PROASSURANCE CORP
Form 10-K
February 28, 2008

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United States
Securities and Exchange Commission
Washington, D.C. 20549
FORM 10-K

(Mark One)

þ **Annual report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934 [Fee Required]**
for the fiscal year ended December 31, 2007,

or

o **Transition report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934 [No Fee Required]**
for the transition period from __________ to __________.

Commission file number: 001-16533
ProAssurance Corporation
(Exact name of registrant as specified in its charter)

Delaware	63-1261433
(State of incorporation or organization)	(I.R.S. Employer Identification No.)
100 Brookwood Place, Birmingham, AL	35209
(Address of principal executive offices)	(Zip Code)

(205) 877-4400
(Registrant s Telephone Number, Including Area Code)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange On Which Registered
Common Stock, par value $0.01 per share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes þ No o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No þ

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. þ

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

Large accelerated filer þ	Accelerated filer o	Non-accelerated filer o	Smaller reporting company o
		(Do not check if a smaller reporting company)	

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

The aggregate market value of voting stock held by non-affiliates of the registrant at June 30, 2007 was $1,692,091,431.

As of February 15, 2008, the registrant had outstanding approximately 32,203,785 shares of its common stock.

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Documents incorporated by reference in this Form 10-K

(i) The definitive proxy statement for the 2008 Annual Meeting of the Stockholders of ProAssurance Corporation (File No. 001-16533) is incorporated by reference into Part III of this report.

(ii) The MAIC Holdings, Inc. Registration Statement on Form S-4 (File No. 33-91508) is incorporated by reference into Part IV of this report.

(iii) The MAIC Holdings, Inc. Definitive Proxy Statement for the 1996 Annual Meeting (File No. 0-19439 is incorporated by reference into Part IV of this report.

(iv) The Professionals Group, Inc. Registration Statement on Form S-4 (File No. 333-3138) is incorporated by reference into Part IV of this report.

(v) The ProAssurance Corporation Registration Statement on Form S-4 (File No. 333-49378) is incorporated by reference into Party IV of this report.

(vi) The ProAssurance Corporation Annual Report on Form 10-K for the year ended December 31, 2001 (Commission File No. 001-16533) is incorporated by reference into Part IV of this report.

(vii) The ProAssurance Corporation Annual Report on the Form 10-K for the year ended December 31, 2002 (File No. 001-16533) is incorporated by reference in Part IV of this report.

(viii) The ProAssurance Corporation Definitive Proxy Statement filed on April 16, 2004 (File No. 001-16533) is incorporated by reference into Part IV of this report.

(ix) The ProAssurance Corporation Annual Report on Form 10-K for the year ended December 31, 2004 (File No. 001-16533) is incorporated by reference into Part IV of this report.

(x) The ProAssurance Corporation Registration Statement of Form S-4 (File No. 333-124156) is incorporated by reference in Part IV of this report.

(xi) The ProAssurance Corporation Current Report on Form 8-K for event occurring on November 4. 2005 (File No. 001-16533) is incorporated by reference into Part IV of this report

(xii) The ProAssurance Corporation Registration Statement of Form S-4 (File No. 333-131874) is incorporated by reference in Part IV of this report.

(xiii) The ProAssurance Corporation Current Report on Form 8-K for event occurring on September 13, 2006 (File No. 001-16533) is incorporated by reference into Part IV of this report.

(xiv) The ProAssurance Corporation Current Report on Form 8-K for event occurring on May 12, 2007 (File No. 001-16533) is incorporated by reference into Part IV of this report.

(xv) The ProAssurance Corporation Current Report on Form 8-K for event occurring November 5, 2007 (File No. 001-16533) is incorporated by reference into Part IV of this report.

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PART I

ITEM 1. BUSINESS.

General / Corporate Overview

We are a holding company for property and casualty insurance companies focused on professional liability insurance. Our executive offices are located at 100 Brookwood Place, Birmingham, Alabama 35209 and our telephone number is (205) 877-4400. Our stock trades on the New York Stock Exchange under the symbol PRA. Our website is www.ProAssurance.com.

The Investor Home Page on our website provides many resources for investors seeking to learn more about us. Whenever we file a document or report with the Securities and Exchange Commission (the SEC) on its EDGAR system, we make the document available on our website as soon as reasonably practical. This includes our annual report on Form 10K, our quarterly reports on Form 10Q and our current reports on Form 8K. We show details about stock trading by corporate insiders by providing access to SEC Forms 3, 4 and 5 when they are filed with the SEC. We maintain access to these reports for at least one year after their filing.

In addition to federal filings on our website, we make available the financial statements we file with state regulators, news releases that we issue, and certain investor presentations. We believe these documents provide important additional information about our financial condition and operations.

The Governance section of our website provides copies of the Charters for our Audit Committee, Internal Audit department, Compensation Committee and Nominating/Corporate Governance Committee. In addition you will find our Code of Ethics and Conduct, Corporate Governance Principles, Policy Regarding Determination of Director Independence and Share Ownership Guidelines for Management and Directors. We also provide the Pre-Approval Policy and Procedures for our Audit Committee and our Policy Regarding Stockholder-Nominated Director Candidates. Printed copies of these documents may be obtained from Frank O Neil, Senior Vice President, ProAssurance Corporation, either by mail at P.O. Box 590009, Birmingham, Alabama 35259-0009, or by telephone at (205) 877-4400 or (800) 282-6242.

Because the insurance business uses certain terms and phrases that carry special and specific meanings, we urge you to read the Glossary included in this section prior to reading this report.

Caution Regarding Forward-Looking Statements

Any statements in this Form 10K that are not historical facts are specifically identified as forward-looking statements. These statements are based upon our estimates and anticipation of future events and are subject to certain risks and uncertainties that could cause actual results to vary materially from the expected results described in the forward-looking statements. Forward-looking statements are identified by words such as, but not limited to, anticipate , believe , estimate , expect , hope , hopeful , intend , may , optimistic , preliminary , potential , project analogous expressions. There are numerous factors that could cause our actual results to differ materially from those in the forward-looking statements. Thus, sentences and phrases that we use to convey our view of future events and trends are expressly designated as forward-looking statements as are sections of this Form 10K that are identified as giving our outlook on future business.

Forward-looking statements relating to our business include among other things: statements concerning liquidity and capital requirements, return on equity, financial ratios, net income, premiums, losses and loss reserves, premium rates and retention of current business, competition and market conditions, the expansion of product lines, the development or acquisition of business in new geographical areas, the availability of acceptable reinsurance, actions by regulators and rating agencies, court actions, legislative actions, payment or performance of obligations under indebtedness, payment of dividends, and other matters.

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These forward-looking statements are subject to significant risks, assumptions and uncertainties, including, among other things, the following factors that could affect the actual outcome of future events:

- general economic conditions, either nationally or in our market area, that are worse than anticipated;
- regulatory, legislative and judicial actions or decisions that adversely affect our business plans or operations;
- inflation, particularly in loss costs trends;
- changes in the interest rate environment;
- performance of financial markets affecting the fair value of our investments or making it difficult to determine the value of our investments;
- changes in laws or government regulations affecting medical professional liability insurance;
- changes to our ratings assigned by rating agencies;
- the effects of changes in the health care delivery system;
- uncertainties inherent in the estimate of loss and loss adjustment expense reserves and reinsurance, and changes in the availability, cost, quality, or collectibility of insurance/reinsurance;
- the results of litigation, including pre-or-post-trial motions, trials and/or appeals we undertake;
- bad faith litigation which may arise from our handling of any particular claim, including failure to settle;
- changes in competition among insurance providers and related pricing weaknesses in our markets;
- loss of independent agents;
- our ability to purchase reinsurance and collect payments from our reinsurers;
- increases in guaranty fund assessments;
- our ability to achieve continued growth through expansion into other states or through acquisitions or business combinations;
- the expected benefits from acquisitions may not be achieved or may be delayed longer than expected due to, among other reasons, business disruption, loss of customers and employees, increased operating costs or inability to achieve cost savings, and assumption of greater than expected liabilities;
- changes in accounting policies and practices that may be adopted by our regulatory agencies and the Financial Accounting Standards Board;
- changes in our organization, compensation and benefit plans; and
- our ability to retain and recruit senior management.

Our results may differ materially from those we expect and discuss in any forward-looking statements. The principal risk factors that may cause these differences are described in Item 1A, Risk Factors in this report and other documents we file with the Securities and Exchange Commission, such as our current reports on Form 8-K, and our regular reports on Forms 10-Q and 10-K.

We caution readers not to place undue reliance on any such forward-looking statements, which speak only as of the date made, and advise readers that the factors listed above could affect our financial performance and could cause actual results for future periods to differ materially from any opinions or statements expressed with respect to future periods in any current statements. Except as required by law or regulations, we do not undertake and specifically decline any obligation to publicly release the result of any revisions that may be made to any forward-looking statements to reflect events or circumstances after the date of such statements or to reflect the occurrence of anticipated or unanticipated events.

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GLOSSARY OF SELECTED INSURANCE AND RELATED FINANCIAL TERMS

In an effort to help our investors and other interested parties better understand our report, we are providing a Glossary of Selected Insurance Terms. These definitions are taken from recognized industry sources such as A. M. Best and The Insurance Information Institute. This list is intended to be informative and explanatory, but we do not represent that it is a comprehensive glossary.

Accident year: The accounting period in which an insured event becomes a liability of the insurer.

Admitted company; admitted basis: An insurance company licensed and authorized to do business in a particular state. An admitted company doing business in a state is said to operate on an admitted basis and is subject to all state insurance laws and regulations pertaining to its operations. (See: Non-admitted company)

Adverse selection: The tendency of those exposed to a higher risk to seek more insurance coverage than those at a lower risk. Insurers react either by charging higher premiums or not insuring at all, as in the case of floods. Adverse selection can be seen as concentrating risk instead of spreading it.

Agent: An individual or firm that represents an insurer under a contractual or employment agreement for the purpose of selling insurance. There are two types of agents: independent agents, who represent one or more insurance companies but are not employed by those companies and are paid on commission, and exclusive or captive agents, who by contract are required to represent or favor only one insurance company and are either salaried or work on commission. Insurance companies that use employee or captive agents are called direct writers. Agents are compensated by the insurance company whose products they sell. By definition, with respect to a given insurer, an agent is not a broker (See: Broker)

Alternative markets: Mechanisms used to fund self-insurance. This includes captives, which are insurers owned by one or more insureds to provide owners with coverage. Risk-retention groups, formed by members of similar professions or businesses to obtain liability insurance, are also a form of self-insurance.

Assets; admitted; non-admitted: Property owned, in this case by an insurance company, including stocks, bonds, and real estate. Because insurance accounting is concerned with solvency and the ability to pay claims, insurance regulators require a conservative valuation of assets, prohibiting insurance companies from listing assets on their balance sheets whose values are uncertain, such as furniture, fixtures, debit balances, and accounts receivable that are more than 90 days past due (these are non-admitted assets). Admitted assets are those assets that can be easily sold in the event of liquidation or borrowed against, and receivables for which payment can be reasonably anticipated.

Bodily injury: Physical harm, sickness, disease or death resulting from any of these.

Broker: An intermediary between a customer and an insurance company. Brokers typically search the market for coverage appropriate to their clients and they usually sell commercial, not personal, insurance. Brokers are compensated by the insureds on whose behalf they are working. With respect to a given insurer, a broker is not an agent. (See: Agent)

Bulk reserves: Reserves for losses that have occurred but have not been reported as well as anticipated changes to losses on reported claims. Bulk reserves are the difference between (i) the sum of case reserves and paid losses and (ii) an actuarially determined estimate of the total losses necessary for the ultimate settlement of all reported and incurred but not reported claims, including amounts already paid. (See: Case Reserves)

Capacity: For an individual insurer, the maximum amount of premium or risk it can underwrite based on its financial condition. The adequacy of an insurer s capital relative to its exposure to loss is an important measure of solvency.

Capital: Stockholders equity (GAAP) and policyholders surplus (SAP). Capital adequacy is linked to the riskiness of an insurer s business. (See: Risk-Based Capital, Surplus, Solvency)

Case reserves: Reserves for future losses for reported claims as established by an insurer s claims department.

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Casualty insurance: Insurance which is primarily concerned with the losses caused by injuries to third persons (in other words, persons other than the policyholder) and the legal liability imposed on the insured resulting therefrom. (See: Professional liability insurance, Medical professional liability insurance)
Cede, cedant; ceding company: When a party reinsures its liability with another, it cedes business and is referred to as the cedant or ceding company.
Claim: Written or oral demands, as well as civil and administrative proceedings.
Claims-made policy; coverage: A form of insurance that pays claims presented to the insurer during the term of the policy or within a specific term after its expiration. It limits a liability insurers exposure to unknown future liabilities. Under a claims-made policy, an insured event becomes a liability when the event is first reported to the insurer.
Combined ratio: The sum of the underwriting expense ratio and net loss ratio, determined in accordance with either SAP or GAAP.
Commission: Fee paid to an agent or insurance salesperson as a percentage of the policy premium. The percentage varies widely depending on coverage, the insurer, and the marketing methods.
Consent to settle: Clause provided in some professional liability insurance policies requiring the insurer to receive authority from an insured before settling a claim.
Damages; economic, non-economic and punitive: Monies awarded to a plaintiff or claimant. Economic damages are intended to compensate a plaintiff or claimant for quantifiable past and future losses, such as lost wages and/or medical costs. Non-economic damages are those awarded separately and apart from economic damages, that are intended to compensate the claimant or plaintiff for non-quantifiable losses such as pain and suffering or loss of consortium. Punitive damages are non-economic damages intended to punish the defendant for perceived outrageous conduct.
Direct premiums written: Premiums charged by an insurer for the policies that it underwrites, excluding any premiums that it receives as a reinsurer.
Direct writer(s): Insurance companies that sell directly to the public using exclusive agents or their own employees.
Domestic insurance company: Term used by a state to refer to any company incorporated there.
Excess & surplus lines; surplus lines: Property/casualty insurance coverage that isn t generally available from insurers licensed in the state (See: Admitted company) and must be purchased from a non-admitted company . Examples include risks of an unusual nature that require greater flexibility in policy terms and conditions than exist in standard forms or where the highest rates allowed by state regulators are considered inadequate by admitted companies. Laws governing surplus lines vary by state.
Excess coverage; excess limits: An insurance policy that provides coverage limits above another policy with similar coverage terms, or above a self-insured amount.
Extended reporting endorsement: Also known as a tail policy, or tail coverage. Provides protection for future claims filed after a claims-made policy has lapsed. Typically requires payment of an additional premium, the tail premium. Tail coverage may also be granted if the insured becomes disabled, dies or permanently retired from the covered occupation (i.e., the practice of medicine in medical liability policies.)
Facultative reinsurance: A generic term describing reinsurance where the reinsurer assumes all or a portion of a single risk. Each risk is separately evaluated and each contract is separately negotiated by the reinsurer.
Financial Accounting Standards Board (FASB): An independent board that establishes and communicates standards of financial reporting and reporting in the United States.
Frequency: Number of times a loss occurs per unit of risk or exposure. One of the criteria used in calculating premium rates.

Front, fronting: A procedure in which a primary insurer acts as the insurer of record by issuing a policy, but then passes all or virtually all of the risk to a reinsurer in exchange for a commission. Often, the fronting insurer is licensed to do business in a state or country where the risk is located, but the reinsurer is not. The reinsurer in this scenario is often a captive or an independent insurance company that cannot sell insurance directly in a particular location.
Generally Accepted Accounting Principles; GAAP: A set of widely accepted accounting standards, set primarily by the Financial Accounting Standards Board (FASB), and used to standardize financial accounting of public companies.
Gross premiums written: Total premiums for direct insurance written and assumed reinsurance during a given period. The sum of direct and assumed premiums written.
Guaranty fund; assessment(s): The mechanism by which all 50 states, the District of Columbia and Puerto Rico ensure that solvent insurers fund the payment of claims against insurance companies that fail. The type and amount of claim covered by the fund varies from state to state.
Incurred but not reported (IBNR): Actuarially estimated reserves for estimated losses that have been incurred by insureds and reinsureds but not yet reported to the insurer or reinsurer including unknown future developments on losses which are known to the insurer or reinsurer. Insurance companies regularly adjust reserves for such losses as new information becomes available.
Incurred losses: Losses covered by the insurer within a fixed period, whether or not adjusted or paid during the same period, plus changes in the estimated value of losses from prior periods.
Insolvent; insolvency: Insurer s inability to pay debts. Typically the first sign of problems is inability to pass the financial tests regulators administer as a routine procedure. (See: Risk-based capital)
Investment income: Income generated by the investment of assets. Insurers have two sources of income, underwriting (premiums less claims and expenses) and investment income.
Liability insurance: A line of casualty insurance for amounts a policyholder is legally obligated to pay because of bodily injury or property damage caused to another person. (See: Bodily Injury, Casualty insurance, Professional liability insurance, Medical professional liability insurance)
Limits: The maximum amount payable under an insurance policy for a covered loss.
Long-tail: The long period of time between collecting the premium for insuring a risk and the ultimate payment of losses. This allows insurance companies to invest the premiums until losses are paid, thus producing a higher level of invested assets and investment income as compared to other lines of property and casualty business. Medical professional liability is considered a long tail line of insurance. (See: Medical professional liability, Professional liability)
Loss adjustment expenses (LAE): The expenses of settling claims, including legal and other fees and the portion of general expenses allocated to claim settlement costs.
Loss costs: The portion of an insurance rate used to cover claims and the costs of adjusting claims. Insurance companies typically determine their rates by estimating their future loss costs and adding a provision for expenses, profit, and contingencies.
Loss ratio: The ratio of incurred losses and loss-adjustment expenses to net premiums earned. This ratio helps measure the company s underlying profitability, or loss experience, on its total book of business.
Loss reserves: Liabilities established by insurers to reflect the estimated cost of claims payments and the related expenses that the insurer will ultimately be required to pay in respect of insurance or reinsurance it has written. They represent a liability on the insurer s balance sheet.
Medical malpractice: An act or omission by a health care provider that falls below a recognized standard of care. (See: Standard of Care)
Medical professional liability insurance: Insurance for the legal liability of an insured (and against loss, damage or expense incidental to a claim of such liability) arising out of death, injury or disablement of a person as the result of negligent deviation from the standard of care or other misconduct in rendering professional service.

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National Association of Insurance Commissioners: Generally referred to as the NAIC. The organization of insurance regulators from the 50 states, the District of Columbia and the four U.S. territories. The NAIC provides a forum for the development of uniform policy when uniformity is appropriate.
Net losses: Incurred losses and loss adjustment expenses for the period, net of anticipated reinsurance recoveries for the period.
Net loss ratio: The net loss ratio measures the ratio of net losses and loss adjustment expenses to net earned premiums determined in accordance with SAP or GAAP.
Net paid losses: Paid losses and loss adjustment expenses for the period, net of related reinsurance recoveries.
Net premium earned: The portion of net premium that is recognized for accounting purposes as income during a particular period. Equal to net premiums written plus the change in net unearned premiums during the period.
Net premiums written: Gross premiums written for a given period less premiums ceded to reinsurers during such period.
Non-admitted company; basis: Insurers licensed in some states, but not others. States where an insurer is not licensed call that insurer non-admitted. Non-admitted companies sell coverage that is unavailable from licensed insurers within a state and are generally exempt from most state laws and regulations related to rates and coverages. Policyholders of such companies generally do not have the same degree of consumer protection and financial recourse as policyholders of admitted companies. Non-admitted companies are said to operate on a non-admitted basis.
Nose coverage: See: Prior acts coverage.
Occurrence policy; coverage: Insurance that pays claims arising out of incidents that occur during the policy term, even if they are filed many years later. Under an occurrence policy the insured event becomes a liability when the event takes place.
Operating ratio: The operating ratio is the combined ratio, less the ratio of investment income (exclusive of realized gains and losses) to net earned premiums, if determined in accordance with GAAP. While the combined ratio strictly measures underwriting profitability, the operating ratio incorporates the effect of investment income.
Paid loss ratio: The ratio of net paid losses to net premiums earned. (See Loss ratio)
Paid to incurred ratio: The ratio of net paid losses to net incurred losses.
Policy: A written contract for insurance between an insurance company and policyholder stating details of coverage.
Premium: The price of an insurance policy; typically charged annually or semiannually.
Premiums written: The total premiums on all policies written by an insurer during a specified period of time, regardless of what portions have been earned.
Premium tax: A state tax on premiums for policies issued in the state, paid by insurers.
Primary company: In a reinsurance transaction, the insurance company that is reinsured.
Prior acts coverage: An additional coverage for claims-made policies, optionally made available by an insurer, that covers an insured for claims that occurred, but were not reported prior to the inception date, or retroactive date, of the policy. Sometimes called Nose Coverage.
Professional liability insurance: Covers professionals for negligence and errors or omissions that cause injury or economic loss to their clients. (See: Casualty insurance, Liability insurance, Medical professional liability insurance)
Property casualty insurance: Covers damage to or loss of policyholders property and legal liability for damages caused to other people or their property.

Rate: The cost of insurance for a specific unit of exposure, such as for one physician. Rates are based primarily on historical loss experience for similar risks and may be regulated by state insurance offices.
Rating agencies: These agencies assess insurers financial strength and viability to meet claims obligations. Some of the factors considered include company earnings, capital adequacy, operating leverage, liquidity, investment performance, reinsurance programs, and management ability, integrity and experience. A high financial rating is not the same as a high consumer satisfaction rating.
Reinsurance: Insurance bought by insurance companies. In a reinsurance contract the reinsurer agrees to indemnify another insurance or reinsurance company, the ceding company, against all or a portion of the insurance or reinsurance risks underwritten by the ceding company under one or more policies. Reinsurers don t pay policyholder claims. Instead, they reimburse insurers for claims paid.
Reinsured layer; retained layer: The retained layer is the cumulative portion of each loss, on a per-claim basis, which is less than an insurer s reinsurance retention for a given coverage year. Likewise, the reinsured layer is the cumulative portion of each loss that exceeds the reinsurance retention. (See: Reinsurance, Retention)
Reserves: A company s best estimate of what it will pay at some point in the future, for claims for which it is currently responsible.
Retention: The amount or portion of risk that an insurer retains for its own account. Losses in excess of the retention level up to the outer limit, if any, are paid by the reinsurer. In proportional treaties, the retention may be a percentage of the original policy s limit. In excess of loss business, the retention is a dollar amount of loss, a loss ratio or a percentage.
Retroactive date: Applicable only to claims-made policies. Claims that have occurred and have not been reported prior to this date are excluded from coverage. The retroactive date is generally the date coverage was first afforded to an insured by a company under a claims-made policy form, unless extended into the past by Prior Acts Coverage. (See: Prior Acts Coverage)
Return on equity: Net Income (or if applicable, Income from Continuing Operations) divided by the average of beginning and ending stockholders equity. This ratio measures a company s overall after-tax profitability from underwriting and investment activity and shows how efficiently invested capital is being used.
Risk-Based Capital (RBC): A regulatory measure of the amount of capital required for an insurance company, based upon the volume and inherent riskiness of the insurance sold, the composition of its investment portfolio and other financial risk factors. Higher-risk types of insurance, liability as opposed to property business, generally necessitate higher levels of capital. The NAIC s RBC model law stipulates four levels of regulatory action with the degree of regulatory intervention increasing as the level of surplus falls below a minimum amount as determined under the model law. (See: National Association of Insurance Commissioners)
Risk management: Management of the varied risks to which a business firm or association might be subject. It includes analyzing all exposures to gauge the likelihood of loss and choosing options to better manage or minimize loss. These options typically include reducing and eliminating the risk with safety measures, buying insurance, and self-insurance.
Self-insurance: The concept of assuming a financial risk oneself, instead of paying an insurance company to take it on. Every policyholder is a self-insurer in terms of paying a deductible and co-payments. Larger policyholders often self-insure frequent or predictable losses to avoid insurance overhead expenses.
Severity: The average claim cost, statistically determined by dividing dollars of losses by the number of claims.
Solvent; solvency: Insurance companies ability to pay the claims of policyholders. Regulations to promote solvency include minimum capital and surplus requirements, statutory accounting conventions, limits to insurance company investment and corporate activities, financial ratio tests, and financial data disclosure.

Standard of care: The standard by which negligence is determined. The degree of skill associated with the activities and treatment from a reasonable, prudent, ordinary practitioner acting under the same or similar circumstances.
Statement of Financial Accounting Standards (SFAS): A formal document issued by the Financial Accounting Standards Board (FASB), which details accounting standards and guidance on selected accounting policies set out by the FASB.
Statutory Accounting Principles; SAP: More conservative standards than under GAAP accounting rules, they are imposed by state laws that emphasize the present solvency of insurance companies. SAP helps ensure that the company will have sufficient funds readily available to meet all anticipated insurance obligations by recognizing liabilities earlier or at a higher value than GAAP and assets later or at a lower value. For example, SAP requires that selling expenses be recorded immediately rather than amortized over the life of the policy. (See: Generally Accepted Accounting Principles, Admitted assets)
Surplus; statutory surplus: The excess of assets over total liabilities (including loss reserves) that protects policyholders in case of unexpectedly high claims.   Statutory Surplus   is determined in accordance with Statutory Accounting Principles.
Tail: The period of time that elapses between the occurrence of the loss event and the payment in respect thereof.
Tail coverage: See: Extended Reporting Endorsement
Third-party coverage: Liability coverage purchased by the policyholder as a protection against possible lawsuits filed by a third party. The insured and the insurer are the first and second parties to the insurance contract.
Tort: A civil wrong which may result in damages.
Treaty reinsurance: The reinsurance of a specified type or category of risks defined in a reinsurance agreement (a "treaty   ) between a primary insurer and a reinsurer. Typically, in treaty reinsurance, the primary insurer or reinsured is obligated to offer and the reinsurer is obligated to accept a specified portion of all such type or category of risks originally written by the primary insurer or reinsured.
Underwriting: The insurer s or reinsurer s process of reviewing applications submitted for insurance coverage, deciding whether to accept all or part of the coverage requested and determining the applicable premiums.
Underwriting expense ratio: Under GAAP, the ratio of underwriting, acquisition and other insurance expenses incurred to net premiums earned (for SAP, the ratio of underwriting expenses incurred to net premiums written.)
Underwriting expenses: The aggregate of policy acquisition costs, including commissions, and the portion of administrative, general and other expenses attributable to underwriting operations.
Underwriting income; loss: The insurer s profit on the insurance sales after all expenses and losses have been paid, before investment income or income taxes. When premiums aren t sufficient to cover claims and expenses, the result is an   underwriting loss.
Underwriting profit: The amount by which net earned premiums exceed claims and expenses. (See: Underwriting Income)
Unearned premium: The portion of premium that represents the consideration for the assumption of risk for a future period. Such premium is not yet earned since the risk has not yet been assumed. May also be defined as the pro-rata portion of written premiums that would be returned to policyholders if all policies were terminated by the insurer on a given date.

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Business Overview

We operate in a single business segment principally in the Mid-Atlantic, Midwest and Southern United States. We sell professional liability insurance primarily to physicians, dentists, other healthcare providers and healthcare facilities. We also have a small book of legal professional liability business in the Midwest.

Our top five states represented 55% of our gross premiums written for the year ended December 31, 2007. The following table shows our gross premiums written in these states for each of the periods indicated.

	Gross Written Premiums-Years Ended December 31 *($ in thousands)*					
	2007		2006[2]		2005[2]	
Alabama	**$ 95,641**	**17%**	**$ 102,998**	**18%**	$ 111,462	19%
Ohio	**89,607**	**16%**	**106,267**	**18%**	131,102	23%
Florida	**41,291**	**8%**	**53,469**	**9%**	61,341	11%
Michigan	**41,092**	**7%**	**43,757**	**8%**	46,741	8%
Wisconsin[1]	**40,680**	**7%**	**10,702**	**2%**	52	
All other states	**240,763**	**45%**	**261,790**	**45%**	222,262	39%
Total	**$ 549,074**	**100%**	**$ 578,983**	**100%**	$ 572,960	100%

(1) Not a top five state in 2006 and 2005

(2) Indiana was included in the top five states in 2006 and 2005 (gross premiums written of $40,335 and $41,129, respectively)

We believe we differentiate ourselves from our competitors in several ways. Our financial strength, commitment to a local market presence and personal service, and commitment to our physician heritage have allowed us to establish what we believe to be a leading position in our markets, thus enabling us to effectively compete on a basis other than just price.

We maintain 15 local claims and/or underwriting offices to ensure that we have a local presence in the markets we serve. We believe this emphasis on local knowledge allows us to maintain active relationships with our customers and be more responsive to their needs.

We believe our local knowledge also allows us to be more effective in evaluating claims because we have a detailed understanding of the medical and legal climates of each market. We also believe our insureds value our willingness and ability to defend non-meritorious claims.

Using our local knowledge and our experienced underwriting staff, we rigorously underwrite each application for coverage to ensure that we understand the risks we accept, and are able to develop an adequate price for that risk. By charging rates we believe to be adequate, we seek to maintain the strong financial position that allows us to protect our customers in the long-term.

Corporate Organization and History

We were incorporated in Delaware in June 2001. Our core operating subsidiaries are The Medical Assurance Company, Inc., ProNational Insurance Company, NCRIC, Inc., Physicians Insurance Company of Wisconsin, Inc., and Red Mountain Casualty Insurance Company, Inc. We also write a limited amount of medical professional liability insurance through Woodbrook Casualty Insurance, Inc. (formerly Medical Assurance of West Virginia, Inc.), which we consider to be a non-core operating subsidiary.

We are the successor to twelve insurance organizations and much of our growth has come through mergers and acquisitions. In each, we retained key personnel, allowing us to maintain a local presence and preserve important institutional knowledge in underwriting, claims, risk management and marketing. We believe that our ability to utilize this local knowledge is a critical factor in the operation of our companies. Our successful integration of each organization demonstrates our ability to grow effectively through acquisitions.

Our predecessor company, Medical Assurance, Inc. (Medical Assurance) was founded by physicians as a mutual company in Alabama and wrote its first policy in 1977. Medical Assurance demutualized and became a public company in 1991. Medical Assurance expanded through internal growth and the acquisition of professional liability insurance companies with strong regional identities in West Virginia, Indiana and Missouri, along with books of business in Ohio and Missouri.

Professionals Group, Inc. which was combined with Medical Assurance to form ProAssurance, traces its roots to the Brown-McNeeley Fund, which was founded by the State of Michigan in 1975 to provide medical professional liability insurance to physicians. Physicians Insurance Company of Michigan, which ultimately became ProNational Insurance Company, was founded in 1980 to assume the business of the Fund. That company also expanded through internal growth and the acquisition of a book of business in Illinois and the acquisition of professional liability insurers in Florida and Indiana.

Recent Developments

In early July 2003 we received $104.6 million from the issuance of 3.9% Convertible Debentures, due June 2023, having a face value of $107.6 million. We utilized a substantial portion of the net proceeds from the sale of the Convertible Debentures to repay an outstanding term loan. We used the balance of the net proceeds from the sale of the Convertible Debentures for general corporate purposes, including contributions to the capital of our insurance subsidiaries to support the growth in insurance operations.

In April and May 2004, we received net proceeds of $44.9 million from the issuance of $46.4 million of trust preferred securities. These trust preferred securities have a 30-year maturity and are callable at par in December 2009. The interest rate on these securities adjusts quarterly to the 3-month London Interbank Offered Rate (LIBOR) plus 385 basis points. We used the balance of the net proceeds from the sale of the trust preferred securities for general corporate purposes, including contributions to the capital of our insurance subsidiaries to support the growth in insurance operations. See Note 10 to the Consolidated Financial Statements for more information regarding the Convertible Debentures and the trust preferred securities.

On January 4, 2006 we sold our personal lines operations (the MEEMIC companies), effective January 1, 2006, for $400 million before taxes and transaction expenses. We recognized a gain on the sale in the first quarter of 2006 of $109.4 million after consideration of sales expenses and estimated taxes. Sale proceeds are available to support the capital requirements of our professional liability insurance subsidiaries and other general corporate purposes. Additional information regarding the sale of the MEEMIC companies is provided in Note 3 to the Consolidated Financial Statements.

On August 3, 2005 we acquired all of the outstanding common stock of NCRIC Corporation and its subsidiaries (NCRIC) in an all stock merger. NCRIC s primary business is a single insurance company that provides medical professional liability insurance in the District of Columbia, Delaware, Maryland, Virginia and West Virginia.

Effective August 1, 2006 we completed our acquisition of Physicians Insurance Company of Wisconsin, Inc. (PIC Wisconsin) in an all stock merger. PIC Wisconsin is a stock insurance company that sells professional liability insurance to physicians, groups of physicians, dentists, and hospitals principally in the state of Wisconsin as well as other Midwestern states.

These acquisitions strategically expanded our geographic footprint and were in keeping with our desire to expand our professional liability operations through selective acquisitions. A more detailed description of the merger transactions is included in Note 2 to the Consolidated Financial Statements included herein.

Effective July 1, 2007 A. Derrill Crowe, M.D. retired as Chief Executive Officer (CEO), and remains as non-executive Chairman of our Board. The Board of Directors elected W. Stancil Starnes to succeed Dr. Crowe as CEO. Mr. Starnes formerly served as President, Corporate Planning and Administration, of Brasfield & Gorrie, LLC, a large commercial construction firm. Prior to October 2006, Mr. Starnes served as the Senior and Managing Partner of Starnes & Atchison, LLP, Attorneys at Law, and was extensively involved with ProAssurance and its predecessor companies in the defense of its medical liability claims.

In April 2007 our Board of Directors authorized $150 million to be used for the repurchase of our common stock and debt securities. On December 4, 2007 we redeemed in cash the outstanding debentures of NCRIC using $15.5 million of our outstanding authorization. These securities became our obligation when we acquired NCRIC. As of January 31, 2008 we have also used $67.1 million of that authorization to repurchase 1.2 million shares of our stock.

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Products and Services

We sell professional liability insurance primarily to physicians, dentists, other healthcare providers and healthcare facilities. We also have a small book of legal professional liability business in the Midwest. We generate the majority of our premiums from individual and small group practices, but also insure large physician groups as well as hospitals. While most of our business is written in the standard market, we also offer medical professional liability insurance on an excess and surplus lines basis. We also offer professional office package and workers compensation insurance products in connection with our medical professional liability products. We are licensed to do business in every state but Connecticut, Maine, New Hampshire, New York and Vermont.

Marketing

We utilize both direct marketing and independent agents to write our business. For the year ended December 31, 2007, we estimate that approximately 69% of our gross premiums written were produced through independent insurance agencies. These local agencies usually have producers who specialize in professional liability insurance and who we believe are able to convey the factors that differentiate our professional liability insurance products. No single agent or agency accounts for more than 10% of our total direct premiums written.

Our marketing is primarily directed to individual physicians, and those in smaller groups. We generally do not target large physician groups or facilities because of the difficulty in underwriting the individual risks within those groups and because their purchasing decisions are more focused on price. Our marketing emphasizes:

- excellent claims service,
- the sponsorship of risk management education seminars as an accredited provider of continuing medical education,
- risk management consultation, loss prevention seminars and other educational programs,
- legislative oversight and active support of proposed legislation we believe will have a positive effect on liability issues affecting the healthcare industry,
- the dissemination of newsletters and other printed material with information of interest to the healthcare industry, and
- endorsements by, and attendance at meetings of medical societies and related organizations.

These communications and services demonstrate our understanding of the insurance needs of the healthcare industry and promote a commonality of interest among us and our insureds. We believe that a local presence in our markets enables us to effectively provide these communications and services, all of which have helped us gain exposure among potential insureds.

Underwriting

Our underwriting process is driven by individual risk selection rather than by the size or other attributes of an account. Our pricing decisions are focused on achieving rate adequacy. We assess the quality and pricing of the risk, emphasizing loss history, practice specialty and location in making our underwriting decision. Our underwriters work closely with our local claims departments. This includes consulting with staff about claims histories and patterns of practice in a particular locale as well as monitoring claims activity.

Our underwriting focuses on knowledge of local market conditions and legal environments through our six regional underwriting offices located in Alabama, Indiana, Missouri, Michigan, the District of Columbia, and Wisconsin.

Our underwriters work with our field marketing force to identify business that meets our established underwriting standards and to develop specific strategies to write the desired business. In performing this assessment, our underwriters may also consult with internal actuaries regarding loss trends and pricing and utilize loss-rating models to assess the projected underwriting results of certain insured risks.

Our underwriters are also assisted by our local medical advisory committees that operate in our key states. These committees are comprised of local physicians, dentists and representatives of hospitals and healthcare entities and help us maintain close ties to the medical communities in these states, provide information on the practice of medicine in each state and provide guidance on critical underwriting issues.

Claims Management

We have 15 claims offices located in Alabama (2), Delaware, Florida (2), Illinois, Indiana, Kentucky, Michigan, Missouri, Ohio (2), Virginia, the District of Columbia, and Wisconsin so that we can provide localized and timely attention to claims. We offer our insureds a strong defense of claims that we believe are non-meritorious or those we believe cannot be settled by reasonable, good faith negotiations. Many of these claims are resolved by jury verdict, and we engage experienced trial attorneys in each venue to handle the litigation in defense of our policyholders.

Our claims department promptly and thoroughly investigates the circumstances surrounding a reported claim against an insured. As we investigate, our claims department establishes the appropriate case reserves for each claim. Thereafter, we monitor development of new information about the claim and adjust the case reserve as appropriate.

Through our investigation, and in consultation with the insured and appropriate experts, we evaluate the merit of the claim and either seek reasonable good faith settlement or aggressively defend the claim. If the claim is defended, our claims department carefully manages the case, including selecting defense attorneys who specialize in professional liability defense and obtaining medical, legal and/or other expert professionals to assist in the analysis and defense of the claim. As part of the evaluation and preparation process for medical professional liability claims, we meet regularly with medical advisory committees in our key states to examine claims, attempt to identify potentially troubling practice patterns and make recommendations to our staff.

We believe that our claims philosophy contributes to lower overall loss costs and results in greater customer loyalty. The success of this claims philosophy is based on our access to attorneys who have significant experience in the defense of professional liability claims and who are able to defend claims in an aggressive, cost-efficient manner.

Investments

The majority of our assets are held in the operating insurance companies. We oversee our investments to ensure that we apply a consistent management strategy to the entire portfolio.

Our overall investment strategy is to focus on maximizing current income from our investment portfolio while maintaining safety, liquidity, duration and portfolio diversification. The portfolio is generally managed by professional third party asset managers whose results we monitor and evaluate. The asset managers typically have the authority to make investment decisions within the asset class they are responsible for managing, subject to our investment policy and oversight. See Note 4 to the Consolidated Financial Statements for more detail on our investments.

Rating Agencies

Our claims-paying ability and financial strength are regularly evaluated and rated by two major rating agencies, A. M. Best and Fitch. In developing their claims-paying ratings, these agencies evaluate an insurer s ability to meet its obligations to policyholders. While these ratings may be of interest to shareholders, these are not ratings of securities nor a recommendation to buy, hold or sell any security.

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The following table presents the ratings of our group and our core subsidiaries as of February 28, 2008:

	Company / Rating						
Rating Agency	ProAssurance Group	Medical Assurance	NCRIC	PIC Wisconsin	ProNational	Red Mountain Casualty	Woodbrook Casualty
Fitch (www.fitchratings.com)	A (Strong)	A (Strong)	A (Strong)	A (Strong)	A (Strong)	A (Strong)	A (Strong)
A. M. Best (www.ambest.com)	A- (Excellent)	A- (Excellent)	B++ (Good)	A- (Excellent)	A- (Excellent)	A- (Excellent)	B (Fair)

The rating process is dynamic and ratings can change. If you are seeking updated information about our ratings, please visit the rating agency websites listed in the table.

Competition

Competition depends on a number of factors including pricing, size, name recognition, service quality, market commitment, market conditions, breadth and flexibility of coverage, method of sale, financial stability, ratings assigned by rating agencies and regulatory conditions. Many of these factors, such as market conditions and regulatory conditions are beyond our control. However, for those factors within our control, such as service quality, market commitment, financial strength and stability, we believe we have competitive strengths that make us a viable competitor in those states where we are currently writing insurance.

We believe that we have a competitive advantage due to our financial stability, local market presence, service quality, size, geographic scope and name recognition, as well as our heritage as a policyholder-founded company with a long-term commitment to the professional liability insurance industry. We have achieved these advantages through our balance sheet strength, claims defense expertise, strong ratings and ability to deliver a high level of service to our insureds and agents. We believe that these competitive strengths make us a viable competitor in the states where we are currently writing insurance.

We compete with many insurance companies and alternative insurance mechanisms such as risk retention groups or self-insuring entities. Many of our competitors concentrate on a single state and have an extensive knowledge of the local markets. We also compete with several large national insurers whose financial strength and resources may be greater than ours. The following table shows the top five companies that we believe are our direct competitors, based on 2006 Direct Written Premiums (latest NAIC data available) in our business footprint.

Competitors
Medical Protective (Berkshire Hathaway)
ISMIE Mutual Group
MAG Mutual Group
State Volunteer Mutual Ins Co.
Health Care Indemnity Inc.

Improvements in loss cost trends have allowed us to reduce rates in certain markets and offer targeted new business and renewal retention programs in selected markets. While both actions improve policyholder retention, they decrease our average premiums. While we reflect loss cost trends in our pricing, we have chosen not to aggressively compete on price alone, and we have not compromised our commitment to strict underwriting.

In spite of these reductions we have lost some insureds due to aggressive price-based competition which we face in virtually all of our markets. This competition comes mostly from established insurers that are willing to write coverage at rates that we believe do not meet our long-term profitability goals. We believe many competitors are also employing less-stringent underwriting standards than they have in the past and they appear to be offering more liberal coverage options.

We have also lost insureds as some physicians and hospitals have entered into alternative risk transfer mechanisms. Historically, these alternatives have been less attractive when prices soften in the traditional insurance markets.

If competitors become less disciplined in their pricing, or more permissive in their coverage terms, we would expect to lose additional business because our ongoing commitment to adequate rates and strong underwriting standards affects our willingness to write new business and to renew existing business in the face of this price-based competition. The combined effects of lower rates and the challenges of writing new business are expected to cause our gross written premiums to continue to decline in 2008.

Insurance Regulatory Matters

We are subject to regulation under the insurance and insurance holding company statutes of various jurisdictions including the domiciliary states of our insurance subsidiaries and other states in which our insurance subsidiaries do business. Our operating insurance subsidiaries are domiciled in Alabama, Michigan, the District of Columbia, and Wisconsin.

Insurance companies are also affected by a variety of state and federal legislative and regulatory measures and judicial decisions. These could include new or updated definitions of risk exposure and limitations on business practices. In addition, individual state insurance departments may prevent premium rates for some classes of insureds from reflecting the level of risk assumed by the insurer for those classes.

There is currently limited federal regulation of the insurance business, but each state has a comprehensive system for regulating insurers operating in that state. In addition, these insurance regulators periodically examine each insurer s financial condition, adherence to statutory accounting practices, and compliance with insurance department rules and regulations.

Our operating subsidiaries are required to file detailed annual reports with the state insurance regulators in each of the states in which they do business. The laws of the various states establish agencies with broad authority to regulate, among other things, licenses to transact business, premium rates for certain types of coverage, trade practices, agent licensing, policy forms, underwriting and claims practices, reserve adequacy, transactions with affiliates, and insurer solvency. Many states also regulate investment activities on the basis of quality, distribution and other quantitative criteria. States have also enacted legislation regulating insurance holding company systems, including acquisitions, the payment of dividends, the terms of affiliate transactions, and other related matters.

Applicable state insurance laws, rather than federal bankruptcy laws, apply to the liquidation or reorganization of insurance companies.

Insurance Regulation Concerning Change or Acquisition of Control

The insurance regulatory codes in our operating subsidiaries respective domiciliary states each contain provisions (subject to certain variations) to the effect that the acquisition of control of a domestic insurer or of any person that directly or indirectly controls a domestic insurer cannot be consummated without the prior approval of the domiciliary insurance regulator. In general, a presumption of control arises from the direct or indirect ownership, control or possession with the power to vote or possession of proxies with respect to 10% (5% in Alabama) or more of the voting securities of a domestic insurer or of a person that controls a domestic insurer. A person seeking to acquire control, directly or indirectly, of a domestic insurance company or of any person controlling a domestic insurance company must generally file an application for approval of the proposed change of control with the relevant insurance regulatory authority.

In addition, certain state insurance laws contain provisions that require pre-acquisition notification to state agencies of a change in control of a non-domestic insurance company admitted in that state. While such pre-acquisition notification statutes do not authorize the state agency to disapprove the change of control, such statutes do authorize certain remedies, including the issuance of a cease and desist order with respect to the non-domestic admitted insurers doing business in the state if certain conditions exist, such as undue market concentration.

Statutory Accounting and Reporting

Insurance companies are required to file detailed quarterly and annual reports with the state insurance regulators in each of the states in which they do business, and their business and accounts are subject to examination by such regulators at any time. The financial information in these reports is prepared in accordance with Statutory Accounting Principles (SAP). Insurance regulators periodically examine each insurer s financial condition, adherence to SAP, and compliance with insurance department rules and regulations.

Regulation of Dividends and Other Payments from Our Operating Subsidiaries

Our operating subsidiaries are subject to various state statutory and regulatory restrictions which limit the amount of dividends or distributions an insurance company may pay to its shareholders without prior regulatory approval. Generally, dividends may be paid only out of earned surplus. In every case, surplus subsequent to the payment of any dividends must be reasonable in relation to an insurance company s outstanding liabilities and must be adequate to meet its financial needs.

State insurance holding company acts generally require domestic insurers to obtain prior approval of extraordinary dividends. Under the insurance holding company acts governing our principal operating subsidiaries except NCRIC and PIC Wisconsin, a dividend is considered to be extraordinary if the combined dividends and distributions to the parent holding company in any 12 month period are more than the greater of either the insurer s net income for the prior fiscal year or 10% of its surplus at the end of the prior fiscal year.

The regulations governing District of Columbia insurers, which have jurisdiction over NCRIC, deems a dividend to be extraordinary if the combined dividends and distributions made in any 12 month period exceeds the lesser of:

- net income less capital gains; or
- 10% surplus at the prior calendar year end.

The regulations governing Wisconsin insurers deems a dividend to be extraordinary if the amount exceeds the lesser of:

- 10% of a company s capital and surplus as of December 31 of the preceding year; or
- the greater of:
  - Statutory net income for the preceding calendar year, minus realized capital gains for that calendar year; or
  - The aggregate of statutory net income for the three previous calendar years minus realized capital gains for those calendar years, minus dividends paid or credited and distributions made within the first two of the preceding three calendar years.

If insurance regulators determine that payment of a dividend or any other payments to an affiliate (such as payments under a tax-sharing agreement or payments for employee or other services) would, because of the financial condition of the paying insurance company or otherwise, be a detriment to such insurance company s policyholders, the regulators may prohibit such payments that would otherwise be permitted.

Risk-Based Capital

In order to enhance the regulation of insurer solvency, the National Association of Insurance Commissioners (NAIC) specifies risk-based capital (RBC) requirements for property and casualty insurance companies. At December 31, 2007, all of ProAssurance s insurance subsidiaries exceeded the minimum RBC levels.

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Investment Regulation

Our operating subsidiaries are subject to state laws and regulations that require diversification of investment portfolios and that limit the amount of investments in certain investment categories. Failure to comply with these laws and regulations may cause non-conforming investments to be treated as non-admitted assets for purposes of measuring statutory surplus and, in some instances, would require divestiture. We believe that our operating subsidiaries are in compliance with state investment regulations.

Guaranty Funds

Admitted insurance companies are required to be members of guaranty associations which administer state Guaranty Funds. These associations levy assessments (up to prescribed limits) on all member insurers in a particular state on the basis of the proportionate share of the premiums written by member insurers in the covered lines of business in that state. Maximum assessments permitted by law in any one year generally vary between 1% and 2% of annual premiums written by a member in that state. Some states permit member insurers to recover assessments paid through surcharges on policyholders or through full or partial premium tax offsets, while other states permit recovery of assessments through the rate filing process.

Shared Markets

State insurance regulations may force us to participate in mandatory property and casualty shared market mechanisms or pooling arrangements that provide certain insurance coverage to individuals or other entities that are otherwise unable to purchase such coverage in the commercial insurance marketplace. Our operating subsidiaries participation in such shared markets or pooling mechanisms is not material to our business at this time.

Changes in Legislation and Regulation

In recent years, the insurance industry has been subject to increased scrutiny by regulators and legislators. The NAIC and a number of state legislatures have considered or adopted legislative proposals that alter and, in many cases, increase the authority of state agencies to regulate insurance companies and insurance holding company systems.

Tort reforms generally restrict the ability of a plaintiff to recover damages by, among other limitations, eliminating certain claims that may be heard in a court, limiting the amount or types of damages, changing statutes of limitation or the period of time to make a claim, and limiting venue or court selection. A number of states in which we do business have enacted, or are considering, tort reform legislation. Because we cannot predict with any certainty how appellate courts will rule on these laws we do not take them into account in our rate-making assumptions, except in Florida where such credit is required by law.

While the effects of tort reform would appear to be beneficial to our business generally, there can be no assurance that such reforms will be effective or ultimately upheld by the courts in the various states. Further, if tort reforms are effective, the business of providing professional liability insurance may become more attractive, thereby causing an increase in competition.

In addition, the enactment of tort reforms could be accompanied by legislation or regulatory actions that may be detrimental to our business because of expected benefits which may or may not be realized. These expectations could result in regulatory or legislative action limiting the ability of professional liability insurers to raise or maintain rates at adequate levels. Coverage mandates or other expanded insurance requirements could also be imposed. States may also consider state sponsored malpractice insurance entities that could remove some physicians from the private insurance market.

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We continue to monitor developments on a state-by-state basis, and make business decisions accordingly. Several of the states in which we operate, notably Georgia, Florida, Illinois, Missouri, Ohio, Texas, and West Virginia, have passed tort reform, but these laws have yet to materially affect our business. In many of these states there are active challenges to tort reform and historically, many tort reform laws have been invalidated in the appeals process.

In 2007 a Circuit Court in Illinois struck down that state s tort reforms. We anticipate that a final ruling on the constitutionality of the tort reform package will be made by Illinois Supreme Court sometime in the next 18 months.

A Circuit Court in Oklahoma struck down that state s tort reforms in January 2008. That ruling will be appealed and we expect a ruling from that state s Supreme Court within 18 months.

Wisconsin s caps on non-economic damages were ruled unconstitutional in 2005, and in 2006 the legislature enacted a new law that re-established caps on non-economic damages at $750,000.

We believe there will be continuing court challenges in all states in the coming years.

Tort reform proposals are considered from time-to-time at the Federal level. This legislation has had the backing of the Bush administration and passed the House of Representatives in 2007, as in prior legislative sessions, but has never been approved in the Senate. We do not believe there will be Federal tort reform in the foreseeable future. As in the states, passage of a Federal tort reform package would likely be subject to judicial challenge and we cannot be certain that it would be upheld by the courts.

Healthcare reform could alter the healthcare delivery system or reimbursement plans. This could have a material adverse effect on our business if it results in changes in how health care providers insure their medical malpractice risks. A broad range of healthcare reform measures has been suggested, and public discussion of such measures will likely continue in the future, especially during the 2008 presidential campaign. Proposals have included, among others, spending limits, price controls, limiting increases in insurance premiums and/or health savings accounts, limiting the liability of doctors and hospitals for tort claims, imposing liability on institutions rather than physicians, and restructuring the healthcare insurance system. We cannot predict which, when, or if any reform proposals will be adopted or what effect they may have on our business.

In addition to regulatory and legislative efforts, there have been significant market driven changes in the healthcare environment that have negatively affected or threatened to affect the practices and economic independence of our insureds. Medical professionals have found it more difficult to conduct a traditional fee-for-service practice and many have been driven to join or contractually affiliate with larger organizations.

These changes may result in the elimination of, or a significant decrease in, the role of the physician in the medical malpractice insurance purchasing decision. They could also result in greater emphasis on the role of professional managers, who may seek to purchase insurance on a price competitive basis, and who may favor insurance companies that are larger and more highly rated than we are. In addition, such change and consolidation could reduce our medical malpractice premiums as groups of insurance purchasers generally retain more risk or self insure.

In addition there have been prior attempts to involve the federal government in the regulation of the insurance industry at some level. While we do not have any reason to believe this will occur in the near future, we cannot rule out that possibility.

Although the federal government does not regulate the business of insurance directly, federal initiatives, including changes in patient protection legislation and the various health care reforms currently under discussion may affect our business.

Employees

At December 31, 2007, we had 587 employees, none of whom are represented by a labor union. We consider our employee relations to be good.

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ITEM 1A. RISK FACTORS.

There are a number of factors, many beyond our control, which may cause results to differ significantly from our expectations. Some of these factors are described below, while others having to do with operational, liquidity, interest rate and other variables, are described elsewhere in this report. Any factor described in this report could by itself, or together with one or more factors, have a negative effect on our business, results of operations and/or financial condition. There may be factors not described in this report that could also cause results to differ from our expectations.

Our operating results may be affected if actual insured losses differ from our loss reserves.

Due to the size of our reserve for loss and loss adjustment expenses, even a small percentage adjustment to the assumptions we make in establishing our reserve can have a material effect on our results of operations for the period in which the change is made. Significant periods of time often elapse between the occurrence of an insured loss, the reporting of the loss by the insured and payment of that loss. To recognize liabilities for unpaid losses, we establish reserves as balance sheet liabilities representing estimates of amounts needed to pay reported and unreported losses and the related loss adjustment expense. The process of estimating loss reserves is a difficult and complex exercise involving many variables and subjective judgments. As part of the reserving process, we review historical data and consider the impact of various factors such as:

- trends in claim frequency and severity;
- changes in operations;
- emerging economic and social trends;
- inflation; and
- changes in the regulatory and litigation environments.

This process assumes that past experience, adjusted for the effects of current developments and anticipated trends, is an appropriate, but not necessarily accurate, basis for predicting future events. There is no precise method for evaluating the impact of any specific factor on the adequacy of reserves, and actual results are likely to differ from original estimates.

Our loss reserves also may be affected by court decisions that expand liability on our policies after they have been issued and priced. In addition, a significant jury award, or series of awards, against one or more of our insureds could require us to pay large sums of money in excess of our reserved amounts. Due to uncertainties inherent in the jury system, the risk of incurring a loss that could have a material adverse affect on reserves increases as the number of cases being litigated to a jury verdict increases.

To the extent loss reserves prove to be inadequate in the future, we would need to increase our loss reserves and incur a charge to earnings in the period the reserves are increased, which could have a material adverse impact on our financial condition and results of operation and the price of our common stock.

If we are unable to maintain a favorable financial strength rating, it may be more difficult for us to write new business or renew our existing business.

Independent rating agencies assess and rate the claims-paying ability of insurers based upon criteria established by the agencies. Periodically the rating agencies evaluate us to confirm that we continue to meet the criteria of previously assigned ratings. The financial strength ratings assigned by rating agencies to insurance companies represent independent opinions of financial strength and ability to meet policyholder obligations and are not directed toward the protection of investors. Ratings by rating agencies are not ratings of securities or recommendations to buy, hold or sell any security.

Our principal operating subsidiaries hold favorable financial strength ratings with A.M. Best and Fitch. Financial strength ratings are used by agents and customers as an important means of assessing the financial strength and quality of insurers. If our financial position deteriorates, we may not maintain

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our favorable financial strength ratings from the rating agencies. A downgrade or involuntary withdrawal of any such rating could limit or prevent us from writing desirable business.

The following table presents the ratings of our group and our core subsidiaries as of February 28, 2008:

Company / Rating

Rating Agency	ProAssurance Group	Medical Assurance	NCRIC	PIC Wisconsin	ProNational	Red Mountain Casualty	Woodbrook Casualty
Fitch (www.fitchratings.com)	A (Strong)	A (Strong)	A (Strong)	A (Strong)	A (Strong)	A (Strong)	A (Strong)
A. M. Best (www.ambest.com)	A- (Excellent)	A- (Excellent)	B++ (Good)	A- (Excellent)	A- (Excellent)	A- (Excellent)	B (Fair)

The rating process is dynamic and ratings can change. If you are seeking updated information about our ratings, please visit the rating agency websites listed in the table.

We operate in a highly competitive environment.

The property and casualty insurance business is highly competitive. We compete with large national property and casualty insurance companies, locally-based specialty companies, self-insured entities and alternative risk transfer mechanisms (such as captive insurers and risk retention groups) whose activities are directed to limited markets in which they have extensive knowledge. Competitors include companies that have substantially greater financial resources than we do, as well as mutual companies and similar companies not owned by shareholders whose return on equity objectives may be lower than ours.

Competition in the property and casualty insurance business is based on many factors, including premiums charged and other terms and conditions of coverage, services provided, financial ratings assigned by independent rating agencies, claims services, reputation, financial strength and the experience of the insurance company in the line of insurance to be written. Increased competition could adversely affect our ability to attract and retain business at current premium levels and reduce the profits that would otherwise arise from operations.

Our revenues may fluctuate with insurance market conditions.

We derive a significant portion of our insurance premium revenue from medical malpractice risks. Our policy is to charge adequate premiums on risks that meet our underwriting standards. We have lowered our rates where warranted by loss cost improvements, however, some competitors may, or are currently offering, rates that are lower than we consider to be justified. Increased competition in our markets makes it difficult for us to develop new business and may reduce our retention of current business, although our retention has not eroded significantly in the past year. Our competitors may become even less disciplined in their pricing, or more permissive in their terms. We cannot predict whether, when, or how market conditions will change, or the manner in which, or the extent to which, any such changes may have an adverse effect on the results of our operations.

Our investment results will fluctuate as interest rates change.

Our investment portfolio is primarily comprised of interest-earning assets. Thus, prevailing economic conditions, particularly changes in market interest rates, may significantly affect our operating results. Changes in market interest rate levels generally affect our net income to the extent that reinvestment yields are different than the yields on maturing securities. Changes in interest rates also can affect the value of our interest-earning assets, which are principally comprised of fixed and adjustable-rate investment securities. Generally, the values of fixed-rate investment securities fluctuate inversely with changes in interest rates. Interest rate fluctuations could adversely affect our stockholders equity, income and/or cash flows. Our total investments at December 31, 2007 were $3.6 billion, of which $3.2 billion

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was invested in fixed maturities. Unrealized pre-tax net investment gains on investments in available-for- sale fixed maturities were approximately $18.4 million at December 31, 2007.

At December 31, 2007, we held equity investments having a fair value of $7.6 million in an available-for-sale portfolio and held additional equity securities having a fair value of $14.2 million in a trading portfolio. The fair value of these securities fluctuates depending upon company specific and general market conditions.

Any decline in the fair value of available-for-sale securities that we determine to be other-than-temporary will reduce our current period net income. Any changes in the fair values of trading securities, whether unrealized/realized gains or losses, will be included in current period net income.

Our investments are subject to prepayment and credit risk.

Our portfolio holds mortgage backed securities which are subject to prepayment risk. A prepayment is the unscheduled return of principal. As rates decline, and the opportunity for mortgage refinancing increases, the length of time we hold our mortgage backed securities may decrease due to prepayments. Prepayments may cause us to reinvest cash flows at lower yields than currently recognized. Conversely, as rates increase, and mortgage refinancing opportunities lessen, the length of time we hold our mortgage backed securities may increase, causing us to not reinvest cash flows at then higher available yields.

Our portfolio holds asset backed securities which consist of securitizations of underlying loans collateralized by homes, autos, credit card receivables, commercial properties, hotels, and multi-family housing. In addition to interest rate fluctuations, asset backed security values are subject to the existence of US Government or Government-Sponsored Enterprise guarantees, the value and cash flows of the underlying collateral, and the security s seniority in the securitization s capital structure. Approximately 29% of our fixed maturities are asset backed securities, all of which are investment grade, (97% AAA, 2% AA, 1% A) as determined by Nationally Recognized Statistical Rating Organizations (NRSROs) (Moody s, Standard & Poor s and Fitch). Ratings published by the NRSROs are one of the tools used to evaluate the credit worthiness of our securities. The ratings are subject to error by the agencies, therefore, we may be subject to additional credit exposure should the rating be misstated.

We have direct exposure to asset backed securitizations that we classify as sub-prime. (See Item 7 for details). We have no exposure to sub-prime loans through collateralized debt obligations (CDOs).

Changes in healthcare could have a material affect on our operations.

Proposals have included, among others, spending limits, price controls, limiting increases in insurance premiums and/or health savings accounts, limiting the liability of doctors and hospitals for tort claims, imposing liability on institutions rather than physicians, and restructuring the healthcare insurance system. We cannot predict which, when, or if any reform proposals will be adopted or what effect they may have on our business.

In addition to regulatory and legislative efforts, there have been significant market driven changes in the healthcare environment that have negatively affected or threatened to affect the practices and economic independence of our insureds. Medical professionals have found it more difficult to conduct a traditional fee-for-service practice and many have been driven to join or contractually affiliate with larger organizations.

These changes may result in the elimination of, or a significant decrease in, the role of the physician in the medical malpractice insurance purchasing decision. They could also result in greater emphasis on the role of professional managers, who may seek to purchase insurance on a price competitive basis, and who may favor insurance companies that are larger and more highly rated than we are. In addition, such change and consolidation could reduce our medical malpractice premiums as groups of insurance purchasers generally retain more risk or self insure.

We are a holding company and are dependent on dividends and other payments from our operating subsidiaries, which are subject to dividend restrictions.

We are a holding company whose principal source of funds is cash dividends and other permitted payments from operating subsidiaries. If our subsidiaries are unable to make payments to us, or are able

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to pay only limited amounts, we may be unable to make payments on our indebtedness. The payment of dividends by these operating subsidiaries is subject to restrictions set forth in the insurance laws and regulations of their respective states of domicile, as discussed under Item 1, Insurance Regulatory Matters on page 17.

Regulatory requirements could have a material effect on our operations.

Our insurance businesses are subject to extensive regulation by state insurance authorities in each state in which they operate. Regulation is intended for the benefit of policyholders rather than shareholders. In addition to the amount of dividends and other payments that can be made to a holding company by insurance subsidiaries, these regulatory authorities have broad administrative and supervisory power relating to:

- licensing requirements;
- trade practices;
- capital and surplus requirements;
- investment practices; and
- rates charged to insurance customers.

These regulations may impede or impose burdensome conditions on rate increases or other actions that we may want to take to enhance our operating results. In addition, we may incur significant costs in the course of complying with regulatory requirements. Most states also regulate insurance holding companies like us in a variety of matters such as acquisitions, changes of control and the terms of affiliated transactions.

Future legislative or regulatory changes may also adversely affect our business operations.

Our claims settlement practices could result in a bad faith claim against us.

We could be sued for allegedly acting in bad faith during our handling of a claim. The damages in actions for bad faith may include amounts owed by the insured in excess of the policy limits as well as consequential and punitive damages. Awards above policy limits are possible whenever a case is taken to trial, and they have been more common in recent years. Historically, we have been successful in resolving actions alleging bad faith on terms that have no material adverse effect on our financial condition and results of operations. These actions have the potential to have a material adverse effect on our financial condition and results of operations.

The unpredictability of court decisions could have a material affect on our operations.

The financial position of our insurance subsidiaries may also be affected by court decisions that expand insurance coverage beyond the intention of the insurer at the time it originally issued an insurance policy. In addition, a significant jury award, or series of awards, against one or more of our insureds could require us to pay large sums of money in excess of our reserve amounts.

The passage of tort reform or other legislation, and the subsequent review of such laws by the courts could have a material impact on our operations.

Tort reforms generally restrict the ability of a plaintiff to recover damages by, among other limitations, eliminating certain claims that may be heard in a court, limiting the amount or types of damages, changing statutes of limitation or the period of time to make a claim, and limiting venue or court selection. A number of states in which we do business have enacted, or are considering, tort reform legislation. Because we cannot predict with any certainty how appellate courts will rule on these laws we do not take them into account in our rate-making assumptions, except in Florida where such credit is required by law.

While the effects of tort reform would appear to be beneficial to our business generally, there can be no assurance that such reforms will be effective or ultimately upheld by the courts in the various states. Further, if tort reforms are effective, the business of providing professional liability insurance may become more attractive, thereby causing an increase in competition.

In addition, the enactment of tort reforms could be accompanied by legislation or regulatory actions that may be detrimental to our business because of expected benefits which may or may not be realized. These expectations could result in regulatory or legislative action limiting the ability of professional liability insurers to raise or maintain rates at adequate levels. Coverage mandates or other expanded insurance requirements could also be imposed. States may also consider state sponsored malpractice insurance entities that could remove some physicians from the private insurance market.

We continue to monitor developments on a state-by-state basis, and make business decisions accordingly.

Our business could be adversely affected by the loss of independent agents.

We depend in part on the services of independent agents in the marketing of our insurance products. We face competition from other insurance companies for the services and allegiance of independent agents. These agents may choose to direct business to competing insurance companies.

If market conditions cause reinsurance to be more costly or unavailable, we may be required to bear increased risks or reduce the level of our underwriting commitments.

As part of our overall risk and capacity management strategy, we purchase reinsurance for significant amounts of risk underwritten by our insurance company subsidiaries. Market conditions beyond our control determine the availability and cost of the reinsurance, which may affect the level of our business and profitability. We may be unable to maintain current reinsurance coverage or to obtain other reinsurance coverage in adequate amounts and at favorable rates. If we are unable to renew our expiring coverage or to obtain new reinsurance coverage, either our net exposure to risk would increase or, if we are unwilling to bear an increase in net risk exposures, we would have to reduce the amount of our underwritten risk.

We cannot guarantee that our reinsurers will pay in a timely fashion, if at all, and, as a result, we could experience losses.

We transfer some of our risks to reinsurance companies in exchange for part of the premium we receive in connection with the risk. Although reinsurance makes the reinsurer liable to us to the extent the risk is transferred, it does not relieve us of our liability to our policyholders. If reinsurers fail to pay us or fail to pay on a timely basis, our financial results would be adversely affected. At December 31, 2007 our reinsurance recoverable on unpaid losses is $ 327 million and our receivable from reinsurers on paid losses, which is classified as a part of Other Assets, is $40 million.

The guaranty fund assessments that we are required to pay to state guaranty associations may increase and results of operations and financial condition could suffer as a result.

Each state in which we operate has separate insurance guaranty fund laws requiring admitted property and casualty insurance companies doing business within their respective jurisdictions to be members of their guaranty associations. These associations are organized to pay covered claims (as defined and limited by the various guaranty association statutes) under insurance policies issued by insolvent insurance companies. Most guaranty association laws enable the associations to make assessments against member insurers to obtain funds to pay covered claims after a member insurer becomes insolvent. These associations levy assessments (up to prescribed limits) on all member insurers in a particular state on the basis of the proportionate share of the premiums written by member insurers in the covered lines of business in that state. Maximum assessments permitted by law in any one year generally vary between 1% and 2% of annual premiums written by a member in that state, although one notable exception occurred in Florida in 2006, when the state assessed all property casualty insurers a total of 4% of their non-property premiums to offset bankruptcies caused by hurricane claims. Some states permit member insurers to recover assessments paid through surcharges on policyholders or through full or partial premium tax offsets, while other states permit recovery of assessments through the rate filing process.

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Net property and casualty guaranty fund assessments incurred by us totaled $553,000 and $2.6 million for 2007 and 2006, respectively. Our policy is to accrue for the insurance insolvencies when notified of assessments. We are not able to reasonably estimate the liabilities of an insolvent insurer or develop a meaningful range of the insolvent insurer s liabilities because of inadequate financial data with respect to the estate of the insolvent company as supplied by the guaranty funds.

Our business could be adversely affected by the loss of one or more key employees.

We are heavily dependent upon our senior management and the loss of services of our senior executives could adversely affect our business. Our success has been, and will continue to be, dependent on our ability to retain the services of existing key employees and to attract and retain additional qualified personnel in the future. The loss of the services of key employees or senior managers, or the inability to identify, hire and retain other highly qualified personnel in the future, could adversely affect the quality and profitability of our business operations.

Our board of directors regularly reviews succession planning relating to our Chief Executive Officer as well as other senior officers. Mr. Starnes, our Chief Executive Officer, has indicated to the board that he has no immediate plans for retirement.

Provisions in our charter documents, Delaware law and state insurance law may impede attempts to replace or remove management or impede a takeover, which could adversely affect the value of our common stock.

Our certificate of incorporation, bylaws and Delaware law contain provisions that may have the effect of inhibiting a non-negotiated merger or other business combination. Additionally, the board of directors may issue preferred stock, which could be used as an anti-takeover device, without a further vote of our stockholders. We currently have no preferred stock outstanding, and no present intention to issue any shares of preferred stock. However, because the rights and preferences of any series of preferred stock may be set by the board of directors in its sole discretion, the rights and preferences of any such preferred stock may be superior to those of our common stock and thus may adversely affect the rights of the holders of common stock.

The voting structure of common stock and other provisions of our certificate of incorporation are intended to encourage a person interested in acquiring us to negotiate with, and to obtain the approval of, the board of directors in connection with a transaction. However, certain of these provisions may discourage our future acquisition, including an acquisition in which stockholders might otherwise receive a premium for their shares. As a result, stockholders who might desire to participate in such a transaction may not have the opportunity to do so.

In addition, state insurance laws provide that no person or entity may directly or indirectly acquire control of an insurance company unless that person or entity has received approval from the insurance regulator. An acquisition of control would be presumed if any person or entity acquires 10% (5% in Alabama) or more of our outstanding common stock, unless the applicable insurance regulator determines otherwise.

These provisions apply even if the offer may be considered beneficial by stockholders.

If a change in management or a change of control is delayed or prevented, the market price of our common stock could decline.

ITEM 1B. UNRESOLVED STAFF COMMENTS.

None.

ITEM 2. PROPERTIES.

We own three office buildings, all of which are unencumbered. In Birmingham, Alabama we own a 156,000 square foot building in which we currently occupy approximately 82,000 square feet with the remaining office space leased to unaffiliated persons or available to be leased. In Okemos, Michigan we own, and fully occupy a 53,000 square foot building and in Madison, Wisconsin we own and fully occupy a 38,000 square foot building.

ITEM 3. LEGAL PROCEEDINGS.

Our insurance subsidiaries are involved in various legal actions, a substantial number of which arise from claims made under insurance policies. While the outcome of all legal actions is not presently determinable, management and its legal counsel are of the opinion that these actions will not have a material adverse effect on our financial position or results of operations. See Note 9 to the Consolidated Financial Statements included herein.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

Not applicable.

EXECUTIVE OFFICERS OF PROASSURANCE CORPORATION

The executive officers of ProAssurance Corporation (ProAssurance) serve at the pleasure of the Board of Directors. We have a knowledgeable and experienced management team with established track records in building and managing successful insurance operations. In total, our senior management team has average experience in the insurance industry of 19 years. Following is a brief description of each executive officer of ProAssurance, including their principal occupation and employment during the last five years.

W. Stancil Starnes	Mr. Starnes was appointed as Chief Executive Officer of ProAssurance effective July 2, 2007. Mr. Starnes served as President, Corporate Planning and Administration, of Brasfield & Gorrie, LLC, a large commercial construction firm from October, 2006 to May, 2007. Prior to October 2006, Mr. Starnes served as the Senior and Managing Partner of Starnes & Atchison, LLP, Attorneys at Law, and was extensively involved with ProAssurance and its predecessor companies in the defense of its medical liability claims. (Age 59)
Victor T. Adamo	Mr. Adamo has been the President of ProAssurance since its inception. Mr. Adamo first joined the predecessor of Professionals Group (PICOM Insurance Company) in 1985 as general counsel and was elected CEO in 1987. From 1975 to 1985, Mr. Adamo was in private legal practice and represented the company in corporate legal matters. Mr. Adamo is a Chartered Property Casualty Underwriter. (Age 59)
Howard H. Friedman	Mr. Friedman is a Co-President of our Professional Liability Group, a position he has held since October 2005, and is also our Chief Underwriting Officer. Mr. Friedman has served in a number of positions for ProAssurance, most recently as Chief Financial Officer and Corporate Secretary. He was also the Senior Vice President, Corporate Development of Medical Assurance. Mr. Friedman is an Associate of the Casualty Actuarial Society. (Age 49)
Jeffrey P. Lisenby	Mr. Lisenby was appointed as a Senior Vice President in December 2007 and has served as our Corporate Secretary since January 1, 2006. Mr. Lisenby joined Medical Assurance, the predecessor to ProAssurance, in 2001 and has served as Vice President and head of the corporate Legal Department since the creation of ProAssurance. Prior to joining Medical Assurance, he was in private practice in Birmingham, Alabama and served as a judicial clerk for the United States District Court for the Northern District of Alabama. Mr. Lisenby is a member of the Alabama State Bar and the United States Supreme Court Bar and is a Chartered Property Casualty Underwriter. (Age 39)
James J. Morello	Mr. Morello was appointed as a Senior Vice President, Chief Accounting Officer and Treasurer in June 2001. Mr. Morello has been Senior Vice President and Treasurer for Medical Assurance since its formation in 1995. Mr. Morello has been employed as Treasurer and the Chief Financial Officer of Medical Assurance Company, Inc. since 1984. Mr. Morello is a Certified Public Accountant. We announced on December 5, 2007 that Mr. Morello had informed us of his plans to resign from his executive position on June 30, 2008. (Age 59)

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Frank B. O Neil	Mr. O Neil was appointed as our Senior Vice President of Corporate Communications and Investor Relations in September 2001. Mr. O Neil has been Senior Vice President of Corporate Communications for Medical Assurance since 1997 and employed by Medical Assurance Company and its subsidiaries since 1987. (Age 54)
Edward L. Rand, Jr.	Mr. Rand was appointed Chief Financial Officer on April 1, 2005, having joined ProAssurance as our Senior Vice President of Finance in November 2004. Prior to joining ProAssurance Mr. Rand was the Chief Accounting Officer and Head of Corporate Finance for PartnerRe Ltd. Prior to that time Mr. Rand served as the Chief Financial Officer of Atlantic American Corporation. Mr. Rand is a Certified Public Accountant. (Age 41)
Darryl K. Thomas	Mr. Thomas is a Co-President of our Professional Liability Group, a position he has held since October 2005, and serves as our Chief Claims Officer. Prior to the formation of ProAssurance, Mr. Thomas was Senior Vice President of Claims for ProNational Insurance Company, one of ProAssurance s predecessor companies. Prior to joining ProNational Insurance Company in 1995, Mr. Thomas was Executive Vice President of a national third-party administrator of professional liability claims. Mr. Thomas was also Vice President and Litigation Counsel for the Kentucky Hospital Association. (Age 50)

We have adopted a code of ethics that applies to our directors and executive officers, including our principal executive officers, principal financial officer, and principal accounting officer. We also have share ownership guidelines in place to ensure that management maintains a significant portion of their personal investments in the stock of ProAssurance. See Item 1 for information regarding the availability of the Code of Ethics and the Share ownership Guidelines.

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PART II

ITEM 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

At February 15, 2008, ProAssurance Corporation (PRA) had 3,903 stockholders of record and 32,203,785 shares of common stock outstanding. ProAssurance s common stock currently trades on The New York Stock Exchange (NYSE) under the symbol PRA .

	2007		2006	
Quarter	**High**	**Low**	High	Low
First	**$52.83**	**$48.67**	$53.08	$48.95
Second	**57.30**	**51.00**	51.22	45.96
Third	**56.17**	**48.69**	51.69	46.18
Fourth	**57.19**	**50.46**	52.11	47.84

ProAssurance has not paid any cash dividends on its common stock and does not currently have a policy to pay regular dividends.

ProAssurance s insurance subsidiaries are subject to restrictions on the payment of dividends to the parent. Information regarding restrictions on the ability of the insurance subsidiaries to pay dividends is incorporated by reference from the paragraphs under the caption Insurance Regulatory Matters Regulation of Dividends and Other Payments from Our Operating Subsidiaries in Item 1 on page 17 of this 10-K.

Securities Authorized for Issuance Under Equity Compensation Plans

The following table provides information regarding ProAssurance s equity compensation plans as of December 31, 2007.

Plan Category	**Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)**	**Weighted-average exercise price of outstanding options, warrants and rights (b)**	**Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)**
Equity compensation plans approved by security holders	973,155	$ 40.55	1,452,304
Equity compensation plans not approved by security holders			

Issuer Purchases of Equity Securities

The following table provides information regarding ProAssurance s shares purchased as part of publicly announced plans or programs.

Period	**Total Number of Shares Purchased**	**Average Price Paid per Share**	**Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs**	**Approximate Dollar Value of Shares that May Yet Be Purchased**

					Under the Plans or Programs[(1)]
October 1-31, 2007		$		$	108,735,790
November 1-30, 2007	121,116	$52.93	121,116	$	102,325,239
December 1-31, 2007	120,900	$53.98	120,900	$	80,335,500
Total	242,016	$53.45	242,016		

(1) Shown net of authorizations used for repurchase of debt.

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ITEM 6. SELECTED FINANCIAL DATA

	Year Ended December 31				
	2007	2006	2005	2004	2003
	(In thousands except per share data)				
Selected Financial Data [1]					
Gross premiums written [2]	**$ 549,074**	$ 578,983	$ 572,960	$ 573,592	$ 543,323
Net premiums written [2]	**506,397**	543,376	521,343	535,028	497,659
Premiums earned [2]	**585,310**	627,166	596,557	555,524	509,260
Premiums ceded [2]	**(51,797)**	(44,099)	(53,316)	(35,627)	(49,389)
Net premiums earned [2]	**533,513**	583,067	543,241	519,897	459,871
Net investment income [2]	**171,308**	147,450	98,293	76,627	64,232
Equity in earnings (loss) of unconsolidated subsidiaries [2]	**1,630**	2,339	900	1,042	300
Net realized investment gains (losses) [2]	**(5,939)**	(1,199)	912	7,572	5,858
Other income [2]	**5,556**	5,941	4,604	2,419	5,580
Total revenues [2]	**706,068**	737,598	647,950	607,557	535,841
Net losses and loss adjustment expenses [2]	**350,997**	443,329	438,201	460,437	439,368
Income (loss) from continuing operations	**168,186**	126,984	80,026	43,043	15,345
Net income	**168,186**	236,425	113,457	72,811	38,703
Income (loss) from continuing operations per share:					
Basic	**$ 5.10**	$ 3.96	$ 2.66	$ 1.48	$ 0.53
Diluted	**$ 4.78**	$ 3.72	$ 2.52	$ 1.44	$ 0.53
Net income per share:					
Basic	**$ 5.10**	$ 7.38	$ 3.77	$ 2.50	$ 1.34
Diluted	**$ 4.78**	$ 6.85	$ 3.54	$ 2.37	$ 1.33
Weighted average shares outstanding:					
Basic	**32,960**	32,044	30,049	29,164	28,956
Diluted	**35,823**	34,925	32,908	31,984	30,389
Balance Sheet Data (as of December 31)					
Total investments [2]	**$3,629,607**	$3,492,098	$2,614,319	$2,145,609	$1,792,323
Total assets from continuing operations	**4,439,836**	4,342,853	3,341,600	2,743,295	2,448,088
Total assets	**4,439,836**	4,342,853	3,909,379	3,239,198	2,879,352
Reserve for losses and loss adjustment expenses [2]	**2,559,707**	2,607,148	2,224,436	1,818,636	1,634,749
Long-term debt [2]	**164,158**	179,177	167,240	151,480	104,789
Total liabilities from continuing operations	**3,184,766**	3,224,306	2,806,820	2,333,405	2,074,560
Total capital	**1,255,070**	1,118,547	765,046	611,019	546,305

Total capital per share of common stock outstanding	**$ 38.69**	$ 33.61	$ 24.59	$ 20.92	$ 18.77
Common stock outstanding at end of year	**32,443**	33,276	31,109	29,204	29,105

(1) Includes acquired entities since date of acquisition, only. PIC Wisconsin was acquired on August 1, 2006. NCRIC Corporation was acquired on August 3, 2005.

(2) Excludes discontinued operations.

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ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the Consolidated Financial Statements and Notes to those statements which accompany this report. Throughout the discussion, references to ProAssurance, we, us and our refers to ProAssurance Corporation and its consolidated subsidiaries. The discussion contains certain forward-looking information that involves risks and uncertainties. As discussed under Forward-Looking Statements, our actual financial condition and operating results could differ significantly from these forward-looking statements.

Critical Accounting Estimates

Our Consolidated Financial Statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). Preparation of these financial statements requires us to make estimates and assumptions that affect the amounts we report on those statements. We evaluate these estimates and assumptions on an on-going basis based on current and historical developments, market conditions, industry trends and other information that we believe to be reasonable under the circumstances. There can be no assurance that actual results will conform to our estimates and assumptions; reported results of operations may be materially affected by changes in these estimates and assumptions.

Management considers the following accounting estimates to be critical because they involve significant judgment by management and the effect of those judgments could result in a material effect on our financial statements.

Reserve for Losses and Loss Adjustment Expenses (reserve for losses or reserve)

The largest component of our liabilities is our reserve for losses and the largest component of expense for our operations is incurred losses. Net losses in any period reflect our estimate of net losses incurred related to the premiums earned in that period as well as any changes to our estimates of the reserve established for net losses of prior periods.

The estimation of medical professional liability losses is inherently difficult. Ultimate loss costs, even for claims with similar characteristics, vary significantly depending upon many factors, including but not limited to, the nature of the injury and the personal situation of the claimant or the claimant s family, the outcome of jury trials, the legislative and judicial climate where the insured event occurred, general economic conditions and the trend of health care costs. Medical professional liability claims are typically resolved over an extended period of time, often five years or more. The combination of changing conditions and the extended time required for claim resolution results in a loss cost estimation process that requires actuarial skill and the application of judgment, and such estimates require periodic revision.

In establishing our reserve for losses management considers a variety of factors including historical paid and incurred loss development trends, the effect of inflation on medical care, general economic trends and the legal environment. We perform an in-depth review of our reserve for losses on a semi-annual basis. Additionally, during each reporting period we update and review the data underlying the estimation of our reserve for losses and make adjustments that we believe best reflect emerging data. Any adjustments are reflected in the then-current operations. Due to the size of our reserve for losses, even a small percentage adjustment to these estimates could have a material effect on our results of operations for the period in which the adjustment is made.

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External actuaries review our reserve for losses at least semi-annually. We consider the views of the external actuaries as well as other factors, such as known, anticipated or estimated changes in frequency and severity of claims, loss retention levels and premium rates in establishing our reserves.

As a result of the variety of factors that must be considered by management there is a significant risk that actual incurred losses will develop differently from these estimates. In establishing our initial reserves for a given accident year we rely significantly on the loss assumptions embedded within our pricing. Because of the historically volatile nature of medical liability losses, we establish the initial loss estimates at a level which is approximately 10% above the pricing assumptions. This difference recognizes the volatility of the medical malpractice loss environment and the risk in determining pricing parameters. As each accident year matures we analyze reserves in a variety of ways. We use a variety of actuarial methodologies in performing these analyses. Among the methods that we have used are:

Bornhuetter-Ferguson method

Paid development method

Reported development method

Average paid value method

Average reported value method

Backward recursive method

Generally, methods such as the Bornheutter-Ferguson method are used on more recent accident years where we have less data on which to base our analysis. As time progresses and we have an increased amount of data for a given accident year we begin to give more confidence to the development and average methods as these methods typically rely more heavily on our own historical data. Each of these methods treats our assumptions differently, and thus provides a different perspective for our reserve review.

The various actuarial methods discussed above are applied in a consistent manner from period to period. In addition, we perform statistical reviews of claims data such as claim counts, average settlement costs and severity trends.

In performing these analyses we partition our business by coverage type, geography, layer of coverage and accident year. This procedure is intended to balance the use of the most representative data for each partition, capturing its unique patterns of development and trends. For each partition, the results of the various methods, along with the supplementary statistical data regarding such factors as the current economic environment, are used to develop a point estimate based upon management s judgment and past experience. The process of selecting the point estimate from the set of possible outcomes produced by the various actuarial methods is based upon the judgment of management and is not driven by formulaic determination. For each partition of our business we select a point estimate with due regard for the age, characteristics and volatility of the partition of the business, the volume of data available for review and past experience with respect to the accuracy of estimates. This series of selected point estimates is then combined to produce an overall point estimate for ultimate losses.

We have modeled implied reserve ranges around our single point reserve estimates for our professional liability business assuming different confidence levels. The ranges have been developed by aggregating the expected volatility of losses across partitions of our business to obtain a consolidated distribution of potential reserve outcomes. The aggregation of this data takes into consideration the correlation among our geographic and specialty mix of business. The result of the correlation approach to aggregation is that the ranges are narrower than the sum of the ranges determined for each partition.

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We have used this modeled statistical distribution to calculate an 80% and 60% confidence interval for the potential outcome of our reserve for losses. The high and low end points of the distributions are as follows:

	Low End Point	Carried Reserve	High End Point
80% Confidence Level	$1.672 billion	$2.233 billion	$2.862 billion
60% Confidence Level	$1.831 billion	$2.233 billion	$2.574 billion

The claims environment in which we and others in our industry operate is inherently uncertain. The development of a statistical distribution models the uncertainty as well as the limited predictive power of past loss data. The distributions represent an estimate of the range of possible outcomes and should not be confused with a range of best estimates. Given the number of factors considered it is neither practical nor meaningful to isolate a particular assumption or parameter of the process and calculate the impact of changing that single item. Any change in our estimate of the reserve is reflected in then-current operations. Due to the size of our reserve for losses, even a small percentage adjustment to these estimates could have a material effect on our results of operations for the period in which the adjustment is made.

Reinsurance

We use insurance and reinsurance (collectively, reinsurance) to provide capacity to write larger limits of liability, to provide protection against losses in excess of policy limits, and to stabilize underwriting results in years in which higher losses occur. The purchase of reinsurance does not relieve us from the ultimate risk on our policies, but it does provide reimbursement for certain losses we pay.

We evaluate each of our ceded reinsurance contracts at inception to determine if there is sufficient risk transfer to allow the contract to be accounted for as reinsurance under current accounting guidance. At December 31, 2007 all ceded contracts are accounted for as risk transferring contracts.

Our receivable from reinsurers on unpaid losses and loss adjustment expenses represents our estimate of the amount of our reserve for losses that will be recoverable under our insurance and reinsurance programs. We base our estimate of funds recoverable upon our expectation of ultimate losses and the portion of those losses that we estimate to be allocable to reinsurers based upon the terms of our reinsurance agreements. As losses are paid, the related amount expected to be collected from reinsurers is recorded as a receivable in Other Assets.

We estimate premiums ceded under reinsurance agreements wherein the premium due to the reinsurer, subject to certain maximums and minimums, is based in part on losses reimbursed or to be reimbursed under the agreement. Our estimates of the amounts due from and to reinsurers are regularly reviewed and updated by management as new data becomes available. Our assessment of the collectibility of the recorded amounts receivable from reinsurers considers the payment history of the reinsurer, publicly available financial and rating agency data, our interpretation of the underlying contracts and policies, and responses by reinsurers. Appropriate reserves are established for balances we believe may not be collected.

Given the uncertainty of the ultimate amounts of our losses, our estimates of losses and related amounts recoverable may vary significantly from the eventual outcome. Any adjustments are reflected in then-current operations. Due to the size of our reinsurance balances, an adjustment to these estimates could have a material effect on our results of operations for the period in which the adjustment is made.

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Investment Valuations

We evaluate our investments on at least a quarterly basis for declines in fair value below cost for the purpose of determining whether these declines represent other-than-temporary declines. Some of the factors we consider in the evaluation of our investments are:

- the extent to which the fair value of an investment is less than its cost basis,
- the length of time for which the fair value of the investment has been less than its cost basis,
- the financial condition and near-term prospects of the issuer underlying the investment, taking into consideration the economic prospects of the issuer s industry and geographical region, to the extent that information is publicly available, and
- our ability and intent to hold the investment for a period of time sufficient to allow for any anticipated recovery in fair value.

Determining whether a decline in the fair value of investments is an other-than-temporary decline may also involve a variety of assumptions and estimates, particularly for investments that are not actively traded in established markets. For example, assessing the value of certain investments requires us to perform an analysis of expected future cash flows or prepayments. Other investments, such as collateralized mortgage or bond obligations, represent selected tranches of structured transactions supported overall by underlying investments in a wide variety of issuers. When we judge a decline in fair value below cost to be other-than-temporary we reduce the cost basis of the investment to fair value and recognize a loss in the current period income statement for the amount of the reduction. In subsequent periods, we base any measurement of gain or loss or decline in value upon the adjusted cost basis of the investment. Our specific accounting policies related to our invested assets are discussed in Notes 1 and 4 to the Consolidated Financial Statements.

Deferred Policy Acquisition Costs

Policy acquisition costs, primarily commissions, premium taxes and underwriting salaries, which are primarily and directly related to the acquisition of new and renewal premiums are capitalized as deferred policy acquisition costs and charged to expense as the related premium revenue is recognized. We evaluate the recoverability of our deferred policy acquisition costs and any amounts estimated to be unrecoverable are charged to expense in the current period.

Goodwill

In accordance with Statement of Financial Accounting Standards No. 142 Goodwill and Other Intangible Assets we make an annual assessment as to whether the value of our goodwill assets is impaired. We completed such assessments in 2007, 2006 and 2005 and concluded that the value of our goodwill assets related to continuing operations was not impaired. As of December 31, 2007 goodwill totaled approximately $72.2 million. We use market-based valuation models to estimate the fair value. These models require the use of numerous assumptions regarding market perceptions of value as related to our consolidated and reporting unit historical and projected operating results and those of other economically similar entities. Changes to these assumptions could significantly lower our estimates of fair value and result in a determination that goodwill has suffered impairment in value. Any determined impairment would be reflected as an expense in the period identified.

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ProAssurance Overview

We are an insurance holding company and our operating results are primarily derived from the operations of our insurance subsidiaries, all of which principally write medical professional liability insurance.

Corporate Strategy

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7,431

Net loss applicable to common stock

$

(28,549

)

$

(29,923

)

PER COMMON SHARE

Net loss applicable to common stock - basic

$

(0.58

)

$

(0.68

)

Net loss applicable to common stock - diluted

$

(0.58

)

$

(0.68

)

Weighted average common shares outstanding - basic

49,110

44,273

Weighted average common shares outstanding - diluted

49,110

44,273

See accompanying notes to consolidated financial statements.

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GOODRICH PETROLEUM CORPORATION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Three Months Ended March 31, 2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$(21,118)	$(22,492)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depletion, depreciation and amortization	20,233	29,238
(Gain) loss on derivatives not designated as hedges	(4,430)	8,501
Net cash received (paid) in settlement of derivative instruments	13,094	(2,731)
Amortization of leasehold costs	2,160	1,647
Share based compensation (non-cash)	1,886	2,350
Exploration cost	177	44
Amortization of finance cost, debt discount and accretion	2,092	2,632
Amortization of transportation obligation	189	210
(Gain) loss on sale of assets	(892)	—
Change in assets and liabilities:		
Accounts receivable, trade and other, net of allowance	3,893	(4,112)
Accrued oil and natural gas revenue	6,309	(2,157)
Inventory	(214)	96
Prepaid expenses and other	475	362
Accounts payable	(15,851)	7,333
Accrued liabilities	(2,286)	(14,366)
Net cash provided by operating activities	5,717	6,555
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(68,354)	(58,154)
Proceeds from sale of assets	777	625
Net cash used in investing activities	(67,577)	(57,529)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from bank borrowings	97,000	15,000
Principal payments of bank borrowings	(166,000)	(5,000)
Proceeds from Second Lien Notes	100,000	—
Proceeds from equity offering	47,986	—
Preferred stock dividends	(7,431)	(7,431)
Debt issuance costs	(3,027)	(5)
Other	(250)	—
Net cash provided by financing activities	68,278	2,564
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	6,418	(48,410)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	8	49,220
CASH AND CASH EQUIVALENTS, END OF PERIOD	$6,426	$810

See accompanying notes to consolidated financial statements.

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GOODRICH PETROLEUM CORPORATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1—Description of Business and Significant Accounting Policies

Goodrich Petroleum Corporation (together with its subsidiary, “we,” “our,” or the “Company”) is an independent oil and natural gas company engaged in the exploration, development and production of oil and natural gas on properties primarily in (i) Southwest Mississippi and Southeast Louisiana, which includes the Tuscaloosa Marine Shale Trend (“TMS”), (ii) South Texas, which includes the Eagle Ford Shale Trend and (iii) Northwest Louisiana and East Texas, which includes the Haynesville Shale Trend.

Liquidity and Capital Resources—We are an exploration and production Company with interests in non-conventional oil shale properties that require large investments of capital to develop. Our immediate capital resources to develop our properties come from cash on hand, operating cash flows and borrowings on our Senior Credit Facility. The current significant decline in crude oil prices and to a lesser extent the continued depressed natural gas prices has negatively impacted our cash flows that enable us to invest in and maintain our properties and service our long term obligations.

We have taken the following steps in the three months ended March 31, 2015 to mitigate the effects of the abnormally low crude oil prices on our operations:

1. We have significantly reduced our capital expenditures planned for 2015 thereby conserving capital.

2. We have extended the maturity of our Senior Credit Facility to February 24, 2017.

3. We have received proceeds from our issuance of $100 million Second Lien Notes.

4. We have received proceeds of $48 million from the sale of 12,000,000 shares of our common stock to the public.

5. We have reduced our staff headcount by 18% from year-end 2014 levels thereby reducing expenses.

Additionally, we have approximately 70% of our remaining projected 2015 oil production favorably hedged.

We have other resource options to enhance liquidity as well, such as selling non-core properties, entering into joint venture in our core areas and/or further reducing our planned capital expenditures.

As a result of the steps we have taken to enhance our liquidity, we anticipate cash from operations, cash on hand and available borrowing capacity will be sufficient to meet our investing, financing, and working capital requirements through the end of 2015, however the effects of an extended period of low commodity prices will require us to take further cost cutting measures.

Principles of Consolidation— The consolidated financial statements of the Company included in this Quarterly Report on Form 10-Q have been prepared, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC") and accordingly, certain information normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States ("US GAAP") has been condensed or omitted. The consolidated financial statements include the financial statements of the Company and its wholly-owned subsidiary. Intercompany balances and transactions have been eliminated in consolidation. The consolidated financial statements reflect all normal recurring adjustments that, in the opinion of management, are necessary for a fair presentation. Certain data in prior periods' financial statements have been adjusted to conform to the presentation of the current period. We have evaluated subsequent events through the date of this filing.

Use of Estimates—Our management has made a number of estimates and assumptions relating to the reporting of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities to prepare these consolidated financial statements in conformity with US GAAP.

Cash and Cash Equivalents—Cash and cash equivalents includes cash on hand, demand deposit accounts and temporary cash investments with maturities of ninety days or less at the date of purchase.

Property and Equipment—As of March 31, 2015, we had interests in oil and natural gas properties totaling $639.3 million, net of accumulated depletion, which we account for under the successful efforts method. Under this method, costs of acquiring unproved and proved oil and natural gas leasehold acreage are capitalized. When proved reserves are found on an unproved property, the associated leasehold cost is transferred to proved properties. Significant unproved leases are reviewed periodically, and a valuation allowance is provided for any estimated decline in value. Costs of all other unproved leases are amortized over the estimated average holding period of the leases. Development costs are capitalized, including the costs of unsuccessful development wells.

GOODRICH PETROLEUM CORPORATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Impairment—We periodically assess our long-lived assets recorded in oil and natural gas properties on the Consolidated Balance Sheets to ensure that they are not carried in excess of fair value, which is computed using level 3 inputs such as discounted cash flow models or valuations, based on estimated future commodity prices and our various operational assumptions. An evaluation is performed on a field-by-field basis at least annually or whenever changes in facts and circumstances indicate that our oil and natural gas properties may be impaired.

Fair Value Measurement—Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of an asset should reflect its highest and best use by market participants, whether in-use or an in-exchange valuation premise. The fair value of a liability should reflect the risk of nonperformance, which includes, among other things, our credit risk.

We use various methods, including the income approach and market approach, to determine the fair values of our financial instruments that are measured at fair value on a recurring basis, which depend on a number of factors, including the availability of observable market data over the contractual term of the underlying instrument. For some of our instruments, the fair value is calculated based on directly observable market data or data available for similar instruments in similar markets. For other instruments, the fair value may be calculated based on these inputs as well as other assumptions related to estimates of future settlements of these instruments. We separate our financial instruments into three levels (levels 1, 2 and 3) based on our assessment of the availability of observable market data and the significance of non-observable data used to determine the fair value of our instruments. Our assessment of an instrument can change over time based on the maturity or liquidity of the instrument, which could result in a change in the classification of the instruments between levels.

Each of these levels and our corresponding instruments classified by level are further described below:

- Level 1 Inputs— unadjusted quoted market prices in active markets for identical assets or liabilities. Included in this level are our senior notes;
- Level 2 Inputs— quotes which are derived principally from or corroborated by observable market data. Included in this level are our bank debt and commodity derivatives whose fair values are based on third-party quotes or available interest rate information and commodity pricing data obtained from third party pricing sources and our creditworthiness or that of our counterparties; and
- Level 3 Inputs— unobservable inputs for the asset or liability, such as discounted cash flow models or valuations, based on our various assumptions and future commodity prices. Included in this level would be acquisitions and impairments of oil and natural gas properties.

As of March 31, 2015 and December 31, 2014, the carrying amounts of our cash and cash equivalents, trade receivables and payables represented fair value because of the short-term nature of these instruments.

The following table summarizes the fair value of our financial instruments and long lived assets that are recorded or disclosed at fair value classified in each level as of March 31, 2015:

Fair Value Measurements as of March 31, 2015

Description	(in thousands) Level 1	Level 2	Level 3	Total
Recurring Fair Value Measurements				
Commodity Derivatives (see Note 6)	$—	$38,213	$—	$38,213
Debt (see Note 3)	(240,893)	(52,000)	(58,943)	(351,836)
Total recurring fair value measurements	$(240,893)	$(13,787)	$(58,943)	$(313,623)

Depreciation—Depreciation and depletion of producing oil and natural gas properties is calculated using the units-of-production method. Proved developed reserves are used to compute unit rates for unamortized tangible and intangible development costs, and proved reserves are used for unamortized leasehold costs. Gains and losses on disposals or retirements that are significant or include an entire depreciable or depletable property unit are included in operating income. Depreciation of furniture, fixtures and equipment, consisting of office furniture, computer hardware and software and leasehold improvements, is computed using the straight-line method over their estimated useful lives, which vary from three to five years.

GOODRICH PETROLEUM CORPORATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Transportation Obligation—We entered into a natural gas gathering agreement with an independent service provider, effective July 27, 2010. The agreement is scheduled to remain in effect for a period of ten years and requires the service provider to construct pipelines and facilities to connect our wells to the service provider's gathering system in our Eagle Ford Shale Trend area of South Texas. In compensation for the services, we agreed to pay the service provider 110% of the total capital cost incurred by the service provider to construct new pipelines and facilities. The service provider bills us for 20% of the accumulated unpaid capital costs annually. The transportation obligation liability was $5.4 million as of each of March 31, 2015 and December 31, 2014.

We accounted for the agreement by recording a long-term asset, included in "Deferred financing cost and other" on the Consolidated Balance Sheets. The asset is being amortized using the units-of-production method and the amortization expense is included in "Transportation and processing" on the Consolidated Statements of Operations. The related current and long-term liabilities are presented on the Consolidated Balance Sheets in "Accrued liabilities" and "Transportation obligation", respectively.

Asset Retirement Obligations—Asset retirement obligations are related to the abandonment and site restoration requirements that result from the exploration and development of our oil and gas properties. We record the fair value of a liability for an asset retirement obligation in the period in which it is incurred and a corresponding increase in the carrying amount of the related long-lived asset. Accretion expense is included in "Depreciation, depletion and amortization" on our Consolidated Statements of Operations. See Note 2.

Revenue Recognition—Oil and natural gas revenues are recognized when production is sold to a purchaser at a fixed or determinable price, when delivery has occurred and title has transferred, and if collectability of the revenue is probable. Revenues from the production of crude oil and natural gas properties in which we have an interest with other producers are recognized using the entitlements method. We record a liability or an asset for natural gas balancing when we have sold more or less than our working interest share of natural gas production, respectively. At March 31, 2015 and December 31, 2014, the net liability for natural gas balancing was immaterial. Differences between actual production and net working interest volumes are routinely adjusted.

Derivative Instruments—We use derivative instruments such as futures, forwards, options, collars and swaps for purposes of hedging our exposure to fluctuations in the price of crude oil and natural gas and to hedge our exposure to changing interest rates. Accounting standards related to derivative instruments and hedging activities require that all derivative instruments subject to the requirements of those standards be measured at fair value and recognized as assets or liabilities in the balance sheet. We offset the fair value of our asset and liability positions with the same counterparty for each commodity type. Changes in fair value are required to be recognized in earnings unless specific hedge accounting criteria are met. All our realized gain or losses on our derivative contracts are the result of cash settlements. We have not designated any of our derivative contracts as hedges; accordingly, changes in fair value are reflected in earnings. See Note 6.

Income or Loss Per Share—Basic income (loss) per common share is computed by dividing net income (loss) applicable to common stockholders for each reporting period by the weighted-average number of common shares outstanding during the period. Diluted income (loss) per common share is computed by dividing net income (loss) applicable to common stockholders for each reporting period by the weighted average number of common shares outstanding during the period, plus the effects of potentially dilutive stock options, stock warrants and restricted stock calculated using the Treasury Stock method and the potential dilutive effect of the conversion of shares associated with our 5.375% Series B Convertible Preferred Stock ("Series B Preferred Stock"), 3.25% Convertible Senior Notes due 2026 (the “2026 Notes”), 5% Convertible Senior Notes due 2029 (the “2029 Notes”) and 5% Convertible Senior Notes due 2032 (the “2032 Notes”). See Note 4.

Commitments and Contingencies—Liabilities for loss contingencies, including environmental remediation costs, arising from claims, assessments, litigation, fines and penalties, and other sources are recorded when it is probable that a liability has been incurred and the amount of the assessment and/or remediation can be reasonably estimated. Recoveries from third parties, when probable of realization, are separately recorded and are not offset against the related environmental liability.

Guarantees—On March 2, 2011, we issued and sold $275 million aggregate principal amount of our 8.875% Senior Notes due 2019 (the “2019 Notes”). Upon issuance of the guarantee related to the 2019 Notes, our subsidiary also became a guarantor on our outstanding 2029 Notes and our 2026 Notes, pursuant to the respective indentures governing the 2029 Notes and 2026 Notes. On August 26, 2013 and October 1, 2013, we issued $109.25 million and $57.0 million, respectively, aggregate principal amount of our 2032 Notes, which are also guaranteed by our subsidiary pursuant to the terms of the indenture governing the 2032 Notes. The 2019 Notes, 2029 Notes, 2026 Notes and 2032 Notes are guaranteed on a senior unsecured basis by our 100% owned subsidiary, Goodrich Petroleum Company, L.L.C. On March 12, 2015 we issued and sold $100 million aggregate principal amount of our 8% Second Lien

GOODRICH PETROLEUM CORPORATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Senior Secured Notes due 2018 (the “Second Lien Notes”) and upon issuance our subsidiary became the guarantor of the Second Lien Notes under the governing indenture.

Goodrich Petroleum Corporation, as the parent company (the “Parent Company”), has no independent assets or operations. The guarantees are full and unconditional, subject to customary exceptions pursuant to the indentures governing our 2019 Notes, 2026 Notes, 2029 Notes and 2032 Notes, as discussed below. The Parent Company has no other subsidiaries. In addition, there are no restrictions on the ability of the Parent Company to obtain funds from its subsidiary by dividend or loan. Finally, the Parent Company’s wholly-owned subsidiary does not have restricted assets that exceed 25% of net assets as of the most recent fiscal year end that may not be transferred to the Parent Company in the form of loans, advances or cash dividends by the subsidiary without the consent of a third party.

Guarantees of the 2019 Notes will be released under certain circumstances, including in the event a Subsidiary Guarantor (as defined in the indenture governing the 2019 Notes) is sold or disposed of (whether by merger, consolidation, the sale of its capital stock or the sale of all or substantially all of its assets (other than by lease)) and whether or not the Subsidiary Guarantor is the surviving entity in such transaction to a person which is not the Parent Company or a Restricted Subsidiary of the Parent Company, such Subsidiary Guarantor will be released from its obligations under its Subsidiary Guarantee if the sale or other disposition does not violate the covenants described under “Limitation on Sales of Assets and Subsidiary Stock” in the indenture governing the 2019 Notes. In addition, a Subsidiary Guarantor will be released from its obligations under the indenture and its guarantee if such Subsidiary Guarantor ceases to guarantee any other indebtedness of the Parent Company or a Subsidiary Guarantor under a credit facility, and is not a borrower under the Senior Secured Credit Agreement, provided no Event of Default (as defined in the indenture governing the 2019 Notes) has occurred and is continuing; or if the Parent Company designates such subsidiary as an Unrestricted Subsidiary and such designation complies with the other applicable provisions of the indenture or if such subsidiary otherwise no longer meets the definition of a Restricted Subsidiary; or in connection with any covenant defeasance, legal defeasance or satisfaction and discharge of the 2019 Notes in accordance with the indenture.

Guarantees of the 2032 Notes, 2029 Notes and 2026 Notes will be released if the Subsidiary Guarantor no longer guarantees the 2019 Notes, if the Subsidiary Guarantor is dissolved or liquidated, if the Subsidiary Guarantor is no longer the Parent Company’s subsidiary or upon satisfaction and discharge of the 2032 Notes, 2029 Notes or 2026 Notes in accordance with their respective indentures.

Guarantees of the Second Lien Notes will be released under certain circumstances, including in the event a Subsidiary Guarantor is sold or disposed of (whether by merger, consolidation, the sale of its capital stock or the sale of all or substantially all of its assets (other than by lease)) and whether or not the Subsidiary Guarantor is the surviving entity in such transaction to a person which is not the Parent Company or a Restricted Subsidiary of the Parent Company, such Subsidiary Guarantor will be released from its obligations under its Subsidiary Guarantee if the sale or other disposition does not violate the covenants described under “Limitation on Sales of Assets and Subsidiary Stock” in the indenture governing the Second Lien Notes. In addition, a Subsidiary Guarantor will be released from its obligations under the indenture and its guarantee if such Subsidiary Guarantor ceases to guarantee any other indebtedness of the Parent Company or a Subsidiary Guarantor, provided no Event of Default (as defined in the indenture governing the Second Lien Notes) has occurred and is continuing; or if the Parent Company designates such subsidiary as an Unrestricted Subsidiary and such designation complies with the other applicable provisions of the indenture or if such subsidiary otherwise no longer meets the definition of a Restricted Subsidiary; or in connection with any covenant defeasance, legal defeasance or satisfaction and discharge of the Second Lien Notes in accordance with the indenture.

New Accounting Pronouncements

In April 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2015-03, Interest-Imputation of Interest, which seeks to simplify presentation of debt issuance costs. The ASU requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this ASU. Entities should apply the amendments in this ASU on a retrospective basis, wherein the balance sheet of each individual period presented should be adjusted to reflect the period-specific effects of applying the new guidance. For public entities, this ASU is effective for annual reporting periods beginning after December 15, 2015, including interim periods within that reporting period. The Company is currently evaluating the provisions of this ASU and assessing the impact, it may have on our consolidated financial statements.

GOODRICH PETROLEUM CORPORATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

On January 9, 2015, the FASB issued ASU 2015-01, which eliminates the concept of "extraordinary" items from US GAAP. The ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. A reporting entity may apply the amendments prospectively. A reporting entity also may apply the amendments retrospectively to all prior periods presented in the financial statements. Early adoption is permitted, provided that the guidance is applied from the beginning of the fiscal year of adoption. The adoption of this guidance is not expected to have an impact on the Company's consolidated financial statements.

On August 27, 2014, the FASB issued ASU 2014-15, which provides guidance on determining when and how to disclose going-concern uncertainties in the financial statements. The new standard requires management to perform interim and annual assessments of the Company's ability to continue as a going concern within one year of the date the financial statements are issued. An entity must provide certain disclosures if conditions or events raise substantial doubt about the entity's ability to continue as a going concern. The ASU applies to all entities and is effective for annual periods ending after December 15, 2016, and interim periods thereafter, with early adoption permitted.

In May 2014, the FASB issued ASU 2014-09 that introduces a new five-step revenue recognition model in which an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This ASU also requires disclosures sufficient to enable users to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers, including qualitative and quantitative disclosures about contracts with customers, significant judgments and changes in judgments, and assets recognized from the costs to obtain or fulfill a contract. This standard is effective for fiscal years beginning after December 15, 2016, including interim periods within that reporting period. The Company is currently evaluating the new guidance to determine the impact it will have on its consolidated financial statements.

NOTE 2—Asset Retirement Obligations

The reconciliation of the beginning and ending asset retirement obligation for the period ending March 31, 2015 is as follows (in thousands):

	March 31, 2015
Beginning balance at December 31, 2014	$6,510
Liabilities incurred	11
Revisions in estimated liabilities	—
Liabilities settled	—
Accretion expense	130
Dispositions	—
Ending balance	$6,651
Current liability	$145
Long term liability	$6,506

GOODRICH PETROLEUM CORPORATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3—Debt

Debt consisted of the following balances as of the dates indicated (in thousands):

	March 31, 2015			December 31, 2014		
		Carrying	Fair		Carrying	Fair
	Principal	Amount	Value (1)	Principal	Amount	Value (1)
Senior Credit Facility	$52,000	$52,000	$52,000	$121,000	$121,000	$121,000
3.25% Convertible Senior Notes due 2026	429	429	107	429	429	353
5.0% Convertible Senior Notes due 2029 (2)	6,692	6,692	2,543	6,692	6,692	3,480
5.0% Convertible Senior Notes due 2032 (3)	171,620	166,796	97,993	170,770	165,504	87,093
8.0% Second Lien Senior Secured Notes due 2018 (4)	100,000	84,674	58,943	—	—	—
8.875% Senior Notes due 2019	275,000	275,000	140,250	275,000	275,000	136,125
Total debt	$605,741	$585,591	$351,836	$573,891	$568,625	$348,051

(1) The carrying amount for the Second Amended and Restated Credit Agreement represents fair value as the variable interest rates are reflective of current market conditions. The fair value of the notes was obtained by direct market quotes within Level 1 of the fair value hierarchy.

(2) The debt discount was amortized using the effective interest rate method based upon an original five year term through October 1, 2014. The debt discount was fully amortized as of December 31, 2014.

(3) The debt discount is being amortized using the effective interest rate method based upon a four year term through October 1, 2017, the first repurchase date applicable to the 2032 Notes. The debt discount was $4.8 million and $5.3 million as of March 31, 2015 and December 31, 2014, respectively.

(4) The debt discount is being amortized using the effective interest rate method based upon a two and a half year term through September 1, 2017, the first repurchase date applicable to the Second Lien Notes. The debt discount as of March 31, 2015 was $15.3 million.

The following table summarizes the total interest expense (contractual interest expense, accretion, amortization of debt discount and financing costs) and the effective interest rate on the liability component of the debt (amounts in thousands, except effective interest rates):

	Three Months Ended March 31, 2015			Three Months Ended March 31, 2014	
	Interest Expense	Effective Interest Rate		Interest Expense	Effective Interest Rate
Senior Credit Facility	$1,537	3.9	%	$585	NM

3.25% Convertible Senior Notes due 2026	3	3.3	%	4	3.3	%
5.0% Convertible Senior Notes due 2029	84	5.0	%	1,424	11.0	%
5.0% Convertible Senior Notes due 2032	3,573	8.6	%	3,538	8.4	%
8.0% Second Lien Senior Secured Notes due 2018	555	15.6	%	—	—	%
8.875% Senior Notes due 2019	6,327	9.2	%	6,327	9.2	%
Total	$12,079			$11,878		

NM - Not meaningful.

Senior Credit Facility

Total lender commitments under the Second Amended and Restated Credit Agreement (including all amendments, the “Senior Credit Facility”) are $600 million subject to borrowing base limitation, which as of March 31, 2015 was $150 million. Pursuant to the terms of the Senior Credit Facility, borrowing base redeterminations occur on a semi-annual basis on April 1 and October 1. As of March 31, 2015, we had $52 million outstanding under the Senior Credit Facility and $6.4 million in cash. In February 2015, we entered into the Thirteenth Amendment with an effective date of February 26, 2015. On the effective date, the Thirteenth Amendment reduced our borrowing base to $200 million and extended the maturity of the Senior Credit Facility to February 24, 2017. In March 2015, we closed on $100 million of Second Lien Notes, which was used to pay down the amount drawn on our Senior Credit Facility.

GOODRICH PETROLEUM CORPORATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Our borrowing base was further reduced to $150 million upon the funding of the Second Lien Notes. The next borrowing base redetermination will occur on October 1, 2015. Interest on revolving borrowings under the Senior Credit Facility, as amended, accrues at a rate calculated, at our option, at the bank base rate plus 1.25% to 2.25% or LIBOR plus 2.25% to 3.25%, depending on borrowing base utilization. Substantially all our assets are pledged as collateral to secure the Senior Credit Facility.

The terms of the Senior Credit Facility as amended by the Thirteenth Amendment, require us to maintain certain covenants. Capitalized terms used here, but not defined, have the meanings assigned to them in the Senior Credit Facility. The primary financial covenants include:

- Current Ratio of 1.0/1.0;
- Interest Coverage Ratio of EBITDAX of not less than 2.0/1.0 for the trailing four quarters EBITDAX. The interest for such period to apply solely to the cash portion of interest expense; and
- Maximum Secured Debt no greater than 2.5 times EBITDAX for the trailing four quarters.

As used in connection with the Senior Credit Facility, Current Ratio is consolidated current assets (including current availability under the Senior Credit Facility, but excluding non-cash assets related to our derivatives) to consolidated current liabilities (excluding non-cash liabilities related to our derivatives, accrued capital expenditures and current maturities under the Senior Credit Facility).

As used in connection with the Senior Credit Facility, EBITDAX is earnings before interest expense, income tax, depreciation, depletion and amortization, exploration expense, stock based compensation and impairment of oil and natural gas properties. In calculating EBITDAX for this purpose, gains/losses on derivatives not designated as hedges, less net cash received (paid) in settlement of commodity derivatives are excluded from Adjusted EBITDAX.

We were in compliance with all the financial covenants of the Senior Credit Facility as of March 31, 2015.

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8% Second Lien Senior Secured Notes due 2018

On March 12, 2015, we issued and sold $100 million of our Second Lien Notes. We sold 100,000 Second Lien Note units (the "Units"), each consisting of a $1,000 principal amount at maturity and one warrant to purchase 48.84 shares of our $0.20 par value common stock. The Second Lien Notes are guaranteed by our subsidiary that also guarantees our Senior Credit Facility. The Company received proceeds, before offering expenses payable by the Company, of $100 million from the sale of the Units. The proceeds from the issuance of the Second Lien Notes were used to repay borrowings under the Senior Credit Facility and for general corporate purposes. The Second Lien Notes are secured on a senior second-priority basis by liens on certain assets of the Company and its subsidiary that secure our Senior Credit Facility, which liens are subject to an inter-creditor agreement in favor of the lenders under the Senior Credit Facility. The Second Lien Notes mature on March 15, 2018. If the aggregate principal amount outstanding on the 2032 Notes on August 1, 2017 is more than $25.0 million then the outstanding amount of the Second Lien Notes shall be due on September 1, 2017. Interest on the Second Lien Notes is payable semi-annually in arrears on March 15 and September 15 of each year, beginning on September 15, 2015.

We may redeem all or a portion of the Second Lien Notes at redemption prices (expressed as percentages of principal amount) equal to (i) 106% for the twelve-month period beginning on March 15, 2016 and (ii) 100% on or after March 15, 2017, in each case plus accrued and unpaid interest to the redemption date. Prior to March 15, 2016, we may redeem, the Second Lien Notes at a customary "make-whole" premium. In addition, prior to September 12, 2015, we may redeem up to 35% of the aggregate principal amount of the Second Lien Notes with the net cash proceeds of one or more equity offerings at a redemption price of 108% of the principal amount plus accrued and unpaid interest, if any, up to the redemption date.

The indenture governing the Second Lien Notes restricts our ability and the ability of certain of our subsidiaries to: (i) incur additional debt; (ii) make certain dividends or pay dividends or distributions on our capital stock or purchase, redeem or retire such capital stock or our unsecured debt; (iii) sell assets, including the capital stock of our restricted subsidiaries; (iv) pay dividends or other payments of our restricted subsidiaries; (v) create liens that secure debt; (vi) enter into transactions with affiliates and (vii) merge or consolidate with another company. These covenants are subject to a number of important exceptions and qualifications. At any time when the Second Lien Notes are rated investment grade by both Moody's Investors Service, Inc. and Standard & Poor's Ratings Services and no Default (as defined in the indenture governing the Second Lien Notes) has occurred and is continuing, many of these covenants will terminate.

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The Second Lien Notes and the warrants will not be separately transferable until the earliest of (i) 365 days after the date on which the warrants are originally issued, (ii) the date on which a registration statement related to the resale of the warrants is declared effective, (iii) the date on which a registration statement with respect to a registered exchange offer for the Second Lien Notes is declared effective and (iv) in the event of the occurrence of a change of control (as defined in the indenture), the date on which requisite notice of such change of control is mailed to the holders of Second Lien Notes. At such time, the warrants will become exercisable upon payment of the exercise price of $4.664 or convertible on a cashless basis as set forth in the agreement governing the warrants. Any warrants not exercised in ten years will expire.

In connection with the Second Lien Notes, we entered into a registration rights agreement that provides holders of the Second Lien Notes certain rights relating to registration of the Second Lien Notes under the Securities Act of 1933, as amended (the "Securities Act"). Pursuant to the registration rights agreement, the Company is obligated to file an exchange offer registration statement with the Securities Exchange Commission ("SEC") with respect to an offer to exchange the Second Lien Notes for substantially identical notes that are registered under the Securities Act. We will use our reasonable best efforts to consummate the exchange offer by March 12, 2016. Additionally, we agreed to commence the exchange offer promptly after the exchange offer registration statement is declared effective by the SEC and use our reasonable best efforts to complete the exchange offer not later than 60 days after such effective date. Under certain circumstances, in lieu of a registered exchange offer, we have agreed to file a shelf registration statement with respect to the Second Lien Notes. If the exchange offer is not completed on or before March 12, 2016, or the shelf registration statement, if required, is not declared effective within the time periods specified in the Registration Rights Agreement, we have agreed to pay additional interest with respect to the Second Lien Notes in an amount of 0.25% of the principal amount of the Second Lien Notes per year for the first 90 days following such failure, increasing by 0.25% for each additional 90 days and not to exceed 1.00% of the principal amount per year, until the exchange offer is completed or the shelf registration statement is declared effective.

We separately account for the liability and equity components of our Second Lien Notes in a manner that reflects our nonconvertible debt borrowing rate when interest is recognized in subsequent periods. We measured the debt component of the Second Lien Notes using a discount rate of 32% on the date of issuance. We attributed $84.6 million of the Second Lien Notes relative fair value to the debt component, which compared to the face value results in a debt discount of $15.4 million. Additionally, we recorded $15.4 million within additional paid-in capital representing the equity component of the Second Lien Notes. The debt discount will be amortized using the effective interest rate method through September 1, 2017 along with the applicable debt issuance costs.

8.875% Senior Notes due 2019

On March 2, 2011, we sold $275 million of our 2019 Notes. The 2019 Notes mature on March 15, 2019, unless earlier redeemed or repurchased. The 2019 Notes are our senior unsecured obligations and rank equally in right of payment to all of our other existing and future indebtedness. The 2019 Notes accrue interest at a rate of 8.875% annually, and interest is paid semi-annually in arrears on March 15 and September 15. The 2019 Notes are guaranteed by our subsidiary that also guarantees our Senior Credit Facility.

We may redeem all or a portion of the 2019 Notes at redemption prices (expressed as percentages of principal amount) equal to (i) 104.438% for the twelve-month period beginning on March 15, 2015; (ii) 102.219% for the twelve-month period beginning on March 15, 2016 and (iii) 100.000% on or after March 15, 2017, in each case plus accrued and unpaid interest to the redemption date.

The indenture governing the 2019 Notes restricts our ability and the ability of certain of our subsidiaries to: (i) incur additional debt; (ii) make certain dividends or pay dividends or distributions on our capital stock or purchase, redeem or retire such capital stock; (iii) sell assets, including the capital stock of our restricted subsidiaries; (iv) pay dividends or other payments of our restricted subsidiaries; (v) create liens that secure debt; (vi) enter into transactions with affiliates and (vii) merge or consolidate with another company. These covenants are subject to a number of important exceptions and qualifications. At any time when the 2019 Notes are rated investment grade by both Moody’s Investors Service, Inc. and Standard & Poor’s Ratings Services and no Default (as defined in the indenture governing the 2019 Notes) has occurred and is continuing, many of these covenants will terminate.

5% Convertible Senior Notes due 2029

In September 2009, we sold $218.5 million of our 2029 Notes. The 2029 Notes mature on October 1, 2029, unless earlier converted, redeemed or repurchased. We exchanged $166.7 million of the 2029 Notes for 2032 Notes in 2013. On October 1, 2014, we repurchased $45.1 million of the 2029 Notes using restricted cash held in escrow for that purpose. The 2029 Notes are convertible into shares of our common stock at a rate equal to 28.8534 shares per $1,000 principal amount of 2029 Notes (equal to an initial conversion price of approximately $34.66 per share of common stock). As of March 31, 2015, $6.7 million in aggregate principal amount of the 2029 Notes remain outstanding.

The 2029 Notes are our senior unsecured obligations and rank equally in right of payment to all of our other existing and future indebtedness. The 2029 Notes accrue interest at a rate of 5% annually, and interest is paid semi-annually in arrears on April 1 and October 1 of each year.

Investors may convert their 2029 Notes at their option at any time prior to the close of business on the second business day immediately preceding the maturity date under the following circumstances: (1) during any fiscal quarter (and only during such fiscal quarter), if the last reported sale price of our common stock is greater than or equal to 135% of the conversion price of the 2029 Notes for at least 20 trading days in the period of 30 consecutive trading days ending on the last trading day of the preceding fiscal quarter; (2) if the 2029 Notes have been called for redemption or (3) upon the occurrence of one of specified corporate transactions. Investors may also convert their 2029 Notes at their option at any time beginning on September 1, 2029, and ending at the close of business on the second business day immediately preceding the maturity date.

We separately accounted for the liability and equity components of our 2029 Notes in a manner that reflected our nonconvertible debt borrowing rate when interest was recognized through September 30, 2014. The debt discount was amortized using the effective interest rate method based upon an original five year term through October 1, 2014. The debt discount on the 2029 Notes was fully amortized as of December 31, 2014.

5% Convertible Senior Notes due 2032

As described above, we entered into separate, privately negotiated exchange agreements in which we retired $166.7 million in aggregate principal amount of our outstanding 2029 Notes in exchange for the issuance of the 2032 Notes in an aggregate principal amount of $166.3 million. The 2032 Notes will mature on October 1, 2032.

Many terms of the 2032 Notes remain the same as the 2029 Notes they replaced, including the 5.0% annual cash interest rate and the conversion rate of 28.8534 shares of our common stock per $1,000 principal amount of 2032 Notes (equivalent to an initial conversion price of approximately $34.6580 per share of common stock), subject to adjustment in certain circumstances.

Unlike the 2029 Notes, the principal amount of the 2032 Notes accretes at a rate of 2% per year commencing August 26, 2013, compounding on a semi-annual basis, until October 1, 2017. The accreted portion of the principal is payable in cash upon maturity but does not bear cash interest and is not convertible into our common stock. Holders have the option to require us to purchase any outstanding 2032 Notes on each of October 1, 2017, 2022 and 2027, at a price equal to 100% of the principal amount plus the accretion thereon. Accretion of principal is and will be reflected as a non-cash component of interest expense on our consolidated statement of operations during the term of the 2032 Notes. We recorded $0.8 million of accretion in the three months ended March 31, 2015.

We have the right to redeem the 2032 Notes on or after October 1, 2016 at a price equal to 100% of the principal amount, plus accrued but unpaid interest and accretion thereon. The 2032 Notes also provide us with the option, at our election, to convert the new notes in whole or in part, prior to maturity, into the underlying common stock, provided the trading price of our common stock exceeds $45.06 (or 130% of the then applicable conversion price) for the required measurement period. If we elect to convert the 2032 Notes on or before October 1, 2016, holders will receive a make-whole premium.

We separately account for the liability and equity components of our 2032 Notes in a manner that reflects our nonconvertible debt borrowing rate when interest is recognized in subsequent periods. We measured the debt component of the 2032 Notes using an effective interest rate of 8%. We attributed $158.8 million of the fair value to the 2032 Note to debt component which compared to the face results in a debt discount of $7.5 million which will be amortized through the first put date of October 1, 2017. Additionally, we recorded $24.4 million within additional paid-in capital representing the equity component of the 2032 Notes. A debt discount of $4.8 million remains to be amortized on the 2032 Notes as of March 31, 2015.

3.25% Convertible Senior Notes Due 2026

At March 31, 2015, $0.4 million of the 2026 Notes remained outstanding. Holders may present to us for redemption the remaining outstanding 2026 Notes on December 1, 2016 and December 1, 2021.

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Upon conversion, we have the option to deliver shares at the applicable conversion rate, redeem in cash or in certain circumstances redeem in a combination of cash and shares.

The 2026 Notes are convertible into shares of our common stock at a rate equal to the sum of:

a) 15.1653 shares per $1,000 principal amount of 2026 Notes (equal to a “base conversion price” of approximately $65.94 per share) plus
b) an additional amount of shares per $1,000 of principal amount of 2026 Notes equal to the incremental share factor 2.6762), multiplied by a fraction, the numerator of which is the applicable stock price less the “base conversion price” and the denominator of which is the applicable stock price.

NOTE 4—Net Loss Per Common Share

Net loss applicable to common stock was used as the numerator in computing basic and diluted loss per common share for the three ended March 31, 2015 and 2014. The following table sets forth information related to the computations of basic and diluted loss per share:

	Three Months Ended March 31, 2015	2014
	(Amounts in thousands, except per share data)	
Basic and Diluted loss per share:		
Net loss applicable to common stock	$(28,549)	$(29,923)
Weighted average shares of common stock outstanding	49,110	44,273
Basic and Diluted loss per share (1) (2) (3)	$(0.58)	$(0.68)
(1) Common shares issuable upon assumed conversion of convertible preferred stock or dividends paid were not presented as they would have been anti-dilutive.	3,588	3,588
(2) Common shares issuable upon assumed conversion of the 2026 Notes, 2029 Notes and 2032 Notes or interest paid were not presented as they would have been anti-dilutive.	4,997	6,298
(3) Common shares issuable on assumed conversion of	7,349	2,434

restricted stock, stock warrant and employee stock option were not included in the computation of diluted loss per common share since their inclusion would have been anti-dilutive.

NOTE 5—Income Taxes

We recorded no income tax expense or benefit for the three months ended March 31, 2015. We increased our valuation allowance and reduced our net deferred tax assets to zero during 2009 after considering all available positive and negative evidence related to the realization of our deferred tax assets. Our assessment of the realization of our deferred tax assets has not changed, and as a result we continue to maintain a full valuation allowance for our net deferred assets as of March 31, 2015.

As of March 31, 2015, we have no unrecognized tax benefits. There were no significant changes to the calculation since December 31, 2014.

NOTE 6—Derivative Activities

We use commodity and financial derivative contracts to manage fluctuations in commodity prices and interest rates. We are currently not designating our derivative contracts for hedge accounting. All derivative gains and losses from our derivative contracts have been recognized in “Other income (expense)” on our Consolidated Statements of Operations.

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The following table summarizes gains and losses we recognized on our oil and natural gas derivatives for the three month periods ended March 31, 2015 and 2014.

Oil and Natural Gas Derivatives (in thousands)	Three Months Ended March 31, 2015	2014
Gain (loss) on derivatives not designated as hedges	$4,430	$(8,501)

Commodity Derivative Activity

We enter into swap contracts, costless collars or other derivative agreements from time to time to manage commodity price risk for a portion of our production. Our policy is that all hedges are approved by the Hedging Committee of our Board of Directors, and reviewed periodically by the Board of Directors. As of March 31, 2015, the commodity derivatives we used were in the form of:

(a) swaps, where we receive a fixed price and pay a floating price, based on NYMEX for natural gas, Louisiana Light Sweet Crude (Argus) for crude oil or specific transfer point quoted prices, and
(b) calls, where we grant the counter party the option to buy an underlying commodity at a specified strike price, within a certain period.

Despite the measures taken by us to attempt to control price risk, we remain subject to price fluctuations for natural gas and crude oil sold in the spot market. Prices received for natural gas sold on the spot market are volatile due primarily to seasonality of demand and other factors beyond our control. Decreases in domestic crude oil and natural gas spot prices could have a material adverse effect on our financial position, results of operations and quantities of reserves recoverable on an economic basis. We routinely exercise our contractual right to net realized gains against realized losses when settling with our financial counterparties. Neither our counterparties nor we require any collateral upon entering derivative contracts. We had exposure of $38.5 million in derivative fair value had our counterparties as a group been unable to fulfill their obligations as of March 31, 2015.

As of March 31, 2015, our open positions on our outstanding commodity derivative contracts, all of which were with Royal Bank of Canada, Bank of Montreal, JPMorgan Chase Bank, N.A., Merrill Lynch Commodities, Inc. and Wells Fargo Bank, N.A., were as follows:

Contract Type	Daily Volume	Remaining Volumes	Fixed Price	Fair Value at March 31, 2015

				(in thousands)
Natural gas calls (MMBtu)				
2015	20,000	5,500,000	$5.05-5.06	$ (152)
2016	20,000	7,320,000	$5.05-5.06	$ (139)
Oil swaps (BBL)				
2015 (LLS Argus)	3,500	962,500	$94.55-98.10	$ 38,504
			Total	$ 38,213

The following table summarizes the fair values of our derivative financial instruments that are recorded at fair value classified in each level as of March 31, 2015 (in thousands). We measure the fair value of our commodity derivative contracts by applying the income approach. See Note 1 "Description of Business and Significant Accounting Policies-Fair Value Measurement" for our discussion for inputs used and valuation techniques for determining fair values.

	March 31, 2015 Fair Value Measurements Using			
Description	Level 1	Level 2	Level 3	Total
Current Assets Commodity Derivatives	$—	$38,504	$ —	$38,504
Non-current Assets Commodity Derivatives	—	—	—	—
Current Liabilities Commodity Derivatives	—	(152)	—	(152)
Non-current Liabilities Commodity Derivatives	—	(139)	—	(139)
Total	$—	$38,213	$ —	$38,213

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We enter into oil and natural gas derivative contracts under which we have netting arrangements with each counter party. The following table discloses and reconciles the gross amounts to the amounts as presented on the Statement of Financial Position for the periods ending March 31, 2015 and December 31, 2014.

	March 31, 2015			December 31, 2014		
	Gross	Amount	As	Gross	Amount	As
Fair Value of Oil and Gas Derivatives (in thousands)	Amount	Offset	Presented	Amount	Offset	Presented
Derivative Current Asset	$38,504	$ —	$ 38,504	$47,444	$ —	$ 47,444
Derivative Non-current Asset	—	—	—	—	—	—
Derivative Current Liability	(152)	—	(152)	(102)	—	(102)
Derivative Non-current Liability	(139)	—	(139)	(464)	—	(464)
Total	$38,213	$ —	$ 38,213	$46,878	$ —	$ 46,878

NOTE 7—Stockholders' Equity

Common Stock Offering

On March 10, 2015, we closed an underwritten public offering of 12 million shares of our common stock at $ 4.15 per share. Proceeds after offering expenses totaled approximately $48.0 million. The proceeds were used to repay borrowings under our Senior Credit Facility and for general corporate purposes.

Warrants

In connection with the issuance of the Second Lien Notes, we issued a detachable warrant for each $1,000 note. The holder of a warrant has the right to purchase 48.84 shares of our common stock par value $0.20 per share. The warrants were issued pursuant to a Warrant Agreement dated March 12, 2015 (the "Warrant Agreement"), between us and American Stock Transfer & Trust Company LLC. Under the terms of the Warrant Agreement, the Second Lien Notes and the warrants will not be separately transferable until the earliest of (i) 365 days after the date on which the warrants are originally issued, (ii) the date on which a registration statement related to the resale of the warrants is declared effective, (iii) the date on which a registration statement with respect to a registered exchange offer for the Second Lien Notes is declared effective and (iv) in the event of the occurrence of a change of control (as defined in the governing indenture), the date on which requisite notice of such change of control is mailed to the holders of Second Lien Notes. At such time, the warrants will become exercisable upon payment of the exercise price of $4.664 or convertible on a cashless basis as set forth in the Warrant Agreement. Any warrants not exercised in ten years will expire. Also on March 12, 2015, we entered into a Registration Rights Agreement with the Purchaser that provides holders of the warrants certain rights to registration under the Securities Act relating to the Warrants. Pursuant to the Warrant Registration Rights Agreement, we are obligated to file a shelf registration statement with the Securities and Exchange Commission within 90 days of March 12, 2015, relating to re-sales of the Warrants. We will use our reasonable best efforts to cause the registration statement to be declared effective by the SEC by March 12, 2016.

We valued the warrants as a separate financial instrument using the Black-Scholes method and recorded the $15.4 million relative fair value to Additional paid in capital on the Consolidated Balance Sheets.

NOTE 8—Commitments and Contingencies

As of March 31, 2015, we did not have any changes in material commitments and contingencies, including outstanding and pending litigation.

Item 2—Management's Discussion and Analysis of Financial Condition and Results of Operations

CAUTIONARY STATEMENT ABOUT FORWARD-LOOKING STATEMENTS

We have made in this report, and may from time to time otherwise make in other public filings, press releases and discussions with our management, forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, concerning our operations, economic performance and financial condition. These forward-looking statements include information concerning future production and reserves, schedules, plans, timing of development, contributions from oil and natural gas properties, marketing and midstream activities, and also include those statements accompanied by or that otherwise include the words "may," "could," "believes," "expects," "anticipates," "intends," "estimates," "projects," "predicts," "goal," "plans," "objective," "potential," "should," or similar expressions or variations on such expressions that convey the uncertainty of future events or outcomes. For such statements, we claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995. We have based these forward-looking statements on our current expectations and assumptions about future events. These statements are based on certain assumptions and analyses made by us in light of our experience and perception of historical trends, current conditions and expected future developments as well as other factors we believe are appropriate under the circumstances. Although we believe that the expectations reflected in such forward-looking statements are reasonable, we can give no assurance that such expectations will prove to be correct. These forward-looking statements speak only as of the date of this report, or if earlier, as of the date they were made; we undertake no obligation to publicly update or revise any forward-looking statements whether as a result of new information, future events or otherwise.

These forward-looking statements involve risk and uncertainties. Important factors that could cause actual results to differ materially from our expectations include, but are not limited to, the following risk and uncertainties:

- planned capital expenditures;
- future drilling activity;
- our financial condition;
- business strategy including our ability to successfully transition to more liquids-focused operations;
- the market prices of oil and natural gas;
- uncertainties about the estimated quantities of our oil and natural gas reserves;
- financial market conditions and availability of capital;
- production;
- hedging arrangements;
- future cash flows and borrowings;
- litigation matters;
- pursuit of potential future acquisition opportunities;
- sources of funding for exploration and development;
- general economic conditions, either nationally or in the jurisdictions in which we are doing business;
- legislative or regulatory changes, including retroactive royalty or production tax regimes, hydraulic-fracturing regulation, drilling and permitting regulations, derivatives reform, changes in state and federal corporate taxes, environmental regulation, environmental risks and liability under federal, state and foreign laws, and local environmental laws and regulations;
- the creditworthiness of our financial counterparties and operation partners;
- the securities, capital or credit markets;

- our ability to repay our debt; and
- other factors discussed below and elsewhere in this Quarterly Report on Form 10-Q and in our other public filings, press releases and discussions with our management.

For additional information regarding known material factors that could cause our actual results to differ from projected results please read the rest of this report and Part I, “Item 1A. Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2014.

Overview

We are an independent oil and natural gas company engaged in the exploration, development and production of oil and natural gas properties primarily in (i) Southwest Mississippi and Southeast Louisiana, which includes the Tuscaloosa Marine Shale Trend (“TMS”), (ii) South Texas, which includes the Eagle Ford Shale Trend and (iii) Northwest Louisiana and East Texas, which includes the Haynesville Shale Trend.

We seek to increase shareholder value by growing our oil and natural gas reserves, production revenues and operating cash flow. In our opinion, on a long term basis, growth in oil and natural gas reserves and production on a cost-effective basis are the most important indicators of performance success for an independent oil and natural gas company.

We strive to increase our oil and natural gas reserves, production and cash flow through exploration and development activities. We develop an annual capital expenditure budget which is reviewed and approved by our board of directors on a quarterly basis and revised throughout the year as circumstances warrant. We take into consideration our projected operating cash flow and externally available sources of financing, such as bank debt, asset divestitures, issuance of debt and equity securities, and strategic joint ventures, when establishing our capital expenditure budget.

We place primary emphasis on our cash flow from operating activities (“operating cash flow”) in managing our business. Management considers operating cash flow a more important indicator of our financial success than other traditional performance measures such as net income because operating cash flow considers only the cash expenses incurred during the period and excludes the non-cash impact of unrealized hedging gains (losses), non-cash general and administrative expenses and impairments.

Our revenues and operating cash flow depend on the successful development of our inventory of capital projects with available capital, the volume and timing of our production, as well as commodity prices for oil and natural gas. Such pricing factors are largely beyond our control; however, we employ commodity hedging techniques in an attempt to minimize the volatility of short term commodity price fluctuations on our earnings and operating cash flow.

Business Strategy

Our business strategy is to provide long-term growth in reserves and cash flow on a cost-effective basis. We focus on maximizing our return on capital employed and adding reserve value through the timely development of our TMS, Eagle Ford Shale Trend and Haynesville Shale Trend acreage. We regularly evaluate possible acquisitions of prospective acreage and oil and natural gas drilling opportunities.

Several of the key elements of our business strategy are as follows:

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Develop our core position in the TMS. We seek to maximize the value of our existing assets by developing and exploiting our properties with the lowest risk and the highest potential rate of return. In the current commodity price environment, we intend to focus the development of our core acreage position through drilling in the TMS.

- Maintain oil production. During the past three years, we have concentrated on increasing our crude oil production and reserves by investing and drilling in the TMS and Eagle Ford Shale Trend. However, we intend to keep oil production relatively flat over the next year as we monitor the crude oil markets and return to growth when markets improve. We will continue to evaluate our capital allocation to oil and natural gas drilling as market conditions dictate.
- Maintain our acreage position in shale plays. As of March 31, 2015, we held approximately 324,000 net acres in the TMS in Southeastern Louisiana and Southwestern Mississippi. We continue to 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 that exhibit characteristics similar to our existing properties. We continually strive to rationalize our portfolio of properties by selling non-core properties in an effort to redeploy capital to exploitation, development and exploration projects that offer a potentially higher overall return.
- Focus on maximizing cash flow margins and conserving capital. We intend to maximize operating cash flow by focusing on higher-margin oil development in the TMS and working with service providers to reduce costs in the TMS. In the current commodity price environment, our TMS assets offer rates of return on capital invested and cash flow margins

more favorable than our natural gas assets. In January 2015, we announced a reduced capital expenditure budget of $90 to $110 million for 2015.

- Enhance financial flexibility. As of March 31, 2015, we had a borrowing base of $150 million under our $600 million Senior Credit Facility, on which we had $52 million drawn and $6.4 million in cash. On March 12, 2015 we issued and sold $100 million aggregate principal amount of our Second Lien Notes, which was used to pay down the amount drawn on our Senior Credit Facility. On March 5, 2015 we received net proceeds of $48 million from the sale of 12,000,000 shares of our common stock to the public. We have historically funded growth through operating cash flow, debt, equity and equity-linked security issuances, divestments of non-core assets and entering into strategic joint ventures. In addition, we may divest our Eagle Ford Shale assets if market conditions improve and will continue to seek a joint venture partner to share in the cost to develop our acreage in the TMS. We also actively manage our exposure to commodity price fluctuations by hedging meaningful portions of our expected production through the use of derivatives, including fixed price swaps, swaptions 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.

Overview of First Quarter 2015 Results

First Quarter 2015 financial and operating results included:

- Our oil and condensate production for the first quarter of 2015 increased to 56% of our total production compared to 32% of our total production in the first quarter of 2014.
- We conducted drilling operations on 5 gross (3.9 net) wells in the first quarter of 2015. We added 5 gross (3.6 net) wells to production in the first quarter of 2015, which included 3 gross (2.6 net) wells in the TMS and 2 gross (1.0 net) wells in the Haynesville Shale Trend.
- As of March 31, 2015, we had 5 gross (3.8 net) wells drilled and waiting on completion, in the TMS.
- We sold 12,000,000 shares of our common stock to the public for $48.0 million of net proceeds.
- We received proceeds from our issuance of $100 million in Second Lien Notes.

Primary Operating Areas

Tuscaloosa Marine Shale Trend

We held approximately 462,000 gross (324,000 net) acres in the TMS as of March 31, 2015. During the three months of 2015, we conducted drilling operations on 5 gross (3.9 net) wells in the TMS. As of March 31, 2015, we had 5 gross (3.8 net) TMS wells drilled and waiting on completion. Our net production volumes from our TMS wells represented approximately 32% of our total equivalent production on a Boe basis and approximately 58% of our total oil production for the first quarter of 2015.

During the first three months of 2015, we spent $38.6 million in the TMS, which included $0.9 million for leasehold costs.

Eagle Ford Shale Trend

We entered into the Eagle Ford Shale Trend in April 2010, with our leasehold position located in La Salle and Frio Counties, Texas. We held approximately 44,000 gross (30,000 net) acres as of March 31, 2015, all of which are either producing from or prospective for the Eagle Ford Shale Trend. Our net production volumes from our Eagle Ford Shale Trend wells represented approximately 30% of our total equivalent production on a Boe basis and approximately 42% of our total oil production for the first quarter of 2015.

Haynesville Shale Trend

Our relatively low risk development acreage in this trend is primarily centered in Angelina and Nacogdoches counties, Texas and DeSoto and Caddo Parishes, Louisiana. We hold approximately 66,000 gross (37,000 net) acres as of March 31, 2015 producing from and prospective for the Haynesville Shale Trend. Our net production volumes from our Haynesville Shale Trend wells represented approximately 37% of our total equivalent production on a Boe basis for the first quarter of 2015.

Results of Operations

For the three months ended March 31, 2015, we reported net loss applicable to common stock of $28.5 million, or $0.58 per basic and diluted share, on operating revenues of $24.0 million as compared to net loss applicable to common stock of $29.9 million, or $0.68 per basic and diluted share, on operating revenues of $51.8 million for the three months ended March 31, 2014.

The items that had the most material financial effect on us during the three months ended March 31, 2015 compared to the same period in 2014 were revenues and gain/loss on derivatives not designated as hedges. First quarter 2015 revenues were down 53% due to significantly lower realized oil and natural gas sales prices as well as lower production volumes, which were partially offset by a $4.4 million gain on derivatives not designated as hedges that allowed the net loss applicable to common stock to be consistent with the same period in 2014.

The following table reflects our summary operating information for the periods presented (in thousands except for price and volume data). Because of normal production declines, increased or decreased drilling activity and the effects of acquisitions or divestitures, the historical information presented below should not be interpreted as indicative of future results.

	Three Months Ended March 31,			
(In thousands, except for price data)	2015	2014	Variance	
Revenues:				
Natural gas	$4,184	$18,304	$(14,120)	(77%)
Oil and condensate	19,959	33,496	(13,537)	(40%)
Natural gas, oil and condensate	24,143	51,800	(27,657)	(53%)
Operating revenues	24,030	51,803	(27,773)	(54%)
Operating expenses	37,499	53,926	(16,427)	(30%)
Operating loss	(13,469)	(2,123)	(11,346)	NM
Net loss applicable to common stock	(28,549)	(29,923)	1,374	5 %
Net Production:				
Natural gas (MMcf)	2,071	4,431	(2,360)	(53%)
Oil and condensate (MBbls)	435	341	94	28 %
Total (Boe)	780	1,079	(299)	(28%)
Average daily production (Boe/d)	8,671	11,993	(3,322)	(28%)

	Three Months Ended March 31,			
(In thousands, except for price data)	2015	2014	Variance	
Average realized sales price per unit:				
Natural gas (per Mcf)	$2.02	$4.13	$(2.11)	(51%)
Natural gas (per Mcf) including realized derivatives	2.02	4.05	(2.03)	(50%)
Oil and condensate (per Bbl)	45.86	98.27	(52.41)	(53%)
Oil and condensate (per Bbl) including realized derivatives	75.95	91.34	(15.39)	(17%)
Average realized price (per Boe)	30.94	47.99	(17.05)	(36%)

NM – Not meaningful

Revenues from Operations

Revenues from operations decreased by $27.8 million for the three months ended March 31, 2015 compared to the same period in 2014, reflecting a decrease in natural gas production volumes and lower average realized oil and condensate sales prices which decreased revenues by $32.0 million. The decrease in natural gas production volumes is a direct result of the sale of our non-core East Texas natural gas fields in December 2014. This decrease in revenues was partially offset by a $4.3 million increase in revenues driven by increased oil and condensate production volumes. We are focused on increasing oil production, which we are currently able to sell at a more favorable relative price relative to natural gas. For the three months ended March 31, 2015, 83% of our oil and natural gas revenue was attributable to oil sales compared to 65% for the three months ended March 31, 2014.

The difference in our average realized prices inclusive of net cash derivative settlements between the three month periods ended March 31, 2015 and 2014 relates to our oil swap contracts. In the three months ended March 31, 2015, we had 3,500 Bbls of oil per day hedged at an average fixed price of $96.11 per Bbl and in the comparative period of 2014, we had an average of 3,800 Bbls of oil per day hedged at an average fixed price of $93.65 per Bbl.

Operating Expenses

As described below, operating expenses decreased $16.4 million to $37.5 million in three months ended March 31, 2015 compared to the same period in 2014.

	Three Months Ended March 31,			
Operating Expenses (in thousands)	2015	2014	Variance	
Lease operating expenses	$4,138	$8,617	$(4,479)	(52 %)
Production and other taxes	1,409	2,441	(1,032)	(42 %)
Transportation and processing	1,247	2,372	(1,125)	(47 %)
Exploration	3,658	2,317	1,341	58 %

	Three Months Ended March 31,			
Operating Expenses per Boe	2015	2014	Variance	
Lease operating expenses	$5.30	$7.98	$(2.68)	(34 %)
Production and other taxes	1.81	2.26	(0.45)	(20 %)
Transportation and processing	1.60	2.20	(0.60)	(27 %)
Exploration	4.69	2.15	2.54	118%

Lease Operating Expense

Lease operating expense (“LOE”) during the three months ended March 31, 2015 decreased compared to the three months ended March 31, 2014. The decrease was the result of a $2.3 million decrease in operating costs stemming from the sale of our non-core East Texas natural gas fields in December 2014. In addition, a $1.7 million reduction in workover expense primarily associated with our wells in the Eagle Ford Shale Trend and TMS added to the LOE decrease. Workover expense in the first quarter of 2015 totaled $0.3 million which added $0.32 per Boe to unit expense compared to workover expense of $2.0 million in the first quarter of 2014 which added $1.82 per Boe to unit expense.

Production and Other Taxes

Production and other taxes for the three months ended March 31, 2015 included production tax of $0.6 million and ad valorem tax of $0.8 million. During the comparable period in 2014, production and other taxes included production tax of $1.8 million and ad valorem tax of $0.6 million.

The decrease in production tax was associated with significantly lower crude oil prices during the three months ended March 31, 2015, lower oil production from our Eagle Ford Shale Trend wells and lower tax rates on the TMS wells drilled in the state of Mississippi after July 1, 2013. The State of Mississippi has enacted an exemption from the existing 6% severance tax for horizontal wells drilled after July 1, 2013 with production commencing before July 1, 2018, which will be partially offset by a 1.3% local severance tax on such wells. The exemption is applicable until the earlier of (i) 30 months from the date of first sale of production or (ii) until payout of the well cost is achieved. The net revenues from our wells drilled in our TMS acreage in Southwestern Mississippi have been favorably impacted by this exemption.

Transportation and Processing Expense

Transportation and processing expense decreased in the three months ended March 31, 2015 compared to the same period in 2014. The decrease is due to lower operated natural gas production, as our natural gas production incurs substantially all of our transportation and processing cost. The lower natural gas production is directly associated with the sale of our non-core East Texas natural gas fields in December 2014.

Exploration

The increase in exploration expense for the three months ended March 31, 2015 compared to the same period in 2014 is attributable to $0.7 million in drilling rig release fees associated with early contract terminations and an increase of $0.5 million in leasehold amortization costs related to expiring leases in our TMS and Eagle Ford Shale Trend acreage.

	Three Months Ended March 31,			
Operating Expenses (in thousands)	2015	2014	Variance	
Depreciation, depletion and amortization	$20,233	$29,238	$(9,005)	(31 %)
General and administrative	7,751	8,941	(1,190)	(13 %)
Other	(45)	—	(45)	100%

	Three Months Ended March 31,			
Operating Expenses per Boe	2015	2014	Variance	
Depreciation, depletion and amortization	$25.93	$27.09	$(1.16)	(4 %)
General and administrative	9.93	8.28	1.65	20 %
Other	(0.06)	—	(0.06)	100%

Depreciation Depletion and Amortization (“DD&A”)

DD&A expense for the three months ended March 31, 2015 decreased as compared to the same three month period ended in 2014 due to the decrease from lower rates for our Eagle Ford Shale Trend, the absence of our non-core East Texas assets that were sold in December 2014 and lower production from our core natural gas assets. These decreases were partially offset by the increase in volumes associated with the continued development of the TMS. TMS production volumes in the three months ended March 31, 2015 represented 32% of production for the quarter compared to 7% for the same period in 2014.

General and Administrative (“G&A) Expense

Although the rate per Boe increased, G&A expense decreased in the three months ended March 31, 2015 compared to the same period in 2014. The decrease stems from lower compensation expense, office closure costs and share based compensation. The higher rate per Boe reflects decreased natural gas production in 2015. Share-based compensation expense, which is a non-cash item, amounted to $1.9 million for the three months ended March 31, 2015, a $0.5 million decrease from the same period in 2014.

Other Income (Expense)

Other income (expense) (in thousands):	Three Months Ended March 31, 2015	2014
Interest expense	$(12,079)	$(11,878)
Interest income and other	—	10
Gain (Loss) on derivatives not designated as hedges	4,430	(8,501)
Average funded borrowings adjusted for debt discount and accretion	$611,298	$489,151
Average funded borrowings	$621,603	$497,595

Interest Expense

Our interest expense increased slightly in the three months ended March 31, 2015 compared to the same period in 2014. An increase in interest expense associated with higher funded borrowings during the three months ended March 31, 2015 led to an increase in interest expense. The increase was offset by a decrease in non-cash interest expense attributable to our repurchase of $45.1 million of the 2029 Notes on October 1, 2014. Non-cash interest expense for the three months ended March 31, 2015 totaled $2.1 million, compared to $2.6 million in the three months ended March 31, 2014.

Gain (loss) on Derivatives Not Designated as Hedges

Gain on derivatives not designated as hedges for the three months ended March 31, 2015 include an $8.7 million loss representing the change in the fair value of our oil and natural gas derivative contracts and net cash receipts of $13.1 million on the settlement of our oil and natural gas derivatives. The change in fair value of our derivative contracts consisted of a $9.0 million loss on our oil derivative contracts and a $0.3 million gain on our natural gas derivative contracts. The decrease in fair value of our oil derivatives reflects the realization of settled contracts.

Loss on derivatives not designated as hedges for the three months ended March 31, 2014 include an unrealized loss of $5.8 million for the change of the fair value of our oil and natural gas derivative contracts and a realized loss of $2.7 million on the settlement of our oil and natural gas derivative contracts.

We will continue to be exposed to volatility in earnings resulting from changes in the fair value of our commodity contracts as we do not designate these contracts as hedges.

Income Tax Benefit

We recorded no income tax benefit for the three months ended March 31, 2015. We increased our valuation allowance and reduced our net deferred tax assets to zero during 2009 after considering all available positive and negative evidence related to the realization of our deferred tax assets. Our assessment of the realization of our deferred tax assets has not changed and as a result, we continue to maintain a full valuation allowance for our net deferred asset as of March 31, 2015.

Adjusted EBITDAX

Adjusted EBITDAX is a supplemental non-US GAAP financial measure that is used by management and external users of our consolidated financial statements, such as industry analysts, investors, lenders and rating agencies. We define Adjusted EBITDAX as earnings before interest expense, income tax, DD&A, exploration expense, stock compensation expense and impairment of oil and gas properties. In calculating Adjusted EBITDAX, gains/losses on derivatives, less net cash received or paid in settlement of commodity derivatives are excluded from Adjusted EBITDAX. Other excluded items include Interest income and other, Gain/loss on sale of assets, Gain/loss on early extinguishment of debt and other expense. Adjusted EBITDAX is not a measure of net income (loss) as determined by US GAAP. Adjusted EBITDAX should not be considered an alternative to net income, as defined by US GAAP. The following table presents a reconciliation of the non-US GAAP measure of Adjusted EBITDAX to the US GAAP measure of net income (loss), its most directly comparable measure presented in accordance with US GAAP.

	Three Months Ended March 31,	
	2015	2014
	(In thousands)	
Net loss (US GAAP)	$(21,118)	$(22,492)
Exploration expense	3,658	2,317
Depreciation, depletion and amortization	20,233	29,238
Stock compensation expense	1,886	2,350
Interest expense	12,079	11,878
(Gain) loss on derivatives not designated as hedges	(4,430)	8,501
Net cash received (paid) in settlement of derivative instruments	13,094	(2,731)
Other items (1)	(937)	(10)

Adjusted EBITDAX	$24,465	$29,051

(1) Other items include interest income, gain on sale of assets and other expense.

Management believes that this non-US GAAP financial measure provides useful information to investors because it is monitored and used by our management and widely used by professional research analysts in the valuation and investment recommendations of companies within the oil and gas exploration and production industry. Our computations of Adjusted EBITDAX may not be comparable to other similarly totaled measures of other companies.

Liquidity and Capital Resources

Overview

Our primary sources of cash during the first quarter of 2015 were proceeds from our Second Lien Notes offering, proceeds from our common stock offering and cash flow from our operating activities. We used cash primarily to fund our capital spending program, repay bank borrowings, pay interest on outstanding debt and pay preferred stock dividends. We expect to finance our estimated capital expenditures for the remainder of 2015 through a combination of cash from operating activities and borrowings under our Senior Credit Facility.

We have in place a $600 million Senior Credit Facility, entered into with a syndicate of U.S. and international lenders. As of March 31, 2015, we had a $150 million borrowing base with $52 million in outstanding borrowings and $6.4 million of cash. Pursuant to the terms of the Senior Credit Facility, borrowing base redeterminations occur on a semi-annual basis on April 1 and October 1. Our next borrowing base redetermination will occur on October 1, 2015.

Outlook

We are an exploration and production Company with interests in non-conventional oil shale properties that require large investments of capital to develop. Our immediate capital resources to develop our properties come from cash on hand, operating cash flows and borrowings on our Senior Credit Facility. The current significant decline in crude oil prices and to a lesser extent the continued depressed natural gas prices has negatively impacted our cash flows that enable us to invest in and maintain our properties and service our long term obligations.

We have taken the following steps in the first quarter of 2015 to mitigate the effects of the abnormally low crude oil prices on our operations and conserve capital:

- As announced in January 2015, we have significantly reduced our capital expenditures planned for 2015 as compared to 2014.
- We have generated savings by negotiating cost reductions from service providers.
- We have frozen salaries at 2014 levels.
- We have reduced our staff headcount by 18% from year-end 2014 levels.
- We have reduced discretionary expenditures.

We have taken the following steps in the first quarter of 2015 to enhance liquidity:

- We have extended the maturity of our Senior Credit Facility to February 24, 2017.
- We received proceeds from our issuance of $100 million in Second Lien Notes.
- We sold 12,000,000 shares of our common stock to the public for $48.0 million of net proceeds.

In addition, to support 2015 cash flows, we have in place derivative positions covering our anticipated oil and condensate sales volumes for the rest of 2015. See Note 6 – “Derivative Activities” in the Notes to the Consolidated Financial Statements in Part I Item 1 of this Quarterly Report on Form 10-Q.

As a result of the steps we have taken to conserve capital and enhance our liquidity, we anticipate cash from operations, cash on hand and available borrowing capacity will be sufficient to meet the our investing, financing, and working capital requirements through the end of 2015, however the effects of an extended period of low commodity prices will require us to take further cost cutting measures.

Capital Resources

We have other resource options to enhance liquidity as well, such as:

- Sale of non-core assets;
- Joint venture partnerships in our TMS, Eagle Ford Shale Trend and/or core Haynesville Shale acreage;
- Issuance of debt or equity securities;
- Availability under the Senior Credit Facility; and
- The flexibility to further reduce capital expenditures.

Cash Flows

The following table presents our comparative cash flow summary for the periods reported (in thousands):

	Three Months Ended March 31,		
	2015	2014	Variance
Cash flow statement information:			
Net cash:			
Provided by operating activities	$5,717	$6,555	$(838)
Used in investing activities	(67,577)	(57,529)	(10,048)
Provided by financing activities	68,278	2,564	65,714
Increase (decrease) in cash and cash equivalents	$6,418	$(48,410)	$54,828

Operating activities. Production from our wells, the price of oil and natural gas and operating costs represent the main drivers behind our cash flow from operations. Changes in working capital also impact cash flows. Net cash provided by operating activities for the three months ended March 31, 2015 totaled $5.7 million down from $6.6 million for the three months ended March 31, 2014. Operating cash flows before working capital changes decreased $6.0 million for the three months ended March 31, 2015 compared to the same period in 2014 reflecting the absence of cash flows from natural gas properties sold in December 2014 and lower commodity prices. The increase in cash flows of $5.2 million from the change in working capital for the three months ended March 31, 2015 compared to the same period in 2014 resulted from timing of expenditures and reduced activity.

Investing activities. Net cash used in investing activities was $67.6 million for the three months ended March 31, 2015, compared to $57.5 million for the three months ended March 31, 2014. While we booked capital expenditures of approximately $48.5 million in the three months ended March 31, 2015, we paid out cash amounts totaling $68.4 million in the three months ended March 31, 2015. The difference was attributed to $33.8 million accrued at December 31, 2014 and paid in the three months ended March 31, 2015 offset by $13.9 million in drilling and completion costs accrued at March 31, 2015. Capital expenditures in the first quarter of 2015 were offset by the receipt of $0.8 million in net proceeds, primarily from the sale of non-core assets located in East Texas.

Financing activities. Net cash provided in financing activities for the three months ended March 31, 2015 consisted of proceeds from issuance of Second Lien Notes of $100 million and net proceeds from the sale of common stock of $48 million partially offset by net repayment of borrowing under the Senior Credit Facility of $69 million, preferred stock dividends of $7.4 million and debt issuance cost of $3.3 million. We had $52 million in borrowings outstanding under our Senior Credit Facility as of March 31, 2015 and $6.4 million of cash. In the three months ended March 31, 2014, net cash provided in financing activities consisted of $10 million net borrowings under the Senior Credit Facility partially offset by preferred stock dividend payments of $7.4 million.

Debt consisted of the following balances as of the dates indicated (in thousands):

	March 31, 2015			December 31, 2014		
	Principal	Carrying Amount	Fair Value (1)	Principal	Carrying Amount	Fair Value (1)
Senior Credit Facility	$52,000	$52,000	$52,000	$121,000	$121,000	$121,000
3.25% Convertible Senior Notes due 2026	429	429	107	429	429	353
5.0% Convertible Senior Notes due 2029 (2)	6,692	6,692	2,543	6,692	6,692	3,480
5.0% Convertible Senior Notes due 2032 (3)	171,620	166,796	97,993	170,770	165,504	87,093
8.0% Second Lien Senior Secured Notes due 2018 (4)	100,000	84,674	58,943	—	—	—
8.875% Senior Notes due 2019	275,000	275,000	140,250	275,000	275,000	136,125
Total debt	$605,741	$585,591	$351,836	$573,891	$568,625	$348,051

(1) The carrying amount for the Second Amended and Restated Credit Agreement represents fair value as the variable interest rates are reflective of current market conditions. The fair value of the notes was obtained by direct market quotes within Level 1 of the fair value hierarchy.

(2) The debt discount was amortized using the effective interest rate method based upon an original five year term through October 1, 2014. The debt discount was fully amortized as of December 31, 2014.

(3) The debt discount is being amortized using the effective interest rate method based upon a four year term through October 1, 2017, the first repurchase date applicable to the 2032 Notes. The debt discount was $4.8 million and $5.3 million as of March 31, 2015 and December 31, 2014, respectively.

(4) The debt discount is being amortized using the effective interest rate method based upon a four year term through September 1, 2017, the first repurchase date applicable to the Second Lien Notes. The debt discount as of March 31, 2015 was $15.3 million.

The following table summarizes the total interest expense (contractual interest expense, accretion, amortization of debt discount and financing costs) and the effective interest rate on the liability component of the debt (amounts in thousands, except effective interest rates):

	Three Months Ended March 31, 2015			Three Months Ended March 31, 2014		
	Interest Expense	Effective Interest Rate		Interest Expense	Effective Interest Rate	
Senior Credit Facility	$1,537	3.9	%	$585	NM	
3.25% Convertible Senior Notes due 2026	3	3.3	%	4	3.3	%
5.0% Convertible Senior Notes due 2029	84	5.0	%	1,424	11.0	%
5.0% Convertible Senior Notes due 2032	3,573	8.6	%	3,538	8.4	%
8.0% Second Lien Senior Secured Notes due 2018	555	15.6	%	—	—	%
8.875% Senior Notes due 2019	6,327	9.2	%	6,327	9.2	%
Total	$12,079			$11,878		

NM - Not meaningful.

For additional information on our financing activities, see Note 3 – "Debt" in the Notes to Consolidated Financial Statements under Part 1, Item I of this Form 10-Q.

Off-Balance Sheet Arrangements

We do not currently have any off-balance sheet arrangements for any purpose.

Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operations are based on consolidated financial statements which were prepared in accordance with generally accepted accounting principles in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. We believe that certain accounting policies affect the more significant judgments and estimates used in the preparation of our consolidated financial statements. Our Annual Report on Form 10-K for the year ended December 31, 2014, includes a discussion of our critical accounting policies and there have been no material changes to such policies during the three months ended March 31, 2015.

Item 3—Quantitative and Qualitative Disclosures about Market Risk

Our primary market risks are attributable to fluctuations in commodity prices and interest rates. These fluctuations can affect revenues and cash flow from operating, investing and financing activities. Our risk-management policies provide for the use of derivative instruments to manage these risks. The types of derivative instruments we utilize include futures, swaps, options and fixed-price physical-delivery contracts. The volume of commodity derivative instruments we utilize may vary from year to year and is governed by risk-management policies with levels of authority delegated by our Board of Directors. Both exchange and over-the-counter traded commodity derivative instruments may be subject to margin deposit requirements, and we may be required from time to time to deposit cash or provide letters of credit with exchange brokers or its counterparties in order to satisfy these margin requirements.

For information regarding our accounting policies and additional information related to our derivative and financial instruments, see Note 1—"Description of Business and Significant Accounting Policies", Note 3—"Debt" and "Note 6—Derivative Activities" in the Notes to Consolidated Financial Statements under Part 1, Item I of this Quarterly Report on Form 10-Q.

Commodity Price Risk

Our most significant market risk relates to fluctuations in crude oil and natural gas prices. Management expects the prices of these commodities to remain volatile and unpredictable. As these prices decline or rise significantly, revenues and cash flow will also decline or rise significantly. In addition, a non-cash write-down of our oil and natural gas properties may be required if future commodity prices experience a sustained and significant decline. Below is a sensitivity analysis of our commodity-price-related derivative instruments.

As of March 31, 2015, we had derivative instruments in place for 2015 of 3,500 Bbls per day (crude oil) and 20,000 MMBtu per day (natural gas). At March 31, 2015, we have a net asset derivative position of $38.2 million related to these derivative instruments. Utilizing actual derivative contractual volumes a hypothetical 10% increase in oil and natural gas prices would have reduced our net asset derivative position to $32.8 million, while a hypothetical 10% decrease in oil and natural gas prices would have increased our net derivative asset to $43.6 million. However, a gain or loss would be substantially offset by a decrease or increase, respectively, in the actual sales value of production covered by the derivative instruments.

Adoption of Comprehensive Financial Reform

The adoption of comprehensive financial reform legislation by the United States Congress could have an adverse effect on our ability to use derivative instruments to reduce the effect of commodity price, interest rate and other risks associated with our business. See “Risk Factors” in our Annual Report on Form 10-K for the fiscal year ended December 31, 2014.

Item 4—Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We have established disclosure controls and procedures designed to ensure that material information required to be disclosed in our reports filed under the Securities Exchange Act of 1934, as amended (the “Exchange Act”) is recorded, processed, summarized and reported within the time periods specified by the Securities and Exchange Commission and that any material information relating to us is recorded, processed, summarized and reported to our management including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosures. In designing and evaluating our disclosure controls and procedures, our management recognizes that controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving desired control objectives. In reaching a reasonable level of assurance, our management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

As required by Rule 13a-15(b) under the Exchange Act, we have evaluated, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, the effectiveness of the design and operation of our disclosure controls and procedures (as defined in rules 13a-15(c) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this report. Our Chief Executive Officer and Chief Financial Officer, based upon their evaluation as of March 31, 2015, the end of the period covered in this report, concluded that our disclosure controls and procedures were effective.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during our most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II—OTHER INFORMATION

Item 1—Legal Proceedings

A discussion of current legal proceedings is set forth in Part I, Item 1 under Note 8—"Commitments and Contingencies" in the Notes to Consolidated Financial Statements in this Form 10-Q.

Item 1A—Risk Factors

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2014, which could materially affect our business, financial condition or future results. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially affect our business, financial condition or future results.

Item 6—Exhibits

3.1 Certificate of Amendment of Restated Certificate of Incorporation of Goodrich Acquisition II, Inc., dated January 31, 1997 (Incorporated by reference to Exhibit 3.1 B of the Company's Third Amended Registration Statement on Form S-1 (Registration No. 333-47078) filed on December 8, 2000).

3.2 Certificate of Amendment of Restated Certificate of Incorporation of Goodrich Petroleum Corporation, dated March 12, 1998 (Incorporated by reference to Exhibit 3.2 of the Company's Annual Report on Form 10-K (File No. 001-12719) for the year ended December 31, 1997).

3.3 Certificate of Amendment of Restated Certificate of Incorporation of Goodrich Petroleum Corporation, dated May 9, 2002 (Incorporated by reference to Exhibit 3.4 of the Company's Current Report on Form 8-K (File No. 001-12719) filed on December 3, 2007).

3.4 Certificate of Amendment of Restated Certificate of Incorporation of Goodrich Petroleum Corporation, dated May 30, 2007 (Incorporated by reference to Exhibit 3.1 of the Company's Quarterly Report on Form 10-Q (File No. 001-12719) filed on August 9, 2007).

3.5 Bylaws of the Company, as amended and restated (Incorporated by reference to Exhibit 3.2(i) of the Company's Form 8-K (File No. 001-12719) filed on February 19, 2008).

3.6 Certificate of Designation of 5.375% Series B Cumulative Convertible Preferred Stock (Incorporated by reference to Exhibit 1.1 of the Company's Form 8-K (File No. 001-12719) filed on December 22, 2005).

3.7 Certificate of Designation with respect to the 10.00% Series C Cumulative Preferred Stock (Incorporated by reference to Exhibit 4.3 of the Company's Current Report on Form 8-K (File No. 001-12719) filed on April 10, 2013).

3.8 Certificate of Designation with respect to the 9.75% Series D Cumulative Preferred Stock (Incorporated by reference to Exhibit 4.3 of the Company's Current Report on Form 8-K (File No. 001-12719) filed on August 19, 2013).

4.1 Purchase Agreement, dated as of February 26, 2015, by and among Goodrich Petroleum Corporation and Franklin Advisers, Inc., as investment manager on behalf of certain funds and accounts listed thereto (Incorporated by reference to Exhibit 4.16 of the Company's Annual Report on Form 10-K (File No. 001-12719) for the year ended December 31, 2014).

4.2

Indenture, dated March 12, 2015, between Goodrich Petroleum Corporation, Goodrich Petroleum Company, L.L.C. and U.S. Bank National Association, as Trustee and Collateral Agent (Incorporated by reference to Exhibit 4.1 of the Company's Current Report on Form 8-K (File No. 001-12719) filed on March 18, 2015).

4.3 Warrant Agreement, dated March 12, 2015, between Goodrich Petroleum Corporation and American Stock Transfer & Trust Company LLC (Incorporated by reference to Exhibit 4.2 of the Company's Current Report on Form 8-K (File No. 001-12719) filed on March 18, 2015).

4.4 Registration Rights Agreement, dated March 12, 2015, by and among Goodrich Petroleum Corporation, Goodrich Petroleum Company, L.L.C. and Franklin Advisers, Inc., as investment manager on behalf of certain funds and accounts (Incorporated by reference to Exhibit 4.3 of the Company's Current Report on Form 8-K (File No. 001-12719) filed on March 18, 2015).

4.5 Warrant Registration Rights Agreement, dated March 12, 2015, by and among Goodrich Petroleum Corporation and Franklin Advisers, Inc., as investment manager on behalf of certain funds and accounts (Incorporated by reference to Exhibit 4.4 of the Company's Current Report on Form 8-K (File No. 001-12719) filed on March 18, 2015).

10.1 Thirteenth Amendment to the Second Amended and Restated Credit Agreement dated February 26, 2015 among Goodrich Petroleum Company L.L.C. and Wells Fargo Bank National Association as administrative agent and the lenders thereto (Incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K (File No. 001-12719) filed on March 2, 2015).

31.1* Certification by Chief Executive Officer Pursuant to 15 U.S.C. Section 7241, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2* Certification by Chief Financial Officer Pursuant to 15 U.S.C. Section 7241, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1** Certification by Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2**	Certification by Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS*	XBRL Instance Document
101.SCH*	XBRL Schema Document
101.CAL*	XBRL Calculation Linkbase Document
101.LAB*	XBRL Labels Linkbase Document
101.PRE*	XBRL Presentation Linkbase Document
101.DEF*	XBRL Definition Linkbase Document

*Filed herewith
**Furnished herewith

SIGNATURES

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

GOODRICH PETROLEUM CORPORATION

(Registrant)

Date: May 6, 2015	By:	/S/ Walter G. Goodrich Walter G. Goodrich Vice Chairman & Chief Executive Officer
Date: May 6, 2015	By:	/S/ Jan L. Schott Jan L. Schott Senior Vice President & Chief Financial Officer

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