1,409,000
Other	824,000	1,042,000
	-----	-----
Total current assets	39,693,000	34,046,000
	-----	-----
OIL AND GAS PROPERTIES, at cost, accounted for using the full cost method	119,712,000	109,652,000
Less accumulated depreciation, depletion and amortization	(45,703,000)	(43,935,000)
	-----	-----
Oil and gas properties - net	74,009,000	65,717,000
	-----	-----
PROPERTY AND EQUIPMENT, at cost		
Oilfield service equipment	7,849,000	7,664,000
Furniture and equipment	755,000	729,000
Field office, shop and land	473,000	473,000
	-----	-----
	9,077,000	8,866,000
Less accumulated depreciation	(4,181,000)	(3,986,000)
	-----	-----
Property and equipment - net	4,896,000	4,880,000
	-----	-----
OTHER ASSETS	1,257,000	257,000
	-----	-----
	\$ 119,855,000	\$ 104,900,000
	=====	=====

See accompanying notes to unaudited consolidated financial statements.

3

4

PRIMA ENERGY CORPORATION
CONSOLIDATED BALANCE SHEETS (CONT'D.)

LIABILITIES AND STOCKHOLDERS' EQUITY

	MARCH 31, 2001	DECEMBER 31, 2000
	-----	-----
	(Unaudited)	
CURRENT LIABILITIES		
Accounts payable	\$ 3,755,000	\$ 3,207,000

Edgar Filing: PRIMA ENERGY CORP - Form 10-Q

Amounts payable to oil and gas property owners	3,175,000	2,501,000
Ad valorem and production taxes payable	1,817,000	1,857,000
Accrued and other liabilities	786,000	803,000
Deferred tax liability	463,000	0
	-----	-----
Total current liabilities	9,996,000	8,368,000
AD VALOREM TAXES, non-current	4,718,000	3,213,000
DEFERRED TAX LIABILITY	16,741,000	13,021,000
	-----	-----
Total liabilities	31,455,000	24,602,000
	-----	-----
STOCKHOLDERS' EQUITY		
Preferred stock, \$0.001 par value, 2,000,000 shares authorized; no shares issued or outstanding	0	0
Common stock, \$0.015 par value, 18,000,000 shares authorized; 12,793,373 shares issued	192,000	192,000
Additional paid-in capital	1,868,000	1,760,000
Retained earnings	87,148,000	78,472,000
Accumulated other comprehensive income (loss)	817,000	(126,000)
Treasury stock, 62,000 and 0 shares at cost	(1,625,000)	0
	-----	-----
Total stockholders' equity	88,400,000	80,298,000
	-----	-----
	\$ 119,855,000	\$ 104,900,000
	=====	=====

See accompanying notes to unaudited consolidated financial statements.

4

5

PRIMA ENERGY CORPORATION
CONSOLIDATED STATEMENTS OF INCOME
(UNAUDITED)

	THREE MONTHS ENDED MARCH 31,	
	2001	2000
	-----	-----
REVENUES		
Oil and gas sales	\$16,357,000	\$ 8,727,000
Oilfield services	1,776,000	1,659,000
Interest, dividend and other income	337,000	291,000
	-----	-----
	18,470,000	10,677,000
	-----	-----
EXPENSES		
Depreciation, depletion and amortization:		
Depletion of oil and gas properties	1,768,000	1,451,000
Depreciation of property and equipment	282,000	266,000

Edgar Filing: PRIMA ENERGY CORP - Form 10-Q

Lease operating expense	799,000	636,000
Ad valorem and production taxes	1,424,000	731,000
Cost of oilfield services	1,134,000	1,280,000
General and administrative	1,088,000	539,000
	<u>6,495,000</u>	<u>4,903,000</u>
Income Before Income Taxes and Cumulative		
Effect of Change in Accounting Principle	11,975,000	5,774,000
Provision for Income Taxes	3,910,000	1,590,000
	<u>8,065,000</u>	<u>4,184,000</u>
Net Income Before Cumulative Effect of		
Change in Accounting Principle	8,065,000	4,184,000
Cumulative Effect of Change in Accounting Principle	611,000	0
	<u>8,676,000</u>	<u>4,184,000</u>
NET INCOME	\$ 8,676,000	\$ 4,184,000
	<u>=====</u>	<u>=====</u>
Basic Net Income per Share Before Cumulative		
Effect of Change in Accounting Principle	\$ 0.63	\$ 0.33
Cumulative Effect of Change in Accounting Principle	0.05	0.00
	<u>0.68</u>	<u>0.33</u>
BASIC NET INCOME PER SHARE	\$ 0.68	\$ 0.33
	<u>=====</u>	<u>=====</u>
Diluted Net Income per Share Before Cumulative Effect		
Of Change in Accounting Principle	\$ 0.60	\$ 0.32
Cumulative Effect of Change in Accounting Principle	0.05	0.00
	<u>0.65</u>	<u>0.32</u>
DILUTED NET INCOME PER SHARE	\$ 0.65	\$ 0.32
	<u>=====</u>	<u>=====</u>
Weighted Average Common Shares		
Outstanding	12,757,551	12,744,319
	<u>=====</u>	<u>=====</u>
Weighted Average Common Shares		
Outstanding Assuming Dilution	13,322,748	13,210,295
	<u>=====</u>	<u>=====</u>

See accompanying notes to unaudited consolidated financial statements.

Edgar Filing: PRIMA ENERGY CORP - Form 10-Q

	MARCH 31,	
	2001	2000
Net income	\$ 8,676,000	\$ 4,184,000
Other comprehensive income:		
Unrealized gain (loss) on derivative activities	1,820,000	0
Deferred income tax expense related to unrealized gain on derivative activities	(517,000)	0
Reclassification adjustment for gains included in oil and gas sales	(422,000)	0
Unrealized gain on available-for-sale securities	98,000	25,000
Deferred income tax expense related to unrealized gain on available-for-sale securities	(36,000)	(9,000)
	943,000	16,000
COMPREHENSIVE INCOME	\$ 9,619,000	\$ 4,200,000

See accompanying notes to unaudited consolidated financial statements.

6

7

PRIMA ENERGY CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	THREE MONTHS ENDED MARCH 31,	
	2001	2000
OPERATING ACTIVITIES		
Net income	\$ 8,676,000	\$ 4,184,000
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion and amortization	2,050,000	1,717,000
Deferred income taxes	3,656,000	1,155,000
Unrealized gains from trading activities	(660,000)	
Other	(19,000)	(10,000)
Changes in operating assets and liabilities:		
Receivables	471,000	(587,000)
Inventory	(350,000)	79,000
Other current assets	127,000	130,000
Accounts payable and payables to owners	1,222,000	(316,000)
Production taxes payable	1,465,000	828,000

Edgar Filing: PRIMA ENERGY CORP - Form 10-Q

Accrued and other liabilities	(16,000)	360,0
	-----	-----
Net cash provided by operating activities	16,622,000	7,540,0
	-----	-----
INVESTING ACTIVITIES		
Additions to oil and gas properties	(11,060,000)	(7,792,0
Purchases of other property	(390,000)	(467,0
Purchases of available for sale securities	(28,000)	(28,0
Proceeds from sales of oil & gas and other property	111,000	29,0
	-----	-----
Net cash used in investing activities	(11,367,000)	(8,258,0
	-----	-----
FINANCING ACTIVITIES		
Net proceeds from short swing profit transaction	172,000	
Treasury stock purchased	(1,625,000)	(1,778,0
	-----	-----
Net cash used in financing activities	(1,453,000)	(1,778,0
	-----	-----
INCREASE (DECREASE) IN CASH		
AND CASH EQUIVALENTS	3,802,000	(2,496,0
CASH AND CASH EQUIVALENTS, beginning of period	20,382,000	18,883,0
	-----	-----
CASH AND CASH EQUIVALENTS, end of period	\$ 24,184,000	\$ 16,387,0
	=====	=====
Supplemental schedule of noncash investing and financing activities:		
Other assets acquired in exchange for undeveloped		
oil and gas properties	\$ 1,000,000	
	=====	

See accompanying notes to unaudited consolidated financial statements.

7

8

PRIMA ENERGY CORPORATION
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL

Prima Energy Corporation ("Prima") is an independent oil and gas company primarily engaged in the exploration for, acquisition, development and production of, crude oil and natural gas. Through its wholly owned subsidiaries, Prima is also engaged in oil and gas property operations, oilfield services and natural gas gathering, marketing and trading. Prima's current activities are principally conducted in the Rocky Mountain region of the United States.

The financial information contained herein is unaudited but includes all adjustments (consisting of only normal recurring accruals) which, in the opinion of management, are necessary to present fairly the information set forth. The consolidated financial statements should be read in conjunction with

Edgar Filing: PRIMA ENERGY CORP - Form 10-Q

the Notes to Consolidated Financial Statements which are included in the Annual Report on Form 10-K of Prima Energy Corporation for the year ended December 31, 2000.

The results for interim periods are not necessarily indicative of results to be expected for the fiscal year of the Company ending December 31, 2001. The Company believes that the three month report filed on Form 10-Q is representative of its financial position, its results of operations and its cash flows for the periods ended March 31, 2001 and 2000.

2. BASIS OF PRESENTATION

The accompanying consolidated financial statements include the accounts of Prima Energy Corporation and its subsidiaries, herein collectively referred to as "Prima" or the "Company." All significant intercompany transactions have been eliminated. Certain amounts in prior years have been reclassified to conform with the classifications at March 31, 2001.

3. DERIVATIVE ACTIVITIES

The Company's marketing and trading activities consist of marketing the Company's own production and marketing the production of others from wells operated by the Company. Crude oil and natural gas futures, options and swaps and basis swaps are used from time to time in order to hedge the price of a portion of the Company's production and to lock in the basis from NYMEX to the Rocky Mountains. This is done to mitigate the risk of fluctuating oil and natural gas prices and fluctuating basis differential, which can adversely affect operating results. These transactions have been entered into with major financial institutions, thereby minimizing credit risk. Approximately 36% of the Company's natural gas production was hedged during the quarter ended March 31, 2001, with hedging gains of \$422,000 included in oil and gas revenues at the time the hedged volumes were sold. The Company did not hedge any of its oil in the first quarter of 2001, and did not hedge any of its natural gas or oil production in the first quarter of 2000. At March 31, 2001, the Company had open derivative positions as follows:

8

9

Type of Derivative	Monthly Volume (MMBtu) or (Barrels)	Term	Unrealized Gains
Natural gas futures	300,000	April 2001	\$ 88,200
Natural gas basis swaps	440,000	April 2001	225,200
Natural gas futures	200,000	May - September 2001	449,200
Natural gas basis swaps	240,000	May - November 2001	1,289,400
Crude oil calls	10,000	May 2001	6,000

Statement of Financial Accounting Standards No. 133 "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"), as amended, was adopted January 1, 2001 by the Company. SFAS 133 establishes accounting and reporting standards for derivative instruments, including certain derivative

Edgar Filing: PRIMA ENERGY CORP - Form 10-Q

instruments embedded in other contracts (collectively referred to as derivatives) and for hedging activities. SFAS 133 requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. If the derivative is designated as a fair value hedge, the changes in the fair value of the derivative and the hedged item will be recognized in earnings. If the derivative is designated as a cash flow hedge, changes in the fair value of the derivative will be recorded in other comprehensive income and will be recognized in the income statement when the hedged item affects earnings. SFAS 133 defines new requirements for designation and documentation of hedging relationships as well as ongoing effectiveness assessments in order to use hedge accounting. For a derivative that does not qualify as a hedge, changes in fair value will be recognized in earnings.

In connection with the adoption of SFAS 133, all derivatives within the Company were identified pursuant to SFAS 133 requirements. To the extent derivatives met the requirements of cash flow hedges, changes in the fair value of the derivatives were recognized in other comprehensive income until such time as the hedged item was or will be recognized in earnings. Hedge effectiveness is measured based on the relative changes in the fair value between the derivative contract and the hedged item over time. Any changes in fair value resulting from ineffectiveness, as defined by SFAS 133, will be recognized immediately in current earnings. To the extent derivatives are fair value hedges, changes in fair value were marked-to-market and recognized in earnings immediately.

The adoption of SFAS 133 as of January 1, 2001 resulted in the recognition of a current asset of \$1,241,000, a current liability of \$549,000, and net-of-tax cumulative effect adjustments reducing other comprehensive income by \$129,000 and increasing net income by \$611,000. The \$611,000 is reflected as the cumulative effect of a change in accounting principle in the March 31, 2001 financial statements. As of March 31, 2001, the Company recorded a current asset of \$2,058,000, a net of tax increase in other comprehensive income of \$881,000, and hedging gains of \$422,000 which are included in oil and gas revenues for the period.

4. EARNINGS PER SHARE

Basic net income per share is computed by dividing net income by the weighted average common shares outstanding during the period. Diluted net income per share includes the potential dilution that could occur upon exercise of options to acquire common stock, computed using the treasury stock method. The treasury stock method assumes that the increase in the number of shares issued is reduced by the number of shares which could have been repurchased by the

Company with the proceeds from the exercise of the options. Repurchases were assumed to have been at the average market price of the common shares during the reporting period.

The following table reconciles the numerator and denominator used in the calculation of basic and diluted net income per share.

Edgar Filing: PRIMA ENERGY CORP - Form 10-Q

	Income (Numerator)	Shares (Denominator)	Per Share Amount
	-----	-----	-----
Quarter Ended March 31, 2001:			
Basic Net Income per Share	\$8,676,000	12,757,551	\$ 0.68 =====
Effect of Stock Options		565,197	
	-----	-----	
Diluted Net Income per Share	\$8,676,000 =====	13,322,748 =====	\$ 0.65 =====
Quarter Ended March 31, 2000:			
Basic Net Income per Share	\$4,184,000	12,744,319	\$ 0.33 =====
Effect of Stock Options		465,976	
	-----	-----	
Diluted Net Income per Share	\$4,184,000 =====	13,210,295 =====	\$ 0.32 =====

During the quarter ended March 31, 2001, the Company repurchased 62,000 shares for \$1,625,000 as treasury stock pursuant to a stock repurchase program whereby the Board of Directors has authorized the repurchase of up to 5% of the Company's common stock, depending upon market conditions, the Company's financial condition, anticipated capital requirements and liquidity, among other factors. At March 31, 2001, the Company had repurchased approximately 10% of the repurchase amount approved by the Board, or .5% of the issued shares.

10

11

PRIMA ENERGY CORPORATION MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Liquidity and Capital Resources

The Company's principal internal sources of liquidity are cash flows generated from operations and existing cash and cash equivalents. Net cash provided by operating activities for the three months ended March 31, 2001 was \$16,622,000 compared to \$7,540,000 for the same three month period of 2000. Net working capital at March 31, 2001 was \$29,697,000 compared to \$25,678,000 at December 31, 2000.

The Company invested \$11,060,000 in additions to oil and gas properties during the quarter ended March 31, 2001, compared to \$7,792,000 for the 2000 quarter. The Company expended \$10,502,000 during the 2001 quarter for its proportionate share of the costs of drilling, completing and refracturing wells and \$558,000 for undeveloped acreage. These expenditures compare to \$7,457,000 for well costs and \$335,000 for undeveloped acreage in the 2000 quarter. The Company also expended \$1,625,000 for the purchase of 62,000 shares of treasury stock and \$390,000 for other property and equipment during the first quarter of 2001.

During the first quarter of 2001, the Company participated in the drilling of 10 gross (9.96 net) wells and the refracturing of 25 gross (22.8 net) wells in the Wattenberg Field area of the Denver Basin. All of these wells

Edgar Filing: PRIMA ENERGY CORP - Form 10-Q

have been successfully completed and placed on production. Current plans are to drill an additional 15 to 20 new wells and to refrac or recomplete approximately 40 additional wells in this area during the remainder of 2001. To date in the second quarter, two gross and net wells have been drilled, with one on production and one waiting on pipeline hook-up. Ten refracs (9.45 net) have been completed to date in the second quarter.

Prima drilled 35 gross (34.0 net) Powder River Basin Coalbed Methane ("CBM") wells during the first quarter of 2001, and an additional 15 gross (14.9 net) CBM wells to date in the second quarter. A total of 220 CBM wells have been drilled since inception of the Company's program. The Company anticipates drilling 175 to 200 CBM wells in 2001.

All of Prima's CBM production to date has been from the Company's Stones Throw project area, where there are currently 99 wells hooked-up. By the end of the second quarter, Prima expects to have approximately 108 wells hooked-up and capable of production at Stones Throw. The Company recently hooked-up the first seven wells at its Kingsbury project area, and expects to hook-up 20 additional wells there by the end of May. Prima continues to expect that a total of approximately 140 Powder River Basin CBM wells will be hooked-up and capable of production by mid-third quarter, with that total reaching 200 by year end 2001.

During the first quarter of 2001, Prima formed two federal units, Echeta and Wild Turkey, on its acreage in the Powder River Basin CBM play. The Company expects to drill a minimum of nine unit obligation wells during the third quarter of 2001 on each of these federal units.

11

12

During the first quarter of 2001, Prima participated with a 15% working interest in the initial test well in the Jim Hill Draw Prospect located in Converse County, Wyoming. This Muddy sandstone test was unsuccessful and has been plugged and abandoned.

Prima has acquired or controls approximately 77,000 gross, 73,000 net acres on the Wasatch Plateau in central Utah. Approximately 34,000 net acres were added during the 2001 first quarter. The Company's leasehold position is located approximately 12-15 miles northwest of Price, Utah. The lease block has several potential targets, including the Blackhawk coals, Emery coals and Ferron sandstones and coals. The Company is currently finalizing plans to test its lease position later this year. Timing is dependent on rig availability and government permits and regulations.

The Company regularly reviews opportunities for acquisition of assets or companies related to the oil and gas industry which could expand or enhance its existing business. The Company expects its operations, including acquisition, drilling, completion and recompletion well costs, will be financed by funds provided by operations, working capital, various cost-sharing arrangements, or from other financing alternatives.

Results of Operations

For the quarter ended March 31, 2001, the Company earned net income of \$8,676,000, or \$0.65 per diluted share, on revenues of \$18,470,000, compared to net income of \$4,184,000, or \$0.32 per diluted share on revenues of \$10,677,000 for the comparable quarter of 2000. The results for 2001 include \$611,000 (net of income taxes), or \$0.05 per diluted share, cumulative effect adjustment

Edgar Filing: PRIMA ENERGY CORP - Form 10-Q

resulting from the adoption of FAS 133 on January 1, 2001. Expenses were \$6,495,000 for the 2001 quarter compared to \$4,903,000 for the 2000 quarter. Revenues increased \$7,793,000, or 73%, expenses increased \$1,592,000, or 32% and net income increased \$4,492,000, or 107%.

Oil and gas sales for the quarter ended March 31, 2001 were \$16,357,000 compared to \$8,727,000 for the same period of 2000, an increase of \$7,630,000 or 87%. The increase is primarily attributable to significantly higher natural gas prices. The Company's net natural gas production was 2,099,000 Mcf and 2,165,000 Mcf for the first quarters of 2001 and 2000, respectively, a decrease of 66,000 Mcf or 3%. The Company's net oil production was 111,000 barrels compared to 112,000 barrels for the same periods, a decrease of 1,000 barrels or 1%. Net production on an equivalent basis decreased 2% (converted on the basis of one barrel of oil being the equivalent of six Mcf of natural gas).

The average price received for natural gas production was \$6.29 per Mcf for the 2001 quarter compared to \$2.62 per Mcf for the 2000 quarter, an increase of \$3.67 per Mcf or 140%. The average price received for oil in 2001 was \$28.51 per barrel compared to \$27.29 per barrel for the same period of 2000, an increase of \$1.22 per barrel or 4%. During the first quarter of 2001, the Company hedged approximately 36% of its natural gas production. Hedging gains of \$422,000 are included in oil and gas revenues for this period, which increased the average price received per Mcf of natural gas by \$0.20. No oil production was hedged during the first quarter of 2001 and no natural gas or oil production was hedged during the first quarter of 2000.

12

13

The Company's depletion of oil and gas properties was \$1,768,000 or \$0.64 per Mcfe on 2,765,000 equivalent Mcf produced during the first quarter of 2001, compared to \$1,451,000 or \$0.51 per Mcfe on 2,839,000 equivalent Mcf produced during the first quarter of 2000. Depletion increased \$317,000, or 22%. The higher depletion rate for 2001 is comparable to the rate in the fourth quarter of 2000, which reflected higher drilling and operating costs incurred since October 1, 2000. Depreciation of other fixed assets was \$282,000 and \$266,000 for the quarters ended March 31, 2001 and 2000, respectively, and is attributable to depreciation of service equipment, furniture and equipment and buildings. Depreciation expense on these assets increased \$16,000, or 6%.

Lease operating expenses ("LOE") were \$799,000 for the quarter ended March 31, 2001 compared to \$636,000 for the quarter ended March 31, 2000. Ad valorem and production taxes were \$1,424,000 and \$731,000 for the same periods. Production taxes increased with higher product prices. Total lifting costs (LOE plus ad valorem and production taxes) were 14% of oil and gas revenues and \$0.80 per Mcfe for the 2001 quarter compared to 16% and \$0.48 per Mcfe for 2000.

Oilfield services represent the revenues earned by Action Oilfield Services, Inc. (Colorado) and Action Energy Services (Wyoming), wholly owned subsidiaries. These revenues include well servicing fees from drilling, completion and swab rigs, trucking, water hauling, rental equipment, and other related activities. Revenues from third parties were \$1,776,000 for the quarter ended March 31, 2001 compared to \$1,659,000 for the comparable quarter of 2000, an increase of \$117,000, or 7%. For the quarter ended March 31, 2001, 39% of the fees billed by the service companies were for Company owned wells compared to 31% for the quarter ended March 31, 2000. The Company's share of fees paid to its service companies and the costs associated with providing the services are eliminated in the consolidated financial statements. Costs of oilfield services were \$1,134,000 for the quarter ended March 31, 2001 compared to \$1,280,000 for

Edgar Filing: PRIMA ENERGY CORP - Form 10-Q

the same quarter of 2000, a decrease of \$146,000 or 11%.

General and administrative expenses ("G&A"), net of third party reimbursements, were \$1,088,000 for the quarter ended March 31, 2001 compared to \$539,000 for the quarter ended March 31, 2000, an increase of \$549,000 or 102%. The Company's G&A has increased due to expansion of the Company's activities and operations and the related increase in personnel costs.

The provision for income taxes, including the tax effect of change in accounting principle, was \$4,175,000 for the three months ended March 31, 2001 compared to \$1,590,000 for the three months ended March 31, 2000, an increase of \$2,585,000 or 163%. The effective income tax rate was 32.5% for the 2001 quarter compared to 27.5% for the 2000 quarter. The Company's effective tax rates are less than statutory rates due to permanent differences in financial and taxable income, consisting primarily of statutory depletion deductions and Section 29 tax credits. The Company's effective tax rate increased primarily because income before income taxes, including income from the change in accounting principle, increased \$7,077,000 or 123% for 2001, while the permanent differences did not increase proportionately.

Historically, oil and natural gas prices have been volatile and are likely to continue to be volatile. Prices are affected by, among other things, market supply and demand factors, market uncertainty, and actions of the United States and foreign governments and international cartels. These factors are beyond the control of the Company. To the extent that oil and gas prices decline, the Company's revenues, cash flows, earnings and operations would be adversely impacted. The Company is unable to accurately predict future oil and natural gas prices.

13

14

The Company's primary source of revenues is from the sale of oil and natural gas production. Levels of revenues and earnings are affected by volumes of oil and natural gas production and by the prices at which oil and natural gas are sold. As a result, the Company's operating results for any period are not necessarily indicative of future operating results because of fluctuations in oil and natural gas prices and production volumes.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company's primary market risks relate to changes in the prices received from sales of oil and natural gas. The Company's primary risk management strategy is to partially mitigate the risk of adverse changes in its cash flows caused by decreases in oil and natural gas prices or increases in the basis differential from NYMEX to the Rocky Mountains by entering into derivative commodity instruments, including commodity futures contracts, price swaps and basis swaps. By hedging only a portion of its market risk exposures, the Company is able to participate in the increased earnings and cash flows associated with increases in oil and natural gas prices; however, it is exposed to risk on the unhedged portion of its oil and natural gas production.

The Company has derivative positions which are designed to hedge the Company's oil and natural gas prices from downward price movements and basis swaps to protect the Company from increases in the basis differential. Pursuant to SFAS 133, the Company's derivatives either qualify as cash flow hedges or fair value hedges, and are accounted for accordingly.

Edgar Filing: PRIMA ENERGY CORP - Form 10-Q

Note 3 to the unaudited consolidated financial statements provides further disclosure with respect to derivatives and related accounting policies.

All derivative activity is carried out by personnel who have appropriate skills, experience and supervision. The personnel involved in derivative activity must follow prescribed trading limits and parameters that are regularly reviewed by the Company's Chief Executive Officer. All hedges or open positions are reviewed by the Chief Executive Officer before they are committed to, and significant positions are reviewed by the Company's Board of Directors. The Company uses only well-known, conventional derivative instruments and attempts to manage its credit risk by entering into financial contracts with reputable financial institutions.

Following are disclosures regarding the Company's market risk instruments. Investors and other users are cautioned to avoid simplistic use of these disclosures. Users should realize that the actual impact of future commodity price movements will likely differ from the amounts disclosed below due to ongoing changes in risk exposure levels and concurrent adjustments to hedging positions. It is not possible to accurately predict future movements in oil and natural gas prices.

The Company periodically hedges a portion of the price risk associated with the sale of its oil and natural gas production through the use of derivative commodity instruments, which consist of commodity futures contracts, price swaps and basis swaps. These instruments reduce the Company's exposure to decreases in oil and natural gas prices and/or increases in basis differential on the hedged portion of its production by enabling it to effectively receive a fixed price on its oil and natural gas sales. For the period April 1, 2001 through May 8, 2001, the Company settled derivative positions at a net gain of \$615,000. These gains will be reflected in the second quarter 2001 financial statements as an adjustment to natural gas prices realized during the period. As of May 8, 2001, the Company had the following open derivative positions in place:

14

15

Type of Derivative	Monthly Volume (MMBtu) or (Barrels)	Term	Unrealized Gain
Natural gas futures	50,000	June 2001	\$ 56
Natural gas basis swaps	60,000	June - September 2001	9
Natural gas futures	200,000	June - September 2001	931
Natural gas basis swaps	240,000	June - November 2001	730
Crude oil futures and calls sold	10,000	July 2001	10
Crude oil futures and calls sold	10,000	August 2001	7

During the first quarter of 2001, the Company sold 111,000 barrels of oil. A hypothetical decrease of \$2.85 per barrel (10% of average first quarter prices) would have decreased the Company's production revenues by \$316,000 for that period. The Company sold 2,099,000 Mcf of natural gas during the first quarter of 2001. A hypothetical decrease of \$0.63 per Mcf (10% of average first quarter prices) would have decreased the Company's production revenues by \$1,322,000 for that period.

Edgar Filing: PRIMA ENERGY CORP - Form 10-Q

During 2000, the Company sold 440,000 barrels of oil. A hypothetical decrease of \$2.93 per barrel (10% of the average price received during the year) would decrease the Company's production revenues by \$1,289,000 during 2001, assuming that oil production remains at 2000 levels. The Company sold 8.7 Bcf of natural gas in 2000. A hypothetical decrease of \$.36 per Mcf (10% of the average price received during the year) would decrease the Company's production revenues by \$3,132,000 for 2001, assuming that natural gas production remains at 2000 levels.

CAUTIONARY STATEMENT FOR PURPOSES OF THE "SAFE HARBOR" PROVISIONS OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

"Management's Discussion and Analysis of Financial Condition and Results of Operations" included in Item 2 of this Report contains "forward-looking statements" and are made pursuant to the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995. These statements include, without limitation, statements relating to liquidity, financing of operations, capital expenditures budget (both the amount and the source of funds), continued volatility of oil and natural gas prices, future drilling plans and other such matters. The words "anticipates," "expects" or "estimates" and similar expressions identify forward-looking statements. Such statements are based on certain assumptions and analyses made by the Company in light of its experience and its perception of historical trends, current conditions, expected future developments and other factors it believes are appropriate in the circumstances. Prima does not undertake to update, revise or correct any of the forward-looking information. Factors that could cause actual results to differ materially from the Company's expectations expressed in the forward-looking statements include, but are not limited to, the following: industry conditions; volatility of oil and natural gas prices; hedging activities; operational risks (such as blowouts, fires and loss of production); insurance coverage limitations; potential liability imposed by government regulation (including environmental regulation); the need to develop and replace its oil and natural gas reserves; the substantial capital expenditures required to fund its operations; risks related to exploration and developmental drilling;

15

16

and uncertainties about oil and natural gas reserve estimates. For a more complete explanation of these various factors, see "Cautionary Statement for the Purposes of the 'Safe Harbor' Provisions of the Private Securities Litigation Reform Act of 1995" included in the Company's Annual Report on Form 10-K for the year ended December 31, 2000, beginning on page 19.

PART II OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

No exhibits are filed herewith pursuant to Rule 601 of Regulation S-K.

(b) Reports on Form 8-K

The Company filed a Report on Form 8-K dated January 31, 2001, reporting its preliminary capital expenditures budget for 2001 of \$45 million and updating its operating activities in the Denver and Powder River Basins. The

Edgar Filing: PRIMA ENERGY CORP - Form 10-Q

Company filed a Report on Form 8-K dated February 15, 2001, reporting year end 2000 oil and natural gas reserve information and year 2000 production data. The Company filed a Report on Form 8-K dated May 10, 2001, reporting its first quarter 2001 earnings and providing an operations update

16

17

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.

PRIMA ENERGY CORPORATION
(Registrant)

Date May 15, 2001

By /s/ Richard H. Lewis

Richard H. Lewis,
President and
Principal Financial Officer

17