

GOODRICH PETROLEUM CORP

Form S-3/A

May 03, 2007

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**As filed with the Securities and Exchange Commission on May 3, 2007**

**Registration No. 333-141862**

**SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**PRE-EFFECTIVE AMENDMENT  
NO. 2 TO  
FORM S-3  
REGISTRATION STATEMENT  
UNDER  
THE SECURITIES ACT OF 1933**

**GOODRICH PETROLEUM CORPORATION**  
(Exact name of Registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction  
of incorporation or organization)

**76-0466193**  
(I.R.S. Employer  
Identification Number)

**808 Travis Street, Suite 1320  
Houston, Texas 77002  
(713) 780-9494**

(Address, including zip code, and telephone number, including area  
code, of Registrant's principal executive offices)

**David R. Looney**  
**808 Travis Street, Suite 1320**  
**Houston, Texas 77002**  
**(713) 780-9494**

(Name, address, including zip code, and telephone number,  
including area code, of agent for service)

**Copies to:**  
**James M. Prince**  
**Vinson & Elkins L.L.P.**  
**1001 Fannin Street, Suite 2500**  
**Houston, Texas 77002-6760**  
**(713) 758-2222**  
**(713) 615-5962 (Fax)**

**Approximate date of commencement of proposed sale to the public:** From time to time after the effective date  
of this Registration Statement.

If the only securities being registered on this form are being offered pursuant to dividend or interest reinvestment  
plans, please check the following box.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to  
Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest  
reinvestment plans, check the following  
box.

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act,  
check the following box and list the Securities Act registration statement number of the earlier effective registration  
statement for the same offering.

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this form is a registration statement pursuant to General Instruction I.D. or a post-effective amendment thereto that shall become effective upon filing with the Commission pursuant to Rule 462(e) under the Securities Act, check the following box.

If this form is a post-effective amendment to a registration statement filed pursuant to General Instruction I.D. filed to register additional securities or additional classes of securities pursuant to Rule 413(b) under the Securities Act, check the following box.

**THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(a) OF THE SECURITIES ACT OF 1933 OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE SECURITIES AND EXCHANGE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(a), MAY DETERMINE.**

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The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities, and we are not soliciting an offer to buy these securities, in any jurisdiction where the offer or sale is not permitted.

Subject to Completion, dated May 3, 2007

Prospectus

**\$175,000,000**  
**3.25% Convertible Senior Notes due 2026**  
**and up to 3,122,263 Common Shares**  
**Issuable Upon Exchange of the Notes**

We issued \$175 million aggregate principal amount of our 3.25% Convertible Senior Notes due 2026 (the notes) in a private placement in December 2006. The securities to be offered and sold using this prospectus will be offered and sold by the selling security holders named in this prospectus or in any amendment to this prospectus.

Holder may convert their notes at their option at any time prior to the close of business on the second business day immediately preceding the maturity date under the following circumstances: (1) during any fiscal quarter (and only during such fiscal quarter) commencing after March 31, 2007, if the last reported sale price of our common stock is greater than or equal to 135% of the base conversion price of the notes (as defined in this offering memorandum) for at least 20 trading days in the period of 30 consecutive trading days ending on the last trading day of the preceding fiscal quarter; (2) prior to December 1, 2011, during the five business-day period after any 10 consecutive trading-day period (the measurement period) in which the trading price of \$1,000 principal amount of notes for each trading day in the measurement period was less than 95% of the product of the last reported sale price of our common stock and the applicable conversion rate on such trading day; (3) if the notes have been called for redemption; or (4) upon the occurrence of specified corporate transactions described in this offering memorandum. Holders may also convert their notes at their option at any time beginning on November 1, 2026, and ending at the close of business on the second business day immediately preceding the maturity date.

The base conversion rate is 15.1653 per \$1,000 principal amount of notes (equal to a base conversion price of approximately \$65.94 per share), subject to adjustment. If the applicable stock price (as defined in this offering memorandum) is greater than the base conversion price, then the applicable conversion rate will be increased pursuant to the formula described in this prospectus. Upon conversion, we will deliver, at our option, either (1) a number of shares of our common stock determined as set forth in this prospectus, or (2) a combination of cash and shares of our common stock, if any, as described herein.

In addition, following certain corporate transactions that also constitute a fundamental change (as defined in this prospectus), we will increase the applicable conversion rate for a holder who elects to convert its notes in connection with such corporate transactions in certain circumstances. If such fundamental change also constitutes a public acquirer change of control (as defined in this prospectus), we may, in lieu of increasing the applicable conversion rate as described above, elect to adjust the related conversion obligation so that the notes are convertible into shares of the acquiring or surviving company.

On or after December 1, 2011, we may redeem for cash all or a portion of the notes at a redemption price of 100% of the principal amount of the notes to be redeemed plus accrued and unpaid interest (including contingent interest and additional interest, if any) to, but not including, the redemption date.

Subject to certain conditions described in this offering memorandum, holders may require us to purchase all or a portion of their notes on each of December 1, 2011, December 1, 2016 and December 1, 2021. In addition, if we experience specified types of corporate transactions, holders may require us to purchase all or a portion of their notes. Any repurchase of the notes pursuant to these provisions will be for cash at a price equal to 100% of the principal amount of the notes to be purchased plus any accrued and unpaid interest (including contingent interest and additional interest, if any) to, but excluding, the purchase date.

The notes are our senior unsecured obligations and will rank equally in right of payment to all of our other existing and future senior indebtedness. The notes are effectively subordinated to all of our secured indebtedness, including indebtedness under our senior credit facility, to the extent of the value of our assets collateralizing such indebtedness.

We have entered into a registration rights agreement with the initial purchasers, pursuant to which we agreed to file a shelf registration statement with the Securities and Exchange Commission covering resales of the notes and common stock issuable upon conversion of the notes, of which this prospectus is a part.

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Our common stock is listed on the New York Stock Exchange under the symbol GDP. The last reported sale price of our common stock on the New York Stock Exchange on May 2, 2007 was \$36.89 per share.

*Investing in the notes involves risks. See Risk Factors, beginning on page 7.*

**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offense.**

, 2007.

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**In making your investment decision, you should rely only on the information contained or incorporated by reference in this prospectus. We have not authorized anyone to provide you with any other information. If anyone provides you with different or inconsistent information, you should not rely on it.**

**You should not assume that the information contained in this prospectus is accurate as of any date other than the date on the front cover of this prospectus. You should not assume that the information contained in the documents incorporated by reference in this prospectus is accurate as of any date other than the respective dates of those documents. Our business, financial condition, results of operations and prospects may have changed since those dates.**

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### ABOUT THIS PROSPECTUS

This prospectus is part of a registration statement that we filed with the Securities and Exchange Commission, or the SEC, utilizing a shelf registration process or continuous offering process. Under this shelf registration process, the selling security holders may, from time to time, sell the securities described in this prospectus in one or more offerings. This prospectus provides you with a general description of the securities which may be offered by the selling security holders. Each time a selling security holder sells securities, the selling security holder is required to provide you with this prospectus and, in certain cases, a prospectus supplement containing specific information about the selling security holder and the terms of the securities being offered. That prospectus supplement may include additional risk factors or other special considerations applicable to those securities. Any prospectus supplement may also add, update, or change information in this prospectus. If there is any inconsistency between the information in this prospectus and any prospectus supplement, you should rely on the information in that prospectus supplement. You should read both this prospectus and any prospectus supplement together with additional information described under Where You Can Find More Information.

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**PROSPECTUS SUMMARY**

*This summary highlights the information contained elsewhere or incorporated by reference in this prospectus. Because this is only a summary, it does not contain the information that may be important to you. You should read the following summary together with the more detailed information and our consolidated financial statements, including the accompanying notes, included elsewhere or incorporated by reference in this prospectus. You should also read this entire prospectus and the documents incorporated by reference in this prospectus before making an investment decision. You should carefully consider the information set forth under Risk Factors. In addition, certain statements include forward-looking information which involves risks and uncertainties. See Forward-Looking Statements.*

**Goodrich Petroleum Corporation**

We are an independent oil and gas company engaged in the exploration, exploitation, development and production of oil and natural gas properties primarily in the Cotton Valley Trend of East Texas and Northwest Louisiana.

Our principal executive offices are located at 808 Travis Street, Suite 1320, Houston, Texas 77002, and our telephone number at this location is (713) 780-9494. We also have an office in Shreveport, Louisiana. Our common stock is listed on the New York Stock Exchange under the symbol GDP.



**Table of Contents****The Offering**

*On December 6, 2006, we sold \$125,000,000 of our 3.25% convertible senior notes due 2026 (the "notes"). On December 8, 2006, we sold an additional \$50,000,000 of notes to the initial purchasers following the exercise of the initial purchasers' option to purchase additional notes. We entered into a registration rights agreement with the initial purchasers in the private offering in which we agreed, for the benefit of the holders of the notes, to file a shelf registration statement with the SEC by April 5, 2007 with respect to resales of the notes and shares of our common stock, par value \$0.20 per share (the "common stock" and together with the notes the "registrable securities") issued upon the conversion thereof. We have complied with those deadlines. We also agreed to use our reasonable best efforts to cause the shelf registration statement to be declared effective under the Securities Act by August 3, 2007. We also agreed to keep the shelf registration statement effective until the registrable securities are eligible to be sold under Rule 144(k) under the Securities Act or such earlier date as the registrable securities have been sold pursuant to the shelf registration statement. The summary below describes the principal terms of the notes. Certain of the terms and conditions described below are subject to important limitations and exceptions. The "Description of Notes" section of this prospectus contains a more detailed description of the terms of the notes.*

<b>Issuer</b>	Goodrich Petroleum Corporation.
<b>Selling Security Holders</b>	The securities to be offered and sold using this prospectus will be offered and sold by the selling security holders named in this prospectus or in any supplement to this prospectus. See "Selling Security Holders."
<b>Notes Offered</b>	\$175,000,000 principal amount of our 3.25% Convertible Senior Notes due 2026.
<b>Common Stock Offered</b>	Shares of our common stock, par value \$0.20 per share, issuable upon conversion of the notes.
<b>Maturity</b>	December 1, 2026, unless earlier redeemed, repurchased or converted.
<b>Ranking</b>	The notes are our senior unsecured obligations and rank equally in right of payment to all of our other existing and future senior indebtedness. The notes are effectively subordinated to all of our secured indebtedness, including indebtedness under our senior credit facility, to the extent of the value of our assets collateralizing such indebtedness and any liabilities of our subsidiaries. As of December 31, 2006, we had approximately \$26.5 million of outstanding senior indebtedness and other liabilities (excluding trade payables, accrued expenses and intercompany liabilities), all of which represented secured indebtedness and all of which are direct obligations or guaranteed by our subsidiaries. The notes are effectively subordinated to all of this indebtedness.
<b>Interest</b>	3.25% per annum. Interest on the notes began accruing on December 6, 2006. Interest (including contingent interest and additional interest, if any) is payable semiannually in arrears on June 1 and December 1 of each year, beginning June 1, 2007.
<b>Contingent Interest</b>	We will also pay contingent interest to holders of the notes during any six-month period from an interest payment date to, but excluding, the following interest payment date, commencing with the six-month period

beginning on December 1, 2011, if the trading price of a note for each of the five trading days ending on the third trading day immediately preceding the first day of the relevant six-month period equals 120% or more of the principal amount of the note. The amount of contingent interest payable per note with respect to any such period will be equal to 0.50% per annum of the average trading price of such note for the five trading days referred to above.

**Conversion Rights**

Holders may convert their notes at any time prior to the close of business on the second business day immediately preceding the maturity date, in multiples of

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\$1,000 principal amount, at the option of the holder under any of the following circumstances:

during any fiscal quarter (and only during that fiscal quarter) commencing after March 31, 2007 if the last reported sale price of our common stock is greater than or equal to 135% of the base conversion price (as defined herein) for at least 20 trading days in the period of 30 consecutive trading days ending on the last trading day of the preceding fiscal quarter;

prior to December 1, 2011, during the five business day period after any 10 consecutive trading-day period (the measurement period) in which the trading price per \$1,000 principal amount of notes for each trading day in the measurement period was less than 95% of the product of the last reported sale price of our common stock and the applicable conversion rate (as defined herein) on such trading day;

if such notes have been called for redemption; or

upon the occurrence of specified corporate transactions described under Description of Notes Conversion Rights Conversion Upon Specified Corporate Transactions.

Holders may also convert their notes at their option at any time beginning on November 1, 2026, and ending at the close of business on the second business day immediately preceding December 1, 2026.

**Conversion Rate**

The applicable conversion rate is determined as follows:

If the applicable stock price is less than or equal to the base conversion price, then the applicable conversion rate is a number of shares of our common stock equal to the base conversion rate.

If the applicable stock price is greater than the base conversion price, then the applicable conversion rate is determined in accordance with the following formula:

$$\text{Base Conversion Rate} + \frac{(\text{Applicable Stock Price} - \text{Base Conversion Price}) \times \text{Incremental Share Factor}}{\text{Applicable Stock Price}}$$

The base conversion rate is 15.1653, subject to adjustment as described under Description of Notes Conversion Rights Conversion Rate Adjustments.

The base conversion price is a dollar amount (initially \$65.94) determined by dividing the principal amount per note by the base conversion rate.

The incremental share factor is 2.6762, subject to the same proportional adjustment as the applicable conversion rate. The applicable stock price is equal to the average of the last reported sale prices of our common stock over the ten trading day period starting on the third trading day following the conversion date of the notes.

In addition, following certain corporate transactions that occur prior to December 1, 2011 and that also constitute a fundamental change (as defined in this prospectus), we will increase the applicable conversion rate for a holder who elects to convert its notes in connection with such corporate transactions in certain circumstances. See Description of Notes Conversion Rights Conversion Rate Adjustments Adjustment to Shares Delivered Upon Conversion Upon Certain Fundamental Changes. If such fundamental change

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also constitutes a public acquirer change of control (as defined in this prospectus), we may, in lieu of increasing the applicable conversion rate as described above, elect to adjust the related conversion obligation so that the notes are convertible into shares of the acquiring or surviving company. See Description of Notes Conversion Rights Conversion Rate Adjustments Conversion After a Public Acquirer Change of Control.

**Conversion Settlement**

Upon conversion, we will deliver, at our option, either (1) a number of shares of our common stock equal to the applicable conversion rate or (2) an amount of cash and shares of our common stock as follows:

cash in an amount equal to the lesser of (a) the conversion value and (b) the principal amount of notes to be converted, and

if the conversion value is greater than the principal amount of notes to be converted, number of shares equal to the difference between the conversion value and the principal amount, divided by the applicable stock price.

See Description of Notes Conversion Rights Payment Upon Conversion.

The conversion value, for each \$1,000 principal amount of notes converted, is an amount equal to the applicable conversion rate multiplied by the applicable stock price.

At any time on or before the 13th scheduled trading day prior to maturity, we may irrevocably waive in our sole discretion our right to satisfy our conversion obligation solely in shares of our common stock as described above.

You will not receive any additional cash payment or additional shares representing accrued and unpaid interest, including contingent interest and additional interest, if any, upon conversion of a note, except in limited circumstances. Instead, interest will be deemed paid by the shares or the combination of cash and shares, if any, of common stock issued to you upon conversion.

**Redemption at Our Option**

Prior to December 1, 2011, the notes are not redeemable. On or after December 1, 2011, we may redeem for cash all or a portion of the notes at a redemption price of 100% of the principal amount of the notes to be redeemed plus accrued and unpaid interest (including additional interest and contingent interest, if any) to, but not including, the redemption date.

**Purchase of Notes by Us at the Option of the Holder**

Holder have the right to require us to purchase all or a portion of their notes for cash on December 1, 2011, 2016 and 2021, each of which we refer to as a purchase date. In each case, we will pay a purchase price equal to 100% of the principal amount of the notes to be repurchased plus accrued and unpaid interest (including contingent interest and additional

interest, if any) to but not including the purchase date.

**Fundamental Change**

If we undergo a fundamental change, you will have the option to require us to purchase all or any portion of your notes. The fundamental change purchase price will be 100% of the principal amount of the notes to be purchased plus any accrued and unpaid interest (including additional interest and contingent interest, if any), to but excluding the fundamental change purchase date. We will pay cash for all notes so purchased. See Description of Notes Fundamental Change Permits Holders to Require Us to Purchase Notes.

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**Use of Proceeds**

The selling security holders will receive all of the proceeds from the sale under this prospectus of the notes and our common shares issuable upon exchange of the notes. We will not receive any proceeds from these sales. For additional information, see Use of Proceeds.

**Book-Entry Form**

The notes were issued in book-entry form and are represented by permanent global certificates deposited with, or on behalf of, The Depository Trust Company ( DTC ) and registered in the name of a nominee of DTC. Any notes sold pursuant to this prospectus will be represented by another such global certificate. Beneficial interests in any of the notes will be shown on, and transfers will be effected only through, records maintained by DTC or its nominee and any such interest may not be exchanged for certificated securities, except in limited circumstances.

**U.S. Federal Income Tax Considerations**

For United States federal income tax purposes, the notes are treated as indebtedness subject to the special regulations governing contingent payment debt instruments, which we refer to as the CPDI regulations. Pursuant to the CPDI regulations, a U.S. holder (as defined under Certain United States Federal Income Tax Considerations U.S. Holders ) will generally be required to accrue interest income on the notes, subject to certain adjustments, at a rate of 8.5%, compounded semi-annually, regardless of whether the holder uses the cash or accrual method of tax accounting. Accordingly, U.S. holders will generally be required to include interest in taxable income in each year in excess of any interest payments (whether fixed or contingent) actually received in that year. For this purpose, a conversion of the notes will be treated as the receipt of a contingent payment with respect to the notes, which may produce an adjustment to a U.S. holder's interest accruals. Under the CPDI regulations, gain recognized upon a sale, exchange, or redemption of a note will generally be treated as ordinary interest income; loss will be ordinary loss to the extent of interest previously included in income, and thereafter capital loss.

In addition, the conversion rate for the notes will be adjusted in certain circumstances, as described under Description of Notes Conversion Rights General Conversion Rate Adjustments. Such adjustments (or failure to make adjustments) that have the effect of increasing your proportionate interest in our assets or earnings may in some circumstances result in a deemed distribution to you, notwithstanding the fact that you do not receive a cash payment. Any deemed distribution will be taxable as a dividend, return of capital, or capital gain in accordance with the tax rules applicable to corporate distributions. Deemed dividends received by U.S. holders may not be eligible for the reduced rates of tax applicable to qualified dividend income or to the dividends received deduction generally available to U.S. corporations, and deemed dividends received by Non-U.S. holders (as defined under Certain United States Federal Income Tax Considerations Treatment of Non-U.S. Holders ) may be subject to United States federal gross income and withholding tax at a

30% rate or such lower rate as may be specified by an applicable income tax treaty. Because any deemed distributions resulting from certain adjustments, or failures to make adjustments, to the conversion rate described under Certain United States Federal Income Tax Considerations Treatment of Non-U.S. Holders Payments on Common Stock and Constructive Dividends will not give rise to any cash from which any applicable United States federal withholding tax can be satisfied, the indenture provides that we (or a third party withholding agent) may set off any withholding tax that we (or such third party) are required to collect with respect to any such deemed distribution against cash payments of interest or from cash or shares our common stock deliverable to a holder upon a



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conversion, redemption or repurchase of a note. See Certain United States Federal Income Tax Considerations.

**Trading**

The notes will not be listed on any national securities exchange or included in any automated quotation system. However, the notes that were issued in the private placements are eligible for trading in the PORTAL Market. The notes sold using this prospectus, however, will no longer be eligible for trading in the PORTAL Market.

**Trading Symbol for our Common Stock**

Our common stock is traded on the New York Stock Exchange under the symbol GDP.

**Risk Factors**

An investment in the notes involves certain risks that a potential investor should carefully evaluate prior to making an investment in the notes. Please read Risk Factors beginning on page 7.

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**RISK FACTORS**

*You should carefully consider the risks described below and in the documents incorporated by reference before making an investment. The risks described below are not the only ones we face. Additional risks not presently known to us or that we currently deem immaterial may also impair our business operations.*

*Our business, financial condition or results of operations could be materially adversely affected by any of these risks. The trading price of the notes and our common shares could decline due to any of these risks, and you may lose all or part of your investment.*

*This prospectus and the incorporated documents also contain forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including the risks faced by us described below and elsewhere in this prospectus.*

**Risks Related to Our Business**

Our financial and operating results are subject to a number of factors, many of which are not within our control. These factors include the following:

***Our actual production, revenues and expenditures related to our reserves are likely to differ from our estimates of proved reserves. We may experience production that is less than estimated and drilling costs that are greater than estimated in our reserve report. These differences may be material.***

The proved oil and gas reserve information incorporated by reference in this prospectus are estimates. These estimates are based on reports prepared by our independent reserve engineers Netherland Sewell & Associates, Inc. and were calculated using oil and gas prices as of December 31, 2006. These prices will change and may be lower at the time of production than those prices that prevailed at the end of 2006. Reservoir engineering is a subjective process of estimating underground accumulations of oil and gas that cannot be measured in an exact manner. Estimates of economically recoverable oil and gas reserves and of future net cash flows necessarily depend upon a number of variable factors and assumptions, including:

historical production from the area compared with production from other similar producing areas;

the assumed effects of regulations by governmental agencies

assumptions concerning future oil and gas prices; and

assumptions concerning future operating costs, severance and excise taxes, development costs and workover and remedial costs.

Because all reserve estimates are to some degree subjective, each of the following items may differ materially from those assumed in estimating proved reserves:

the quantities of oil and gas that are ultimately recovered;

the production and operating costs incurred;

the amount and timing of future development expenditures; and

future oil and gas sales prices.

Furthermore, different reserve engineers may make different estimates of reserves and cash flows based on the same available data. Our actual production, revenues and expenditures with respect to reserves will likely be different from estimates and the differences may be material. The discounted future net cash flows included in this document should not be considered as the current market value of the estimated oil and gas reserves attributable to our properties. As required by the SEC, the standardized measure of discounted future net cash flows from proved reserves are generally based on prices and costs as of the date of the estimate, while actual future prices and costs may be materially higher or lower. Actual future net cash flows also will be affected by factors such as:

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the amount and timing of actual production;

supply and demand for oil and gas;

increases or decreases in consumption; and

changes in governmental regulations or taxation.

In addition, the 10% discount factor, which is required by the SEC to be used to calculate discounted future net cash flows for reporting purposes, and which we use in calculating our pre-tax PV10 Value, is not necessarily the most appropriate discount factor based on interest rates in effect from time to time and risks associated with us or the oil and gas industry in general.

***Our future revenues are dependent on the ability to successfully complete drilling activity.***

Drilling and exploration are the main methods we utilize to replace our reserves. However, drilling and exploration operations may not result in any increases in reserves for various reasons. Exploration activities involve numerous risks, including the risk that no commercially productive oil or gas reservoirs will be discovered. In addition, the future cost and timing of drilling, completing and producing wells is often uncertain. Furthermore, drilling operations may be curtailed, delayed or canceled as a result of a variety of factors, including:

lack of acceptable prospective acreage;

inadequate capital resources;

unexpected drilling conditions; pressure or irregularities in formations; equipment failures or accidents;

adverse weather conditions, including hurricanes;

unavailability or high cost of drilling rigs, equipment or labor;

reductions in oil and gas prices;

limitations in the market for oil and gas;

title problems;

compliance with governmental regulations; and

mechanical difficulties.

Our decisions to purchase, explore, develop and exploit prospects or properties depend in part on data obtained through geophysical and geological analyses, production data and engineering studies, the results of which are often uncertain.

In addition, we recently completed drilling our first horizontal well in the Cotton Valley Trend, which is the first well we have drilled in the Cotton Valley Trend utilizing this technique. We have only limited experience drilling horizontal wells and there can be no assurance that this method of drilling will be as effective (or effective at all) as we currently expect it to be.

In addition, higher oil and gas prices generally increase the demand for drilling rigs, equipment and crews and can lead to shortages of, and increasing costs for, such drilling equipment, services and personnel. Such shortages could restrict our ability to drill the wells and conduct the operations which we currently have planned. Any delay in the drilling of new wells or significant increase in drilling costs could adversely affect our ability to increase our reserves and production and reduce our revenues.



**Table of Contents*****Natural gas and oil prices are volatile, and low prices have had in the past and could have in the future a material adverse impact on our business.***

Our success will depend on the market prices of oil and natural gas. These market prices tend to fluctuate significantly in response to factors beyond our control. The prices we receive for our crude oil production are based on global market conditions. The general pace of global economic growth, the continued instability in the Middle East and other oil and gas producing regions and actions of the Organization of Petroleum Exporting Countries, or OPEC, and its maintenance of production constraints, as well as other economic, political, and environmental factors will continue to affect world supply and prices. Domestic natural gas prices fluctuate significantly in response to numerous factors including U.S. economic conditions, weather patterns, other factors affecting demand such as substitute fuels, the impact of drilling levels on crude oil and natural gas supply, and the environmental and access issues that limit future drilling activities for the industry.

Average oil and natural gas prices fluctuated substantially during the three year period ended December 31, 2006. Based on recent history of our industry, fluctuations during the past several years in the demand and supply of crude oil and natural gas have contributed to, and are likely to continue to contribute to, price volatility. Crude oil and natural gas prices are extremely volatile. Any actual or anticipated reduction in crude oil and natural gas prices would depress the level of exploration, drilling and production activity. We expect that commodity prices will continue to fluctuate significantly in the future. The following table includes high and low for 2006, year-end and current prices; natural gas (price per one million British thermal units or Mmbtu) and crude oil (West Texas Intermediate or WTI):

	<b>Henry Hub Per Mmbtu</b>
January 3, 2006 (high)	\$ 9.87
September 29, 2006 (low)	3.63
December 29, 2006	5.50
March 9, 2007	7.06
	<b>WTI Per barrel</b>
July 14, 2006 (high)	\$77.03
November 17, 2006 (low)	55.81
December 29, 2006	61.06
March 9, 2007	60.05

Changes in commodity prices significantly affect our capital resources, liquidity and expected operating results. Price changes directly affect revenues and can indirectly impact expected production by changing the amount of funds available to us to reinvest in exploration and development activities. Reductions in oil and natural gas prices not only reduce revenues and profits, but could also reduce the quantities of reserves that are commercially recoverable. Significant declines in prices could result in non-cash charges to earnings due to impairment. We use derivative financial instruments to hedge a portion of our exposure to changing commodity prices and we have hedged a targeted portion of our anticipated production for 2007.

***Our use of oil and gas price hedging contracts may limit future revenues from price increases and result in significant fluctuations in our net income.***

We use hedging transactions with respect to a portion of our oil and natural gas production to achieve more predictable cash flow and to reduce our exposure to price fluctuations. While the use of hedging transactions limits the downside risk of price declines, their use may also limit future revenues from price increases.

Our results of operations may be negatively impacted by our financial derivative instruments and fixed price forward sales contracts in the future and these instruments may limit any benefit we would receive from increases in the prices for oil and natural gas. For the year ended December 31, 2006, we realized a loss on settled financial derivatives of \$2.1 million. For the years ended December 31, 2005 and 2004, we realized a loss on settled financial derivatives of \$18.0 million and \$6.2 million, respectively.



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For the year ended December 31, 2006, we recognized in earnings an unrealized gain on derivative instruments not qualifying for hedge accounting in the amount of \$40.2 million. For financial reporting purposes, this unrealized gain was combined with a \$2.1 million realized loss in 2006 resulting in a total unrealized and realized gain on derivative instruments not qualifying for hedge accounting in the amount of \$38.1 million for 2006. This gain was recognized because the natural gas hedges were deemed ineffective for 2006, and all previously effective oil hedges were deemed ineffective for the fourth quarter of 2006.

For the year ended December 31, 2005, we recognized in earnings an unrealized loss on derivative instruments not qualifying for hedge accounting in the amount of \$27.0 million. For financial reporting purposes, this unrealized loss was combined with a \$10.7 million realized loss in 2005 resulting in a total unrealized and realized loss on derivative instruments not qualifying for hedge accounting in the amount of \$37.7 million in 2005. For the year ended December 31, 2004, we recognized in earnings an unrealized gain on derivative instruments in the amount of \$2.3 million. This loss and gain were recognized because the natural gas hedges were deemed to be ineffective for 2005, and for the fourth quarter of 2004, and accordingly, the changes in fair value of such hedges could no longer be reflected in other comprehensive income, a component of stockholders' equity.

To the extent that the hedges are not deemed to be effective in the future, we will likewise be exposed to volatility in earnings resulting from changes in the fair value of our hedges. See Note 8 Hedging Activities to our consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2006 for further discussion.

***Delays in development or production curtailment affecting our material properties may adversely affect our financial position and results of operations.***

The size of our operations and our capital expenditure budget limits the number of wells that we can develop in any given year. Complications in the development of any single material well may result in a material adverse affect on our financial condition and results of operations. In addition, a relatively small number of wells contribute a substantial portion of our production. If we were to experience operational problems resulting in the curtailment of production in any of these wells, our total production levels would be adversely affected, which would have a material adverse affect on our financial condition and results of operations.

***Because our operations require significant capital expenditures, we may not have the funds available to replace reserves, maintain production or maintain interests in our properties.***

We must make a substantial amount of capital expenditures for the acquisition, exploration and development of oil and natural gas reserves. Historically, we have paid for these expenditures with cash from operating activities, proceeds from debt and equity financings and asset sales. Our revenues or cash flows could be reduced because of lower oil and natural gas prices or for other reasons. If our revenues or cash flows decrease, we may not have the funds available to replace reserves or maintain production at current levels. If this occurs, our production will decline over time. Other sources of financing may not be available to us if our cash flows from operations are not sufficient to fund our capital expenditure requirements. Where we are not the majority owner or operator of an oil and gas property, such as the Lafitte field, we may have no control over the timing or amount of capital expenditures associated with the particular property. If we cannot fund such capital expenditures, our interests in some properties may be reduced or forfeited.

***We may have difficulty financing our planned growth.***

We have experienced and expect to continue to experience substantial capital expenditure and working capital needs, particularly as a result of our drilling program. In the future, we expect that we will require additional financing, in addition to cash generated from operations, to fund planned growth. We cannot be certain that additional financing will be available on acceptable terms or at all. In the event additional capital resources are unavailable, we may curtail drilling, development and other activities or be forced to sell some of our assets on an untimely or unfavorable basis.

**Table of Contents*****If we are not able to replace reserves, we may not be able to sustain production at present levels.***

Our future success depends largely upon our ability to find, develop or acquire additional oil and gas reserves that are economically recoverable. Unless we replace the reserves we produce through successful development, exploration or acquisition activities, our proved reserves will decline over time. In addition, approximately 57% of our total estimated proved reserves by volume at December 31, 2006, were undeveloped. By their nature, estimates of undeveloped reserves are less certain. Recovery of such reserves will require significant capital expenditures and successful drilling operations. We may not be able to successfully find and produce reserves economically in the future. In addition, we may not be able to acquire proved reserves at acceptable costs.

***We may incur substantial impairment writedowns.***

If management's estimates of the recoverable reserves on a property are revised downward or if oil and natural gas prices decline, we may be required to record additional non-cash impairment writedowns in the future, which would result in a negative impact to our financial position. We review our proved oil and gas properties for impairment on a depletable unit basis when circumstances suggest there is a need for such a review. To determine if a depletable unit is impaired, we compare the carrying value of the depletable unit to the undiscounted future net cash flows by applying management's estimates of future oil and natural gas prices to the estimated future production of oil and gas reserves over the economic life of the property. Future net cash flows are based upon our independent reservoir engineers estimates of proved reserves. In addition, other factors such as probable and possible reserves are taken into consideration when justified by economic conditions. For each property determined to be impaired, we recognize an impairment loss equal to the difference between the estimated fair value and the carrying value of the property on a depletable unit basis.

Fair value is estimated to be the present value of expected future net cash flows. Any impairment charge incurred is recorded in accumulated depreciation, depletion, impairment and amortization to reduce our recorded basis in the asset. Each part of this calculation is subject to a large degree of judgment, including the determination of the depletable units' estimated reserves, future cash flows and fair value. For the years ended December 31, 2006, and 2005, we recorded impairments of \$24.8 million and \$0.3 million, respectively. We did not record an impairment loss for the year ended December 31, 2004.

Management's assumptions used in calculating oil and gas reserves or regarding the future cash flows or fair value of our properties are subject to change in the future. Any change could cause impairment expense to be recorded, impacting our net income or loss and our basis in the related asset. Any change in reserves directly impacts our estimate of future cash flows from the property, as well as the property's fair value. Additionally, as management's views related to future prices change, the change will affect the estimate of future net cash flows and the fair value estimates. Changes in either of these amounts will directly impact the calculation of impairment.

***A majority of our production, revenue and cash flow from operating activities are derived from assets that are concentrated in a geographic area.***

Approximately 84% of our estimated proved reserves at December 31, 2006, and a similar percentage of our production during 2006 were associated with our Cotton Valley Trend. In March 2007, we sold substantially all of our South Louisiana properties to a private company. See Note 12 Acquisitions and Divestitures to our consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2006. Accordingly, if the level of production from the remaining properties substantially declines, it could have a material adverse effect on our overall production level and our revenue.

***The oil and gas business involves many uncertainties, economic risks and operating risks that can prevent us from realizing profits and can cause substantial losses.***

Our oil and gas operations are subject to the economic risks typically associated with exploration, development and production activities, including the necessity of significant expenditures to locate and acquire properties and to drill exploratory wells. In conducting exploration and development activities, the presence of unanticipated pressure or irregularities in formations, miscalculations or accidents may cause our exploration, development and production activities to be unsuccessful. This could result in a total loss of our investment in a particular property. If exploration efforts are unsuccessful in establishing proved reserves and exploration activities cease, the amounts accumulated as





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unproved costs would be charged against earnings as impairments. In addition, the cost and timing of drilling, completing and operating wells is often uncertain.

The nature of the oil and gas business involves certain operating hazards such as well blowouts, cratering, explosions, uncontrollable flows of oil, gas or well fluids, fires, formations with abnormal pressures, pollution, releases of toxic gas and other environmental hazards and risks. Any of these operating hazards could result in substantial losses to us. As a result, substantial liabilities to third parties or governmental entities may be incurred. The payment of these amounts could reduce or eliminate the funds available for exploration, development or acquisitions. These reductions in funds could result in a loss of our properties. Additionally, some of our oil and gas operations are located in areas that are subject to weather disturbances such as hurricanes. Some of these disturbances can be severe enough to cause substantial damage to facilities and possibly interrupt production. In accordance with customary industry practices, we maintain insurance against some, but not all, of such risks and losses. The occurrence of an event that is not fully covered by insurance could have a material adverse effect on our financial position and results of operations.

***Our debt instruments impose restrictions on us that may affect our ability to successfully operate our business.***

Our senior credit facility contains customary restrictions, including covenants limiting our ability to incur additional debt, grant liens, make investments, consolidate, merge or acquire other businesses, sell assets, pay dividends and other distributions and enter into transactions with affiliates. We also are required to meet specified financial ratios under the terms of our credit facility. As of December 31, 2006, we were in compliance with all the financial covenants of our credit facility. These restrictions may make it difficult for us to successfully execute our business strategy or to compete in our industry with companies not similarly restricted.

***We may be unable to identify liabilities associated with the properties that we acquire or obtain protection from sellers against them.***

The acquisition of properties requires us to assess a number of factors, including recoverable reserves, development and operating costs and potential environmental and other liabilities. Such assessments are inexact and inherently uncertain. In connection with the assessments, we perform a review of the subject properties, but such a review will not reveal all existing or potential problems. In the course of our due diligence, we may not inspect every well, platform or pipeline. We cannot necessarily observe structural and environmental problems, such as pipeline corrosion, when an inspection is made. We may not be able to obtain contractual indemnities from the seller for liabilities that we created. We may be required to assume the risk of the physical condition of the properties in addition to the risk that the properties may not perform in accordance with our expectations. The incurrence of an unexpected liability could have a material adverse effect on our financial position and results of operations.

***We are subject to complex laws and regulations, including environmental regulations that can adversely affect the cost, manner or feasibility of doing business.***

Development, production and sale of natural gas and oil in the U.S. are subject to extensive laws and regulations, including environmental laws and regulations. We may be required to make large expenditures to comply with environmental and other governmental regulations. Matters subject to regulation include:

discharge permits for drilling operations;

bonds for ownership, development and production of oil and gas properties;

reports concerning operations; and

taxation.

In addition, our operations are subject to stringent federal, state and local environmental laws and regulations governing the discharge of materials into the environment and environmental protection. Governmental authorities enforce compliance with these laws and regulations and the permits issued under them, oftentimes requiring difficult and costly actions. Failure to comply with these laws, regulations and permits may result in the assessment of

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administrative, civil and criminal penalties, the imposition of remedial obligations, and the issuance of injunctions limiting or prohibiting some or all of our operations. There is inherent risk of incurring significant environmental costs and liabilities in our business. Joint and several strict liabilities may be incurred in connection with discharges or releases of petroleum hydrocarbons and wastes on, under or from our properties and from facilities where our wastes have been taken for disposal. Private parties affected by such discharges or releases may also have the right to pursue legal actions to enforce compliance as well as seek damages for personal injury or property damage. In addition, changes in environmental laws and regulations occur frequently, and any such changes that result in more stringent and costly requirements could have a material adverse effect on our business.

***Competition in the oil and gas industry is intense, and we are smaller and have a more limited operating history than some of our competitors.***

We compete with major and independent oil and natural gas companies for property acquisitions. We also compete for the equipment and labor required to operate and to develop these properties. Some of our competitors have substantially greater financial and other resources than us. In addition, larger competitors may be able to absorb the burden of any changes in federal, state and local laws and regulations more easily than we can, which would adversely affect our competitive position. These competitors may be able to pay more for oil and natural gas properties and may be able to define, evaluate, bid for and acquire a greater number of properties than we can. Our ability to acquire additional properties and develop new and existing properties in the future will depend on our ability to conduct operations, to evaluate and select suitable properties and to consummate transactions in this highly competitive environment.

***Our success depends on our management team and other key personnel, the loss of any of whom could disrupt our business operations.***

Our success will depend on our ability to retain and attract experienced engineers, geoscientists and other professional staff. We depend to a large extent on the efforts, technical expertise and continued employment of these personnel and members of our management team. If a significant number of them resign or become unable to continue in their present role and if they are not adequately replaced, our business operations could be adversely affected.

***Some of our operations are exposed to the additional risk of tropical weather disturbances.***

Some of our production and reserves were located in South Louisiana as of December 31, 2006. Operations in this area are subject to tropical weather disturbances. Some of these disturbances can be severe enough to cause substantial damage to facilities and possibly interrupt production. For example, Hurricanes Katrina and Rita in August and September of 2005, respectively, impacted our South Louisiana operations. In March 2007, we sold substantially all of our properties in South Louisiana to a private company. See Note 12 Acquisitions and Divestitures to our consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2006. As a result, our exposure to tropical weather disturbances will be significantly reduced in the future.

Losses could occur for uninsured risks or in amounts in excess of existing insurance coverage. We cannot assure you that we will be able to maintain adequate insurance in the future at rates we consider reasonable or that any particular types of coverage will be available. An event that is not fully covered by insurance could have a material adverse effect on our financial position and results of operations. Hurricane Katrina and Rita damage costs in excess of our insurance coverage resulted in a \$1.7 million loss for 2006. The loss is included in Lease Operating Expenses on our consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2006. In 2007, we expect to receive \$2.5 million from our insurance provider for Hurricane Katrina damage costs. The receivable is included in Accounts Receivable Trade and other, net on our consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2006.

***We have previously identified a material weakness in our internal controls over financial reporting and cannot assure you that we will not again identify a material weakness in the future.***

As previously reported in our quarterly report on Form 10-Q for the quarter ended March 31, 2006, a material weakness was identified in our internal control over financial reporting with respect to recording the fair value of all

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outstanding derivatives. The Public Company Accounting Oversight Board's Auditing Standard No. 2 defines a material weakness as a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected.

In order to remediate the material weakness, we implemented changes in our internal control over financial reporting during the quarter ended June 30, 2006. Specifically, we now automatically receive a mark to market valuation from our existing counterparties for all outstanding derivatives. For any new contracts entered into with a new counterparty, we will concurrently request this automatic distribution. We also added another layer of review for the fair value calculation prior to review by the Chief Financial Officer.

Our management believes that these additional policies and procedures have enhanced our internal control over financial reporting relating to the determination and review of fair value calculations on outstanding derivatives. Our management also believes that, as a result of these measures described above, the material weakness was remediated and that our internal control over financial reporting is effective as of June 30, 2006, September 30, 2006, December 31, 2006.

***Terrorist attacks or similar hostilities may adversely impact our results of operations.***

The impact that future terrorist attacks or regional hostilities (particularly in the Middle East) may have on the energy industry in general, and on us in particular, is unknown. Uncertainty surrounding military strikes or a sustained military campaign may affect our operations in unpredictable ways, including disruptions of fuel supplies and markets, particularly oil, and the possibility that infrastructure facilities, including pipelines, production facilities, processing plants and refineries, could be direct targets of, or indirect casualties of, an act of terror or war. Moreover, we have incurred additional costs since the terrorist attacks of September 11, 2001 to safeguard certain of our assets and we may be required to incur significant additional costs in the future.

The terrorist attacks on September 11, 2001, and the changes in the insurance markets attributable to such attacks have made certain types of insurance more difficult for us to obtain. There can be no assurance that insurance will be available to us without significant additional costs. Instability in the financial markets as a result of terrorism or war could also affect our ability to raise capital.

**Risks Related to the Notes**

***Although the notes are referred to as senior notes, the notes are effectively subordinated to the rights of our existing and future secured creditors and any liabilities of our subsidiaries.***

The notes are our senior unsecured obligations and rank equally in right of payment to all of our other existing and future senior indebtedness.

The notes initially are not guaranteed by any of our subsidiaries and accordingly are structurally subordinated to all of the indebtedness and other liabilities of our subsidiaries, including all outstanding borrowings under our senior credit facility, all of which are secured by assets and are direct obligations or guaranteed by our subsidiaries.

In addition, the notes are effectively subordinated to existing secured financings and any other secured indebtedness incurred by us to the extent of the value of the assets securing such indebtedness. As a result, in the event of any distribution or payment of our assets in any bankruptcy, liquidation or dissolution, holders of secured indebtedness will have prior claim to those assets that constitute their collateral. Holders of the notes will participate ratably with all holders of our unsecured indebtedness that is deemed to be of the same class as the notes, and potentially with all of our general creditors, based on the respective amounts owed to each holder or creditor, in our remaining assets. In any of the foregoing events, we cannot assure you that there will be sufficient assets to pay amounts due on the notes.

As of December 31, 2006, we had approximately \$26.5 million of outstanding senior indebtedness and other liabilities (excluding trade payables, accrued expenses and intercompany liabilities), all of which represented secured indebtedness and all of which are direct obligations or guaranteed by our subsidiaries. The notes are structurally subordinated to all of this indebtedness.

**Table of Contents*****As a holding company, our only source of cash is distributions from our subsidiaries.***

We are a holding company with no operations of our own and we conduct all of our business through our subsidiaries. The notes are exclusively obligations of Goodrich Petroleum Corporation. We are wholly dependent on the cash flow of our subsidiaries and dividends and distributions to us from our subsidiaries in order to service our current indebtedness, including the notes, and any of our future obligations. Our subsidiaries are separate and distinct legal entities and have no obligation, contingent or otherwise, to pay any amounts due pursuant to the notes or to make any funds available therefore. The ability of our subsidiaries to pay such dividends and distributions will be subject to, among other things, statutory or contractual restrictions. We cannot assure you that our subsidiaries will generate cash flow sufficient to pay dividends or distributions to us in order to pay interest or other payments on the notes.

***A fundamental change may adversely affect us or the notes.***

You may have the right to require us to repurchase your notes upon the occurrence of a fundamental change as described in Description of Notes Fundamental Change Permits Holders to Require Us to Purchase Notes. Our senior credit facility currently prohibits, and future debt we may incur may limit our ability to, repurchase the notes upon a fundamental change. Also, if a fundamental change occurs, we cannot assure you that we will have enough funds to repurchase all the notes.

Furthermore, the fundamental change provisions, including the provisions requiring us to increase the applicable conversion rate by a number of additional shares related to conversions in connection with a fundamental change, may in certain circumstances make more difficult or discourage a takeover of our company and the removal of incumbent management.

***We may not have the ability to raise the funds necessary to settle conversion of the notes or to purchase the notes upon a fundamental change or on other purchase dates, and our senior credit facility currently contains, and our future debt may contain, limitations on our ability to pay cash upon conversion or repurchase of the notes.***

Upon conversion of the notes, we may pay up to the principal amount of the notes in cash. In addition, on December 1, 2011, December 1, 2016 and December 1, 2021, holders of the notes may require us to purchase their notes for cash. See Description of Notes Purchase of Notes by Us at the Option of the Holder. Holders may also require us to purchase their notes upon a fundamental change as described under Description of Notes Fundamental Change Permits Holders to Require Us to Purchase Notes. We cannot assure you that we would have sufficient financial resources, or would be able to arrange financing, to pay the settlement amount in cash, or the purchase price or fundamental change purchase price for the notes tendered by the holders in cash.

Further, our ability to pay the settlement amount in cash, or the purchase price or fundamental change purchase price for the notes in cash will be subject to limitations we may have in our credit facilities or any other indebtedness we may have in the future. For example, our existing senior credit facility currently prohibits us from paying the settlement amount in cash upon conversion of the notes and from paying the purchase price or fundamental change purchase price for the notes in cash. If you convert your notes or require us to repurchase them, we may seek the consent of our lenders or attempt to refinance our debt, but there can be no assurance that we will be able to do so.

Failure by us to pay the settlement amount upon conversion or purchase the notes when required will result in an event of default with respect to the notes, which may also result in the acceleration of our other indebtedness.

***Future sales of our common stock or the issuance of other equity may adversely affect the market price of our common stock and the value of the notes.***

Sales of our common stock or other equity-related securities could depress the market price of the notes, our common stock, or both, and impair our ability to raise capital through the sale of additional equity securities. We cannot predict the effect that future sales of our common stock or other equity-related securities would have on the market price of our common stock or the value of the notes. The price of our common stock could be affected by possible sales of our common stock by investors who view the notes as a more attractive means of equity

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participation in our company and by hedging or arbitrage trading activity that we expect to develop involving our common stock. The hedging or arbitrage could, in turn, affect the market price of the notes.

***The market price of the notes could be significantly affected by the market price of our common stock and other factors.***

We expect that the market price of our notes will be significantly affected by the market price of our common stock. This may result in greater volatility in the market price of the notes than would be expected for nonconvertible debt securities. The market price of our common stock will likely continue to fluctuate in response to factors including the factors discussed elsewhere in Risk Factors and in Forward-Looking Statements, many of which are beyond our control.

***The conditional conversion feature of the notes could result in your receiving less than the value of the common stock or cash and common stock, as applicable, into which a note would otherwise be convertible.***

Prior to November 1, 2026, the notes are convertible only if specified conditions are met. If the specific conditions for conversion are not met, you will not be able to convert your notes, and you may not be able to receive the value of the common stock or cash and common stock, as applicable, into which the notes would otherwise be convertible.

***Upon conversion of the notes, we may pay a settlement amount consisting of cash and shares of our common stock, if any, based upon a specified period of 10 trading days.***

If we elect to settle our conversion obligation in cash and common stock, if any, or if we waive our right to satisfy our conversion obligation solely in shares of our common stock, we will be required to satisfy our conversion obligation to holders by paying cash, up to the principal amount of notes to be converted, and by delivering shares of our common stock with respect to the excess conversion value of the notes to be converted determined using the applicable stock price. Accordingly, upon conversion of a note, holders might not receive any shares of our common stock, or they might receive fewer shares of common stock relative to the conversion value of the note as of the conversion date. In addition, because of the 10 trading-day period relevant to determining the applicable stock price, settlement will be delayed until at least the 13th trading day following the related conversion date (and possibly later). See Description of Notes Conversion Rights Payment Upon Conversion. Upon conversion of the notes, you may receive less proceeds than expected because the value of our common stock may decline (or not appreciate as much as you may expect) between the conversion date and the day the settlement amount of your notes is determined.

***The notes are not protected by restrictive covenants.***

The indenture governing the notes does not contain any financial or operating covenants or restrictions on the payments of dividends, the incurrence of indebtedness or the issuance or repurchase of securities by us or any of our subsidiaries. The indenture contains no covenants or other provisions to afford protection to holders of the notes in the event of a fundamental change involving us except to the extent described under Description of Notes Fundamental Change Permits Holders to Require Us to Purchase Notes, Description of Notes Conversion Rights Conversion Rate Adjustments Adjustment to Shares Delivered Upon Conversion Upon Certain Fundamental Changes and Description of Notes Conversion Rights Conversion Rate Adjustments Conversion After a Public Acquirer Change of Control.

***The adjustment to the conversion rate for notes converted in connection with specified corporate transactions may not adequately compensate you for any lost value of your notes as a result of such transaction.***

If a specified corporate transaction that constitutes a fundamental change occurs prior to December 1, 2011 we will, under certain circumstances, increase the applicable conversion rate by a number of additional shares of our common stock for notes converted in connection with such specified corporate transaction. The increase in the applicable conversion rate will be determined based on the date on which the specified corporate transaction becomes effective and the price paid per share of our common stock in such transaction, as described below under Description of Notes Conversion Rights Conversion Rate Adjustments Adjustments to Shares Delivered Upon Conversion Upon Certain Fundamental Changes. The adjustment to the applicable conversion rate for notes

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converted in connection with a specified corporate transaction may not adequately compensate you for any lost value of your notes as a result of such transaction. In addition, if the effective date for the specified corporate transaction occurs on or after December 1, 2011 or if the price of our common stock in the transaction is greater than \$200.00 per share or less than \$43.96 (in each case, subject to adjustment), no adjustment will be made to the applicable conversion rate. In addition, in no event will the total number of shares of common stock issuable upon conversion as a result of this adjustment exceed 22.7480 shares per \$1,000 principal amount of notes, subject to adjustments in the same manner as the base conversion rate as set forth under Description of Notes Conversion Rights Conversion Rate Adjustments.

Our obligation to increase the applicable conversion rate in connection with any such specified corporate transaction could be considered a penalty, in which case the enforceability thereof would be subject to general principles of reasonableness of economic remedies.

***The base conversion rate of the notes may not be adjusted for all dilutive events.***

The base conversion rate of the notes is subject to adjustment only for certain specified events, including, but not limited to, the issuance of stock dividends on our common stock, the issuance of certain rights or warrants, subdivisions, combinations, distributions of capital stock, indebtedness, or assets, cash dividends and certain issuer tender or exchange offers as described under Description of Notes Conversion Rights Conversion Rate Adjustments. However, the base conversion rate will not be adjusted for other events, such as a third party tender or exchange offer or an issuance of common stock for cash, that may adversely affect the trading price of the notes or the comm