

GOODRICH PETROLEUM CORP

Form 424B2

November 30, 2006

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Filed Pursuant to Rule 424(B)(2)  
File No. 333-129642

**PROSPECTUS SUPPLEMENT  
(TO PROSPECTUS DATED NOVEMBER 22, 2005)**

**3,300,000 shares**

**Common Stock**

The shares of our common stock offered hereby are shares that we will loan to Bear, Stearns International Limited pursuant to a share lending agreement among us, Bear Stearns International Limited, as principal and Bear, Stearns & Co. Inc., as agent.

The common stock is listed on the New York Stock Exchange under the symbol GDP. On November 29, 2006, the last reported sale price of our common stock on the New York Stock Exchange was \$43.49 per share.

**Investing in our common stock involves risks. See Risk Factors beginning on page S-10 of this prospectus supplement and on page 5 of the accompanying prospectus.**

The shares of our common stock are offered for sale in transactions, including block sales, in the over-the-counter market, in negotiated transactions or otherwise. These shares will be sold at prevailing market prices at the time of sale or at negotiated prices.

The underwriter may receive from investors an amount of \$0.05 for each share of common stock sold to those investors in the offering.

We will not receive any of the proceeds from the sale of the shares of common stock in this offering. We have been advised by Bear, Stearns & Co. Inc. that it, or its affiliates, intend to use its proceeds from the sale of the shares to facilitate transactions by which investors in our convertible senior notes due 2026 being offered in a concurrent private placement to qualified institutional buyers will hedge their investments in the convertible notes through short sales or privately negotiated derivatives transactions. See Share Lending Agreement; Concurrent Offering of Convertible Notes and Underwriting .

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

**Bear, Stearns & Co. Inc.**

The date of this prospectus supplement is November 30, 2006.

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**ABOUT THIS PROSPECTUS SUPPLEMENT**

This document is in two parts. The first part is the prospectus supplement, which describes the specific terms of this offering. The second part, the accompanying prospectus, gives more general information, some of which may not apply to this offering.

If the description of the offering varies between this prospectus supplement and the accompanying prospectus, you should rely on the information in this prospectus supplement.

**You should rely only on the information contained in or incorporated by reference in this prospectus supplement and the accompanying prospectus. We have not, and the underwriter has not, authorized anyone to provide you with additional or different information. If anyone provides you with additional, different or inconsistent information, you should not rely on it. We are not making an offer of these securities in any state where the offer is not permitted. You should not assume that the information contained in or incorporated by reference in this prospectus supplement or the accompanying prospectus is accurate as of any date other than the dates of this prospectus supplement or the accompanying prospectus or that any information we have incorporated by reference is accurate as of any date other than the date of the document incorporated by reference. Our business, financial condition, results of operations and prospects may have changed since those dates.**

**WHERE YOU CAN FIND MORE INFORMATION**

We file annual, quarterly and current reports, proxy statements and other information with the SEC under the Securities Exchange Act of 1934. You may read and copy any document we file at the SEC's public reference room in Washington, D.C. at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. Please call the SEC at 1-888-SEC-0330 for further information on the public reference rooms. These filings are also available to the public from the SEC's web site at [www.sec.gov](http://www.sec.gov). We also maintain an Internet site at [www.goodrichpetroleum.com](http://www.goodrichpetroleum.com) that contains information concerning us and our affiliates. The information at our internet site is not incorporated by reference in this prospectus supplement and the accompanying prospectus, and you should not consider it to be part of this prospectus supplement and the accompanying prospectus.

We have included the accompanying prospectus in our registration statement that we filed with the SEC. The registration statement provides additional information that we are not required to include in this prospectus supplement or the accompanying prospectus. You can receive a copy of the entire registration statement as described above. Although this prospectus supplement and the accompanying prospectus describe the material terms of certain contracts, agreements and other documents filed as exhibits to the registration statement, you should read the exhibits for a more complete description of the document or matter involved.

**INCORPORATION BY REFERENCE**

The rules of the SEC allow us to incorporate by reference into this prospectus supplement and the accompanying prospectus the information we file with the SEC, which means that we can disclose important information to you by referring you to that information. The information incorporated by reference is considered to be part of this prospectus supplement and the accompanying prospectus, and later information that we file with the SEC will automatically update and supersede that information. We incorporate by reference the documents listed below and any future filings made by us with the SEC under Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934 until the offering of shares is completed:

The description of our common stock contained in our registration statement on Form 8-B dated February 3, 1997, including any amendment to that form that we may have filed in the past, or may file in the future, for the purpose of updating the description of our common stock;

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our Annual Reports on Form 10-K and 10-K/A, including information specifically incorporated by reference into our Form 10-K from our Proxy Statement for our Annual Meeting of Stockholders held on May 18, 2006, for the fiscal year ended December 31, 2005;

our Quarterly Reports on Form 10-Q for the three months ended March 31, 2006, June 30, 2006 and September 30, 2006;

our Current Reports on Form 8-K filed on January 17, 2006, January 25, 2006, February 21, 2006, April 20, 2006, May 10, 2006 and September 6, 2006 (excluding any information furnished pursuant to Item 2.02 or Item 7.01 of any such Current Report on Form 8-K).

We will provide, without charge, to each person to whom this prospectus supplement has been delivered a copy of any or all of these filings (other than exhibits to documents that are not specifically incorporated by reference in the documents). You may request copies of these filings by writing or telephoning us at: Goodrich Petroleum Corporation, Attention: Chief Financial Officer, 808 Travis Street, Suite 1320, Houston, Texas 77002, telephone (713) 780-9494.

**SPECIAL NOTE REGARDING FORWARD-LOOKING INFORMATION**

Some of the information, including all of the estimates and assumptions, contained in this prospectus supplement, the accompanying prospectus and the documents we have incorporated by reference contain forward-looking statements. These statements use forward-looking words such as anticipate, believe, expect, estimate, may, project, will, similar expressions and discuss forward-looking information, including the following:

anticipated capital expenditures;

production;

future cash flows and borrowings;

pursuit of potential future acquisition opportunities; and

sources of funding for exploration and development.

Although we believe that these forward-looking statements are based on reasonable assumptions, our expectations may not occur and we cannot guarantee that the anticipated future results will be achieved. A number of factors could cause our actual future results to differ materially from the anticipated future results expressed in this prospectus, any prospectus supplement and the documents we have incorporated by reference. These factors include, among other things:

the volatility of natural gas and oil prices;

the requirement to take writedowns if natural gas and oil prices decline;

our ability to replace, find, develop and acquire reserves;

our ability to meet our substantial capital requirements;

our outstanding indebtedness;

the uncertainty of estimates of natural gas and oil reserves and production rates;

operating risks of natural gas and oil operations;

dependence upon operations concentrated in two primary areas;

delays due to weather or availability of pipeline crews or equipment;

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drilling risks;

our hedging activities;

governmental regulation;

environmental matters;

competition; and

our financial results being contingent upon purchasers of our production meeting their obligations.

Other factors that could cause actual results to differ materially from those anticipated are discussed in our periodic filings with the SEC, including our Annual Report on Form 10-K for the year ended December 31, 2005 and the risk factors beginning on page S-10 of this prospectus supplement and on page 5 of the accompanying prospectus.

When considering these forward-looking statements, you should keep in mind the risk factors and other cautionary statements in this prospectus supplement, the accompanying prospectus and the documents we have incorporated by reference. We will not update these forward-looking statements unless the securities laws require us to do so.

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**PROSPECTUS SUPPLEMENT SUMMARY**

*This summary highlights selected information from this prospectus supplement and the accompanying prospectus, but may not contain all information that may be important to you. This prospectus supplement and the accompanying prospectus include specific terms of this offering, information about our business and financial data. You should carefully read this prospectus supplement, the accompanying prospectus and the documents incorporated herein and therein in their entirety before making an investment decision. In this prospectus supplement, the terms Goodrich Petroleum Corporation, Goodrich, we, us, our and similar terms mean Goodrich Petroleum Corporation and its subsidiaries. We have provided definitions for some of the oil and gas industry terms used in this prospectus supplement in the Glossary beginning on page S-33 of this prospectus supplement.*

**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 and in the transition zone of South Louisiana. At December 31, 2005, Goodrich had estimated proved reserves of approximately 5.0 MMBbls of oil and condensate and 143.0 Bcf of natural gas, or an aggregate of 172.8 Bcfe with a pre-tax present value of future net cash flows, discounted at 10%, of \$587.7 million and an after-tax present value of discounted future net cash flows of \$410.6 million, which is also referred to as the standardized measure of discounted future net cash flows. See Summary Production, Operating and Reserve Data for a reconciliation to the standardized measure of discounted future net cash flows.

Our principal executive offices are located at 808 Travis Street, Suite 1320, Houston, Texas 77002. We also have an administrative office in Shreveport, Louisiana.

**Business Strategy**

Our business strategy is to provide long term growth in net asset value per share, through the growth and expansion of our oil and gas production and reserves. We focus on adding reserve value through the development of our relatively low risk development drilling program in the Cotton Valley trend, while maintaining our drilling activities in select high impact well locations in South Louisiana. We continue to aggressively pursue the acquisition and evaluation of prospective acreage, oil and gas drilling opportunities and potential property acquisitions.

Several of the key elements of our business strategy are the following:

*Exploit and Develop Existing Property Base.* We seek to maximize the value of our existing assets by developing and exploiting our properties with the lowest risk and the highest production and reserve growth potential. We intend to concentrate on developing our multi-year inventory of drilling locations in the Cotton Valley trend while selectively pursuing exploitation and development opportunities on our South Louisiana transition zone properties. Our Cotton Valley trend inventory is currently estimated to include approximately 2,300 drilling locations, based on an anticipated 40 acre spacing for vertical wells. We are continually performing field studies of our existing properties and reevaluating exploration and development opportunities using advanced technologies. For example, we recently commenced drilling our first horizontal well in the Cotton Valley trend and currently intend to continue to pursue additional horizontal drilling opportunities in the Cotton Valley trend.

*Expand Acreage Position in the Cotton Valley Trend.* We have increased our acreage position from approximately 45,000 gross acres at December 31, 2004 to approximately 160,000 gross acres as of November 27, 2006. We concentrate our efforts in areas where we can apply our technical expertise and where we have significant operational control or experience. To leverage our extensive regional knowledge base, we seek to acquire leasehold acreage with significant drilling potential in areas, such as the Cotton Valley trend and South Louisiana, which exhibit similar characteristics to our existing

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properties. We continually strive to rationalize our portfolio of properties by selling marginal properties in an effort to redeploy capital to exploitation, development and exploration projects which offer a potentially higher overall return.

*Focus on Low Operating Costs.* We continually seek ways to minimize lease operating expenses and overhead expenses. We will continue to seek to control costs to the greatest extent possible by controlling our operations. As we continue to develop our Cotton Valley trend properties, our overall operating costs per Mcfe are expected to decrease due to the lower cost nature of our Cotton Valley trend operations relative to our South Louisiana operations.

*Selectively Grow Through Exploration.* We conduct an active exploration program, both within and outside our existing properties, that is designed to complement our lower risk exploitation and development efforts with moderate risk exploration projects offering greater production and reserve growth potential. We utilize 3-D seismic data and other technical applications, as appropriate, to manage our exploration risk. We will also attempt to reduce our risk on exploration projects when appropriate through the sale of working interests to outside drilling partners on a promoted basis.

*Maintain an Active Hedging Program.* We actively manage our exposure to commodity price fluctuations by hedging meaningful portions of our expected production through the use of derivatives, typically fixed price swaps and costless collars. The level of our hedging activity and the duration of the instruments employed depend upon our view of market conditions, available hedge prices and our operating strategy. As of September 30, 2006, we had an average of 15,000 MMBtu per day of gas hedged at an average price of \$6.95 per MMBtu and 800 Bbls per day of oil hedged at an average price of \$50.80 per Bbl for the remainder of 2006. Our 2007 hedging program for gas consists of collars of approximately 29,000 MMBtu per day with an average floor price of \$7.70 and an average ceiling price of \$12.61, plus swaps on an additional 10,000 MMBtu per day in the first quarter only, at an average price of \$7.77. Oil hedges for 2007 consist of 400 Bbls per day swapped at an average price of \$53.35 and collars on 400 Bbls per day with a floor price of \$60.00 and a ceiling price of \$76.50.

## **Summary of Oil and Gas Operations and Properties**

### ***Cotton Valley Trend***

*Overview.* As of December 31, 2005, approximately 71% of our proved oil and gas reserves were in the Cotton Valley trend of East Texas and Northwest Louisiana. We have spent approximately 89% of our 2006 capital expenditures of \$196.3 million through September 30, 2006 in the Cotton Valley trend. As of November 27, 2006, we have acquired or farmed in leases totaling approximately 160,000 gross (103,000 net) acres and are continually attempting to acquire additional acreage in the area. Our total 160,000 gross acres includes company operated acreage comprising 112,000 gross acres (with an average working interest of approximately 85% in the wells we have drilled to date) and non-operated acreage comprising 48,000 gross acres (with an average working interest of 42% in the wells we have drilled to date). As of November 27, 2006, we have drilled and/or logged 152 Cotton Valley wells with a 100% success rate. Our current Cotton Valley trend drilling activities are centered about seven primary leasehold areas in East Texas and Northwest Louisiana as further described below:

*Dirgin-Beckville.* The Dirgin-Beckville area is located in Rusk County, Texas. As of November 27, 2006, we have acquired leases totaling approximately 12,600 gross (10,900 net) acres with an average working interest of approximately 92% in the wells we have drilled to date. As of November 27, 2006, we had successfully drilled and logged 51 Cotton Valley trend wells in the Dirgin-Beckville area.

We have recently entered into a definitive agreement to purchase a 14.5% working interest in 22 wells and approximately 3,300 gross (500 net) acres in the Dirgin-Beckville field for approximately \$6.1 million. The purchase has an effective date of November 1, 2006 and is expected to close before the end of the year. We own the remaining 85.5% working interest in the 22 wells and acreage.

*North Minden.* The North Minden area is located in Panola and Rusk Counties, Texas. As of November 27, 2006, we have acquired leases totaling approximately 35,700 gross (30,500 net) acres with a

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working interest of approximately 93% in the wells we have drilled to date. As of November 27, 2006, we had successfully drilled 60 Cotton Valley trend wells in the North Minden area.

*South Henderson.* The South Henderson area is located in Rusk County, Texas. As of November 27, 2006, we have acquired leases totaling approximately 14,500 gross (11,400 net) acres with an average working interest of approximately 100% in the wells we have drilled to date. As of November 27, 2006, we had successfully drilled and logged 7 Cotton Valley trend wells in the South Henderson area.

*Bethany-Longstreet.* The Bethany-Longstreet field is located in Caddo and DeSoto Parishes in Northwest Louisiana. As of November 27, 2006, we have entered into a farmout or acquired leases totaling approximately 21,800 gross (15,200 net) acres with a working interest of 70% in the wells we have drilled to date. As of November 27, 2006, we had successfully drilled and logged 13 Cotton Valley trend wells in the field.

*Cotton, South.* The Cotton South field is located in Angelina and Nacogdoches Counties, Texas. As of November 27, 2006, we had leases on approximately 19,200 gross (5,900 net) acres in the field and had successfully drilled, logged or recompleted 9 wells in the field, with an average working interest of 42% in the wells we have drilled to date.

*Cotton.* The Cotton field is located in Angelina and Nacogdoches Counties, Texas. As of November 27, 2006, we have acquired approximately 27,800 gross (11,100 net) acres in the field with a 40% working interest in the primary targets from the surface to approximately 12,900 feet, and a 20% working interest in the rights below approximately 12,900 feet. We have drilled one well in the field with a second well being drilled currently below 12,900 feet, in which our expenses are being paid by a third party.

*Alabama Bend.* The Alabama Bend field is located in Bienville Parish in Northwest Louisiana, approximately 15 miles east of our Bethany-Longstreet field. On November 27, 2006 we announced that we have entered into a farmout agreement on 16,000 gross (8,000 net) acres. We will own a 100% working interest in the initial well drilled in each of 33 sections (with each section being 640 acres), with the farmor reserving the right to participate for up to a 50% working interest in subsequent wells drilled in each section.

*Other Cotton Valley Trend.* As of November 27, 2006, we also own 12,900 gross (9,400 net) acres in four separate areas of the Cotton Valley trend in Harrison, Smith and Upshur Counties, Texas, with an average working interest of 83% in the wells we have drilled to date.

*Production and Reserves.* For the wells completed to date in the Cotton Valley trend, the average initial gross production rate per well was approximately 1,600 Mcfe per day. This average initial gross production rate is consistent with the range we originally projected prior to commencing our drilling activities in the Cotton Valley trend. Initial production from the Cotton Valley trend wells commenced in June 2004 and for the quarter ended September 30, 2006, gross production from all of our Cotton Valley trend wells was approximately 52,000 Mcfe of gas per day.

***South Louisiana***

*Overview.* As of December 31, 2005, approximately 26% of our proved oil and natural gas reserves were in the transition zone of South Louisiana. This region refers to the geographic area that covers the onshore and in-land waters of South Louisiana lying in the southern half of Louisiana, which is one of the most prolific oil and natural gas producing sedimentary basins. Our production in this region comes predominately from Miocene and Frio age formations in the following areas:

*Burrwood and West Delta 83 Fields.* The Burrwood/West Delta 83 fields, located in Plaquemines Parish, Louisiana, were discovered in 1955 by Chevron. We currently have interests in 21 active wells in the fields. We have an average 63% working interest in the wells we have drilled to date and a 65% working interest in the leasehold in the field.

*Lafitte Field.* The Lafitte field is located in Jefferson Parish, Louisiana and was discovered in 1935 by Texaco. We own a non-operated, approximately 49% working interest in the 28 active producing wells in the field.

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*Second Bayou Field.* The Second Bayou field is located in Cameron Parish, Louisiana and was discovered in 1955 by the Sun Texas Company. We have an average working interest of approximately 35% in 8 active wells in the field and 1,395 gross acres.

*Other Fields.* We maintain ownership interests in acreage and/or wells in several additional fields in Louisiana, including the (i) Ada field, located in Bienville Parish, (ii) Lake Raccourci field, located in Terrebonne Parish, (iii) Pecan Lake field, located in Cameron Parish, (iv) Plumb Bob field, located in St. Martin Parish, (v) St. Gabriel field, located in Iberville and Ascension Parishes, and (vi) Bayou Bouillon field, located in St. Martin and Iberville Parishes.

## **Other Properties**

We maintain ownership interests in acreage and/or wells in several additional fields including the (i) Mary Blevins field, located in Smith County, Texas, (ii) Midway field, located in San Patricio County, Texas, (iii) Mott Slough field, located in Wharton County, Texas and (iv) the Garfield Unit, located in Kalkaska County, Michigan.

## **Concurrent Transaction**

Concurrently with this offering, we are offering \$125 million of convertible senior notes due 2026. The convertible notes are being offered to qualified institutional buyers eligible under Rule 144A of the Securities Act. We also expect to grant a 13-day option to the initial purchasers of the convertible notes to purchase up to an additional \$50 million aggregate principal amount of the convertible notes. We intend to use the net proceeds of the offering to pay off completely our \$50 million second lien term loan, and to reduce our bank revolver with the remaining proceeds of approximately \$70 million. We cannot give any assurance that the convertible notes offering will be completed. The closing of this offering is conditioned upon the closing of the convertible notes offering.

The terms of the convertible notes have not yet been finalized. The notes will initially bear interest at a fixed rate expected to be between 2.75% and 3.25% per year. The convertible notes will also bear contingent interest if the trading price of the notes reaches a specified level after December 1, 2011. Holders of the notes may, under certain circumstances at their option, convert the notes based on a base conversion price expected to be between 50% and 55% above the closing price of our common stock on the day of pricing of the notes offering. In addition, to the extent our applicable common stock price at the time of conversion exceeds the base conversion price, converting holders would be entitled to receive an additional number of shares of common stock up to a specified incremental share factor, which will be between 15% and 20% of the base conversion rate. Upon conversion, we will be entitled to elect to deliver the conversion value to converting holders in shares of common stock or a combination of cash up to the principal amount of the converted notes and shares of common stock with respect to the conversion value in excess thereof. The applicable conversion rate will be subject to customary adjustments in certain circumstances. The number of shares of common stock to be sold in this offering may be reduced depending on the final conversion terms of the convertible notes.

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 to, but not including, the redemption date. Subject to certain conditions, 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 accrued and unpaid interest to the date of repurchase.





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**THE OFFERING**

Issuer	Goodrich Petroleum Corporation
Shares of Common Stock Offered	3,300,000 shares
Shares of Common Stock Outstanding Following this Offering(1)	28,467,590 shares (including the shares offered hereby)
Trading Symbol for our Common Stock	Our common stock is listed on the New York Stock Exchange under the symbol GDP
Risk Factors	You should carefully consider the information set forth in the section of this prospectus supplement and the accompanying prospectus entitled Risk Factors as well as the other information included in or incorporated by reference in this prospectus before deciding whether to invest in our common stock

(1) As of November 21, 2006. Excludes the following at November 21, 2006 (i) 1,900,000 shares reserved for issuance pursuant to our stock option plans, in addition to 1,023,500 outstanding options to purchase shares (having a weighted average exercise price of \$20.01 per share); (ii) 242,000 shares of unvested restricted stock; (iii) shares issuable upon conversion of the convertible notes offered in our concurrent note offering and (iv) up to 3,587,850 shares issuable upon conversion of our preferred stock. The number of shares offered hereby and outstanding after the offering may be reduced depending on the final conversion terms on the convertible notes offered in our concurrent note offering.

The shares of our common stock offered hereby are shares that we have loaned to an affiliate of Bear, Stearns & Co. Inc. pursuant to a share lending agreement, dated as of November 30, 2006, which we refer to as the share lending agreement. We will not receive any proceeds from this offering. See Share Lending Agreement; Concurrent Offering of Convertible Notes and Underwriting .

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The following table sets forth summary financial data as of and for each of the three years ended December 31, 2003, 2004 and 2005 and the nine months ended September 30, 2005 and 2006. This data was derived from our audited financial statements included in our annual report on Form 10-K for the year ended December 31, 2005, and from our unaudited condensed consolidated financial statements included in our quarterly report on Form 10-Q for the nine months ended September 30 2006, which is incorporated by reference herein. The financial data below should be read together with, and are qualified in their entirety by reference to, our historical consolidated financial statements and the accompanying notes and the Management's Discussion and Analysis of Financial Condition and Results of Operations set forth in our Annual Report on Form 10-K and our quarterly report on Form 10-Q, incorporated by reference in this prospectus supplement.

	<b>Year Ended December 31,</b>			<b>Nine Months Ended</b>	
	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>September 30,</b>	<b>2006</b>
				<b>(unaudited)</b>	
<b>Revenues:</b>					
Oil and gas revenues	\$ 31,663	\$ 44,861	\$ 68,387	\$ 42,963	\$ 83,515
Other	477	151	1,016	938	1,797
	32,140	45,012	69,403	43,901	85,312
<b>Operating expenses:</b>					
Lease operating expense	6,099	7,402	9,931	6,936	14,327
Production taxes	2,288	3,105	4,053	2,934	5,047
Transportation			558	258	2,921
Depletion, depreciation and amortization	8,996	11,562	25,563	18,287	37,120
Exploration	2,249	4,426	6,867	5,339	5,178
Impairment of oil and gas properties	335		340		
General and administrative	5,314	5,821	8,622	5,969	12,248
(Gain) loss on sale of assets	66	(50)	(235)	(169)	
Other			512	512	1,344
	25,347	32,266	56,211	40,066	78,185
<b>Operating income</b>	<b>6,793</b>	<b>12,746</b>	<b>13,192</b>	<b>3,835</b>	<b>7,127</b>
<b>Other income (expense):</b>					
Interest expense	(1,051)	(1,110)	(2,359)	(1,204)	(4,706)
Gain (loss) on derivative instruments not qualifying for hedge accounting		2,317	(37,680)	(42,736)	34,611
Gain on litigation judgment		2,118			

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	(1,051)	3,325	(40,039)	(43,940)	29,905
<b>Income (loss) from continuing operations before income taxes</b>	5,742	16,071	(26,847)	(40,105)	37,032
Income tax (expense) benefit	(2,016)	1,707	9,397	14,035	(12,961)
<b>Income (loss) from continuing operations</b>	3,726	17,778	(17,450)	(26,070)	24,071
Discontinued operations including gain on sale, net of income taxes	196	749			

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	Year Ended December 31,			Nine Months Ended September 30,	
	2003	2004	2005	2005	2006
				(unaudited)	
<b>Income (loss) before cumulative effect of change in accounting principle</b>	3,922	18,527	(17,450)	(26,070)	24,071
Cumulative effect of change in accounting principle, net of tax	(205)				
<b>Net income (loss)</b>	3,717	18,527	(17,450)	(26,070)	24,071
Preferred stock dividends	633	633	755	474	4,504
Preferred stock redemption premium					1,545
<b>Net income (loss) applicable to common stock</b>	\$ 3,084	\$ 17,894	\$ (18,205)	\$ (26,544)	\$ 18,022
<b>Income (loss) per common share Basic</b>					
Net income (loss) from continuing operations	\$ 0.21	\$ 0.91	\$ (0.75)	\$ (1.13)	\$ 0.97
Discontinued operations	0.01	0.04			
Net income (loss) before cumulative effect	0.22	0.95	(0.75)	(1.13)	0.97
Cumulative effect	(0.01)				
Net income (loss)	\$ 0.21	\$ 0.95	\$ (0.75)	\$ (1.13)	\$ 0.97
Net income (loss) applicable to common stock	\$ 0.17	\$ 0.92	\$ (0.78)	\$ (1.15)	\$ 0.72
<b>Income (loss) per common share Diluted</b>					
Net income (loss) from continuing operations	\$ 0.18	\$ 0.87	\$ (0.75)	\$ (1.13)	\$ 0.95
Discontinued operations	0.01	0.04			
Net income (loss) before cumulative effect	0.19	0.91	(0.75)	(1.13)	0.95
Cumulative effect	(0.01)				
Net income (loss)	\$ 0.18	\$ 0.91	\$ (0.75)	\$ (1.13)	\$ 0.95
Net income (loss) applicable to common stock	\$ 0.15	\$ 0.88	\$ (0.78)	\$ (1.15)	\$ 0.71
Weighted average shares basic	18,064	19,552	23,333	23,024	24,923
Weighted average shares diluted	20,482	20,347	23,333	23,024	25,386

**Selected Balance Sheet Data (end of period):**

Total assets	\$ 89,182	\$ 127,977	\$ 296,526	\$ 227,663	\$ 433,207
Total long term debt	20,000	27,000	30,000	36,000	138,500
Stockholders equity	48,059	65,307	181,589	90,410	226,361

**Selected Cash Flow Data:**

Net cash provided by operating activities	\$ 17,188	\$ 41,028	\$ 45,562	\$ 43,128	\$ 52,453
Net cash used in investing activities	(19,500)	(45,414)	(163,571)	(106,257)	(194,810)
Net cash provided by financing activities	450	6,346	134,402	61,736	123,829

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**Table of Contents****SUMMARY PRODUCTION, OPERATING AND RESERVE DATA**

The following table sets forth summary production data, average sales prices and operating expenses from continuing operations for the years ended December 31, 2003, 2004 and 2005 and for the nine months ended September 30, 2005 and 2006.

	Year Ended December 31,			Nine Months Ended September 30,	
	2003	2004	2005	2005	2006
<b>Production(1):</b>					
Natural Gas (MMcfe)	3,353	4,818	6,237	4,094	9,424
Oil (MBbls)	464	475	408	324	355
Total (MMcfe)(2)	6,139	7,669	8,686	6,039	11,558
Average Daily Production (Mcf/d)(2)	16,820	20,954	23,797	22,123	42,337
<b>Average Realized Sales Price Per Unit(1):</b>					
Natural gas (per Mcf)	\$ 6.06	\$ 6.50	\$ 8.62	\$ 7.52	\$ 6.71
Effect of settled derivatives (Mcf)(3)(4)	(0.72)	(0.38)			
Average realized price (Mcf)	\$ 5.34	\$ 6.12	\$ 8.62	\$ 7.52	\$ 6.71
Oil and condensate (Bbl)	\$ 30.69	\$ 41.48	\$ 57.64	\$ 52.73	\$ 67.04
Effect of settled derivatives (Bbl)(4)(4)	(1.05)	(9.13)	(27.73)	(15.24)	(9.96)
Average realized price (Bbl)	\$ 29.64	\$ 32.35	\$ 29.91	\$ 37.49	\$ 57.08
Natural gas and oil (Mcf)	\$ 5.63	\$ 6.65	\$ 8.71	\$ 7.93	\$ 7.53
Effect of settled derivatives (Mcf)(3)(4)	(0.47)	(0.80)	(0.83)	(0.82)	(0.31)
Average realized price (Mcf)	\$ 5.16	\$ 5.85	\$ 7.88	\$ 7.11	\$ 7.22
<b>Operating expenses (per Mcfe):</b>					
Lease operating(5)	\$ 0.99	\$ 0.97	\$ 1.14	\$ 1.15	\$ 1.24
Production taxes	\$ 0.37	\$ 0.40	\$ 0.47	\$ 0.49	\$ 0.44
Depreciation, depletion and amortization	\$ 1.47	\$ 1.51	\$ 2.94	\$ 3.03	\$ 3.21
Exploration	\$ 0.37	\$ 0.58	\$ 0.79	\$ 0.88	\$ 0.45

- (1) Reflects reclassification of prior year amount to report the results of operations of non-core properties sold in 2004 as discontinued operations.
- (2) Estimated by us using a conversion ratio of one Bbl per six Mcf.
- (3) Excludes the effect of settled derivatives on ineffective gas hedges. Effect of settled derivatives on ineffective gas hedges in 2005 and for the nine months ended September 30, 2005 and 2006 in the amounts of \$(10,720,000) (\$1.72 per Mcf), \$(2,124,000) (\$0.52 per Mcf), and \$(1,759,000) (\$0.19 per Mcf) respectively, is reflected in Gain (Loss) on Derivatives Not Qualifying for Hedge Accounting on the Consolidated Statement of Operations.
- (4) Includes effect of settled derivatives on effective oil and gas hedges. Effect of settled derivatives on effective gas hedges in years 2004 and 2003 and on effective oil hedges in all years presented are included as a component of Oil and Gas Revenues on the Consolidated Statement of Operations.

- (5) Lease operating expenses increased on a per unit basis in 2005 and the nine months ended September 30, 2006 due to non-recurring hurricane related expenses and other operating cost increases related to our South Louisiana properties. In future years, as we continue to develop our Cotton Valley trend properties in East Texas and Northwest Louisiana, we expect our lease operating expenses to decrease on a per unit basis due to the lower cost nature of our Cotton Valley operations relative to our South Louisiana operations.

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**Table of Contents****Summary Reserve Information**

The following table sets forth summary information with respect to our historical net proved reserves as of December 31, 2003, 2004 and 2005 and the present values that have been attributed to these reserves at these dates. Our reserve data and present values shown below are derived from the evaluations performed by Netherland Sewell & Associates, Inc. as of December 31, 2005 and 2004 and by Coutret and Associates, Inc. as of December 31, 2003. Reserve engineering is a subjective process of estimating underground accumulations of crude oil, condensate and natural gas that cannot be measured in an exact manner, and the accuracy of any reserve estimate is a function of the quality of available data and of engineering and geological interpretation and judgment. The quantities of oil and natural gas that are ultimately recovered, production and operating costs, the amount and timing of future development expenditures and future oil and natural gas sales prices may differ from those assumed in these estimates. Therefore, the present value of future net revenues before income taxes and the standardized measure of discounted future net cash flows shown below should not be construed as the current market value of the oil and natural gas reserves attributable to our properties.

	<b>Year Ended December 31,</b>		
	<b>2003</b>	<b>2004</b>	<b>2005</b>
Natural Gas (MMcf)	30,903	67,682	142,963
Oil (MBbls)	7,805	5,589	4,973
Total (MMcfe)(1)	77,736	101,216	172,799
Present value of future net revenues before income taxes (in thousands)(2)(4)	\$ 214,620	\$ 241,483	\$ 587,676
Standardized measure of discounted future net cash flows (in thousands)(3)(4)	\$ 163,974	\$ 180,678	\$ 410,620

- (1) Estimated by us using a conversion ratio of one Bbl per six Mcf.
- (2) The present value of future net revenues attributable to our reserves was prepared using prices in effect at the end of the respective periods presented, discounted at 10% per annum ( PV10 ) on a pre-tax basis. PV10 may be considered a non-GAAP measure as defined by the SEC. We believe that the presentation of PV10 is relevant and useful to our investors because it presents the discounted future net cash flows attributable to our proved reserves prior to taking into account corporate future income taxes and our current tax structure. We further believe investors and creditors utilize our PV10 as a basis for comparison of the relative size and value of our reserves to other companies. Our PV10 as of December 31, 2003, 2004 and 2005 may be reconciled to our standardized measure of discounted future net cash flows as of such date by reducing our PV10 by the discounted future income taxes associated with such reserves. The discounted future income taxes as of December 31, 2003, 2004 and 2005 were \$50.6 million, \$60.8 million and \$177.0 million, respectively.
- (3) The standardized measure of discounted future net cash flows represents the present value of future net revenues after income tax discounted at 10% per annum and has been calculated in accordance with SFAS No. 69, Disclosures About Oil and Gas Producing Activities .
- (4) Year-end prices per Mcf of natural gas used in making the present value determination as of December 31, 2003, 2004 and 2005 were \$6.42, \$6.14 and \$10.54, respectively. Year-end prices per Bbl of oil used in making the present value determination as of December 31, 2003, 2004 and 2005 were \$31.75, \$42.72 and \$58.80, respectively. The present value determinations do not include estimated future cash inflows from our hedging



programs.

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**RISK FACTORS**

*An investment in our common stock involves a number of risks. You should carefully consider each of the risks described below, together with all of the other information contained in or incorporated by reference in this prospectus supplement and the accompanying prospectus before deciding to invest in our common stock. If any of the following risks develops into actual events, our business, financial condition or results of operations could be negatively affected, the market price of our common stock could decline and you may lose all or part of your investment.*

**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 included in this report are estimates. These estimates are based on reports prepared by independent reserve engineers and were calculated using oil and gas prices as of December 31, 2005. These prices will change and may be lower at the time of production than those prices that prevailed at the end of 2005. 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:

the amount and timing of actual production;

supply and demand for oil and gas;

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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 calculation 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 commenced 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 very 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.

***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,

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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.

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. Since reaching \$15.39 per one million British thermal units, or Mmbtu, at the Henry Hub on December 13, 2005, natural gas prices have declined sharply, reaching a low of \$3.63 per Mmbtu at the Henry Hub on September 29, 2006. As of November 27, 2006, the closing price of natural gas at the Henry Hub was \$7.58 per Mmbtu. West Texas Intermediate oil prices have also recently declined from a high of \$77.03 per barrel on July 14, 2006 to \$55.81 per barrel on November 17, 2006. As of November 27, 2006, the closing price of West Texas Intermediate oil at Cushing, Oklahoma was \$60.32 per barrel. 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.

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 2006 through 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 years ended December 31, 2005, 2004 and 2003, we realized a loss on settled financial derivatives of \$18.0 million, \$6.2 million and \$2.9 million, respectively.

For the nine months ended September 30, 2006, we recognized in earnings an unrealized gain on derivative instruments not qualifying for hedge accounting in the amount of \$34.6 million. 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.

***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

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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.

***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 61% of our total estimated proved reserves by volume at December 31, 2005 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, it 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.

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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, 2005, 2004 and 2003, we recorded impairments of \$0.3 million, \$0 and \$0.3 million, respectively.

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 97% of our estimated proved reserves at December 31, 2005 and a similar percentage of our production during 2005 were associated with our Cotton Valley trend and South Louisiana properties. Accordingly, if the level of production from these 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 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, enter into hedging transactions, 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 September 30, 2006, we were in compliance with all the financial covenants of our credit facility. These

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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:

permits, including 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, among other things, 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 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 liability may be incurred in connection with discharges or releases of hazardous substances, including 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 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

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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 are located in South Louisiana. 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 impacted our South Louisiana operations in the third quarter of 2005 causing the shut-in of our Burrwood/West Delta 83 and Lafitte fields in late August and the shut-in of our Second Bayou field in late September. We estimate that approximately 6,000 and 4,000 Mcfe per day of net production for the third and fourth quarters of 2005, respectively, was shut-in as a result of the hurricanes. As of June 30, 2006, we had returned to production all of our total pre-hurricane volumes in South Louisiana, including the Burrwood/West Delta 83 field and the Second Bayou field, which was impacted to a lesser extent by Hurricane Rita in September 2005. Damage to our facilities from both hurricanes was substantially covered by insurance. In accordance with customary industry practices, we maintain insurance against some, but not all, of these risks. For more information on the impact of Hurricanes Katrina and Rita on our operations, see Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations of our Annual Report on Form 10-K, which is incorporated by reference to this prospectus supplement.

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.

***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 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 and September 30, 2006.

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### ***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.

### **Risk Related to Our Common Stock**

#### ***We do not intend to pay, and are restricted in our ability to pay, dividends on our common stock.***

We have never declared or paid cash dividends on our common stock. We currently intend to retain future earnings and other cash resources, if any, for the operation and development of our business and do not anticipate paying any cash dividends on our common stock in the foreseeable future. Payment of any future dividends will be at the discretion of our board of directors after taking into account many factors, including our financial condition, operating results, current and anticipated cash needs and plans for expansion. In addition, our current credit facility prohibits us from paying cash dividends on our common stock. Any future dividends may also be restricted by any loan agreements that we may enter into from time to time.

#### ***Insiders own a significant amount of common stock, giving them influence or control in corporate transactions and other matters, and the interests of these individuals could differ from those of other stockholders.***

Members of our board of directors and our management team will beneficially own in excess of 40% of our outstanding shares of common stock after giving effect to the issuance of our common stock pursuant to the share lending agreement. As a result, these stockholders are in a position to significantly influence or control the outcome of matters requiring a stockholder vote, including the election of directors, the adoption of an amendment to our certificate of incorporation or bylaws and the approval of mergers and other significant corporate transactions. Their control of us may delay or prevent a change of control of us and may adversely affect the voting and other rights of other stockholders.

#### ***Our certificate of incorporation and bylaws contain provisions that could discourage an acquisition or change of control of us.***

Our certificate of incorporation authorizes our board of directors to issue preferred stock without shareholder approval. If our board of directors elects to issue preferred stock, it could be more difficult for a third party to acquire control of us. In addition, provisions of the certificate of incorporation and bylaws, such as limitations on shareholder proposals at meetings of shareholders and restrictions on the ability of our shareholders to call special meetings, could also make it more difficult for a third party to acquire control of us. Our bylaws provide that our board of directors is divided into three classes, each elected for staggered three-year terms. Thus, control of the board of directors cannot be changed in one year; rather, at least two annual meetings must be held before a majority of the members of the board of directors could be changed.



These provisions of our certificate of incorporation and bylaws may delay, defer or prevent a tender offer or takeover attempt that a shareholder might consider in his or her best interest, including attempts that might result in a premium over the market price for the common stock. Please read [Description of Capital Stock](#) for additional details concerning the provisions of our certificate of incorporation and bylaws.

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***The effect of the issuance of our shares of common stock pursuant to the share lending agreement, including sales of our common stock in short sale transactions by purchasers of the notes, may lower the market price of our common stock.***

By means of this prospectus supplement, we are offering shares of our common stock, all of which are being borrowed by an affiliate of Bear, Stearns & Co. Inc. under a share lending agreement we will enter into with such affiliate. We will not receive any proceeds of this offering.

Such loaned shares must be returned to us by December 1, 2026. See Share Lending Agreement; Concurrent Offering of Convertible Notes. We have been advised by one of the initial purchasers in our concurrent notes offering that they, or their affiliates, intend to use short sales to facilitate the establishment by note investors of hedged positions in the notes stock offered in our concurrent notes offering. The effect of the increase in the number of outstanding shares of our common stock issued pursuant to the share lending agreement could have a negative effect on the market price of our common stock. The market price of our common stock also could be negatively affected by other short sales of our common stock by the purchasers of the notes to hedge their investment in the notes.

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**USE OF PROCEEDS**

We will not receive any proceeds from the sale of our common stock offered by this prospectus supplement. See Underwriting. We have been advised by Bear, Stearns & Co. Inc. that it, or its affiliates, intend to use its proceeds from the sale of the shares to facilitate transactions by which investors in our convertible senior notes due 2026 being offered in a concurrent private placement to qualified institutional buyers will hedge their investments in the convertible notes through short sales or privately negotiated derivatives transactions.

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**Table of Contents****CAPITALIZATION**

The following table sets forth our consolidated cash and cash equivalents and our consolidated capitalization as of September 30, 2006. The table also shows adjustments to our capitalization to reflect (i) the sale of the common stock offered by this prospectus supplement, and (ii) the concurrent offering of \$125 million of convertible notes and the use of proceeds therefrom (assuming no exercise of the initial purchasers' option to purchase additional notes).

You should read this table in conjunction with the information contained in Management's Discussion and Analysis of Financial Condition and Results of Operations and our unaudited consolidated financial statements, including the related notes, contained in our Quarterly Report on Form 10-Q for the nine months ended September 30, 2006, all of which are incorporated by reference in this prospectus supplement.

	<b>September 30, 2006</b>	
	<b>Actual</b>	<b>As Adjusted</b>
	<b>(In thousands, except per share data)</b>	
Cash and cash equivalents	\$ 1,314	\$ 1,314
Total long-term debt, including current portion:		
Long-term debt:		
Senior credit facility	\$ 88,500	18,500
Term loan	50,000	0
Convertible senior notes due 2026		125,000
Total	\$ 138,500	\$ 143,500
Stockholders' equity:		
Preferred stock \$1.00 par value, 10,000,000 shares authorized, 2,250,000 issued and outstanding	2,250	2,250
Common stock, \$0.20 par value, 50,000,000 shares authorized, 25,183,134 issued and outstanding, actual; and 28,483,134 shares issued and outstanding, as adjusted(1)(2)	5,037	5,037
Additional paid-in capital	211,580	211,580
Retained earnings	9,373	9,373
Unamortized restricted stock awards		
Accumulated other comprehensive income (loss)	(1,879)	(1,879)
Total stockholders' equity	226,361	226,361
Total capitalization	\$ 364,861	\$ 369,861

(1) Excludes the following at September 30, 2006 (i) 1,900,000 shares reserved for issuance pursuant to our stock option plans, in addition to 1,048,500 outstanding options to purchase shares (having a weighted average exercise

price of \$19.60 per share); (ii) 242,000 shares of unvested restricted stock; (iii) shares issuable upon conversion of the convertible notes offered in our concurrent note offering and (iv) up to 3,587,850 shares issuable upon conversion of our preferred stock. The number of shares offered hereby and outstanding after the offering may be reduced depending on the final conversion terms on the convertible notes offered in our concurrent note offering.

- (2) The shares that we have agreed to loan to an affiliate of Bear, Stearns & Co. Inc. will be reflected as issued and outstanding in stockholders' equity and such affiliate's obligation to return these shares will be reflected as a reduction of outstanding shares. Based upon current accounting principles, we believe that the shares will not be considered outstanding for the purpose of computing earnings per share.

**Table of Contents****PRICE RANGE OF COMMON STOCK**

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

At November 21, 2006, the number of holders of record of our common stock without determination of the number of individual participants in security positions was 1,681 with 25,167,590 shares outstanding. High and low sales prices for our common stock for each calendar quarter are as follows:

	<b>Sales Price</b>	
	<b>High</b>	<b>Low</b>
<b>2004</b>		
First quarter	\$ 10.20	\$ 5.07
Second quarter	8.83	6.20
Third quarter	14.08	8.27
Fourth quarter	16.46	11.91
<b>2005</b>		
First quarter	\$ 25.39	\$ 14.61
Second quarter	23.36	14.74
Third quarter	24.80	19.00
Fourth quarter	26.29	19.25
<b>2006</b>		
First quarter	\$ 29.60	\$ 23.58
Second quarter	28.95	22.59
Third quarter	35.95	26.34
Fourth quarter (through November 29)	44.33	25.21

On November 29, 2006, the closing sale price of our common stock, as reported by the New York Stock Exchange, was \$43.47 per share. We encourage you to obtain current market price quotations for our common stock.

**DIVIDEND POLICY**

We have neither declared nor paid any cash dividends on our common stock and do not anticipate declaring any dividends in the foreseeable future. We expect to retain our cash for the operation and expansion of our business, including exploration, development and production activities. In addition, our senior credit facility contains restrictions on the payment of dividends to the holders of common stock.

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**DESCRIPTION OF CAPITAL STOCK**

Our authorized capital stock is 60,000,000 shares. Those shares consist of (a) 10,000,000 shares of preferred stock, \$1.00 par value, 2,250,000 of which are outstanding, and (b) 50,000,000 shares of common stock, \$0.20 par value, of which 25,167,590 shares were outstanding as of November 21, 2006. We have reserved 3,587,850 shares of our common stock for issuance upon the conversion of our Series B Convertible Preferred Stock. In addition, as of November 21, 2006, approximately 1,900,000 shares of common stock were reserved for issuance pursuant to our stock option plans, in addition to 1,023,500 outstanding options to purchase shares at a weighted average exercise price of \$20.01 per share.

The following summary of certain provisions of our capital stock does not purport to be complete and is subject to and is qualified in its entirety by our certificate of incorporation and bylaws, which are incorporated in this prospectus by reference as exhibits to the registration statement of which this prospectus supplement forms a part, and by the provisions of applicable law.

**Common Stock**

Subject to any special voting rights of any series of preferred stock that we may issue in the future, each share held of record of common stock has one vote on all matters voted on by our shareholders, including the election of our directors. Because holders of common stock do not have cumulative voting rights, the holders of a majority of the shares of common stock can elect all of the members of the board of directors standing for election, subject to the rights, powers and preferences of any outstanding series of preferred stock.

No share of common stock affords any preemptive rights or is convertible, redeemable, assessable or entitled to the benefits of any sinking or repurchase fund. Holders of common stock will be entitled to dividends in the amounts and at the times declared by our board of directors in its discretion out of funds legally available for the payment of dividends.

Holders of common stock are entitled to receive dividends when, as and if declared by the board of directors out of funds legally available therefor, subject to any dividend preferences of any outstanding shares of preferred stock. Holders of common stock will share equally in our assets on liquidation after payment or provision for all liabilities and any preferential liquidation rights of any preferred stock then outstanding. All outstanding shares of common stock are fully paid and non-assessable. Our common stock is traded on the New York Stock Exchange under the symbol GDP.

**Transfer Agent and Registrar**

The transfer agent and registrar for our common stock is ComputerShare Investor Services, LLC.

**Preferred Stock**

***Authorized but Unissued Preferred Stock***

As of the date of this prospectus supplement, we have 7,750,000 shares of authorized but unissued preferred stock which are undesignated.

At the direction of our board of directors, we may issue shares of preferred stock from time to time. Our board of directors may, without any action by holders of our common stock:

adopt resolutions to issue preferred stock in one or more classes or series;

fix the number of shares constituting any class or series of preferred stock; and

establish the rights of the holders of any class or series of preferred stock.

The rights of any class or series of preferred stock may include, among others:

general or special voting rights;

preferential liquidation or preemptive rights;

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preferential cumulative or noncumulative dividend rights;

redemption or put rights; and

conversion or exchange rights.

We may issue shares of, or rights to purchase, preferred stock the terms of which might:

adversely affect voting or other rights evidenced by, or amounts otherwise payable with respect to, the common stock;

discourage an unsolicited proposal to acquire us; or

facilitate a particular business combination involving us.

Any of these actions could discourage a transaction that some or a majority of our shareholders might believe to be in their best interests or in which our shareholders might receive a premium for their stock over its then market price.

***Series B Preferred Stock***

As of November 27, 2006, we had 2,250,000 shares issued and outstanding of our Series B Convertible Preferred Stock. The Liquidation Preference is \$50 per share of Series B Preferred Stock, plus accumulated and unpaid dividends.

*Conversion Rights.* Each share is convertible at the option of the holder into our common stock at any time at an initial conversion rate of 1.5946 shares of common stock per share, which is equivalent to an initial conversion price of approximately \$31.36 per share of common stock. Upon conversion of the Series B Convertible Preferred Stock (pursuant to a voluntary conversion or the Company Conversion Option (as defined in the Certificate of Designation of the Series B Convertible Preferred Stock (the "Certificate of Designation")), we may choose to deliver the conversion value to holders in cash, shares of common stock, or a combination of cash and shares of common stock.

On or after December 21, 2010, we may, at our option, cause the Series B Convertible Preferred Stock to be automatically converted into that number of shares of common stock that are issuable at the then-prevailing conversion rate. We may exercise our conversion right only if, for 20 trading days within any period of 30 consecutive trading days ending on the trading day prior to the announcement of our exercise of the option, the closing price of our common stock equals or exceeds 130% of the then-prevailing conversion price of the Series B Convertible Preferred Stock.

*Redemption.* The Series B Convertible Preferred Stock is non-redeemable by us.

*Fundamental Change.* If a Fundamental Change (as defined in the Certificate of Designation) occurs, holders may require us in specified circumstances to repurchase all or part of the Series B Convertible Preferred Stock. In addition, upon the occurrence of a Fundamental Change or Specified Corporate Events (as defined in the Certificate of Designation), we will under certain circumstances increase the conversion rate by a number of additional shares of common stock.

*Dividends.* Holders of our Series B Preferred Stock are entitled to receive, when and if declared by our board of directors, cumulative cash dividends on the Series B Preferred Stock at a rate of 5.375% of the \$50 liquidation

preference per year (equivalent to \$2.6875 per year per share). Dividends on the Series B Preferred Stock will be payable quarterly in arrears on each March 15, June 15, September 15, and December 15 of each year or, if not a business day, the next succeeding business day. Dividends may be increased under certain circumstances as described below.

If we fail to pay dividends on the shares of our Series B Preferred Stock on six dividend payment dates (whether consecutive or not), then the dividend rate per annum will increase by an additional 1.0% on and after the day after such sixth dividend payment date, until we have paid all dividends on the shares of our Series B Preferred Stock for all dividend periods up to and including the dividend payment date on which the accumulated and unpaid dividends are paid in full. Any further failure to pay dividends would cause the

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dividend rate to increase again by the additional 1.0% until we have again paid all dividends for all dividend periods up to and including the dividend payment date on which the accumulated and unpaid dividends are paid in full. Upon the occurrence of specified corporate events described in the Certificate of Designation, the dividend rate per annum will increase by an additional 3.0% for every quarter in which the closing price of our common stock is below \$26.13 for 20 trading days within the period of 30 consecutive trading days ending 15 trading days prior to the quarterly record date for the quarter.

*Ranking.* Our Series B Preferred Stock ranks, with respect to dividend rights or rights upon our liquidation, winding up or dissolution:

senior to (i) all of our common stock and (ii) each class of capital stock or series of preferred stock established after December 21, 2005 (which we refer to as the Issue Date ), the terms of which do not expressly provide that such class or series ranks senior to or on a parity with our Series B Preferred Stock as to dividend rights or rights upon our liquidation, winding up or dissolution (which we refer to collectively as Junior Stock );

on a parity in all respects with any class of capital stock or series of preferred stock established after the Issue Date, the terms of which expressly provide that such class or series will rank on a parity with our Series B Preferred Stock as to dividend rights or rights upon our liquidation, winding up or dissolution (which we refer to collectively as Parity Stock ); and

junior to each class of capital stock or series of preferred stock established after the Issue Date, the terms of which expressly provide that such class or series will rank senior to our Series B Preferred Stock as to dividend rights or rights upon our liquidation, winding up or dissolution (we refer to the stock described in this bullet point as the Senior Stock ).

*Voting Rights.* Except as required by Delaware law, our restated certificate of incorporation and the certificate of designation for our Series B Preferred Stock, holders of our Series B Preferred Stock will have no voting rights unless dividends payable on our Series B Preferred Stock are in arrears for six or more quarterly periods. In that event, the holders of our Series B Preferred Stock, voting as a single class with the shares of any other class or series of preferred stock or preference securities having similar voting rights, will be entitled at the next regular or special meeting of our stockholders to elect two directors, and the number of directors that comprise our board will be increased by the number of directors so elected. These voting rights and the terms of the directors so elected will continue until the dividend arrearage on our Series B Preferred Stock has been paid in full. The affirmative consent of holders of at least 662/3% of the outstanding shares of our Series B Preferred Stock will be required for the issuance of Senior Stock and for amendments to our restated certificate of incorporation that would materially adversely affect any right, preference, privilege or voting power of our Series B Preferred Stock.

### **Anti-Takeover Provisions of our Certificate of Incorporation and Bylaws**

The provisions of our certificate of incorporation and bylaws we summarize below may have an anti-takeover effect and may delay, defer or prevent a tender offer or takeover attempt that a shareholder might consider in his or her best interest, including those attempts that might result in a premium over the market price for our common stock.

*Written Consent of Stockholders and Stockholder Meetings.* Any action by our stockholders must be taken at an annual or special meeting of stockholders. Special meetings of the stockholders may be called at any time by the Chairman of the Board, the Chief Executive Officer, the President, by a majority of the board of directors, on the written request of any two directors, or by the Secretary. A special meeting must be called by the Chairman of the Board, the President or the Secretary when a written request is delivered to such officer, signed by the holders of at least 10% of the issued and outstanding stock entitled to vote at such meeting.

*Advance Notice Procedure for Shareholder Proposals.* Our bylaws establish an advance notice procedure for the nomination of candidates for election as directors, as well as for stockholder proposals to be considered

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at annual meetings of stockholders. In general, notice of intent to nominate a director must be delivered to or mailed and received at our principal executive offices as follows:

with respect to an election to be held at the annual meeting of stockholders, 90 days prior to the anniversary date of the immediately preceding annual meeting of stockholders;

with respect to an election to be held at a special meeting of stockholders for the election of directors, not later than the close of business on the 10th day following the day on which such notice of the date of the meeting was mailed to stockholders or public disclosure of the date of the meeting was made, whichever first occurs, and must contain specified information concerning the person to be nominated.

Notice of stockholders' intent to raise business at an annual meeting must be delivered to or mailed and received at our principal executive offices not less than 90 days prior to the anniversary date of the preceding annual meeting of stockholders. These procedures may operate to limit the ability of stockholders to bring business before a stockholders meeting, including with respect to the nomination of directors or considering any transaction that could result in a change in control. These advance notice procedures are not applicable prior to the trigger date.

*Classified Board; Removal of Director.* Our bylaws provide that the members of our board of directors are divided into three classes as nearly equal as possible. Each class is elected for a three-year term. At each annual meeting of shareholders, approximately one-third of the members of the board of directors are elected for a three-year term and the other directors remain in office until their three-year terms expire. Furthermore, our bylaws provide that neither any director nor the board of directors may be removed without cause, and that any removal for cause would require the affirmative vote of the holders of at least a majority of the voting power of the outstanding capital stock entitled to vote for the election of directors. Thus, control of the board of directors cannot be changed in one year without removing the directors for cause as described above; rather, at least two annual meetings must be held before a majority of the members of the board of directors could be changed.

## **Limitation of Liability of Directors**

Our certificate of incorporation provides that no director shall be personally liable to us or our stockholders for monetary damages for breach of fiduciary duty as a director, except for liability as follows:

for any breach of the director's duty of loyalty to us or our stockholders;

for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law; and

for any transaction from which the director derived an improper personal benefit.

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**SHARE LENDING AGREEMENT; CONCURRENT OFFERING OF CONVERTIBLE NOTES**

Concurrently with this offering of common stock, we are offering up to \$125 million aggregate principal amount of our convertible notes by means of a separate confidential offering memorandum in a private placement exempt from registration under the Securities Act to qualified institutional buyers (as defined in Rule 144A under the Securities Act). The initial purchasers will have an option to purchase up to an additional \$50 million of convertible notes. We intend to use the net proceeds from the offering of the convertible notes to pay off our \$50 million term loan, together with accrued interest, and pay off approximately \$70 million of outstanding borrowings under our senior credit facility.

To make the purchase of convertible notes more attractive to prospective investors, we have entered into a share lending agreement, dated November 30, 2006, with Bear, Stearns & Co. Inc., as agent for its affiliate, Bear, Stearns International Limited, which we refer to as BSIL, as principal, under which we have agreed to loan to BSIL up to 3.3 million shares of our common stock (assuming the initial purchasers exercise their option to purchase an additional \$50 million of convertible notes in our concurrent notes offering) during a period beginning on the date we entered into the share lending agreement and ending on December 1, 2026 or, if earlier, the date as of which we have notified BSIL in writing of our intention to terminate the agreement at any time after the entire principal amount of the convertible notes ceases to be outstanding as the result of conversion, repurchase or redemption, which we refer to as the loan availability period. We will receive a loan fee of \$0.20 per share for each share of common stock that we loan to BSIL. The number of shares offered hereby and outstanding after the offering may be reduced depending on the final conversion terms on the convertible notes offered in our concurrent note offering.

Under the share lending agreement, BSIL is permitted to use the shares initially borrowed from us and offered hereby only for the purpose of directly or indirectly facilitating the sale of the convertible notes and the hedging of the convertible notes by holders as described below.

Share loans under the share lending agreement will terminate and the borrowed shares must be returned to us if our concurrent convertible notes offering is not consummated, or upon the termination of the loan availability period, as well as under the following circumstances:

BSIL may terminate all or any portion of a loan at any time.

We may terminate any or all of the outstanding loans upon a default by BSIL under the share lending agreement, including a breach by BSIL of any of its representations and warranties, covenants or agreements under the share lending agreement, or the bankruptcy of BSIL.

If we enter into a merger or similar business combination transaction with an unaffiliated third party (as defined in the agreement), all outstanding loans will terminate on the effective date of such event.

In addition, upon the conversion of the convertible notes, a number of shares of common stock equal to the base conversion rate plus the incremental share factor for such notes must be returned to us. Except in certain limited circumstances, any borrowed shares returned to us cannot be reborrowed.

Any shares that we loan to BSIL will be issued and outstanding for corporate law purposes, and accordingly, the holders of the borrowed shares will have all of the rights of a holder of our outstanding shares, including the right to vote the shares on all matters submitted to a vote of our shareholders and the right to receive any dividends or other distributions that we may pay or make on our outstanding shares of common stock. However, under the share lending

agreement, BSIL has agreed:

To pay to us an amount equal to any cash dividends that we pay on the borrowed shares, and

To pay or deliver to us any other distribution, in liquidation or otherwise, that we make on the borrowed shares.

To the extent the borrowed shares we initially lend under the share lending agreement and offered hereby are not sold, BSIL also has agreed that it will not vote any such borrowed shares of which it is the record owner, and it will not transfer or dispose of any borrowed shares except pursuant to a registration statement that is effective under the Securities Act. However, investors that purchase the shares from BSIL (and any

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subsequent transferees of such purchasers) will be entitled to the same voting rights with respect to those shares as any other holder of our common stock.

Under the share lending agreement, if BSIL receives a rating downgrade of its long term, unsecured and subordinated indebtedness below a specified level by Standard & Poor's Ratings Group or Moody's Investor Services, Inc., BSIL has agreed to post and maintain with Bear, Stearns & Co. Inc., acting as collateral agent on our behalf, collateral in the form of cash, government securities, certificates of deposit, high-grade commercial paper of U.S. issuers or money market shares with a market value at least equal to 100% of the market value of the borrowed shares as security for the obligation of BSIL to return the borrowed shares of common stock to us when required under the terms of the share lending agreement. In certain limited circumstances, primarily if BSIL is prohibited by law or court order from returning the borrowed shares, we may elect to receive a distribution of the posted collateral in lieu of the delivery of the shares.

In view of the contractual undertakings of Bear, Stearns & Co. Inc. in the share lending agreement, which have the effect of substantially eliminating the economic dilution that otherwise would result from the issuance of the borrowed shares, we believe that under U.S. generally accepted accounting principles currently in effect, the borrowed shares will not be considered outstanding for the purpose of computing and reporting our earnings per share.

We have been advised by BSIL that it, or its affiliates, intend to use the shares initially borrowed from us to facilitate the establishment by the convertible note investors of hedged positions in the convertible notes through purchases of common stock from such investors in short sale transactions or the entry into privately negotiated derivative transactions with those investors. In addition, BSIL and its affiliates may engage in such transactions at any time and from time to time during the term of the agreement in share amounts to be determined by BSIL and such affiliates. Further, BSIL and its affiliates may from time to time purchase our shares in the market and use such shares to facilitate other similar transactions or other transactions in our common stock.

The existence of the share lending agreement and the short positions established in connection with the sale of the convertible notes could have the effect of causing the market price of our common stock to be lower over the term of the share lending agreement than it would have been had we not entered into the agreement. See Risk Factors Risks Related to the Notes The effect of the issuance of our shares of common stock pursuant to the share lending agreement, including sales of our common stock in short sale transactions by purchasers of the notes, may lower the market price of our common stock. However, our board of directors has determined that the entry into the share lending agreement is in our best interests as it is a means to facilitate the offer and sale of the convertible notes on terms more favorable to us than we could have otherwise obtained.



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**CERTAIN U.S. FEDERAL TAX CONSIDERATIONS  
FOR NON-UNITED STATES HOLDERS**

The following is a general discussion of the principal United States federal income and estate tax consequences of the ownership and disposition of our common stock by a non-U.S. holder. As used in this discussion, the term non-U.S. holder means a beneficial owner of our common stock that is not, for United States federal income tax purposes:

an individual who is a citizen or resident of the United States;

a corporation (including any entity treated as a corporation for United States federal income tax purposes) created or organized in or under the laws of the United States, any state thereof or the District of Columbia;

an estate whose income is subject to United States federal income taxation regardless of its source; or

a trust, if a United States court is able to exercise primary supervision over the administration of the trust and one or more United States persons have authority to control all substantial decisions of the trust, or if it has a valid election in effect under applicable U.S. Treasury Regulations to be treated as a United States person.

An individual may be treated as a resident of the United States in any calendar year for United States federal income tax purposes, instead of a nonresident, by, among other ways, being present in the United States for at least 31 days in that calendar year and for an aggregate of at least 183 days during a three-year period ending in the current calendar year. For purposes of the 183-day calculation, all of the days present in the current year, one-third of the days present in the immediately preceding year and one-sixth of the days present in the second preceding year are counted. Residents are taxed for United States federal income tax purposes as if they were United States citizens.

This discussion does not consider:

U.S. state or local or non-U.S. tax consequences;

all aspects of United States federal income and estate taxes or specific facts and circumstances that may be relevant to a particular non-U.S. holder's tax position, including the fact that in the case of a non-U.S. holder that is an entity treated as a partnership for United States federal income tax purposes, the United States tax consequences of holding and disposing of our common stock may be affected by certain determinations made at the partner level;

the tax consequences for partnerships (including entities treated as partnerships for United States federal income tax purposes) and their partners, or for stockholders or beneficiaries of a non-U.S. holder;

special tax rules that may apply to particular non-U.S. holders, such as financial institutions, insurance companies, tax-exempt organizations, United States expatriates, broker-dealers, and traders in securities; or

special tax rules that may apply to a non-U.S. holder that holds our common stock as part of a straddle, hedge, conversion transaction, synthetic security or other integrated investment.

The following discussion is based on provisions of the United States Internal Revenue Code of 1986, as amended, existing and proposed U.S. Treasury Regulations and administrative and judicial interpretations, all as of the date of this prospectus, and all of which are subject to change, retroactively or prospectively. The following summary assumes that a non-U.S. holder holds our common stock as a capital asset. **Each non-U.S. holder should consult a**

**tax advisor regarding the United States federal, state, local and non-U.S. income and other tax consequences of acquiring, holding and disposing of shares of our common stock.**

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### **Distributions on Common Stock**

We do not expect to declare or pay dividends in the foreseeable future. In the event that we make cash distributions on our common stock, these distributions generally will constitute dividends for United States federal income tax purposes to the extent paid from our current or accumulated earnings and profits, as determined under United States federal income tax principles. Dividends paid to non-U.S. holders of our common stock that are not effectively connected with the non-U.S. holder's conduct of a United States trade or business will be subject to U.S. withholding tax at a 30% rate, or if a tax treaty applies, a lower rate specified by the treaty.

Dividends that are effectively connected with a non-U.S. holder's conduct of a trade or business in the United States and, if an income tax treaty applies, are attributable to a permanent establishment maintained by the non-U.S. holder in the United States, are taxed on a net income basis at the regular graduated rates and in the manner applicable to United States persons. In that case, we will not have to withhold United States federal withholding tax if the non-U.S. holder complies with applicable certification and disclosure requirements. In addition, a branch profits tax may be imposed at a 30% rate, or a lower rate under an applicable income tax treaty, on dividends received by a foreign corporation that are effectively connected with its conduct of a trade or business in the United States.

A non-U.S. holder that claims the benefit of an applicable income tax treaty generally will be required to satisfy applicable certification and other requirements. However,

in the case of common stock held by a foreign partnership, the certification requirement will generally be applied to the partners of the partnership and the partnership will be required to provide certain information;

in the case of common stock held by a foreign trust, the certification requirement will generally be applied to the trust or the beneficial owners of the trust depending on whether the trust is a foreign complex trust, foreign simple trust or foreign grantor trust as defined in the U.S. Treasury Regulations; and

look-through rules will apply for tiered partnerships, foreign simple trusts and foreign grantor trusts.

A holder that is a foreign partnership or a foreign trust is urged to consult its own tax advisor regarding its status under these U.S. Treasury Regulations and the certification requirements applicable to it. A non-U.S. holder that is eligible for a reduced rate of United States federal withholding tax under an income tax treaty may obtain a refund or credit of any excess amounts withheld by filing an appropriate claim for refund with the United States Internal Revenue Service.

### **Gain on Disposition of Common Stock**

A non-U.S. holder generally will not be subject to United States federal income tax on gain recognized on a disposition of our common stock unless:

the gain is effectively connected with the non-U.S. holder's conduct of a trade or business in the United States and, if an income tax treaty applies, is attributable to a permanent establishment maintained by the non-U.S. holder in the United States; in this case, the gain will be taxed on a net income basis at the rates and in the manner applicable to United States persons, and if the non-U.S. holder is a foreign corporation, the branch profits tax described above may also apply;

the non-U.S. holder is an individual who is present in the United States for 183 days or more in the taxable year of the disposition and meets other requirements; or

we are or have been a United States real property holding corporation for United States federal income tax purposes at any time during the shorter of the five-year period ending on the date of disposition or the period that the non-U.S. holder held our common stock.

Generally, a corporation is a United States real property holding corporation, or USRPHC, if the fair market value of its United States real property interests equals or exceeds 50% of the sum of the fair market value of its worldwide real property interests and its other assets used or held for use in a trade or business. We believe that we are a USRPHC for United States federal income tax purposes. However, the tax relating to stock in a USRPHC generally will not apply to a non-U.S. holder whose direct and indirect holdings

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constituted 5% or less of our common stock at all times during the applicable period, provided that our common stock was regularly traded on an established securities market.

**U.S. Federal Estate Tax**

Common stock owned or treated as owned by an individual who is a non-U.S. holder for United States federal estate tax purposes at the time of death will be included in the individual's gross estate for United States federal estate tax purposes, unless an applicable estate tax or other treaty provides otherwise, and therefore may be subject to United States federal estate tax.

**Information Reporting and Backup Withholding Tax**

Dividends paid to you may be subject to information reporting and United States backup withholding. You will be exempt from this backup withholding tax if you properly provide a Form W-8BEN certifying that you are a non-U.S. holder or otherwise meet documentary evidence requirements for establishing that you are a non-U.S. holder, or you otherwise establish an exemption.

The gross proceeds from the disposition of our common stock may be subject to information reporting and backup withholding. If you sell your common stock outside the United States through a non-U.S. office of a non-U.S. broker and the sales proceeds are paid to you outside the United States, then the United States backup withholding and information reporting requirements generally will not apply to that payment. However, United States information reporting, but not backup withholding, will generally apply to a payment of sales proceeds, even if that payment is made outside the United States, if you sell your common stock through a non-U.S. office of a broker that:

is a United States person;

derives 50% or more of its gross income in specific periods from the conduct of a trade or business in the United States;

is a controlled foreign corporation for United States tax purposes; or

is a foreign partnership, if at any time during its tax year:

one or more of its partners are United States persons who in the aggregate hold more than 50% of the income or capital interests in the partnership; or

the foreign partnership is engaged in a United States trade or business,

unless the broker has documentary evidence in its files that you are a non-U.S. person and certain other conditions are met, or you otherwise establish an exemption.

If you receive payments of the proceeds of a sale of our common stock to or through a United States office of a broker, the payment is subject to both United States