

TETON ENERGY CORP  
Form 424B3  
July 16, 2007

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Filed Pursuant to Rule 424(b)(3)  
Registration Statement No. 333-132451

PROSPECTUS SUPPLEMENT  
(to Prospectus dated April 3, 2006)

**5,760,000 Shares**

**Common Stock**

The selling stockholders identified in this prospectus supplement are offering 5,760,000 shares of Common Stock, \$0.001 par value per share (the Common Stock ), of Teton Energy Corporation, which are issuable to them upon conversion of the Senior Subordinated Convertible Notes (the Notes ) held by them, and upon exercise of the Common Stock Purchase Warrants (the Warrants ) held by them. The selling stockholders will receive all of the net proceeds from this offering. You should carefully read this prospectus supplement and the accompanying prospectus, together with the documents we incorporate by reference, before you invest in our Common Stock.

Our Common Stock is listed on the American Stock Exchange under the symbol TEC. The closing sale price of our Common Stock as reported on the American Stock Exchange on July 13, 2007, was \$5.34 per share.

**Investing in our Common Stock involves a high degree of risk. See Risk Factors, beginning on page S-5 of this prospectus supplement, and those contained in our incorporated documents, to read about factors you should consider before buying shares of the Common Stock.**

**NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR DETERMINED IF THIS PROSPECTUS SUPPLEMENT OR THE ACCOMPANYING PROSPECTUS IS TRUTHFUL OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.**

The date of this prospectus supplement is July 16, 2007.

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**ABOUT THIS PROSPECTUS SUPPLEMENT**

This prospectus supplement and accompanying prospectus are part of a registration statement (the Registration Statement ) on Form S-3 (File No. 333-132451) that we filed with the Securities and Exchange Commission (the SEC ), utilizing a shelf registration process and that was declared effective on March 31, 2006. Under the shelf registration process, of which this offering is a part, we and/or any named selling stockholders may offer, from time to time, an indeterminate amount of Common Stock, warrants, depositary shares, stock purchase contracts, stock purchase units, preferred stock or debt securities, up to a total dollar amount of \$50,000,000.

This document is in two parts. The first part is this prospectus supplement, which describes the offering by the selling stockholders, and also adds, updates and changes information contained in the accompanying prospectus and the documents incorporated by reference herein and therein. The second part, the accompanying prospectus dated April 3, 2006, gives more general information, some of which may not apply to this offering of securities. To the extent that the information contained in this prospectus supplement differs or varies from the information contained in the accompanying prospectus or any document incorporated by reference, the information in this prospectus supplement controls. You should read the entire prospectus supplement and the accompanying prospectus, as well as the information incorporated by reference herein and therein, before making an investment decision.

You should rely only on the information incorporated by reference or provided in this prospectus supplement and the accompanying prospectus and information incorporated by reference herein and therein. We have not authorized anyone to provide you with additional or different information. This prospectus supplement and the accompanying prospectus are not an offer to sell or the solicitation of an offer to buy any securities other than the securities to which they relate, and are not an offer to sell or the solicitation of an offer to buy securities in any jurisdiction to any person to whom it is unlawful to make an offer or solicitation in that jurisdiction. You should not assume that the information in this prospectus supplement and the accompanying prospectus or in any document incorporated by reference in this prospectus or any accompanying prospectus supplement is accurate as of any date other than the date of this document.

**SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS**

This prospectus supplement, the accompanying prospectus, and the documents incorporated by reference contain both historical and 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. Forward-looking statements, written, oral or otherwise made, represent the Company's expectation or belief concerning future events. All statements, other than statements of historical fact, are or may be forward-looking statements. For example, statements concerning projections, predictions, expectations, estimates or forecasts, and statements that describe our objectives, future performance, plans or goals are, or may be, forward-looking statements. These forward-looking statements reflect management's current expectations concerning future results and events and can generally be identified by the use of words such as may, will, should, could, would, likely, predict, potential, continue, future, estimate, anticipate, intend, plan, foresee, and other similar words or phrases, as well as statements in the future tense.

Forward-looking statements involve known and unknown risks, uncertainties, assumptions, and other important factors that may cause our actual results, performance, or achievements to be different from any future results, performance and achievements expressed or implied by these statements. The following important risks and uncertainties could affect our future results, causing those results to differ materially from those expressed in our forward-looking statements:

General economic conditions;

The market price of, and demand for, oil and natural gas;

Our ability to service future indebtedness;

Our success in completing development and exploration activities;

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Expansion and other development trends of the oil and gas industry;

Our present company structure;

Our accumulated deficit;

Acquisitions and other business opportunities that may be presented to and pursued by us;

Reliance on outside operating companies for drilling and development of our oil and gas properties;

Our ability to integrate our acquisitions into our company structure;

Changes in laws and regulations; and

Other risks and uncertainties discussed in the Risk Factors section and elsewhere in this prospectus supplement and the accompanying prospectus.

These factors are not necessarily all of the important factors that could cause actual results to differ materially from those expressed in any of our forward-looking statements. Other factors, including unknown or unpredictable ones could also have material adverse effects on our future results.

The forward-looking statements included in this prospectus supplement and the accompanying prospectus are made only as of the date set forth on the front of the document. We expressly disclaim any intent or obligation to update any forward-looking statements to reflect new information, subsequent events, changed circumstances, or otherwise.

**TAX CONSIDERATIONS**

We are not providing any tax advice as to the acquisition, holding or disposition of the securities offered herein. In making an investment decision, investors are strongly encouraged to consult their own tax advisor to determine the U.S. federal, state and any applicable foreign tax consequences relating to their investment in our securities.

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**SUMMARY**

*This summary highlights selected information about us. This summary is not complete and does not contain all of the information that you should consider before investing in our securities. You should carefully read the entire prospectus supplement, the accompanying prospectus, and the documents incorporated by reference herein and therein, including the Risk Factors section and the financial statements and related notes, before making an investment decision in our securities. Unless the context requires otherwise or unless otherwise noted, all references in this prospectus supplement or the accompanying prospectus to Company, Teton, we, us, and our are to Teton Energy Corporation and its subsidiaries.*

**About the Company**

Teton Energy Corporation was formed in November 1996 and is incorporated in the State of Delaware. From our inception until 2004, we were primarily engaged in oil and gas exploration, development, and production in Western Siberia, Russia. In July 2004, our shareholders voted to sell our Russian operations to our Russian partner. The gross proceeds received by us in this transaction totaled \$15,000,000. Since July 2004, we have actively pursued opportunities primarily in North America in order to (1) redeploy the cash generated in the sale of our Russian operations and (2) continue our growth.

We are an independent energy company engaged primarily in the development, production and marketing of natural gas and oil in North America. Our strategy is to increase shareholder value by profitably growing reserves and production, primarily through acquiring under-valued properties with reasonable risk-reward potential and by participating in or actively conducting drilling operations in order to exploit our properties. We seek high-quality exploration and development projects with potential for providing long-term drilling inventories that generate high returns. Our current operations are focused in four basins in the Rocky Mountain region of the United States.

**Piceance Basin**

In February 2005, we acquired 25% of the membership interests in Piceance Gas Resources, LLC, a Colorado limited liability company ( Piceance LLC ). Piceance LLC owned certain oil and gas rights and leasehold assets covering 6,314 gross acres in the Piceance Basin in Western Colorado. The properties owned by Piceance LLC carried a net revenue interest of 78.75%. During the first quarter of 2006, the members of Piceance LLC applied to and received the consent of the fee owner of the land on which Piceance LLC s oil and gas rights and leases are located for Piceance LLC to transfer the underlying interest directly to each of the members. As a result, on February 28, 2006, our 25% interest in the oil and gas rights and leases was transferred directly to Teton Piceance LLC, a wholly owned subsidiary of the Company. Through February 28, 2006, we accounted for our investment in Piceance LLC using pro rata consolidation. We currently have 29 wells producing, 14 wells awaiting completion and 3 wells drilling in the Piceance Basin.

**DJ Basin**

During 2005, we acquired approximately 195,252 undeveloped gross acres in the Eastern Denver-Julesburg Basin (the DJ Basin ) located in Nebraska on the Nebraska-Colorado border. The properties carried a net revenue interest of approximately 81.0%. Effective December 31, 2005, we entered into an Acreage Earning Agreement (the Earning Agreement ) with Noble Energy, Inc. ( Noble ), which closed on January 27, 2006. Under the terms of the Earning Agreement, Noble was entitled to return 75% working interest in our DJ Basin acreage within the Area of Mutual Interest ( AMI ) after drilling 20 wells by March 1, 2007, at no cost to us. Pursuant to the Earning Agreement, we were



entitled to receive 25% of any net revenues derived from the first 20 wells drilled and completed. The Earning Agreement also provides that after completion of the first 20 wells, we and Noble will split all costs associated with future drilling, operating and other project costs according to each party's working interest percentage.

Noble paid us \$3,000,000 under the Earning Agreement and we recorded the entire \$3,000,000 (including \$300,000, which was reflected as a deposit at December 31, 2005) as a reduction of the investment in our DJ Basin undeveloped property. On December 8, 2006, we received notification from Noble that the first 20 wells had been

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drilled and completed and thus Noble has now earned a 75% working interest in all acreage within the AMI. In 2006, we acquired an additional 14,932 gross acres in the DJ Basin which brought our total gross acreage in the DJ Basin to 210,184 gross acres. On December 15, 2006, we closed on an agreement to purchase an additional leasehold interest in the DJ Basin with an undisclosed third party. The agreement called for the acquisition of approximately 56,389 gross acres. Approximately 45,773 net acres were within the Teton / Noble AMI and approximately 10,616 gross acres outside the AMI. Noble agreed to accept its 75% interest in the acreage within the AMI. As of December 31, 2006, our total gross acreage in the DJ Basin was 266,572 acres, of which 255,956 gross acres are in the Teton / Noble AMI and 10,616 gross acres are outside of the AMI. As a result of these transactions we currently have a net acreage position of 57,834 net acres within the Teton / Noble AMI and 8,550 net acres outside the AMI.

On March 14, 2007, we announced that five of the 20 pilot wells in the DJ Basin were put on production by Noble in the Chundy area as part of a flow rate test to ascertain commercial viability. On May 17, 2007, we announced that the Chundy pilot was testing for over 40 days and was flowing 400 thousand cubic feet per day of gas sales into the Kinder Morgan Pony Express pipeline from seven wells. Based on well performance, the pilot area appeared to be economic, and, in order to further evaluate, an additional six wells were drilled to allow the compression system to operate more efficiently. Six wells in the Grant pilot area have commenced testing and were connected to gas sales in early June 2007, and we are continuing to flow test these wells for stabilized rates.

In June 2007, we formed a drilling partnership with privately held Targe Energy E&P, LLC ( Targe ) to evaluate the approximately 8,550 net acres we hold outside of the AMI with Noble in the eastern DJ Basin. The acreage block is named the Frenchman Creek prospect. Pursuant to the partnership, Targe will carry us on a two well pilot program and their proportionate share of 3-D seismic to earn a 50% interest in the acreage block. We are the operator of the project and plan to utilize coiled tubing drilling and completion technology. The two initial exploratory wells will be followed up by infill drilling on 40-acre spacing, assuming commercial success. The initial tests are targeting the Niobrara formation at a depth of 2,500 feet.

### **Williston Basin**

On May 5, 2006, we acquired a 25% working interest in approximately 87,192 gross acres in the Williston Basin located in Williams County, North Dakota. We purchased this acreage position from American Oil and Gas Inc. ( American ) for a total purchase price of approximately \$6.17 million. Evertson Energy Company ( Evertson ) is the operator and has a 25% working interest in the acreage block with American holding the remaining 50% working interest. Per the terms of the purchase and sale agreement with American we paid American \$2.47 million in cash at closing and agreed to pay an additional \$3.7 million in respect of American's 50% share of the costs of the first two planned wells through June 1, 2007. As of June 30, 2007, we have paid to American the full \$3.7 million purchase consideration.

Evertson began drilling the first well on this acreage, the Champion 1-25H, a tri-lateral horizontal test on September 25, 2006. The estimated cost for the Champion 1-25H is approximately \$7.0 million to drill, complete and test. As of the date of this prospectus supplement Evertson was testing the Champion 1-25H. We are currently paying our 25% working interest share of the drilling, completion and testing costs of the Champion 1-25H, and will do so on subsequent wells that we participate in at this ownership level.

The Champion 1-25H well is targeting the Mississippian Bakken Formation as the primary target zone. All three horizontal laterals have been drilled, made ready for completion and fracture stimulation occurred on January 19, 2007. The production-testing period commenced following flow back of the liquids used during the fracture stimulation process, and testing is still ongoing.

### **Big Horn Basin**

In May 2007, we acquired approximately 12,000 gross and net acres in the Big Horn Basin in the state of Wyoming with a 100 percent working interest for approximately \$900,000.

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**Recent Developments**

On February 1, 2007, we executed an employment agreement with Dominic J. Bazile II to become our Executive Vice President and Chief Operating Officer. The employment agreement provides for an initial salary for Mr. Bazile of \$225,000 per year. Under the terms of the employment agreement, Mr. Bazile is entitled to 12 months severance pay in the event of a change of position or change in control of the Company. The employment agreement contains an evergreen provision, which automatically extends the term of Mr. Bazile's employment for a two-year period if the employment agreement is not terminated by notice by either party during 60 days prior to the end of the initial stated two-year term. In addition, Mr. Bazile's employment agreement includes an indemnification agreement.

On March 12, 2007, BNP Paribas increased our borrowing base to \$6 million from the initial June 15, 2006 borrowing base of \$3 million.

On May 15, 2007, we announced that we are considering the monetization of a portion of certain of our oil and gas assets in order to fund our ongoing capital program.

On May 17, 2007, we closed on \$9.0 million of proceeds from the sale of 8% Senior Subordinated Convertible Notes, based on an earlier announced offering of \$7.0 million and an additional \$2.0 million of oversubscriptions. We received net proceeds of approximately \$8.3 million after fees and costs. The conversion price for the Notes is \$5.00 per share. Investors of the Notes also received warrants to purchase a total of 3,600,000 shares of our Common Stock at an exercise price of \$5.00 per share. The warrants also contain a cashless exercise feature.

On June 15, 2007, we added to our natural gas hedging program by entering into a Colorado Interstate Gas fixed price swap at a strike price of \$5.78 per MMBtu for 30,000 million British Thermal Units ( MMBtu ) per month, commencing July 2007 and continuing through October 2008, for a total of 480,000 MMBtu for the respective period.

On July 3, 2007, the Compensation Committee of our Board of Directors finalized the award of a total of up to 460,000 shares of performance-vesting Restricted Stock under the Company's 2005 Long-Term Incentive Plan (the LTIP ). Awards were granted to Dominic J. Bazile II, Chief Operating Officer of the Company, and William P. Brand, the Company's Controller, in accordance with the terms of Messrs. Bazile and Brand's previously disclosed Employment Agreements, and to Robert Bailey, a director of the Company. The Restricted Stock Awards are performance-based awards and the terms of these grants are governed by Restricted Stock Award Agreements ( Award Agreements ). The period being measured for the Restricted Stock is June 30, 2007 to June 30, 2010 (the Performance Period ).

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**OFFERING SUMMARY**

|  |   |
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| <b>Shares of Common Stock Offered by the Selling Stockholders:</b> | 5,760,000 shares  |
| <b>Selling Stockholders:</b>                                       | Holders of the Notes and Warrants. See Offering and Selling Stockholders below.   |
| <b>Shares of Common Stock Outstanding Prior to this Offering:</b>  | 16,184,312 shares   |
| <b>Shares of Common Stock Outstanding After this Offering:</b>     | 16,184,312 shares   |
| <b>Use of Proceeds:</b>  | We will not receive any of the proceeds from the sale of shares of Common Stock by the selling stockholders identified in this prospectus supplement. The selling stockholders will receive all net proceeds from the sale of the shares of our Common Stock offered by this prospectus supplement. |
| <b>Dividend Policy:</b>  | We have not paid any dividends on our Common Stock since inception, and we do not anticipate the declaration or payment of any dividends at any time in the foreseeable future.   |
| <b>Risk Factors:</b>   | See Risk Factors beginning on page S-9 of this prospectus supplement and other information included in this prospectus supplement and the accompanying prospectus for a discussion of factors you should carefully consider before deciding to invest in our Common Stock.                          |
| <b>American Stock Exchange Symbol:</b>                             | TEC   |

The number of shares of Common Stock to be outstanding after this offering is based on 16,184,312 shares of Common Stock outstanding on July 11, 2007.

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**RISK FACTORS**

*Investing in our securities involves a high degree of risk. Before making an investment decision, you should carefully consider the risks described below, in the accompanying prospectus and in the Company's Annual Report on Form 10-K for the year ended December 31, 2006, which is incorporated by reference herein, all of which set forth additional important risks and uncertainties that could materially adversely affect the Company's business, financial condition or operating results. Additional risks and uncertainties that the Company does not presently know or that the Company currently deems immaterial may also impair the Company's business, financial condition or operating results.*

**Risks Related to our Business**

**We have incurred significant losses. We expect future losses and we may never become profitable.**

We have incurred significant losses in the past. For the fiscal quarter ended March 31, 2007, we incurred a net loss of \$1,800,946. For the years ended December 31, 2006, 2005, and 2004, we incurred net losses from continuing operations of \$5,724,469, \$3,777,449, and \$5,193,281, respectively. In addition, we had an accumulated deficit of \$32,025,141 at March 31, 2007 and \$30,224,195 at December 31, 2006. We may fail to achieve significant revenues or sustain profitability. There can be no assurance of when, if ever, we will be profitable or, if we do become profitable, if we will be able to maintain profitability.

**Substantially all of our producing properties are located in the Rocky Mountains, making us vulnerable to risks associated with operating in one geographic area.**

Our operations are focused in the Rocky Mountain region, which means our producing properties are geographically concentrated in that area. As a result, we may be disproportionately exposed to the impact of delays or interruptions of production from these wells caused by significant governmental regulation, transportation capacity constraints, curtailment of production or interruption of transportation of natural gas produced from the wells in these basins.

**If we are unable to obtain additional funding our business operations will be harmed.**

We recently received approximately \$9,000,000 from the sale of the Notes and Warrants to the selling stockholders, which we intend to use for our 2007 capital expenditure program. However, we will require additional funding to meet increasing capital costs associated with our operations. Based on our operating partners' current capital expenditure plans, we will be unable to participate in additional wells if we are unable to secure additional funding. We will not receive any of the proceeds of this offering. In addition, although our revolving credit facility provides availability of up to \$50 million, our current borrowing base is only \$6 million as of June 30, 2007 and there can be no assurance that our borrowing base will be increased or that additional advances will be made under the revolving credit facility. We do not know if additional financing will be available when needed, or if it is available, if it will be available on acceptable terms. The lack of available future funding may prevent us from implementing our business strategy.

**Drilling for and producing oil and natural gas are high-risk activities with many uncertainties that could adversely affect our business, financial condition, or results of operations.**

Our future success will depend on the success of our exploitation, exploration, development, and production activities. Our oil and natural gas exploration and production activities are subject to numerous risks beyond our control,

including the risk that drilling will not result in commercially viable oil or natural gas production. Any future decision to purchase, explore, develop, or otherwise exploit prospects or properties will depend in part on the evaluation of data obtained through geophysical and geological analyses, production data and engineering studies, the results of which are often inconclusive or subject to varying interpretations. Our cost of drilling, completing and operating wells are often uncertain before drilling commences. Overruns in budgeted expenditures are common

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risks that can make a particular project uneconomic. Further, many factors may curtail, delay, or cancel drilling, including the following:

- delays imposed by or resulting from compliance with regulatory requirements;
- pressure or irregularities in geological formations;
- shortages of or delays in obtaining equipment, including drilling rigs, and qualified personnel;
- equipment failures or accidents;
- adverse weather conditions;
- reductions in oil and natural gas prices;
- title problems; and
- limitations in the market for oil and natural gas.

**We may incur non-cash charges to our operations as a result of current and future financing transactions.**

Under current accounting rules and requirements we may incur additional non-cash charges to future operations beyond the stated contractual interest payments required under our current and potential future financing arrangements. While such charges are generally non-cash, they would impact our results of operations and earnings per share and the impact may be material.

**Our business involves numerous operating hazards for which our insurance and other contractual rights may not adequately cover our potential losses.**

Our operations are subject to certain hazards inherent in drilling for oil or natural gas, such as blowouts, reservoir damage, loss of production, loss of well control, punchthroughs, craterings, or fires. The occurrence of these events could result in the suspension of drilling operations, equipment shortages, damage to or destruction of the equipment involved and injury or death to rig personnel.

Operations also may be suspended because of machinery breakdowns, abnormal drilling conditions, failure of subcontractors to perform or supply goods or services or personnel shortages. Damage to the environment could also result from our operations, particularly through oil spillage or extensive uncontrolled fires. We may also be subject to damage claims by other oil and gas companies.

Although we and/or our operating partners maintain insurance in the areas in which we operate, pollution and environmental risks generally are not fully insurable. Our insurance policies and contractual rights to indemnity may not adequately cover our losses, and we do not have insurance coverage or rights to indemnity for all risks. If a significant accident or other event occurs and is not fully covered by insurance or contractual indemnity, it could adversely affect our financial position and results of operations.

**Acquisitions are a part of our business strategy and are subject to the risks and uncertainties of evaluating recoverable reserves and potential liabilities.**



Our business strategy includes a continuing acquisition program. During 2005 and 2006, we completed two separate leasehold acquisitions each year. In addition to the leaseholds, we are seeking to acquire producing properties including the possibility of acquiring a producing property through the acquisition of an entire company. Possible future acquisitions could result in our incurring additional debt, contingent liabilities, and increased expenses, all of which could have a material adverse effect on our financial condition and operating results. We could be subject to significant liabilities related to our acquisitions.

The successful acquisition of producing and non-producing properties requires an assessment of a number of factors, many of which are inherently inexact and may prove to be inaccurate. These factors include: evaluating recoverable reserves, estimating future oil and gas prices, estimating future operating costs, future development costs, the costs and timing of plugging and abandonment and potential environmental and other liabilities, assessing title issues, and other factors. Our assessments of potential acquisitions will not reveal all existing or potential problems, nor will such assessments permit us to become familiar enough with the properties fully to assess their

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capabilities and deficiencies. In the course of our due diligence, we may not inspect every well, platform, or pipeline. Inspections may not reveal structural and environmental problems, such as pipeline corrosion or groundwater contamination, when they are made.

We may not be able to obtain contractual indemnities from a seller of a property for liabilities that we assume or the contractual indemnification we do receive may be inadequate to cover the liabilities we do assume. We may be required to assume the risk of the physical condition of acquired properties in addition to the risk that the acquired properties may not perform in accordance with our expectations. As a result, some of the acquired businesses or properties may not produce revenues, reserves, earnings or cash flow at anticipated levels and in connection with these acquisitions, we may assume liabilities that were not disclosed to or known by us or that exceed our estimates.

### **Our ability to complete acquisitions could be affected by competition with other companies and our ability to obtaining financing or regulatory approvals.**

In pursuing acquisitions, we compete with other companies, many of which have greater financial and other resources to acquire attractive companies and properties. Competition for acquisitions may increase the cost of, or cause us to refrain from, completing acquisitions. Our strategy of completing acquisitions is dependent upon, among other things, our ability to obtain debt and equity financing and, in some cases, regulatory approvals. Our ability to pursue our acquisition strategy may be hindered if we are not able to obtain financing or regulatory approvals.

### **Our acquisitions may pose integration risks and other difficulties.**

Increasing our reserve base through acquisitions is an important part of our business strategy. Our failure successfully to integrate acquired businesses successfully into our existing business or consummating future acquisitions could result in our incurring unanticipated expenses and losses. In addition, we may have to assume cleanup or reclamation obligations or other unanticipated liabilities in connection with these acquisitions. The scope and cost of these obligations may ultimately be materially greater than estimated at the time of the acquisition.

In addition, the process of integrating acquired operations into our existing operations may result in unforeseen operating difficulties and may require significant management attention and financial resources that would otherwise be available for the ongoing development or expansion of existing operations.

Possible future acquisitions could result in our incurring additional debt, contingent liabilities and expenses, all of which could have a material adverse effect on our financial condition and operating results.

### **Substantial acquisitions or other transactions could require significant external capital and could change our risk and property profile.**

In order to finance acquisitions of additional producing properties, we may need to alter or increase our capitalization substantially through the issuance of debt or equity securities, the sale of production payments, or other means. These changes in capitalization may significantly affect our risk profile. Additionally, significant acquisitions or other transactions can change the character of our operations and business. The character of the new properties may be substantially different in operating or geological characteristics or geographic location than our existing properties. Furthermore, we may not be able to obtain external funding for future acquisitions, other transactions, or on terms acceptable to us.

### **Competitive industry conditions may negatively affect our ability to conduct operations.**

Competition in the oil and gas industry is intense, particularly with respect to the acquisition of producing properties and of proved undeveloped acreage. Major and independent oil and gas companies actively bid for desirable oil and gas properties, as well as for the equipment, supplies, labor and services required to operate and develop their properties. Many of our competitors have financial resources that are substantially greater than ours, which may adversely affect our ability to compete within the industry.

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**There is currently a shortage of available drilling rigs and equipment which could cause us to experience higher costs and delays that could adversely affect our operations.**

Although equipment and supplies used in our business are usually available from multiple sources, there is currently a general shortage of drilling equipment, drilling supplies, and personnel or firms that provide such services on a contract basis. It is possible that these shortages are likely to intensify. The costs of equipment and supplies are substantially greater now than in prior periods and continue to escalate. In addition, the delivery time associated with such equipment and supplies is substantially longer from the date of order until receipt and continues to increase. We and our joint venture partners are also attempting to establish arrangements with others to assure adequate availability of certain other necessary drilling equipment and supplies on satisfactory terms, but there can be no guarantee that we will be able to do so. Accordingly, we cannot assure you that we will not experience shortages of, or material price increases in, drilling equipment and supplies, including drill pipe, in the future. Any such shortages could delay and adversely affect our ability to meet our drilling commitments.

**We have limited operating control over our properties.**

A significant portion of our business activities are conducted through joint operating agreements under which we own partial non-operated interests in oil and natural gas properties, and consequently, we do not have control over normal operating procedures, expenditures, or future development of those underlying properties. Therefore, our operating results for that portion of our business activities are beyond our control. The failure of an operator of our wells to perform operations adequately, or an operator's breach of the applicable agreements, could reduce our production and revenues. In addition, the success and timing of our drilling and development activities on properties operated by others depends upon a number of factors outside of our control, including the operator's timing and amount of capital expenditures, expertise and financial resources, inclusion of other participants in drilling wells, and use of technology. Since we do not have a majority interest in any of our current properties in which we have a non-operated interest, we may not be in a position to remove the operator in the event of poor performance. Further, significant cost overruns of an operation in any one of our current projects may require us to increase our capital expenditure budget and could result in some wells becoming uneconomic.

**We have no long-term contracts to sell oil and gas.**

We do not have any long-term supply or similar agreements with governments or other authorities or entities for which we act as a producer. We are therefore dependent upon our ability to sell oil and gas at the prevailing wellhead market price. There can be no assurance that purchasers will be available or that the prices they are willing to pay will remain stable.

**Oil and gas prices fluctuate, and low prices for an extended period of time are likely to have a material adverse impact on our business, results of operations and financial condition.**

Our revenues, profitability and future growth and reserve calculations depend substantially on reasonable prices for oil and gas. These prices also affect the amount of our cash flow available for capital expenditures and working capital. In addition, the prices of oil and natural gas may affect our ability to borrow money or raise equity capital. The amount we can borrow under our senior revolving credit facility (see Note 6 to the financial statements included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2006) is subject to periodic asset redeterminations based in part on changing expectations of future crude oil and natural gas prices. Lower prices may also reduce the amount of oil and gas that we can produce economically. Among the factors that can cause fluctuations in the prices for oil and gas are:

domestic and foreign supply, and perceptions of supply, of oil and natural gas;

level of consumer demand;

political conditions in oil and gas producing regions;

weather conditions;

world-wide economic conditions;

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domestic and foreign governmental regulations; and

price and availability of alternative fuels.

We have multiple hedges placed on our oil and gas production. See Item 7A Quantitative and Qualitative Disclosures about Market Risk, included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2006, which is incorporated in this prospectus supplement by reference, and Recent Developments on page S-3 of this prospectus supplement.

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

We enter into hedging transactions for our oil and natural gas production to reduce our exposure to fluctuations in the price of oil and natural gas. Our only hedging transactions to date have consisted of a so-called costless collar and a fixed price swap, which are hedging transactions that limit both our downside loss and our upside gain between a certain price range over a defined period of time.

We may in the future enter into these and other types of hedging arrangements to reduce our exposure to fluctuations in the market prices of oil and natural gas. Hedging transactions expose us to risk of financial loss in some circumstances, including if production is less than expected, the other party to the contract defaults on its obligations or there is a change in the expected differential between the underlying price in the hedging agreement and actual prices received. Hedging transactions may limit the benefit we otherwise would have received from increases in the price for oil and natural gas. Furthermore, if we do not engage in hedging transactions, then we may be more adversely affected by declines in oil and natural gas prices than our competitors that engage in hedging transactions. Additionally, hedging transactions may expose us to cash margin requirements.

**The marketability of our production depends mostly upon the availability, proximity and capacity of gas gathering systems, pipelines and processing facilities, which are owned by third parties.**

The marketability of our production depends upon the availability, operation, and capacity of gas gathering systems, pipelines and processing facilities, which are owned by third parties. The unavailability or lack of capacity of these systems and facilities could result in the shut-in of producing wells or the delay or discontinuance of development plans for properties. We currently own an interest in several wells that are capable of producing but may be curtailed from time to time at some point in the future pending gas sales contract negotiations, as well as construction of gas gathering systems, pipelines, and processing facilities.

**Our credit facility has substantial restrictions and financial covenants and we may have difficulty obtaining additional credit, which could adversely affect our operations.**

Our revolving credit facility limits the amounts we can borrow to a borrowing base amount, determined by our lenders in their sole discretion, based upon, among other things, our level of proven reserves and the projected revenues from the oil and natural gas properties securing our loan. The lenders can unilaterally adjust the borrowing base and the borrowings permitted to be outstanding under the revolving credit facility. Any increase in the borrowing base requires the consent of all of the lenders. If the lenders do not agree on an increase, then the borrowing base will be the lowest borrowing base acceptable to the required number of lenders.

Outstanding borrowings in excess of the borrowing base must be repaid immediately, or we must pledge other oil and natural gas properties as additional collateral. Upon a downward adjustment of the borrowing base or if borrowings in

excess of the revised borrowing base are outstanding, we could be forced to repay our indebtedness under the revolving credit facility if we do not have enough unpledged properties to pledge as additional collateral.

We may not have sufficient funds to make repayments under our revolving credit facility. We cannot assure you that we will be able to generate sufficient cash flow to pay the interest on our debt, or will be able to refinance such debt through equity financings or by selling assets. The terms of our revolving credit facility also may prohibit us from taking such actions. Factors that will affect our ability to raise cash through an offering of our capital stock, a refinancing of our debt or a sale of assets include financial market conditions and our market value and operating

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performance at the time of such offering or other financing. We cannot assure you that any such offering, refinancing or sale of assets can be successfully completed.

**Our debt level and the covenants in the agreements governing our debt could negatively impact our financial condition, results of operations and business prospects.**

Our level of indebtedness, and the covenants contained in the agreements governing our debt, could have important consequences for our operations, including:

increasing our vulnerability to general adverse economic and industry conditions and detracting from our ability to withstand successfully a downturn in our business or the economy generally;

requiring us to dedicate a substantial portion of our cash flow from operations to required payments on debt, thereby reducing the availability of cash flow for working capital, capital expenditures and other general business activities;

limiting our ability to obtain additional financing in the future for working capital, capital expenditures, acquisitions and general corporate and other activities;

limiting our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate;

placing us at a competitive disadvantage relative to other less leveraged competitors; and

making us vulnerable to increases in interest rates, because borrowings under our credit facility may be at rates prevailing at the time of each borrowing.

**The instruments governing our indebtedness contain various covenants limiting the discretion of our management in operating our business.**

Our revolving credit facility contains various restrictive covenants that limit our management's discretion in operating our business. In particular, these agreements will limit our and our subsidiaries' ability to, among other things:

pay dividends on, redeem or repurchase our capital stock or redeem or repurchase our subordinated debt;

make loans to others;

make investments;

incur additional indebtedness or issue preferred stock;

create certain liens;

sell assets;

enter into agreements that restrict dividends or other payments from our subsidiaries to us;

consolidate, merge or transfer all or substantially all of the assets of us and our subsidiaries taken as a whole;



engage in transactions with affiliates;

enter into hedging contracts;

create unrestricted subsidiaries; and

enter into sale and leaseback transactions.

In addition, our revolving credit facility also requires us to maintain a certain working capital ratio and a certain debt to EBITDAX (as defined in the revolving credit facility) ratio. If we fail to comply with the restrictions in the revolving credit facility (or any other subsequent financing agreements), a default may allow the creditors (if the agreements so provide) to accelerate the related indebtedness as well as any other indebtedness to which a cross-

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acceleration or cross-default provision applies. In addition, lenders may be able to terminate any commitments they had made to make available further funds.

**Our development and exploration operations require substantial capital and we may be unable to obtain needed capital or financing on satisfactory terms, which could lead to a loss of properties and a decline in our natural gas and oil reserves.**

The oil and natural gas industry is capital intensive. We make and expect to continue to make substantial capital expenditures in our business and operations for the exploration for and development, production and acquisition of oil and natural gas reserves. To date, we have financed capital expenditures primarily with equity financings. We anticipate being able to finance our future capital expenditures with a combination of cash flow from operations, future financing arrangements, and equity financings. Our cash flow from operations and access to capital is subject to a number of variables, including:

our proved reserves;

the level of oil and natural gas we are able to produce from existing wells;

the prices at which oil and natural gas are sold; and

our ability to acquire, locate and produce new reserves.

If our revenues or the borrowing base under our revolving credit facility decrease as a result of lower oil and natural gas prices, operating difficulties, declines in reserves or for any other reason, then we may have limited ability to obtain the capital necessary to sustain our operations at current levels. We may, from time to time, need to seek additional financing. We cannot assure you of the availability or terms of any additional financing.

If additional capital is needed, we may not be able to obtain debt or equity financing on terms favorable to us, or at all. If cash generated by operations or available under our revolving credit facility is not sufficient to meet our capital requirements, the failure to obtain additional financing could result in a curtailment of our operations relating to exploration and development of our prospects, which in turn could lead to a possible loss of properties and a decline in our natural gas and oil reserves.

**Reserve estimates depend on many assumptions that may turn out to be inaccurate. Any material inaccuracies in these reserve estimates or underlying assumptions will materially affect the quantities and present value of our reserves.**

The process of estimating oil and natural gas reserves is complex. It requires interpretations of available technical data and many assumptions, including assumptions relating to economic factors. Any significant inaccuracies in these interpretations or assumptions could materially affect the estimated quantities and present value of reserves shown in our financial statements.

In order to prepare our estimates, we must project production rates and timing of development expenditures. We also must analyze available geological, geophysical, production and engineering data. The extent, quality and reliability of this data can vary. The process also requires economic assumptions about matters such as oil and natural gas prices, drilling and operating expenses, capital expenditures, taxes and availability of funds. Therefore, estimates of oil and natural gas reserves are inherently imprecise.

Actual future production, oil and natural gas prices, revenues, taxes, development expenditures, operating expenses and quantities of recoverable oil and natural gas reserves most likely will vary from our estimates. Any significant variance could materially affect the estimated quantities and present value of reserves in our financial statements. In addition, we may adjust estimates of proved reserves to reflect production history, results of exploration and development, prevailing oil and natural gas prices and other factors, many of which are beyond our control.

You should not assume that the present value of future net revenues from our proved reserves is the current market value of our estimated oil and natural gas reserves. In accordance with SEC requirements, we generally base

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the estimated discounted future net cash flows from our proved reserves on prices and costs on the date of the estimate. Actual future prices and costs may differ materially from those presented using the present value estimate.

### **Seasonal weather conditions and lease stipulations can adversely affect the conduct of drilling activities on our properties.**

Oil and natural gas operations can be adversely affected by seasonal weather conditions and lease stipulations designed to protect various wildlife, particularly in the Rocky Mountain region where we currently operate. In certain areas, drilling and other oil and natural gas activities can only be conducted during the spring and summer months. This may limit operations in those areas and can intensify competition during those months for drilling rigs, oil field equipment, services, supplies and qualified personnel, which may lead to periodic shortages. Resulting shortages or high costs could delay our operations and materially increase our operating and capital costs.

### **Unless we replace our oil and natural gas reserves, our level of reserves and production will decline, which would adversely affect our cash flows and income.**

Unless we conduct successful development, exploitation, and exploration activities or acquire properties containing proved reserves, our proved reserves will decline as those reserves are produced. Producing oil and natural gas reservoirs generally are characterized by declining production rates that vary depending upon reservoir characteristics and other factors. Our future oil and natural gas reserves and production, and, therefore our cash flow and income, are highly dependent on our success in efficiently developing and exploiting our current reserves and economically finding or acquiring additional recoverable reserves. We may not be able to develop, exploit, find or acquire additional reserves to replace our current and future production.

### **The loss of key personnel could adversely affect our business.**

We currently have four employees that serve in senior management roles. In particular, our Chief Executive Officer, Karl F. Arleth, our Chief Operating Officer, Dominic J. Bazile II, and our Vice President of Production, Andrew N. Schultz, are responsible for the operation of our oil and gas business and Bill I. Pennington, our Executive Vice President, Treasurer, and Chief Financial Officer, oversees our finance and administrative organizations. The loss of any one of these employees could severely harm our business. Although we have a life insurance policy on Mr. Arleth, of which we are a beneficiary, we do not currently maintain key man insurance on the lives of any of the other three individuals. Furthermore, competition for experienced personnel is intense. If we cannot retain our current personnel or attract additional experienced personnel, our ability to compete could be adversely affected.

### **Rising inflation and price increases could have a negative effect on the Company's value and increase our costs.**

We may experience increased costs during the second half of 2007 and in 2008 due to increased demand for oil and gas field products and services. The oil and natural gas industry is cyclical and the demand for goods and services of oil field companies, suppliers and others associated with the industry can place extreme pressure on the economic stability and pricing structure within the industry. Typically, as prices for oil and natural gas increase, so do all associated costs. Historically in the oil and gas industry, material changes in prices also impact the current revenue stream, estimates of future reserves, borrowing base calculations of bank loans and values of properties in purchase and sale transactions. Material changes in prices can impact the value of oil and natural gas companies and their ability to raise capital, borrow money and retain personnel. While we do not currently expect business costs to materially increase, continued high prices for oil and natural gas could result in increases in the costs of materials, services and personnel.

### **Our prices may be impacted adversely by new taxes.**

The federal, state and local governments in which we operate impose taxes on the oil and gas products we sell. In the past, there has been a significant amount of discussion by legislators and presidential administrations concerning a variety of energy tax proposals. In addition, many states have raised state taxes on energy sources and

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additional increases may occur. We cannot predict whether any of these measures would have an adverse impact on oil and natural gas prices.

**Our inability to meet operating and financial obligations could adversely affect our business.**

We have obligations and commitments related to our operations as well as our general and administrative activities. Our partners in our various projects have expectations that we will fund our proportionate share of drilling and related capital costs each year. Our commitments are expected to increase significantly as our operating partners increase their drilling activities and we incur additional cash calls in respect of these projects. In the event that we are unable to maintain our funding obligations in respect of our projects, we may be deemed to have gone non-consent, which will result in a project's other partners funding a well's operating costs without us. If we go non-consent on a well, the consequences to us likely will enable the consenting partners to recover their costs plus an agreed-upon percentage (typically 300% to 400%) before we will be entitled to participate in any of the future economics of the well, if at all. Our general and administrative commitments principally include our office lease, under which we are contractually obligated until 2009.

**We are subject to extensive government regulations.**

Our business is affected by numerous federal, state and local laws and regulations, including energy, environmental, conservation, tax and other laws and regulations relating to the oil and gas industry. These include, but are not limited to:

- the prevention of waste,
- the discharge of materials into the environment,
- the conservation of oil and natural gas,
- pollution,
- permits for drilling operations,
- drilling bonds, and
- reports concerning operations, the spacing of wells, and the unitization and pooling of properties.

Failure to comply with any laws and regulations may result in the assessment of administrative, civil and criminal penalties, the imposition of injunctive relief or both. Moreover, changes in any of these laws and regulations could have a material adverse effect on our business. In view of the many uncertainties with respect to current and future laws and regulations, including their applicability to us, we cannot predict the overall effect of such laws and regulations on our future operations.

**Risks Relating To Our Common Stock**

**Our stock price and trading volume may be volatile, which could result in losses for our stockholders.**

The equity trading markets may experience periods of volatility, which could result in highly variable and unpredictable pricing of equity securities. The market price of our Common Stock could change in ways that may or may not be related to our business, our industry, or our operating performance and financial condition. In addition, the

trading volume in our Common Stock may fluctuate and cause significant price variations to occur. Some of the factors that could negatively affect our share price or result in fluctuations in the price or trading volume of our Common Stock include:

actual or anticipated quarterly variations in our operating results;

changes in expectations as to our future financial performance or changes in financial estimates, if any, of public market analysts;

announcements relating to our business or the business of our competitors;

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conditions generally affecting the oil and natural gas industry;  
the success of our operating strategy; and  
the operating and stock price performance of other comparable companies.

Many of these factors are beyond our control, and we cannot predict their potential effects on the price of our Common Stock.

**Our insiders and affiliated parties beneficially own a significant portion of our stock.**

As of July 11, 2007, our executive officers, directors and affiliated parties beneficially owned approximately 13.6% of our Common Stock. As a result, our executive officers, directors and affiliated parties will have significant influence to:

elect or defeat the election of our directors;  
amend or prevent amendment of our articles of incorporation or bylaws;  
effect or prevent a merger, sale of assets or other corporate transaction; and  
affect the outcome of any other matter submitted to the stockholders for vote.

In addition, sales of significant amounts of shares held by our directors and executive officers, or the prospect of these sales, could adversely affect the market price of our Common Stock. Management's stock ownership may discourage a potential acquirer from making a tender offer or otherwise attempting to obtain control of us, which in turn could reduce our stock price or prevent our stockholders from realizing a premium over our stock price.

**We do not expect to pay dividends to holders of our Common Stock in the foreseeable future. As a result, holders of our Common Stock must rely on stock appreciation for any return on their investment.**

We do not anticipate paying cash dividends on our Common Stock in the foreseeable future. Our existing credit agreement prohibits the payment of cash dividends without lender consent. Any payment of cash dividends also will depend on our financial condition, results of operations, capital requirements and other factors and will be at the discretion of our board of directors. Further, our current business strategy calls for the reinvestment of cash flow from operations back into our business. Accordingly, holders of our Common Stock will have to rely on capital appreciation, if any, to earn a return on their investment in our Common Stock.

**The anti-takeover effects of provisions of our charter, by-laws, and shareholder rights plan, and of certain provisions of Delaware corporate law, could deter, delay, or prevent an acquisition or other change in control of us and could adversely affect the price of our Common Stock.**

Our amended certificate of incorporation, our by-laws, our shareholder rights plan and Delaware General Corporation Law contain various provisions that could have the effect of delaying or preventing a change in control of us or our management which shareholders may consider favorable or beneficial. These provisions include the following:

We are authorized to issue blank check preferred stock, which is preferred stock that can be created and issued by the board of directors without prior shareholder approval, with rights senior to those of our common



shareholders;

We have a shareholder rights plan that could make it more difficult for a third party to acquire us without the support of our board of directors and principal shareholders;

We are subject to Section 203 of the Delaware General Corporation Law, or the DGCL. In general, Section 203 of the DGCL prohibits a publicly held Delaware corporation from engaging in a business combination with an interested stockholder for a period of three years after the date of the transaction in which the person became an interested stockholder. A business combination includes a merger, sale of

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10% or more of our assets and certain other transactions resulting in a financial benefit to the stockholder. For purposes of Section 203, an interested stockholder includes any person that is:

the owner of 15% or more of the outstanding voting stock of the corporation;

an affiliate or associate of the corporation and was the owner of 15% or more of the outstanding voting stock of the corporation, at any time within three years immediately prior to the relevant date; and

an affiliate or associate of the persons defined as an interested shareholder.

Any one of these provisions could discourage proxy contests and make it more difficult for our shareholders to elect directors and take other corporate actions. These provisions also could limit the price that investors might be willing to pay in the future for shares of our Common Stock.

**OFFERING**

The investors identified in the table below are offering 5,400,000 shares of our Common Stock, which are issuable to them upon conversion of the Senior Subordinated Convertible Notes (the Notes) they purchased from us on May 17, 2007, and upon exercise of the Common Stock Purchase Warrants (the Warrants) they received in connection with the purchase of the Notes. The Notes are convertible into shares of our Common Stock at a conversion price of \$5.00 per share.

The Notes bear interest at a rate of 8% per annum, payable quarterly on April 1, July 1, October 1 and January 1, in cash or in shares of Common Stock, for an aggregate interest amount of \$732,000, convertible into shares of Common Stock at a conversion price of the Variable Weighted Average Price ( VWAP ) (as such term is defined in the Notes) on the interest payment date; provided, however, that interest may not be paid in shares of common stock if the price of the Company's Common Stock at the stated value of the VWAP on the interest payment date would be less than the conversion price.

The table below sets forth the principal amount of the Notes purchased by each investor, as well as the number of shares of our Common Stock issuable to each investor upon conversion of such investor's Note. In addition, the investors received Warrants to purchase the number of shares of our Common Stock shown in the table below, at an exercise price of \$5.00 per share. The Warrants also contain a cashless exercise feature.

| <b>Investor</b>                    | <b>Principal Amount<br/>of Notes<br/>Purchased</b> | <b>Number of Shares<br/>of Common Stock<br/>Issuable upon<br/>Conversion of<br/>Notes</b> | <b>Number of Shares<br/>of Common Stock<br/>Issuable upon<br/>Exercise of the<br/>Warrants</b> |
|------------------------------------|--|---|--|
| Mike McCoy                         | \$ 400,000   | 80,000  | 160,000  |
| HSP Multiple Strategy Fund, LLC    | \$ 1,000,000                                       | 200,000   | 400,000  |
| E&M RP Trust                       | \$ 200,000   | 40,000  | 80,000   |
| Savant Resources LLC               | \$ 1,000,000                                       | 200,000   | 400,000  |
| Tahoe Partnership I                | \$ 200,000   | 40,000  | 80,000   |
| Shea Diversified Investments, Inc. | \$ 1,000,000                                       | 200,000   | 400,000  |
| MicroCapital Fund, LP              | \$ 1,400,000                                       | 280,000   | 560,000  |
| MicroCapital Fund, Ltd.            | \$ 600,000   | 120,000   | 240,000  |

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|                               |           |                  |                  |                  |
|-------------------------------|-----------|------------------|------------------|------------------|
| Siam Partners II, LP          | \$        | 200,000          | 40,000           | 80,000           |
| Dolphin Offshore Partners, LP | \$        | 3,000,000        | 600,000          | 1,200,000        |
| <b>TOTAL:</b>                 | <b>\$</b> | <b>9,000,000</b> | <b>1,800,000</b> | <b>3,600,000</b> |

In addition to the 5,400,000 shares offered by the investors listed above, the following selling stockholders are offering an aggregate of 360,000 shares of our Common Stock, which shares are issuable to them upon exercise of Warrants they received as placement agent compensation in connection with the sale of the Notes and Warrants to the investors.

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| <b>Holder</b>               | <b>Number of Shares<br/>of Common Stock<br/>Issuable upon<br/>Exercise of the<br/>Warrants</b> |
|-----------------------------|--|
| Bonnie Giusto               | 1,710  |
| Robert A. O Sullivan        | 129,276  |
| Commonwealth Associates, LP | 187,290  |
| Joseph Pallotta             | 26,163   |
| Michael S. Falk             | 15,561   |
| <b>TOTAL:</b>               | <b>360,000</b>   |

The aggregate number of shares of Common Stock being offered by the selling stockholders is 5,760,000 shares. This number assumes that (i) the principal amount of the Notes are fully converted and (ii) all Warrants are fully exercised.

This offering does not include an aggregate of 132,000 shares of Common Stock which the Company has reserved to cover up to 11 months of interest on the Notes in the event that the Company elects to pay such interest in shares of Common Stock rather than in cash. The Company intends to register such shares for resale by the investors in a future registration statement or prospectus supplement when and if necessary.

**PRICE RANGE OF COMMON STOCK**

Our Common Stock is listed and principally traded on the American Stock Exchange, under the symbol TEC. Our Common Stock is also listed for trading on the Frankfurt Stock Exchange (Germany) under the symbol TP9.

The following table sets forth, on a per share basis, the high and low closing price on the American Stock Exchange:

|                    | <b>Price Range</b> |            |
|--------------------|--------------------|------------|
|                    | <b>High</b>        | <b>Low</b> |
| <b>2007 period</b> |                    |            |
| First quarter      | \$ 5.50            | \$ 4.60    |
| Second quarter     | \$ 5.75            | \$ 4.05    |
| <b>2006 period</b> |                    |            |
| First quarter      | \$ 8.75            | \$ 6.01    |
| Second quarter     | \$ 7.49            | \$ 5.06    |
| Third quarter      | \$ 5.84            | \$ 4.34    |
| Fourth quarter     | \$ 5.30            | \$ 4.20    |
| <b>2005 period</b> |                    |            |
| First quarter      | \$ 3.81            | \$ 1.32    |
| Second quarter     | \$ 4.53            | \$ 2.06    |
| Third quarter      | \$ 8.00            | \$ 4.45    |
| Fourth quarter     | \$ 7.20            | \$ 4.90    |

The closing sale price of Common Stock, as reported by the American Stock Exchange on July 13, 2007 was \$5.34. As of July 11, 2007, there were approximately 169 holders of record of our Common Stock.

**DIVIDEND POLICY**

We have not paid any dividends on our Common Stock since inception, and we do not anticipate the declaration or payment of any dividends at any time in the foreseeable future.

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The selling stockholders will receive all proceeds from the sale of the shares of our Common Stock in this offering. We will not receive any of the proceeds from the sale of shares of our Common Stock by the selling stockholders. We will pay all expenses (other than transfer taxes) of the selling stockholders in connection with this offering.

**SELLING STOCKHOLDERS**

The following table sets forth, for the selling stockholders to the extent known by us, the amount of our Common Stock beneficially owned, the number of shares of our Common Stock offered hereby and the number of shares and percentage of outstanding Common Stock to be owned after completion of this offering. The number of shares owned and the percentage ownership figures presented in this table assumes that (i) the principal amount of the Notes are fully converted and (ii) all Warrants are fully exercised.

All information contained in the table below is based upon information provided to us by the selling stockholders, and we have not independently verified this information.

The number of shares outstanding and the percentages of beneficial ownership are based on 16,184,312 shares of Common Stock of Teton issued and outstanding as of July 11, 2007.

| <b>Name of Selling<br/>Stockholder</b>   | <b>Number of<br/>Shares<br/>Beneficially<br/>Owned<br/>Prior to the<br/>Offering</b> | <b>Number of<br/>Shares<br/>Being Offered<br/>Hereby</b> | <b>Number of<br/>Shares to<br/>be Beneficially<br/>Owned After the<br/>Offering</b> | <b>Percentage of<br/>Shares to be<br/>Beneficially<br/>Owned<br/>After the<br/>Offering</b> |
|--|--|--|---|---|
| Mike McCoy(1)                            | 0  | 240,000  | 0   |   |
| HSP Multiple Strategy Fund,<br>LLC(2)    | 0  | 600,000  | 0   |   |
| E&M RP Trust(3)                          | 0  | 120,000  | 0   |   |
| Savant Resources LLC(4)                  | 0  | 600,000  | 0   |   |
| Tahoe Partnership I(3)                   | 0  | 120,000  | 0   |   |
| Shea Diversified Investments,<br>Inc.(3) | 0  | 600,000  | 0   |   |
| MicroCapital Fund, LP(5)                 | 0  | 840,000  | 0   |   |
| MicroCapital Fund, Ltd.(5)               | 0  | 360,000  | 0   |   |
| Siam Partners II, LP(3)                  | 0  | 120,000  | 0   |   |
| Dolphin Offshore Partners, LP(6)         | 0  | 1,800,000  | 0   |   |
| Commonwealth Associates,<br>L.P.(7)      | 0  | 187,290  | 0   |   |
| Bonnie Giusto(7)                         | 0  | 1,710  | 0   |   |
| Robert A. O Sullivan(7)                  | 0  | 129,276  | 0   |   |
| Joseph Palotta(7)                        | 0  | 26,163   | 0   |   |

|                    |   |        |   |
|--------------------|---|--------|---|
| Michael S. Falk(8) | 0 | 15,561 | 0 |
|--------------------|---|--------|---|

- (1) The address for Mike McCoy is 5950 Berkshire Lane, Dallas, TX 75225.
- (2) The address for HSP Multiple Strategy Fund, LLC is 3366 N. Torrey Pines Ct, Suite 210, La Jolla, CA 92037.
- (3) The address for each of E&M RP Trust, Tahoe Partnership I, Shea Diversified Investments, Inc. and Siam Partners II, LP is 655 Brea Canyon Road, Walnut, CA 91789.
- (4) The address for Savant Resources LLC is 730 17<sup>th</sup> Street, Suite 410, Denver, CO 80202.
- (5) The address for each of MicroCapital Fund, LP and MicroCapital Fund, Ltd. is 623 Fifth Avenue, Suite 2502, New York, NY 10022.
- (6) The address for Dolphin Offshore Partners, LP is 129 East 17<sup>th</sup> Street, New York, NY 10003.

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- (7) The address for each of Commonwealth Associates, L.P., Bonnie Giusto, Robert A. O Sullivan and Joseph Palotta is 830 Third Avenue, 8<sup>th</sup> Floor, New York, NY 10022.
- (8) The address for Michael S. Falk is One North Clematis, Suite 300, West Palm Beach, FL 33401.

**PLAN OF DISTRIBUTION**

The selling stockholders may offer and sell the shares of Common Stock offered by this prospectus from time to time in one or more of the following transactions:

through the American Stock Exchange or any other securities exchange that quotes the Common Stock;

in the over-the-counter market;

in transactions other than on such exchanges or in the over-the-counter market (including negotiated transactions and other private transactions);

in short sales of the Common Stock, in transactions to cover short sales or otherwise in connection with short sales;

by pledge to secure debts and other obligations or on foreclosure of a pledge; or

in a combination of any of the above transactions.

The selling stockholders may sell their shares at market prices prevailing at the time of sale, at prices related to such prevailing market prices, at negotiated prices or at fixed prices. The transactions listed above may include block transactions.

The selling stockholders may use broker-dealers to sell their shares or may sell their shares to broker-dealers acting as principals. If this happens, broker-dealers will either receive discounts or commissions from the selling stockholders, or they will receive commissions from purchasers of shares for whom they acted as agents, or both. If a broker-dealer purchases shares as a principal, it may resell the shares for its own account under this prospectus.

We have informed the selling stockholders that the anti-manipulation provisions of Regulation M under the Securities Exchange Act of 1934 may apply to their sales of Common Stock.

The selling stockholders and any agent, broker, or dealer that participates in sales of Common Stock offered by this prospectus may be deemed underwriters under the Securities Act of 1933, and any commissions or other consideration received by any agent, broker, or dealer may be considered underwriting discounts or commissions under the Securities Act. The selling stockholders may agree to indemnify any broker-dealer or agent that participates in transactions involving sales of the shares against certain liabilities in connection with the offering of the shares arising under the Securities Act.

Instead of selling Common Stock under this prospectus, the selling stockholders may sell Common Stock in compliance with the provisions of Rule 144 under the Securities Act of 1933, if available.

**LEGAL MATTERS**



Gersten Savage LLP, New York, New York will pass upon the validity of the Common Stock offered hereby. Certain partners of Gersten Savage LLP and their families have ownership interests totaling approximately 0.5% in us.

**EXPERTS**

The financial statements incorporated in this prospectus by reference to the Annual Report on Form 10-K as of and for the year ended December 31, 2006 have been so incorporated in reliance on the report of Ehrhardt Keefe Steiner & Hottman PC, independent registered public accountants, given on the authority of said firm as experts in auditing and accounting.

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**WHERE YOU CAN FIND MORE INFORMATION**

We are a reporting company and file annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission (the "SEC"). Our SEC filings (File No. 1-31679) are available to the public over the Internet at the SEC's web site at <http://www.sec.gov>, and at our web site at <http://www.teton-energy.com>. You may also read and copy any document we file at the SEC's public reference room located at 100 F. Street, N.E., Room 1580, Washington, D.C., 20549. You may request copies of these documents by writing to the SEC and paying a fee for the copying cost. You may call the SEC at 1-800-SEC-0330 for more information about the operation of the public reference room.

This prospectus is part of a registration statement that we have filed with the SEC relating to the Company's Common Stock. As permitted by SEC rules, this prospectus does not contain all of the information we have included in the registration statement and the accompanying exhibits and schedules we file with the SEC. You may refer to the registration statement, the exhibits and schedules for more information about us and our Common Stock. The registration statement, exhibits and schedules are available at the SEC's public reference room or through its Web site.

Our Common Stock is listed on the American Stock Exchange under the symbol "TEC". Our reports, proxy statements and other information also may be read and copied at the American Stock Exchange at 86 Trinity Place, New York, New York 10006.

**INCORPORATION BY REFERENCE**

The SEC allows us to incorporate by reference the information that we file with them, which means that we can disclose important information to you by referring you to those documents. The information incorporated by reference is an important part of this prospectus supplement, and information that we file later with the SEC will automatically update and supersede this information. We incorporate by reference the documents listed below and any future filings made with the SEC under Sections 13(a), 13(c), 14, or 15(d) of the Securities Exchange Act of 1934 (other than information deemed to have been furnished to, and not filed in accordance with, SEC rules) until we sell all of the securities or until the offering is completed.

Our Quarterly Report on Form 10-Q for the period ended March 31, 2007, filed with the SEC on May 15, 2007;

Our Annual Report on Form 10-K for the year ended December 31, 2006, filed with the SEC on March 19, 2007;

Our Proxy Statement on Schedule 14A, filed with the SEC on March 19, 2007;

The description of our Common Stock set forth in our registration statement on Form S-8 (Registration No.: 333-112229), and any subsequent amendment or report filed for the purpose of updating this description; and

The description of our Common Stock set forth in our registration statement on Form S-3 (Registration No.: 333-129038), and any subsequent amendment or report filed for the purpose of updating this description.

You may request a copy of these filings at no cost, by writing or telephoning us at the following address or telephone number:

Teton Energy Corporation  
410 Seventeenth Street, Suite 1850  
Denver, Colorado 80202-4444  
Attn: Investor Relations  
(303) 565-4600

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**GLOSSARY OF COMMONLY USED TERMS, ABBREVIATIONS AND MEASUREMENTS**

Within this document, the following terms and conventions have specific meanings:

**Commonly Used Terms and Abbreviations**

**Bakken** The Bakken formation of the Williston Basin.

**Basin** A depressed sediment-filled area, roughly circular or elliptical in shape, sometimes elongated. Regarded as a good area to explore for oil and gas.

**Denver-Julesburg ( DJ ) Basin** A geologic depression encompassing eastern Colorado and western Nebraska.

**Field** A geographic region situated over one or more subsurface oil and gas reservoirs encompassing at least the outermost boundaries of all oil and gas accumulations known to be within those reservoirs vertically projected to the land surface.

**Gas** All references to gas in this report refer to natural gas.

**Gross** Gross natural gas and oil wells or gross acres equal the total number of wells or acres in which the Company has a working interest.

**Hedging** The use of derivative commodity and interest rate instruments to reduce financial exposure to commodity price and interest rate volatility.

**Piceance Basin** A 6,000 square mile area in Western Colorado encompassing portions of Garfield and Mesa counties, with portions extending northward into Rio Blanco County and south into Gunnison and Delta counties.

**Productive** Able to economically produce oil and/or gas.

**Proved reserves** Reserves that, based on geologic and engineering data, appear with reasonable certainty to be recoverable in the future from known oil and gas reserves under existing economic and operating conditions.

**Proved developed reserves** Proved reserves which can be expected to be recovered through existing wells with existing equipment and operating methods.

**Reserves** The estimated value of oil, gas and/or condensate, which is economically recoverable.

**Reservoir** A porous and permeable underground formation containing a natural accumulation of producible natural gas and/or oil that is confined by impermeable rock or water barriers and is separate from other reservoirs.

**Transportation** Moving gas through pipelines on a contract basis for others.

**Williston Basin** An area located in western North Dakota, northwestern South Dakota and eastern Montana.

**Working interest** An interest that gives the owner the right to drill, produce and conduct operating activities on a property and receive a share of any production.



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**PROSPECTUS**

**\$50,000,000**

**TETON ENERGY CORPORATION**

**Common Stock, Preferred Stock, Debt Securities,**

**Warrants to Purchase Common Stock,**

**Warrants to Purchase Preferred Stock,**

**Warrants to Purchase Debt Securities,**

**Depository Shares, Stock Purchase Contracts and**

**Stock Purchase Units**

We will provide the specific terms of these securities in supplements to this prospectus. The prospectus supplements may also add, update or change information contained in this prospectus. You should read this prospectus and any supplements carefully before you invest. This prospectus may not be used to offer and sell securities unless accompanied by a prospectus supplement.

Our common stock is listed on the American Stock Exchange under the symbol TEC. The closing sale price of our common stock, as reported on the American Stock Exchange on March 31, 2006 was \$6.79.

We will provide specific terms of these securities in supplements to this prospectus. You should read this prospectus and any supplement carefully before you purchase any of our securities.

This prospectus may not be used to offer and sell securities unless accompanied by a prospectus supplement.

**Investing in our common stock involves a high degree of risk. See Risk Factors, beginning on page 7.**

**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. any representation to the contrary is a criminal offense.**

We may offer the securities in amounts, at prices and on terms determined at the time of offering. We may sell the securities directly to you, through agents we select, or through underwriters and dealers we select. If we use agents, underwriters, or dealers to sell the securities, we will name them and describe their compensation in a prospectus supplement.

The date of this prospectus is April 3, 2006

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**ABOUT THIS PROSPECTUS**

This prospectus is part of a registration statement on Form S-3 that we filed with the Securities and Exchange Commission, which we refer to as the SEC, using a shelf registration process. Under this shelf process, we may, from time to time, sell an indeterminate amount of any combination of the securities described in this prospectus in one or more offerings up to a total dollar amount of \$50,000,000. This prospectus provides you with a general description of the securities we may offer pursuant to this prospectus. Each time we sell securities, we will provide one or more prospectus supplements that will contain specific information about the terms of that offering. This prospectus does not contain all of the information included in the registration statement. For a more complete understanding of the offering of the securities, you should refer to the registration statement relating to this prospectus, including its exhibits. A prospectus supplement may also add, update or change information contained in this prospectus. You should read both this prospectus and any accompanying prospectus supplement, including the risk factors, together with the additional information described under the heading **Where You Can Find More Information**.

You should rely only on the information incorporated by reference or provided in this prospectus and any accompanying prospectus supplement. We have not authorized any dealer, salesman or other person to provide you with additional or different information. This prospectus and any accompanying prospectus supplement are not an offer to sell or the solicitation of an offer to buy any securities other than the securities to which they relate and are not an offer to sell or the solicitation of an offer to buy securities in any jurisdiction to any person to whom it is unlawful to make an offer or solicitation in that jurisdiction. You should not assume that the information in this prospectus or any accompanying prospectus supplement or in any document incorporated by reference in this prospectus or any accompanying prospectus supplement is accurate as of any date other than the date of the document containing the information.

Unless the context requires otherwise or unless otherwise noted, all references in this prospectus or any accompanying prospectus supplement to **Company**, **we**, **us** or **our** are to Teton Energy Corporation and its subsidiaries.

**WHERE YOU CAN FIND MORE INFORMATION**

We are a reporting company and file annual, quarterly and current reports, proxy statements and other information with the SEC. Our SEC filings (File No. 1-31679) are available to the public over the Internet at the SEC's web site at <http://www.sec.gov>. You may also read and copy any document we file at the SEC's public reference rooms in Washington, D.C., New York, NY and Chicago, IL. You can request copies of these documents by writing to the SEC and paying a fee for the copying cost. Please call the SEC at 1-800-SEC-0330 for more information about the operation of the public reference rooms.

Our common stock is listed on the American Stock Exchange under the symbol **TEC**. Our reports, proxy statements and other information also may be read and copied at the American Stock Exchange at 86 Trinity Place, New York, New York 10006.

The SEC allows us to incorporate by reference the information that we file with them, which means that we can disclose important information to you by referring you to those documents. The information incorporated by reference is an important part of this prospectus, and information that we file later with the SEC will automatically update and supersede this information. We incorporate by reference the documents listed below and any future filings made with the SEC under Sections 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934 (other than information deemed to have been furnished to, and not filed in accordance with, SEC rules) until we sell all of the securities or until we terminate this offering:



Annual Report on Form 10-K for the year ended December 31, 2005 filed with the SEC on March 10, 2006;

The description of our common stock set forth in our registration statement on Form S-8 (Registration No.: 333-112229, and any subsequent amendment or report filed for the purpose of updating this description.

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The description of our common stock set forth in our registration statement on Form S-3 (Registration No.: 333-129038, and any subsequent amendment or report filed for the purpose of updating this description.

You may request a copy of these filings at no cost, by writing or telephoning us at the following address or telephone number:

Teton Energy Corporation  
410 Seventeenth Street, Suite 1850  
Denver, Colorado 80202-4444  
Attn: Ms. Gillian Kane  
(303) 565-4600

**TETON ENERGY CORPORATION**

**Background**

Teton Energy Corporation (the Company, we or us ) was formed in November 1996 and is incorporated in the State of Delaware. We are an independent energy company engaged primarily in the development, production and marketing of natural gas and oil in North America. Our strategy is to increase shareholder value by growing reserves and production, primarily through acquiring under-valued properties with reasonable risk-reward potential and by participating in or actively conducting drilling operations in order to exploit our properties. We seek high-quality exploration and development projects with potential for providing long-term drilling inventories that generate high returns.

The Company's current operations are focused in two basins in the Rocky Mountain region of the United States. From its inception until 2004, the Company was engaged primarily in oil and gas exploration, development, and production in Western Siberia, Russia. In July 2004, the Company's shareholders voted to sell its Russian operations to the Company's Russian partner. The gross proceeds received by the Company totaled \$15,000,000.

Since July 2004, the Company has actively pursued opportunities primarily in North America in order (1) to redeploy the cash generated in the sale of its Russian operations and (2) to continue the Company's growth. During the first six months of 2005, we acquired a 100% working interest in over 182,000 of undeveloped acreage in the eastern Denver-Julesburg Basin (the DJ Basin ) located in Nebraska near the Nebraska-Colorado border.

In February 2005, the Company acquired 25% of the membership interests in Piceance Gas Resources, LLC, a Colorado limited liability company ( Piceance LLC ). Piceance LLC owns certain oil and gas rights and leasehold assets covering 6,314 acres in the Piceance Basin in western Colorado. The properties owned by Piceance LLC carry a net revenue interest of 78.75%.

**Recent Events**

On January 27, 2006, the Company closed an acreage earning agreement (the Acreage Agreement ) with Noble Energy, Inc. ( Noble ). If the terms of the Acreage Agreement are fulfilled, Noble will earn an undivided 75% working interest in our DJ Basin acreage. Under the terms of the Acreage Agreement, Noble will earn the 75% working interest in the DJ Basin project by (1) the payment of \$3 million; and (2) the drilling and completion of 20 wells on or before March 1, 2007, with a minimum of 10 wells to be drilled and completed by December 31, 2006. In the event Noble fails to complete the minimum wells called for by each of these milestones, its right to drill additional oil and gas wells will terminate; however, Noble will retain an interest in the wells drilled, but without the right to drill

additional wells on the portion of the drilled lease so assigned.

On February 28, 2006, Orion Energy Partners, L.P., the holder of 50% of the membership interests in Piceance LLC and Piceance LLC's contract operator sold its interest to Berry Petroleum Company ( Berry )

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for an announced price of \$159,000,000. Berry also announced February 28, 2006, that it was increasing its 2006 capital budget by \$48,000,000 to develop the Piceance LLC acreage during 2006.

## **Business Strategy**

The Company's objective is to generate growth and high returns for our shareholders by expanding our natural gas and oil reserves, production, and revenues through a strategy that includes the following key elements:

*Pursue Attractive Reserve and Leasehold Acquisitions.* To date, acquisitions have been critical in establishing our asset base. We believe that we are well positioned, given our initial success in identifying and quickly closing on attractive opportunities in the Piceance and DJ Basins, to effect opportunistic acquisitions that can provide upside potential, including long-term drilling inventories and undeveloped leasehold positions with attractive return characteristics. Our focus is to acquire assets that provide the opportunity for developmental drilling and/or the drilling of extensional step out wells, which we believe provide us with significant upside potential while not exposing us to the risks associated with drilling new field wildcat wells in frontier basins.

*Pursuit of Selective Complementary Acquisitions.* We seek to acquire long-lived producing properties with a high degree of operating control, or oil and gas entities that we believe are competent in the area, that offer what we believe are opportunities to increase our natural gas and crude oil reserves profitably.

*Drive Growth Through Drilling.* We plan to grow our reserves and production through drilling operations. In 2005, we participated in drilling 10 gross wells on our Piceance Basin acreage, of which we have a 25% interest, and our current plans are to participate in drilling an additional 20 gross wells on Piceance acreage and 10 gross wells on our DJ Basin acreage in 2006.

*Maximize Operational Control.* To date, we do not own any assets for which we are the operator. We believe that it is strategically important to our future growth and maturation as an independent exploration and production company to be able to serve as operator of our properties when possible because we believe that operating our properties would enable us to exert greater control over the costs, timing, and manner of our exploration, development and production activities.

*Operate Efficiently, Effectively and Maximize Economies of Scale Where Practical.* We believe that our unit cost structure will benefit from economies of scale as we grow and from our continuing cost management initiatives. As we manage our growth, we are actively focusing on reducing lease operating expenses, general and administrative costs and finding and development costs. In addition, our acquisition efforts are geared toward pursuing opportunities that we believe fit within existing operations or in areas where the Company is establishing new operations or where it believes that a base of existing production will produce an adequate foundation for economies of scale necessary to grow a business within a geography or business segment.

## **Governmental Regulation**

The Company's business and the oil and natural gas industry in general are heavily regulated. The availability of a ready market for oil and gas production depends on several factors beyond the Company's control. These factors include regulation of oil and natural gas production, federal and state regulations governing environmental quality and pollution control, the amount of natural gas available for sale, the availability of adequate pipeline and other transportation and processing facilities and the marketing of competitive fuels. State and federal regulations generally are intended to prevent waste of petroleum, protect rights to produce oil or natural gas between owners in a common reservoir and control contamination of the environment. Pipelines are subject to the jurisdiction of various federal, state, and local agencies.

The Company believes that it is in substantial compliance with such statutes, rules, regulations and governmental orders, although there can be no assurance that this is or will remain the case. Failure to comply with such laws and regulations can result in substantial penalties. The regulatory burden on the industry

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increases our cost of doing business and affects our profitability. Although we believe we are in substantial compliance with all applicable laws and regulations, such laws and regulations are frequently amended or reinterpreted so we are unable to predict the future cost or impact of complying with such laws and regulations.

The following discussion of the regulation of the United States natural gas industry is not intended to constitute a complete discussion of the various statutes, rules, regulations and environmental orders to which the Company's operations may be subject.

### ***Regulation of Oil and Natural Gas Exploration and Production***

The Company's oil and natural gas operations are subject to various types of regulation at the federal, state and local levels. Prior to commencing drilling activities for a well, the Company (or its operating subsidiaries, operating entities, or operating partners) must procure permits and/or approvals for the various stages of the drilling process from the applicable federal, state and local agencies in the state in which the area to be drilled is located. Such permits and approvals include those for the drilling of wells, and such regulation includes maintaining bonding requirements in order to drill or operate wells and regulating the location of wells, the method of drilling and casing wells, the surface use and restoration of properties on which wells are drilled, the plugging and abandoning of wells and the disposal of fluids used in connection with operations. The Company's operations are also subject to various conservation laws and regulations. These include the regulation of the size of drilling and spacing units or proration units and the density of wells which may be drilled and the unitization or pooling of natural gas properties. In this regard, some states allow the forced pooling or integration of tracts to facilitate exploration while other states rely primarily or exclusively on voluntary pooling of lands and leases. In areas where pooling is voluntary, it may be more difficult to form units, and therefore, more difficult to develop a project if the operator owns less than 100% of the leasehold. In addition, state conservation laws may establish maximum rates of production from oil and natural gas wells, generally prohibit the venting or flaring of natural gas and impose certain requirements regarding the ratability of production.

The effect of these regulations may limit the amount of oil and natural gas the Company can produce from its wells and may limit the number of wells or the locations at which the Company can drill. The regulatory burden on the oil and natural gas industry increases the Company's costs of doing business and, consequently, affects its profitability. Inasmuch as such laws and regulations are frequently expanded, amended and reinterpreted, the Company is unable to predict the future cost or impact of complying with such regulations.

### ***Natural Gas Marketing, Gathering, and Transportation***

Federal legislation and regulatory controls have historically affected the price of the natural gas and the manner in which production is transported and marketed. Under the Natural Gas Act of 1938, the Federal Energy Regulatory Commission (FERC) regulates the interstate sale for resale of natural gas and the transportation of natural gas in interstate commerce, although facilities used in the production or gathering of natural gas in interstate commerce are generally exempted from FERC jurisdiction. Effective January 1, 1993, the Natural Gas Wellhead Decontrol Act deregulated natural gas prices for all first sales of natural gas, which definition covers all sales of our own production. In addition, as part of the broad industry restructuring initiatives described below, FERC has granted to all producers such as us a blanket certificate of public convenience and necessity authorizing the sale of gas for resale without further FERC approvals. As a result, all natural gas that we produce in the future may now be sold at market prices, subject to the terms of any private contracts that may be in effect.

Natural gas sales prices nevertheless continue to be affected by intrastate and interstate gas transportation regulation, because the prices that companies such as ours receive for our production are affected by the cost of transporting the gas to the consuming market. Through a series of comprehensive rulemakings, beginning with Order No. 436 in 1985

and continuing through Order No. 636 in 1992 and Order No. 637 in 2000, FERC has adopted regulatory changes that have significantly altered the transportation and marketing of natural gas.

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These changes were intended by FERC to foster competition by, among other things, transforming the role of interstate pipeline companies from wholesale marketers of gas to the primary role of gas transporters, and by increasing the transparency of pricing for pipeline services. FERC has also developed rules governing the relationship of the pipelines with their marketing affiliates, and implemented standards relating to the use of electronic data exchange by the pipelines to make transportation information available on a timely basis and to enable transactions to occur on a purely electronic basis.

In light of these statutory and regulatory changes, most pipelines have divested their gas sales functions to marketing affiliates, which operate separately from the transporter and in direct competition with all other merchants, and most pipelines have also implemented the large-scale divestiture of their gas gathering facilities to affiliated or non-affiliated companies. Interstate pipelines thus now generally provide unbundled, open and nondiscriminatory transportation and transportation-related services to producers, gas marketing companies, local distribution companies, industrial end users and other customers seeking such services. Sellers and buyers of gas have gained direct access to the particular pipeline services they need, and are better able to conduct business with a larger number of counterparties.

## ***Environmental Regulations***

The Company's operations are subject to numerous laws and regulations governing the discharge of materials into the environment or otherwise relating to environmental protection. Public interest in the protection of the environment has increased dramatically in recent years. The trend of more expansive and stricter environmental legislation and regulations could continue. To the extent laws are enacted or other governmental action is taken that restricts drilling or imposes environmental protection requirements that result in increased costs to the natural gas industry in general, the business and prospects of the Company could be adversely affected.

The nature of the Company's business operations results in the generation of wastes that may be subject to the Federal Resource Conservation and Recovery Act ( RCRA ) and comparable state statutes. The U.S. Environmental Protection Agency ( EPA ) and various state agencies have limited the approved methods of disposal for certain hazardous and non-hazardous wastes. Furthermore, certain wastes generated by the Company's operations that are currently exempt from treatment as hazardous wastes may in the future be designated as hazardous wastes, and therefore be subject to more rigorous and costly operating and disposal requirements.

Stricter standards in environmental legislation may be imposed on the industry in the future. For instance, legislation has been proposed in Congress from time to time that would reclassify certain exploration and production wastes as hazardous wastes and make the reclassified wastes subject to more stringent handling, disposal and clean-up restrictions. If such legislation were to be enacted, it could have a significant impact on our operating costs, as well as on the industry in general. Compliance with environmental requirements generally could have a materially adverse effect upon our capital expenditures, earnings or competitive position.

The Comprehensive Environmental Response, Compensation and Liability Act ( CERCLA ), also known as the Superfund law, imposes liability, without regard to fault or the legality of the original conduct, on certain classes of persons who are considered to be responsible for the release of a hazardous substance into the environment. These persons include the present or past owners or operators of the disposal site or sites where the release occurred and the companies that transported or arranged for the disposal of the hazardous substances at the site where the release occurred. Under CERCLA, such persons may be subject to joint and several liability for the costs of cleaning up the hazardous substances that have been released into the environment, for damages to natural resources and for the costs of certain health studies. It is not uncommon for neighboring landowners and other third parties to file claims for personal injury and property damages allegedly caused by the release of hazardous substances or other pollutants into the environment. Furthermore, although petroleum, including natural gas and crude oil, is exempt from CERCLA, at



least two courts have ruled that certain wastes associated with the production of crude oil may be classified as hazardous substances under CERCLA and thus such wastes may become subject to liability and regulation under

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CERCLA. State initiatives further to regulate the disposal of crude oil and natural gas wastes are also pending in certain states, and these various initiatives could have adverse impacts on our business.

In August 2005, the Energy Policy Act of 2005 was enacted (the Energy Act ). The Energy Act contains certain provisions that facilitate oil and gas leasing and permitting on federal lands. The Energy Act also provides for certain incentives for oil and gas productions.

The Company's operations may be subject to the Clean Air Act (the CAA ) and comparable state and local requirements. Amendments to the CAA were adopted in 1990 and contain provisions that may result in the gradual imposition of certain pollution control requirements with respect to air emissions from the operations of the Company. The EPA and states have been developing regulations to implement these requirements. The Company may be required to incur certain capital expenditures in the next several years for air pollution control equipment in connection with maintaining or obtaining operating permits and approvals addressing other air emission-related issues.

The Federal Water Pollution Control Act (the FWPCA or the Clean Water Act ) and resulting regulations, which are implemented through a system of permits, also govern the discharge of certain contaminants into waters of the United States. Sanctions for failure to comply strictly with the Clean Water Act are generally resolved by payment of fines and correction of any identified deficiencies. However, regulatory agencies could require us to cease construction or operation of certain facilities that are the source of water discharges and compliance could have a materially adverse effect on our capital expenditures, earnings, or competitive position.

Our operations are subject to local, state and federal laws and regulations to control emissions from sources of air pollution. Payment of fines and correction of any identified deficiencies generally resolve penalties for failure to comply strictly with air regulations or permits. Regulatory agencies could also require us to cease construction or operation of certain facilities that are air emission sources. We believe that we substantially comply with the emission standards under local, state, and federal laws and regulations.

### ***Operating Hazards and Insurance***

The Company's exploration and production operations include a variety of operating risks, including the risk of fire, explosions, above-ground and underground blowouts, craterings, pipe failure, casing collapse, abnormally pressured formations, and environmental hazards such as gas leaks, ruptures and discharges of toxic gas, the occurrence of any of which could result in substantial losses to the Company due to injury and loss of life, severe damage to and destruction of property, natural resources and equipment, pollution and other environmental damage, clean-up responsibilities, regulatory investigation and penalties and suspension of operations. The Company's pipeline, gathering and distribution operations are subject to the many hazards inherent in the natural gas industry. These hazards include damage to wells, pipelines and other related equipment, and surrounding properties caused by hurricanes, floods, fires and other acts of God, inadvertent damage from construction equipment, leakage of natural gas and other hydrocarbons, fires and explosions and other hazards that could also result in personal injury and loss of life, pollution and suspension of operations.

Any significant problems related to its facilities could adversely affect the Company's ability to conduct its operations. In accordance with customary industry practice, the Company maintains insurance against some, but not all, potential risks; however, there can be no assurance that such insurance will be adequate to cover any losses or exposure for liability. The occurrence of a significant event not fully insured against could materially adversely affect the Company's operations and financial condition. The Company cannot predict whether insurance will continue to be available at premium levels that justify its purchase or whether insurance will be available at all.

Our principal executive offices are located at 410 Seventeenth Street, Suite 1850. Our main telephone number is (303) 565-4600. We maintain a website at [www.teton-energy.com](http://www.teton-energy.com). Information contained on our website does not constitute part of this prospectus.

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**RISK FACTORS**

An investment in our securities involves a high degree of risk. You should carefully consider the risks set forth in the documents incorporated by reference into this prospectus and in the supplements to this prospectus and all of the other information contained in this prospectus and in supplements to this prospectus before deciding to invest in our securities. The risks described are not the only ones facing the Company. Additional risks not presently known to us or which we currently consider immaterial also may adversely affect the Company.

**Risks Related to our Business**

**We have incurred significant losses. We expect future losses and we may never become profitable.**

We have incurred significant losses in the past. The Company incurred net losses from continuing operations for the years ended December 31, 2005, 2004, and 2003 of \$3,777,449, \$5,193,281, and \$4,036,164, respectively. In addition, we had an accumulated deficit of \$24,499,726 at December 31, 2005. We may fail to achieve significant revenues or sustain profitability. There can be no assurance of when, if ever, we will be profitable or be able to maintain profitability.

**If we are unable to obtain additional funding our business operations will be harmed.**

We believe that our current cash position and estimated 2006 cash from operations will not be sufficient to meet our current estimated operating and general and administrative expenses and capital expenditures through the end of fiscal year 2006 and will require still additional funding for operations in 2007. In addition, should our operating partners increase their capital expenditures beyond currently anticipated levels, we may be unable to participate in additional wells if we are unable to secure additional funding. Although we may receive approximately \$50,000,000 from the sale of securities under this prospectus, there are no assurances that any such offerings will be successful, nor can the Company estimate when, if such offerings are successful, these offerings may close and capital will become available to the Company. Additionally, we do not know if additional financing will be available when needed, or if it is available, if it will be available on acceptable terms. Insufficient funds may prevent us from implementing our business strategy.

**Our business depends on the level of activity in the oil and gas industry, which is significantly affected by volatile energy prices.**

Our business depends on the level of activity in oil and gas exploration, development and production in markets worldwide. Oil and gas prices, market expectations of potential changes in these prices and a variety of political and economic and weather-related factors significantly affect this level of activity. Oil and gas prices are extremely volatile and are affected by numerous factors, including:

worldwide demand for oil and gas;

the ability of the Organization of Petroleum Exporting Countries, commonly called OPEC, to set and maintain production levels and pricing;

the level of production in non-OPEC countries;

the policies of the various governments regarding exploration and development of their oil and gas reserves;

local weather;

fluctuating pipeline takeaway capacity;

advances in exploration and development technology;

the political environment surrounding the production of oil and gas;

level of consumer product demand; and

the price and availability of alternative fuels.

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**Our business involves numerous operating hazards.**

Our operations are subject to certain hazards inherent in drilling for oil or natural gas, such as blowouts, reservoir damage, loss of production, loss of well control, punchthroughs, craterings, or fires. The occurrence of these events could result in the suspension of drilling operations, weather, equipment shortages, damage to or destruction of the equipment involved and injury or death to rig personnel. Operations also may be suspended because of machinery breakdowns, abnormal drilling conditions, failure of subcontractors to perform or supply goods or services or personnel shortages. Damage to the environment could also result from our operations, particularly through oil spillage or extensive uncontrolled fires. We may also be subject to damage claims by other oil and gas companies.

Although we and/or our operating partners maintain insurance in the areas in which we operate, pollution and environmental risks generally are not fully insurable. Our insurance policies and contractual rights to indemnity may not adequately cover our losses, and we do not have insurance coverage or rights to indemnity for all risks. If a significant accident or other event occurs and is not fully covered by insurance or contractual indemnity, it could adversely affect our financial position and results of operations.

**All of our current producing properties are located in the Rocky Mountains, making us vulnerable to risks associated with operating in one major geographic area.**

Our current operations are focused on the Rocky Mountain region, which means our producing properties are geographically concentrated in that area. As a result, we may be disproportionately exposed to the impact of delays or interruptions of production from these wells caused by significant governmental regulation, transportation capacity constraints, curtailment of production or interruption of transportation of natural gas produced from the wells in these basins.

**Competition in the oil and natural gas industry is intense, which may adversely affect our ability to succeed.**

The oil and natural gas industry is intensely competitive, and we compete with other companies that are significantly larger and have greater resources. Many of these companies not only explore for and produce oil and natural gas, but also carry on refining operations and market petroleum and other products on a regional, national or worldwide basis. These companies may be able to pay more for productive oil and natural gas properties and exploratory prospects or define, evaluate, bid for and purchase a greater number of properties and prospects than our financial or human resources permit. In addition, these companies may have a greater ability to continue exploration activities during periods of low oil and natural gas market prices. Our larger competitors may be able to absorb the burden of present and future federal, state, local and other laws and regulations more easily than we can, which would adversely affect our competitive position. Our ability to acquire additional properties and to discover reserves in the future will be dependent upon our ability to evaluate and select suitable properties and to consummate transactions in a highly competitive environment.

**If oil and natural gas prices decrease, we may be required to take write-downs of the carrying values of our oil and natural gas properties.**

Generally accepted accounting principles require that we periodically review the carrying value of our oil and natural gas properties for possible impairment. Based on specific market factors and circumstances at the time of the prospective impairment reviews, and the continuing evaluation of development plans, production data, economics and other factors, we may be required to write down the carrying value of our oil and natural gas properties. A write-down constitutes a non-cash charge to earnings. We may incur impairment charges in the future, which could have material adverse effect on our results of operations in the periods taken.

**Governmental laws and regulations may add to our costs or limit our drilling activity.**

Our operations are affected from time to time in varying degrees by governmental laws and regulations. We may be required to make significant capital expenditures to comply with governmental laws and regulations. It is also possible that these laws and regulations may in the future add significantly to our

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operating costs or may significantly limit drilling activity. Failure to comply with these laws and regulations may result in the suspension or termination of our operations and subject us to administrative, civil and criminal penalties, including assessment of natural resource damage.

### **There are risks associated with forward-looking statements made by us and actual results may differ.**

Some of the information in this Form S-3 contains forward-looking statements that involve substantial risks and uncertainties. You can identify these statements by forward-looking words such as may, will, expect, anticipate, believe, estimate and continue, or similar words. You should read statements that contain these words carefully because they:

- discuss our future expectations;
- contain projections of our future results of operations or of our financial condition; and
- state other forward-looking information.

We believe it is important to communicate our expectations. However, there may be events in the future that we are not able to accurately predict and/or over which we have no control. The risk factors listed in this section, other risk factors about which we may not be aware, as well as any cautionary language in this prospectus, provide examples of risks, uncertainties and events that may cause our actual results to differ materially from the expectations we describe in our forward-looking statements. You should be aware that the occurrence of the events described in these risk factors could have an adverse effect on our business, results of operations and financial condition (See Cautionary Note Regarding Forward-Looking Statements on page 12).

### **Risks Relating To Our Common Stock**

#### **Our stock price and trading volume may be volatile, which could result in losses for our stockholders.**

The equity trading markets may experience periods of volatility, which could result in highly variable and unpredictable pricing of equity securities. The market price of our common stock could change in ways that may or may not be related to our business, our industry or our operating performance and financial condition. In addition, the trading volume in our common stock may fluctuate and cause significant price variations to occur. Some of the factors that could negatively affect our share price or result in fluctuations in the price or trading volume of our common stock include:

- actual or anticipated quarterly variations in our operating results;
- changes in expectations as to our future financial performance or changes in financial estimates, if any, of public market analysts;
- announcements relating to our business or the business of our competitors;
- conditions generally affecting the oil and natural gas industry;
- the success of our operating strategy; and
- the operating and stock price performance of other comparable companies.



Many of these factors are beyond our control, and we cannot predict their potential effects on the price of our common stock. If the market price of our common stock declines significantly, you may be unable to resell your shares of common stock at or above the public offering or other offering price. We cannot assure you that the market price of our common stock will not fluctuate or decline significantly, including a decline below the public offering price, in the future. In addition, the stock markets in general can experience considerable price and volume fluctuations.

**Future sales of our common stock may cause stock price to decline.**

Sales of substantial amounts of our common stock in the public market, including the shares offered hereby and by certain selling securityholders pursuant to an effective registration statement declared effective

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on November 10, 2005 (the Effective Registration Statement ), or the perception that these sales may occur, could cause the market price of our common stock to decline. In addition, the sale of these shares could impair our ability to raise capital through the sale of additional common or preferred stock.

### **Our Insiders beneficially own a significant portion of our stock.**

As of March 1, 2006, our executive officers, directors and affiliated persons beneficially own approximately 17.73% of our common stock. As a result, our executive officers, directors and affiliated persons will have significant influence to:

- elect or defeat the election of our directors;
- amend or prevent amendment of our articles of incorporation or bylaws;
- effect or prevent a merger, sale of assets or other corporate transaction; and
- affect the outcome of any other matter submitted to the stockholders for vote.

In addition, sales of significant amounts of shares held by our directors and executive officers, or the prospect of these sales, could adversely affect the market price of our common stock. Management's stock ownership may discourage a potential acquirer from making a tender offer or otherwise attempting to obtain control of us, which in turn could reduce our stock price or prevent our stockholders from realizing a premium over our stock price.

### **Existing stockholders may experience significant dilution from the sale of our common stock pursuant to this prospectus and pursuant to the Effective Registration Statement**

The sale of our common stock pursuant to this prospectus and pursuant to the Effective Registration Statement may have a dilutive impact on our shareholders. As a result, any future net income per share could decrease in future periods and the market price of our common stock could decline. If our stock price decreases, then our existing shareholders would experience greater dilution.

The perceived risk of dilution may cause our stockholders to sell their shares, which would contribute to a decline in the price of our common stock. Moreover, the perceived risk of dilution and the resulting downward pressure on our stock price could encourage investors to engage in short sales of our common stock. By increasing the number of shares offered for sale, material amounts of short selling could further contribute to progressive price declines in our common stock.

### **We do not expect to pay dividends in the foreseeable future. As a result, holders of our common stock must rely on stock appreciation for any return on their investment.**

We do not anticipate paying cash dividends on our common stock in the foreseeable future. Any payment of cash dividends will also depend on our financial condition, results of operations, capital requirements and other factors and will be at the discretion of our board of directors. Accordingly, holders of our common stock will have to rely on capital appreciation, if any, to earn a return on their investment in our common stock. Furthermore, we may in the future become subject to contractual restrictions on, or prohibitions against, the payment of dividends.

## **CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS**

This prospectus contains forward-looking statements. These forward-looking statements are subject to a number of risks and uncertainties, many of which are beyond our control, which may include statements about our:

business strategy;

identified drilling locations;

exploration and development drilling prospects, inventories, projects and programs;

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natural gas and oil reserves;

ability to obtain permits and governmental approvals;

technology;

financial strategy;

realized oil and natural gas prices;

productions;

lease operating expenses, general and administrative costs and funding and development costs;

future operating results; and

plans, objectives, expectations and intentions.

All of these types of statements, other than statements of historical fact included in this prospectus, are forward-looking statements. These forward-looking statements may be found in the Prospectus Summary , Risk Factors , Business , and other sections of the prospectus. In some cases, you can identify forward-looking statements by terminology such as may, will, could, should, expect, plan, project, intend, anticipate, believe, e potential, pursue, target, seek, objective, or continue, the negative of such terms or other comparable termino

The forward-looking statements contained in this prospectus are based largely on our expectations, which reflect estimates and assumptions made by our management. These estimates and assumptions reflect our best judgment based on currently known market conditions and other factors. Although we believe such estimates and assumptions to be reasonable, they are inherently uncertain and involve a number of risks and uncertainties that are beyond our control. In addition, management's assumptions about future events may prove to be inaccurate. All readers are cautioned that the forward-looking statements contained in this prospectus are not guarantees of future performance, and we cannot assure any reader that such statements will be realized or the forward-looking events and circumstances will occur. Actual results may differ materially from those anticipated or implied in the forward-looking statements due to the many factors including those listed in the Risk Factors section and elsewhere in this prospectus. All forward-looking statements speak only as of the date of this prospectus. We do not intend to publicly update or revise any forward-looking statements as a result of new information, future events or otherwise. These cautionary statements qualify all forward-looking statements attributable to us or persons acting on our behalf.

**USE OF PROCEEDS**

The specific allocation of net proceeds of an offering of securities will be determined at the time of the offering and will be described in an accompanying prospectus supplement. Unless we specify otherwise in the applicable prospectus supplement, the net proceeds we receive from the sale of the securities offered by this prospectus and any prospectus supplement will be used for general corporate purposes, which may include: repaying debt, providing working capital, funding capital expenditures, and paying for possible acquisitions or the expansion of our business.

In addition, this prospectus and any accompanying prospectus supplement may be used by selling securities holders to sell securities that they hold. In such instances, we will not receive any proceeds from such sales.



**Table of Contents****RATIOS OF EARNINGS TO FIXED CHARGES AND  
EARNINGS TO FIXED CHARGES PLUS PREFERRED DIVIDENDS**

For purposes of determining the ratios of earnings to fixed charges and combined fixed charges and preferred dividends (excluding any deemed dividends), earnings are defined as income (loss) before income taxes plus interest expense and amortization of debt related costs, and fixed charges are defined as interest expense, amortization of debt related costs, capitalized interest and expenses related to indebtedness.

|   | <b>Fiscal Year Ended December 31,</b> |             |             |              |             |
|---|---------------------------------------|-------------|-------------|--------------|-------------|
|   | <b>2005</b>                           | <b>2004</b> | <b>2003</b> | <b>2002</b>  | <b>2001</b> |
| Coverage deficiency earnings to fixed charges                         |                                       |             | (4,036,164) | (10,780,081) | (1,512,589) |
| Coverage deficiency earnings to fixed charges and preferred dividends | (3,838,904)                           | (5,299,230) | (4,036,164) | (10,780,081) | (1,512,589) |

**THE SECURITIES WE MAY OFFER**

We may from time to time offer under this prospectus, separately or together:

common stock;

preferred stock;

unsecured senior or subordinated debt securities;

warrants to purchase common stock;

warrants to purchase preferred stock;

warrants to purchase debt securities;

depositary shares;

stock purchase contracts to purchase common stock; and

stock purchase units, each representing ownership of a stock purchase contract and, as security for the holder's obligation to purchase common stock under the stock purchase contract, either our debt securities or U.S. Treasury securities.

The aggregate initial offering price of the offered securities will not exceed \$50,000,000.

**DESCRIPTION OF OUR CAPITAL STOCK**

### **Authorized and Outstanding Capital Stock**

Our authorized capital stock consists of 250,000,000 shares of common stock, \$.001 par value per share and 25,000,000 shares of preferred stock, \$.001 par value per share. The following description of our common stock, preferred stock, and certain rights associated with our common stock, together with the additional information included in any applicable prospectus supplements, summarizes the material terms and provisions of these types of securities, but it is not complete. For the complete terms of our common stock and preferred stock, please refer to our certificate of incorporation and our bylaws that are incorporated by reference into the registration statement which includes this prospectus and, with respect to preferred stock, any certificate of designation that we may file with the Commission for a series of preferred stock we may designate, if any.

We will describe in a prospectus supplement the specific terms of any common stock or preferred stock we may offer pursuant to this prospectus. If indicated in a prospectus supplement, the terms of such common stock or preferred stock may differ from the terms described below.

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### **Description of Common Stock**

As of March 1, 2006, there were 11,666,079 shares of common stock issued and outstanding.

Each holder of common stock is entitled to one vote for each share on all matters to be voted upon by the stockholders and there are no cumulative voting rights. Subject to preferences to which holders of any outstanding preferred stock may be entitled, holders of common stock are entitled to receive ratably those dividends, if any, that may be declared from time to time by our board of directors out of funds legally available for the payment of dividends. In the event of liquidation, dissolution or winding up of the Company, holders of our common stock would be entitled to share in our assets remaining after the payment of liabilities and the satisfaction of any liquidation preference granted to holders of any outstanding shares of preferred stock. Holders of our common stock have no preemptive or conversion rights or other subscription rights and there are no redemption or sinking fund provisions applicable to our common stock. The rights, preferences and privileges of the holders of common stock are subject to, and may be adversely affected by, the rights of the holders of shares of any series of preferred stock that we may designate in the future.

The transfer agent and registrar for our common stock is Computershare, Inc., whose address is 2 North LaSalle Street, 2<sup>nd</sup> Floor, Chicago, IL 60602, and whose phone number is 312-588-4992.

### **Description of Preferred Stock**

The following description of preferred stock and the description of the terms of a particular series of preferred stock that will be set forth in the related prospectus supplement are not complete. These descriptions are qualified in their entirety by reference to the certificate of designation relating to that series. The rights, preferences, privileges and restrictions of the preferred stock of each series will be fixed by the certificate of designation relating to that series. The prospectus supplement also will contain a description of certain United States federal income tax consequences relating to the purchase and ownership of the series of preferred stock that is described in the prospectus supplement.

As of March 1, 2006, there were 0 shares of our Series A or Series B convertible preferred stock issued and outstanding. Pursuant to our certificate of incorporation, our board of directors has the authority without further action by our stockholders to issue up to 25 million shares of preferred stock. Our board of directors has the authority to issue such preferred stock in one or more series and to fix the number of shares of any series of preferred stock and to determine the designation of any such series. The board of directors is also authorized to determine and alter the powers, rights, preferences and privileges and the qualifications, limitations and restrictions granted to or imposed upon any wholly unissued series of preferred stock. In addition, within the limitations or restrictions stated in any resolution or resolutions of the board of directors originally fixing the number of shares constituting any series, the board of directors has the authority to increase or decrease, but not below the number of shares of such series then outstanding, the number of shares of any series subsequent to the issue of shares of that series. The issuance of preferred stock, while providing desirable flexibility in connection with possible acquisitions and other corporate purposes, could have the effect of delaying, deferring or preventing a change in control without further action by our stockholders and may adversely affect the market price of, and the voting and other rights of, the holders of our common stock.

Our board of directors has designated 200,000 shares of our preferred stock as Series C Junior Participating Preferred Stock in connection with the adoption of our stockholder rights plan, as described in Anti-Takeover Effects of Certificate, Shareholder Rights Plan, and Delaware Law below. Each holder of Series C preferred shares will be entitled to a minimum preferential quarterly dividend payment equal to the greater of (a) \$75.00 or (b) 100 times the dividend declared on each share of common stock. In the event of liquidation, the holders of the Series C preferred shares will be entitled to a minimum preferential liquidation payment of \$100.00 per share, but will be entitled to an aggregate payment of 100 times the payment made per share of our common stock. In the event of liquidation, the



holders of Preferred Stock will receive a preferred liquidation payment equal to the greater of (a) \$2,200.00 per share, plus accrued dividends to the date of distribution whether or not earned or declared, plus a redemption premium of \$1,200.00 per share of Preferred Stock or (b) an amount per share equal to 100 times the aggregate payment to be distributed per share of common stock. In the event of any merger, consolidation or other transaction in which shares of

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common stock are exchanged for or changed into other securities, cash and/or other property, each share of Preferred Stock will be entitled to receive the greater of (a) 100 times the amount and type of consideration received per share of common stock or (b) \$3,400.00 per share of Preferred Stock Each Series C preferred share will have 100 votes, voting together with shares of our common stock. As of the date of this prospectus, no shares of our Series C Junior Participating Preferred Stock were outstanding. See Anti-Takeover Effects of Certificate, Shareholder Rights Plan, and Delaware Law below for additional detail.

Whenever preferred stock is to be sold pursuant to this prospectus, we will file a prospectus supplement relating to that sale which will specify:

the number of shares in the series of preferred stock;

the designation for the series of preferred stock by number, letter or title that will distinguish the series from any other series of preferred stock;

the dividend rate, if any, and whether dividends on that series of preferred stock will be cumulative, noncumulative or partially cumulative;

the voting rights of that series of preferred stock, if any;

any conversion provisions applicable to that series of preferred stock;

any redemption or sinking fund provisions applicable to that series of preferred stock;

the liquidation preference per share of that series of preferred stock; and

the terms of any other preferences or rights, if any, applicable to that series of preferred stock.

## **Anti-takeover Effects of Provisions of Our Certificate of Incorporation, Shareholder Rights Plan and Delaware Law**

*General.* Our certificate of incorporation, our status as a corporation incorporated under Delaware law, and our shareholder rights plan contain provisions that are designed in part to make it more difficult and time-consuming for a person to obtain control of the Company. The provisions of our certificate of incorporation, certain sections of Delaware law, and shareholder rights plan reduce the vulnerability of the Company to an unsolicited takeover proposal. These provisions may also have an adverse effect on the ability of stockholders to influence the governance of the Company.

In addition, because we have a significant amount of authorized but unissued common stock and preferred stock, our board of directors may make it more difficult or may discourage an attempt to obtain control of the Company by issuing additional stock in the Company.

*Shareholder Rights Plan.* Our board implemented a shareholder rights plan on June 2, 2005, a copy of which has been filed with the SEC, and declared a dividend of one right ( Right ) for each outstanding share of our common stock to stockholders of record on June 14, 2005. One Right will also attach to each share issued after June 14, 2005. The Rights will only become exercisable, and transferable apart from our common stock, upon the earlier of: the first date of public announcement by the Company or by a person or group ( Acquiring Person ) of such person s acquisition of 15% or more of the outstanding common stock without the prior approval of the Company s board of directors, or the tenth business day (subject to extension by the Board) following the commencement of, or public announcement of an

intention to commence, a tender or exchange offer which would result in the beneficial ownership of 15% or more of the outstanding common stock (the earlier of such dates being called the Distribution Date ).

The discussion that follows sets forth the operation of the Rights.

Until the Distribution Date, the Rights will be evidenced by the certificates for the common stock and will be transferable only in connection with a transfer of the common stock. As soon as practicable following the Distribution Date, separate certificates evidencing the Rights ( Right Certificates ) will be mailed to holders of record of the Company s common stock as of the close of business on the Distribution Date. The Right Certificates alone will evidence the Rights from and after the Distribution Date.

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The Preferred Stock purchasable upon exercise of the Rights will be nonredeemable (except as provided below) and junior to any other series of preferred stock the Company may issue (unless otherwise provided in the terms of such other series). Each share of Preferred Stock will have a preferential cumulative quarterly dividend in an amount equal to the greater of (a) \$75.00 or (b) 100 times the dividend declared on each share of common stock. In the event of liquidation, the holders of Preferred Stock will receive a preferred liquidation payment equal to the greater of (a) \$2,200.00 per share, plus accrued dividends to the date of distribution whether or not earned or declared, plus a redemption premium of \$1,200.00 per share of Preferred Stock or (b) an amount per share equal to 100 times the aggregate payment to be distributed per share of common stock.

Each share of Preferred Stock will entitle the holder to 100 votes on all matters submitted to a vote of the shareholders. The holders of Preferred Stock will generally vote together as one class with the holders of common stock. In the event of any merger, consolidation or other transaction in which shares of common stock are exchanged for or changed into other securities, cash and/or other property, each share of Preferred Stock will be entitled to 100 times the amount and type of consideration received per share of common stock.

Unless an Acquiring Person, within the time period specified (a) publicly announces its withdrawal of its tender or exchange offer, or withdrawal of its intention to commence such tender or exchange offer; and (b) divests a sufficient number of shares of the outstanding common stock so that such Acquiring Person would no longer own 15% or more of the outstanding common stock, the Company must redeem the Preferred Stock within 364 days thereafter at a redemption price of \$2,200.00 per share, plus accrued dividends to the date of redemption, plus a redemption premium of \$1,200.00 per share of Preferred Stock. However, if the Acquiring Person, prior to such 364<sup>th</sup> day either (x) concludes a definitive agreement with the board of directors of the Company pursuant to a stock or cash tender or exchange offer for all outstanding common stock at a price and on terms approved by a majority of the outside Board members (who are continuing Board members) or (y) (i) publicly announces its withdrawal of its tender or exchange offer, or withdrawal of its intention to commence such tender or exchange offer; and (ii) divests a sufficient number of shares of the outstanding common stock so that such person would no longer own securities of the Company representing 15% or more of the outstanding common stock, then the Board has the option to retire any amount so outstanding and due for \$.001 per Preferred Share.

In the event:

(i) any person becomes an Acquiring Person or

(ii) any Acquiring Person or any of its Affiliates or Associates, directly or indirectly:

(1) consolidates with or merges into the Company or any of its subsidiaries or otherwise combines with the Company or any of its subsidiaries in a transaction in which the Company or such subsidiary is the continuing or surviving corporation of such merger or combination and the common stock of the Company remains outstanding and no shares thereof shall be changed into or exchanged for stock or other securities of any other person or of the Company or cash or any other property,

(2) transfers any assets to the Company or any of its subsidiaries in exchange for capital stock of the Company or any of its subsidiaries or for securities exercisable for or convertible into capital stock of the Company or any of its subsidiaries or otherwise obtains from the Company or any of its subsidiaries any capital stock of the Company or any of its subsidiaries or securities exercisable for or convertible into capital stock of the Company or any of its subsidiaries (other than as part of a pro rata offer or distribution to all holders of such stock),

(3) sells, purchases, leases, exchanges, mortgages, pledges, transfers or otherwise disposes to, from or with the Company or any of its subsidiaries, assets on terms and conditions less favorable to the Company or such subsidiary

than the Company or such subsidiary would be able to obtain in arm's-length negotiation with an unaffiliated third party,

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(4) receives any compensation from the Company or any of its subsidiaries for services other than compensation for employment or fees for serving as a director at rates in accordance with the Company's (or its subsidiary's) past practice,

(5) receives the benefit (except proportionately as a stockholder) of any loans, advances, guarantees, pledges or other financial assistance or tax credit or advantage, or

(6) engages in any transaction with the Company (or any of its subsidiaries) involving the sale, license, transfer or grant of any right in, or disclosure of, any patents, copyrights, trade secrets, trademarks or know-how or other intellectual property rights which the Company (including its subsidiaries) owns or has the right to use on terms and conditions not approved by the board of directors of the Company, or

(iii) while there is an Acquiring Person, there shall occur any reclassification of securities, any recapitalization of the Company, or any merger or consolidation of the Company with any of its subsidiaries or any other transaction or transactions involving the Company or any of its subsidiaries which have the effect of increasing by more than 1% the proportionate share of the outstanding shares of any class of equity securities of the Company or any of its subsidiaries owned or controlled by the Acquiring Person (such events are collectively referred to herein as the "Flip-In Events"),

then, and in each such case, each holder of a Right, other than the Acquiring Person, will have the right to receive, upon payment of the then current purchase price (the "Purchase Price"), in lieu of one one-hundredth of a share of Preferred Stock per outstanding Right, that number of shares of common stock having a market value at the time of the transaction equal to the Purchase Price (as adjusted to the Purchase Price in effect immediately prior to the Flip-In Event multiplied by the number of one one-hundredths of a share of Preferred Stock for which a Right was exercisable immediately prior to such Flip-In Event) divided by one-half the average of the daily closing prices per share of the common stock for the thirty consecutive trading days ("Current Market Price") on the date of such Flip-In Event. Notwithstanding the foregoing, Rights held by the Acquiring Person or certain related persons or certain transferees will be null and void and no longer be transferable.

The Company may at its option substitute for a share of common stock issuable upon the exercise of Rights such number or fractions of shares of Preferred Stock having an aggregate current market value equal to the Current Market Price of a share of common stock. If there are insufficient shares of common stock to permit the exercise in full of the Rights in accordance with the foregoing paragraph, the board of directors shall, to the extent permitted by applicable law and any material agreements then in effect to which the Company is a party:

(A) determine the excess (such excess, the "Spread") of

(1) the value of the shares of common stock issuable upon the exercise of a Right in accordance with this paragraph (the "Current Value") over

(2) the Purchase Price, and

(B) with respect to each Right, make adequate provision to substitute for the shares of common stock issuable in accordance with this paragraph upon exercise of the Right and payment of the Purchase Price.

Unless the Rights are earlier redeemed, if following the first occurrence of a Flip-In Event, (a) the Company were to be acquired in a merger or other business combination in which any shares of the Company's common stock are exchanged or converted for other securities or assets (other than a merger or other business combination in which the voting power represented by the Company's securities outstanding immediately prior thereto continues to represent all of the voting power represented by the securities of the Company thereafter and the holders of such securities have not

changed as a result of such transaction), or (b) 50% or more of the assets or earning power of the Company and its subsidiaries (taken as a whole) were to be sold or transferred in one or a series of related transactions (such transactions are collectively referred to herein as the Flip-Over Events ), proper provision must be made so that each holder of a Right (other than

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an Acquiring Person, or related persons) will from and after such date have the right to receive, upon payment of the then current Purchase Price, that number of shares of common stock of the acquiring company having a market value at the time of such transaction equal to the Purchase Price divided by one-half the Current Market Price of such common stock.

At any time until the occurrence of a Flip-In Event, the Board may redeem the Rights in whole, but not in part, at a price of \$0.001 per Right. Immediately upon the action of the board of directors of the Company authorizing redemption of the Rights, the right to exercise the Rights will terminate, and the only right of the holders of Rights will be to receive the Redemption Price without any interest thereon.

The Rights will expire upon the earlier of (i) June 2, 2008, unless otherwise extended by the Company's shareholders or (ii) redemption or exchange by the Company. Pursuant to the shareholder rights plan, all shares of our Series C Preferred Stock are reserved for issuance upon exercise of the Rights.

The Rights have certain anti-takeover effects. The Rights will cause substantial dilution to a person or group who attempts to acquire us without the approval of our board of directors. Although the shareholder rights plan is not intended to prevent acquisitions through negotiations with our board of directors, the existence of the shareholder rights plan may nevertheless discourage a third party from making a partial tender offer or otherwise attempting to obtain a substantial position in our equity securities or seeking to obtain control of the Company. To the extent any potential acquirers are deterred by our shareholder rights plan, the plan may have the effect of preserving incumbent directors and management in office or preventing acquisitions of the Company. As a result, the overall effect of the Rights may be to render more difficult or discourage any attempt to acquire us even if such acquisition may be favorable to the interests of our stockholders.

Because our board of directors can redeem the Rights or approve certain offers, the Rights should not interfere with any merger or other business combination approved by our board of directors.

Additional descriptions of the rights plan may be found in either the Form 8-A12G filed with the SEC on June 8, 2005, or the Form 8-K filed with the SEC on June 8, 2005, which filings are incorporated herein by reference. The description and terms of the Rights are set forth in a rights plan between the Company and Computershare Investor Services, LLC, as Rights Agent, which agreement is on file with the SEC and incorporated herein by reference.

*Delaware law.* We are subject to Section 203 of the Delaware General Corporation Law, ( "DGCL" ), an anti-takeover law. In general, the statute prohibits a publicly-held Delaware corporation from engaging in a business combination with an "interested stockholder" for a period of three years after the date of the transaction in which the person became an interested stockholder. A "business combination" includes a merger, sale of 10% or more of our assets and certain other transactions resulting in a financial benefit to the stockholder. For purposes of Section 203, an "interested stockholder" is defined to include any person that is:

the owner of 15% or more of the outstanding voting stock of the corporation;

an affiliate or associate of the corporation and was the owner of 15% or more of the voting stock outstanding of the corporation, at any time within three years immediately prior to the relevant date; and

an affiliate or associate of the persons defined as an interested shareholder.

However, the above provisions of Section 203 do not apply if:



the board of directors approves the transaction that made the stockholder an interested stockholder prior to the date of that transaction;

after completion of the transaction that resulted in the stockholder becoming an interested stockholder, that stockholder owned at least 85% of our voting stock outstanding at the time the transaction commenced, excluding shares owned by our officers and directors; or

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on or subsequent to the date of the transaction, the business combination is approved by our board of directors and authorized at a meeting of our stockholders by an affirmative vote of at least two-thirds of the outstanding voting stock not owned by the interested stockholder.

Stockholders may, by adopting an amendment to the corporation's certificate of incorporation or bylaws, elect for the corporation not to be governed by Section 203, effective 12 months after adoption. Neither our certificate of incorporation nor our bylaws exempt us from the restrictions imposed under Section 203. It is anticipated that the provisions of Section 203 may encourage companies interested in acquiring us to negotiate in advance with our board; however, this statute could prohibit or delay mergers or other change in control attempts, and thus may discourage attempts to acquire us.

**DESCRIPTION OF THE DEBT SECURITIES WE MAY OFFER**

The following description of our debt securities sets forth the general terms and provisions of the debt securities to which any prospectus supplement may relate. The particular terms of the debt securities offered by any prospectus supplement, and the extent to which the general provisions described below may apply to any offered debt securities, will be described in the applicable prospectus supplement. We will issue senior debt securities under an indenture between us and a trustee. This prospectus refers to this indenture as the senior indenture. We will issue subordinated debt securities under an indenture between us and a trustee. This prospectus refers to this indenture as the subordinated indenture. The senior indenture and the subordinated indenture are sometimes referred to collectively as the indentures and each individually as an indenture. The indentures will be subject to, and governed by, the Trust Indenture Act of 1939.

The following description of certain provisions of the forms of indentures does not purport to be complete and is subject to, and is qualified by reference to, all the provisions of the indentures. We urge you to read the indentures applicable to a particular series of debt securities because they, and not this description, define your rights as the holders of the debt securities. Except as otherwise indicated, the terms of the senior indenture and the subordinated indenture are identical.

**General**

The indentures may limit the aggregate principal amount of the debt securities which we may issue and will provide that we may issue the debt securities from time to time in one or more series. The indentures may or may not limit the amount of our other indebtedness or the debt securities which we or our subsidiaries may issue.

Unless otherwise provided in the applicable prospectus supplement, the senior debt securities will be unsecured obligations of the Company and will rank equally with all of our other unsecured and unsubordinated indebtedness. The subordinated debt securities will be unsecured obligations of ours, subordinated in right of payment to the prior payment in full of all of our senior indebtedness as described below under Subordination of the Subordinated Debt Securities and in the applicable prospectus supplement.

We may grant security interests in some or substantially all of our assets, including equipment, inventory, reserves, cash and cash equivalents, and general intangibles to secure our debt, including debt that will not be issued pursuant to the prospectus such as a bank revolving line of credit secured by our reserves. As a result, any debt securities and related guarantees issued pursuant to this prospectus may be, unless otherwise agreed to between creditors, effectively subordinated to the secured debt to the extent of the value of the assets that secure that debt. As of December 31, 2005, we had \$0 of secured debt outstanding.

The applicable prospectus supplement will describe the terms of the debt securities offered, including:

the title of the debt securities;

any limit on the aggregate principal amount of the debt securities;

the date or dates on which the debt securities will mature;

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the rate or rates at which the debt securities will bear interest, if any, or the method by which the rate or rates will be determined, and the date or dates from which the interest, if any, will accrue or the method by which the date or dates will be determined;

the date or dates on which interest, if any, on the debt securities will be payable;

the place or places where payments will be payable;

whether any of the debt securities will be redeemable at our option, whether we will be obligated to redeem or purchase any of the debt securities pursuant to any sinking fund or analogous provision or at the option of any holder, and the terms of the option or obligation;

the denominations the debt securities will be issued in, if other than denominations of \$1,000 and multiples of \$1,000;

whether the debt securities will be convertible or exchangeable and, if so, the securities or rights into which the debt securities are convertible or exchangeable, and the terms and conditions of conversion or exchange;

if other than the entire principal amount, the portion of the principal amount, or the method by which the portion will be determined, of the debt securities that will be payable upon declaration of acceleration of the maturity thereof;

if other than United States dollars, the currency of payment of the principal of, any premium or interest on or any additional amounts with respect to any of the debt securities;

whether the debt securities will be issued in global form and, if so, who the depositary will be;

classification as senior or subordinated debt securities;

in the case of subordinated debt securities, the degree, if any, to which the subordinated debt securities of the series will be senior to or be subordinated to other indebtedness of ours in right of payment, whether the other indebtedness is outstanding or not;

whether the debt securities are subject to defeasance; and

any other specific terms of the debt securities, including any additional events of default or covenants.

The debt securities may be issued as original issue discount securities, bearing no interest or bearing interest at a rate which at the time of issuance is below market rates, to be sold at a substantial discount below their principal amount. Special United States federal income tax and other considerations applicable to original issue discount securities will be described in the applicable prospectus supplement.

**Payment and Paying Agents**

Unless otherwise provided in the applicable prospectus supplement, payment of the interest on any debt securities on an interest payment date will be made to the person in whose name the debt securities are registered at the close of business on the regular record date for the interest.

Principal of and any premium and interest on the debt securities of a particular series will be payable at the office of the paying agents designated by us, except that unless otherwise provided in the applicable prospectus supplement, interest payments may be made by check mailed to the holder. Unless otherwise provided in the applicable prospectus supplement, the corporate trust office of the trustee will be required to have an office in New York and will be designated as our sole paying agent for payments with respect to debt securities of each series. Any other paying agents initially designated by us for the debt securities of a particular series will be named in the applicable prospectus supplement. We will be required to maintain a paying agent in each place of payment for the debt securities of a particular series.

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All moneys paid by us to a paying agent or the trustee for the payment of the principal of or any premium or interest on any debt securities which remains unclaimed at the end of two years after the principal, premium or interest has become due and payable may be repaid to us, and the holders of the debt securities may then look only to us for payment.

## **Form, Exchange and Transfer**

The debt securities will be issued only in fully registered form, without coupons, and, unless otherwise provided in the applicable prospectus supplement, in minimum denominations of \$1,000 and any multiple of \$1,000. The debt securities may be represented in whole or in part by one or more global debt securities registered in the name of a depository and, if so represented, interests in the global debt security will be shown on, and transfers thereof will be effected only through, records maintained by the designated depository and its participants.

At the option of the holder and unless otherwise provided in the applicable prospectus supplement, the debt securities may be exchanged for other debt securities of the same series in any authorized denominations, and of a like aggregate principal amount and the debt securities may be presented for exchange or for registration of transfer at the office of any transfer agent designated by us. The transfer or exchange will be made without service charge, but we may require payment of a sum sufficient to cover any tax or other governmental charge.

Any transfer agent initially designated by us for any debt securities will be named in the applicable prospectus supplement. We may at any time designate additional transfer agents, rescind the designation of any transfer agent or approve a change in the office through which any transfer agent acts, except that we will be required to maintain a transfer agent in each place of payment for the debt securities.

If the debt securities of any series are to be redeemed in part, we will not be required to:

issue, register the transfer of, or exchange, the debt securities during a period beginning at the opening of business 15 days before the day of mailing of a notice of redemption of any of the debt securities that may be selected for redemption and ending at the close of business on the day of the mailing; or

register the transfer of or exchange any debt security so selected for redemption, in whole or in part, except the unredeemed portion of any debt security being redeemed in part.

## **Conversion and Exchange**

The terms, if any, on which debt securities of any series are convertible into or exchangeable for common stock or other securities, property or cash, or a combination of any of the foregoing, will be described in the applicable prospectus supplement. These terms may include provisions as to whether conversion or exchange is mandatory, at the option of the holder or at our option, and may include provisions pursuant to which the securities, property or cash to be received by the holders of the debt securities would be subject to adjustment as described in the applicable prospectus supplement.

## **Global Securities**

The debt securities of a series may be issued in whole or in part in the form of one or more global debt securities that will be deposited with, or on behalf of, a depository identified in the prospectus supplement relating to that series.

The specific terms of the depository arrangement with respect to a series of the debt securities will be described in the applicable prospectus supplement.

We anticipate that the following provisions will apply to all depositary arrangements:

Upon the issuance of a global security, the depositary for the global security or its nominee will credit, on its book-entry registration and transfer system, the respective principal amounts of the debt securities represented by the global security. The accounts will be designated by the underwriters or

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agents with respect to the debt securities or by us if the debt securities are offered and sold directly by us. Ownership of beneficial interests in a global security will be limited to persons that may hold interests through participants. Ownership of beneficial interests in the global security will be shown on, and the transfer of that ownership will be effected only through, records maintained by the depositary or its nominee with respect to interests of participants, and on the records of participants with respect to interests of persons other than participants. The laws of some states require that certain purchasers of securities take physical delivery of the securities in definitive form. Such limits and such laws may impair the ability to transfer beneficial interests in a global security.

So long as the depositary for a global security, or its nominee, is the registered holder of the global security, the depositary or the nominee, as the case may be, will be considered the sole owner and holder of the debt securities represented by the global security for all purposes under the applicable indenture. Except as described below, owners of beneficial interests in a global security will not be entitled to have the debt securities of the series represented by the global security registered in their names, will not receive or be entitled to receive physical delivery of the debt securities of that series in definitive form and will not be considered the owners or holders of the debt securities represented by the global security for any purpose under the debt securities or the applicable indenture.

Principal of, and any premium and interest on, a global security will be made to the depositary. None of the trustee, any paying agent, the security registrar or us will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial interests of the global security for the debt securities, or for maintaining, supervising or reviewing any records relating to the beneficial interests.

We expect that the depositary for a series of the debt securities, upon receipt of any payment with respect to the debt securities, will credit immediately participants' accounts with payments in amounts proportionate to their respective beneficial interest in the principal amount of the global security for the debt securities as shown on the records of the depositary. We also expect that payments by participants to owners of beneficial interests in the global security held through the participants will be governed by standing instructions and customary practices, as is now the case with securities held for the accounts of customers registered in street name, and will be the responsibility of the participants.

The indentures will provide that each global security authenticated will be registered in the name of the depositary and delivered to the depositary or its nominee or custodian, and each global security will constitute a single debt security. The indentures will also provide that no global security may be exchanged, in whole or in part, for debt securities registered, and no transfer of a global security, in whole or in part, may be registered, in the name of any person other than the depositary or its nominee unless:

the depositary has notified us that it is unwilling or unable to continue as depositary or has ceased to be qualified to act as required;

there will have occurred and be continuing an event of default with respect to the debt securities of a series represented by the global security; or

there will exist the circumstances described in certain provisions of the applicable indenture.

Subject to the foregoing, all debt securities issued in exchange for a global security or any portion thereof will be registered in the names as the depositary for the global security will direct.

## **Consolidation, Merger, Conveyance, Transfer or Lease**



The indentures may provide that we may not consolidate or amalgamate with or merge into any person or convey, transfer or lease our properties and assets as an entirety or substantially as an entirety to any person,

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and we may not permit any person to consolidate or amalgamate with or merge into us, or convey, transfer or lease its properties and assets as an entirety or substantially as an entirety to us, unless:

the person is an entity organized and existing under the laws of the United States of America, any state thereof or the District of Columbia and will expressly assume all of our obligations under the indenture and the debt securities;

immediately after giving effect to the transaction, no event of default, and no event which after notice or lapse of time or both would become an event of default, will have occurred and be continuing; and

certain other conditions are met.

## **Events of Default**

Each of the following constitute reasonably standard events that may be included in any finalized indenture as constituting an event of default under the applicable indenture with respect to any series of debt securities issued:

default in the payment of any interest on any debt security of that series when it becomes due, and the default continues for a period of 30 days;

default in the payment of the principal of or any premium on any debt security of that series when due;

default in the deposit of any sinking fund payment, when due in respect of any debt security of that series;

default in the performance of any covenant contained in the applicable indenture for the benefit of that series of the debt securities, and the default continues for a period of 90 days after written notice has been given as provided in the indenture;

a default under any bond, debenture, note or other evidence of our indebtedness of at least \$10,000,000, or under any mortgage, indenture or instrument under which there may be issued or by which there may be secured or evidenced any of our indebtedness for money borrowed having an aggregate principal amount outstanding of at least \$10,000,000, whether the indebtedness now exists or will hereafter be created, which default will have resulted in the indebtedness becoming or being declared due and payable prior to the date on which it would otherwise have become due and payable, without the indebtedness having been discharged, or the acceleration having been rescinded or annulled, within a period of 10 days after there has been given written notice as provided in the applicable indenture;

certain events of bankruptcy, insolvency or reorganization; and

any other event of default provided in or pursuant to the applicable indenture with respect to the debt securities of that series.

If an event of default with respect to the debt securities of any series, other than certain events of default relating to bankruptcy, insolvency or reorganization, occurs and is continuing, then the trustee or the holders of at least 25 percent in aggregate principal amount of the outstanding debt securities of that series may declare the principal amount of all the debt securities of that series (or, in the case of original issue discount securities, the portion of the principal amount as may be specified by their terms) to be due and payable immediately, by a notice in writing to us (and to the trustee if given by holders). If an event of default relating to bankruptcy, insolvency or reorganization occurs, the principal amount of all the debt securities of that series (or, in the case of original issue discount securities,

the portion of the principal amount as may be specified by their terms) will automatically become immediately due and payable, and without any other action on the part of the trustee or any holder.

The holders of a majority in aggregate principal amount of the outstanding debt securities of any series may waive any event of default with respect to the debt securities of that series and rescind a declaration of acceleration of payment if sums sufficient to pay all amounts due other than amounts due upon acceleration are provided to the trustee and all defaults are remedied.

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If an event of default with respect to the debt securities of any series occurs and is continuing, the trustee may proceed to protect and enforce its rights and the rights of the holders of the debt securities of that series by the appropriate judicial proceedings, whether to enforce any covenant or agreement in the applicable indenture, to help in the exercise of any power granted by the indenture, or to enforce any other proper remedy.

The holders of a majority in aggregate principal amount of the outstanding debt securities of any series will have the right to direct the time, method and place of conducting any proceeding for any remedy available to the trustee, or exercising any trust or power conferred on the trustee, with respect to the debt securities of such series. However, the direction by the holders must not be in conflict with any rule of law or with the applicable indenture and the trustee may take any other action deemed proper by the trustee which is not inconsistent with the direction.

We will be required to deliver to the trustee annually a statement by certain of our officers as to whether or not, to their knowledge, we are in default in the performance of any of the terms, provisions and conditions of the applicable indenture and, if we are in default, specifying those defaults.

## **Supplemental Indentures and Waivers**

We and the trustee, with the consent of the holders of at least a majority in aggregate principal amount of the outstanding debt securities of each series affected, may enter into a supplemental indenture to add, change or modify the applicable indenture or the rights of the holders of the debt securities of that series; provided, however, no supplemental indenture will, without the consent of the holder of each outstanding debt security affected:

- change the stated maturity of any debt securities;

- reduce the principal amount of or the rate of interest on the debt security or any premium payable upon the redemption of any debt securities;

- reduce the amount of the principal of an original issue discount security or any other debt security payable upon acceleration of its maturity;

- change the currency in which, any debt security or any premium or interest on any debt security is payable;

- impair the right to enforce any payment on or after the stated maturity of any debt security (or, in the case of redemption, on or after the redemption date);

- modify the provisions of the applicable indenture with respect to the subordination of the debt securities in a manner adverse to the holders of that debt security;

- reduce the percentage in principal amount of the outstanding debt securities of any series, the consent of whose holders is required for any supplemental indenture, or for any waiver of compliance with certain provisions of the applicable indenture or for certain defaults; or

- modify any of the above provisions.

We and the trustee, without the consent of any holders of a series of debt securities, may enter into one or more supplemental indentures for any of the following purposes:

- to provide for our successor and the assumption by our successor of our covenants under the applicable indenture;

to add to our covenants for the benefit of the holders of all or any series of debt securities or to surrender any right or power herein conferred upon us;

to add any additional events of default for the benefit of the holders of all or any series of debt securities;

to permit or facilitate the issuance of debt securities in bearer form, registrable or not registrable as to principal, and with or without interest coupons, or to permit or facilitate the issuance of debt securities in uncertificated form;

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to add, change or eliminate any provisions of the applicable indenture in respect to one or more series of debt securities, provided that the addition, change or elimination (i) will not apply to any outstanding debt security or (ii) will become effective only when there is no debt security outstanding of series created prior to the execution of the supplemental indenture which is entitled to the benefit of that provision;

to secure the debt securities;

to establish the form or terms of debt securities of that series as provided in the applicable indenture; or

to evidence and provide for the acceptance of appointment by a successor trustee with respect to the debt securities of one or more series and to add to or change any of the provisions of this indenture as will be necessary to provide for or facilitate the administration of the trusts by more than one trustee, pursuant to the requirements of the applicable indenture.

The holders of at least a majority in aggregate principal amount of the outstanding debt securities of a series may waive compliance with certain restrictive covenants.

The holders of at least a majority in aggregate principal amount of the outstanding debt securities of a series may waive any past default under the applicable indenture, except a default in the payment of the principal of or any premium or interest and some covenants or provisions of the applicable indenture which cannot be modified or amended without the consent of the holder of each outstanding debt security of such series affected.

**Subordination of the Subordinated Debt Securities**

The subordinated debt securities will, to the extent set forth in the subordinated indenture, be subordinate in right of payment to the prior payment in full of all of our senior indebtedness. In the event of:

any insolvency or bankruptcy case or proceeding, or any receivership, liquidation, dissolution or other winding up, reorganization or other similar case or proceeding in connection therewith, relative to us or to our creditors, as such, or to our assets, or

any voluntary or involuntary liquidation, dissolution or other winding up of ours, whether or not involving insolvency or bankruptcy, or

any assignment for the benefit of creditors or any other marshalling of assets and liabilities of ours,

and in any like event, the holders of our senior indebtedness will be entitled to receive payment in full of all amounts due or to become due on or in respect of all of our senior indebtedness, or provision will be made for the payment in cash, before the holders of the subordinated debt securities are entitled to receive or retain any payment on account of principal of, or any premium or interest on, or any additional amounts with respect to, subordinated debt securities, and to that end the holders of our senior indebtedness will be entitled to receive, for application to the payment thereof, any payment or distribution of any kind or character, whether in cash, property or securities, including any such payment or distribution which may be payable or deliverable by reason of the payment of any other indebtedness of ours being subordinated to the payment of subordinated debt securities, which may be payable or deliverable in respect of subordinated debt securities in any such case, proceeding, dissolution, liquidation or other winding up event.

By reason of such subordination, in the event of our liquidation or insolvency, holders of our senior indebtedness and holders of other obligations of ours that are not subordinated to our senior indebtedness may recover more than the holders of subordinated debt securities.

Subject to the payment in full of all of our senior indebtedness, the rights of the holders of subordinated debt securities will be subrogated to the rights of the holders of our senior indebtedness to receive payments or distributions of cash, property or securities of ours applicable to the senior indebtedness until the principal of, any premium and interest on, and any additional amounts with respect to, senior debt securities have been paid in full.

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No payment of principal, including redemption and sinking fund payments, of or any premium or interest on or any additional amounts with respect to the subordinated debt securities may be made:

if any of our senior indebtedness is not paid when due and any applicable grace period with respect to the default has ended and the default has not been cured or waived or ceased to exist; or

if the maturity of any of our senior indebtedness has been accelerated because of a default.

The subordinated indenture will not limit or prohibit us from incurring additional senior indebtedness, which may include indebtedness that is senior to subordinated debt securities, but subordinate to our other obligations. The senior debt securities will constitute senior indebtedness under the subordinated indenture.

The term senior indebtedness means all indebtedness of ours outstanding at any time, except:

the subordinated debt securities;

indebtedness as to which, by the terms of the instrument creating or evidencing the same, is subordinated to or ranks equally with the subordinated debt securities;

indebtedness of ours to an affiliate of ours;

interest accruing after the filing of a petition initiating any bankruptcy, insolvency or other similar proceeding unless the interest is an allowed claim enforceable against us in a proceeding under federal or state bankruptcy laws; and

trade accounts payable, general and administrative expenses necessary to continue the day-to-day operations of the Company, joint interest accounts payable, delay rentals, and royalties payable pursuant to the Company's oil and gas lease obligations.

The senior indebtedness will continue to be senior indebtedness and be entitled to the benefits of the subordination provisions of any and all subordinated indentures irrespective of any amendment, modification or waiver of any term of the senior indebtedness.

The subordinated indenture will provide that the foregoing subordination provisions, insofar as they relate to any particular issue of subordinated debt securities, may be changed prior to issuance. Any such change would be described in the related prospectus supplement.

## **New York Law to Govern**

The indentures and the debt securities will be governed by, and construed in accordance with, the laws of the State of New York applicable to agreements made or instruments entered into and, in each case, performed wholly in that state.

## **Information Concerning the Trustee**

We may from time to time borrow from, maintain deposit accounts with and conduct other banking transactions with the trustee and its respective affiliates in the ordinary course of business. The trustee will be named in the applicable prospectus supplement.



Under each indenture, the trustee may be required to transmit annual reports to all holders regarding its eligibility and qualifications as trustee under the applicable indenture and related matters.

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**DESCRIPTION OF THE WARRANTS TO PURCHASE COMMON STOCK AND  
PREFERRED STOCK WE MAY OFFER**

The following statements with respect to the common stock warrants and the preferred stock warrants are summaries of, and subject to, the detailed provisions of a stock warrant agreement to be entered into by us and a stock warrant agent to be selected at the time of issue of either or both of the common stock or preferred stock warrants. The stock warrant agreement may include or incorporate by reference standard warrant provisions substantially in the form of the common stock Warrant Agreement or the Preferred Stock Warrant Agreement to be filed in an amendment to the registration statement which includes this prospectus or filed in a current report on Form 8-K and incorporated by reference in the registration statement which includes this prospectus.

**General**

The common stock warrants and preferred stock warrants, evidenced by stock warrant certificates, may be issued under a stock warrant agreement independently or together with any other securities offered by any prospectus supplement and may be attached to or separate from such other offered securities. If stock warrants are offered, the applicable prospectus supplement will describe the designation and terms of the stock warrants, including:

- the offering price, if any;
- the designation and terms of the common or preferred stock purchasable upon exercise of the stock warrants;
- if applicable, the date on and after which the stock warrants and the related offered securities will be separately transferable;
- the number of shares of common or preferred stock purchasable upon exercise of one stock warrant and the initial price at which the shares may be purchased upon exercise;
- the date on which the right to exercise the stock warrants will commence and expire;
- a discussion of certain United States Federal income tax considerations;
- the call provisions, if any;
- the currency, currencies or currency units in which the offering price, if any, and exercise price are payable;
- any antidilution provisions of the stock warrants; and
- any other terms of the stock warrants.

The shares of common or preferred stock issuable upon exercise of the stock warrants will, when issued in accordance with the stock warrant agreement, be fully paid and nonassessable.

**Exercise of Stock Warrants**

Stock warrants may be exercised by surrendering the stock warrant certificate to the stock warrant agent with the form of election to purchase on the reverse side of the stock warrant certificate properly completed and signed and by

payment in full of the exercise price, as set forth in the applicable prospectus supplement. The signature must be guaranteed by a bank or trust company, by a broker or dealer which is a member of the National Association of Securities Dealers, Inc. or by a member of a national securities exchange. Upon receipt of the certificates, the stock warrant agent will requisition from the transfer agent for the common stock for issuance and delivery to or upon the written order of the exercising warrant holder, a certificate representing the number of shares of common stock purchased. If less than all of the stock warrants evidenced by any stock warrant certificate are exercised, the stock warrant agent will deliver to the exercising warrant holder a new stock warrant certificate representing the unexercised stock warrants.

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**No Rights as Stockholders**

Holders of stock warrants will not be entitled, by virtue of being such holders, to vote, to consent, to receive dividends, to receive notice as stockholders with respect to any meeting of stockholders for the election of our directors or any other matter, or to exercise any rights whatsoever as our stockholders.

**Warrants Outstanding**

As of March 1, 2006, warrants to purchase 1,392,002 shares of common stock were outstanding. These warrants have a weighted average exercise price of \$3.67 per share and expire between March 2006 and December 2012.

**DESCRIPTION OF THE WARRANTS TO PURCHASE  
DEBT SECURITIES WE MAY OFFER**

The following statements with respect to the debt warrants are summaries of, and subject to, the detailed provisions of a debt warrant agreement to be entered into by us and a debt warrant agent to be selected at the time of issue. The debt warrant agreement may include or incorporate by reference standard warrant provisions substantially in the form of the debt warrant agreement to be filed in an amendment to the registration statement which includes this prospectus or filed in a current report on Form 8-K and incorporated by reference in the registration statement which includes this prospectus.

**General**

The debt warrants, evidenced by debt warrant certificates, may be issued under the debt warrant agreement independently or together with any other securities offered by any prospectus supplement and may be attached to or separate from such other offered securities. If debt warrants are offered, the applicable prospectus supplement will describe the designation and terms of the debt warrants, including:

the offering price, if any;

the designation, aggregate principal amount and terms of the debt securities purchasable upon exercise of the debt warrants;

if applicable, the date on and after which the debt warrants and the related offered securities will be separately transferable;

the principal amount of debt securities purchasable upon exercise of one debt warrant and the price at which that principal amount of debt securities may be purchased upon exercise;

the date on which the right to exercise the debt warrants will commence and expire;

a discussion of certain United States Federal income tax considerations;

whether the warrants represented by the debt warrant certificates will be issued in registered or bearer form;

the currency, currencies or currency units in which the offering price, if any, and exercise price are payable;

any antidilution provisions of the debt warrants; and

any other terms of the debt warrants.

Debt Warrantholders will not have any of the rights of holders of debt securities, including the right to receive the payment of principal of, any premium or interest on, or any additional amounts with respect to, the debt securities or to enforce any of the covenants of the debt securities or the applicable indenture except as otherwise provided in the applicable indenture.

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**Exercise of Debt Warrants**

Debt warrants may be exercised by surrendering the debt warrant certificate to the debt warrant agent, with the form of election to purchase on the reverse side of the debt warrant certificate properly completed and signed, and by payment in full of the exercise price, as set forth in the applicable prospectus supplement. The signature must be guaranteed by a bank or trust company, by a broker or dealer which is a member of the National Association of Securities Dealers, Inc. or by a member of a national securities exchange. Upon the exercise of debt warrants, we will issue the debt securities in authorized denominations in accordance with the instructions of the exercising warrant holder. If less than all of the debt warrants evidenced by the debt warrant certificate are exercised, a new debt warrant certificate will be issued for the remaining number of debt warrants.

**DESCRIPTION OF DEPOSITARY SHARES WE MAY OFFER**

The following statements with respect to depositary shares are summaries of, and subject to, the detailed provisions of a depositary share agreement to be entered into by us and a depositary to be selected at the time of issue. The depositary share agreement may include or incorporate by reference standard provisions substantially in the form of the depositary share agreement to be filed in an amendment to the registration statement which includes this prospectus or filed in a current report on Form 8-K and incorporated by reference in the registration statement which includes this prospectus.

We may, at our option, offer fractional shares of our preferred stock, rather than whole shares of our preferred stock. In the event we do so, we will issue receipts for depositary shares, each of which will represent a fraction (to be set forth in the prospectus supplement relating to an offering of the depositary shares) of a share of the related series of preferred stock.

The shares of our preferred stock represented by depositary shares will be deposited under a deposit agreement between us and a depositary, or bank or trust company selected by us having its principal office in the United States and having a combined capital and surplus of at least \$100,000,000. Subject to the terms of the deposit agreement, each owner of a depositary share will be entitled, in proportion to the applicable fraction of a share of preferred stock, represented by the depositary share to all of the rights and preferences of the preferred stock represented by the depositary shares (including dividend, voting, redemption, conversion and liquidation rights).

**DESCRIPTION OF STOCK PURCHASE CONTRACTS AND  
STOCK PURCHASE UNITS WE MAY OFFER**

The following statements with respect to stock purchase contracts and stock purchase units are summaries of, and subject to, the detailed provisions of a stock purchase contract agreement or stock purchase unit agreement to be entered into by us and a stock purchase contract agent or stock purchase unit agent to be selected at the time of issue. The stock purchase contract agreement or stock purchase unit agreement may include or incorporate by reference standard provisions substantially in the form of the stock purchase contract agreement or stock purchase unit agreement to be filed in an amendment to the registration statement which includes this prospectus or filed in a current report on Form 8-K and incorporated by reference in the registration statement which includes this prospectus.

We may issue stock purchase contracts, representing contracts obligating holders to purchase from us, and obligating us to sell to the holders, a specified number of shares of common stock, preferred stock or depositary shares at a future date or dates. The price per share of common stock, preferred stock or depositary shares may be fixed at the time the stock purchase contracts are issued or may be determined by reference to a specific formula set forth in the stock purchase contract agreement. Any such formula may include anti-dilution provisions to adjust the number of shares issuable pursuant to such stock purchase contract upon the occurrence of certain events. The stock purchase contracts

may be issued separately or as a part of stock purchase units, consisting of a stock purchase contract and, as security for the holder's obligations to purchase the shares of common stock, preferred stock or depositary shares under the stock purchase contracts, either our

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senior or subordinated debt securities or the debt obligations of third parties, including U.S. Treasury securities.

The stock purchase contract agreements may require us to make periodic payments to the holders of the stock purchase units or vice versa, and these payments may be unsecured or prefunded on some basis. The stock purchase contract agreements may require holders to secure their obligations in a specified manner and in certain circumstances we may deliver newly issued prepaid stock purchase contracts upon release to a holder of any collateral securing such holder's obligations under the original stock purchase contract agreement.

The applicable prospectus supplement will describe the terms of any stock purchase contracts or stock purchase units and, if applicable, prepaid stock purchase contracts. The description in the prospectus supplement will not purport to be complete and will be qualified in its entirety by reference to:

the stock purchase contracts;

the collateral arrangements and depositary arrangements, if applicable, relating to such stock purchase contracts or stock purchase units; and

if applicable, the prepaid stock purchase contracts and the stock purchase contract agreement pursuant to which the prepaid stock purchase contracts will be issued.

**PLAN OF DISTRIBUTION**

Unless otherwise set forth in a prospectus supplement accompanying this prospectus, we may sell the offered securities in any one or more of the following ways from time to time:

through agents;

to or through underwriters;

through dealers;

directly to purchasers; or

through remarketing firms.

The prospectus supplement with respect to the offered securities will set forth the terms of the offering of the offered securities, including:

the name or names of any underwriters, dealers or agents;

the purchase price of the offered securities and the proceeds to us from such sale;

any underwriting discounts and commissions or agency fees and other items constituting underwriters' or agents' compensation;

any initial public offering price and any discounts or concessions allowed or reallowed or paid to dealers; and

any securities exchange on which such offered securities may be listed.



Any initial public offering price, discounts or concessions allowed or reallocated or paid to dealers may be changed from time to time.

The distribution of the offered securities may be effected from time to time in one or more transactions at a fixed price or prices, which may be changed, at market prices prevailing at the time of sale, at prices related to such prevailing market prices or at negotiated prices.

Offers to purchase the offered securities may be solicited by agents designated by us from time to time. Any agent involved in the offer or sale of the offered securities will be named, and any commissions payable by us to such agent will be set forth, in the applicable prospectus supplement. Unless otherwise indicated in

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the prospectus supplement, the agent will be acting on a reasonable best efforts basis for the period of its appointment.

If underwriters are used in the sale of the offered securities, the offered securities will be acquired by the underwriters for their own account and may be resold from time to time in one or more transactions, including negotiated transactions, at fixed public offering prices or at varying prices determined by the underwriters at the time of sale. The offered securities may be offered to the public either through underwriting syndicates represented by managing underwriters or directly by the managing underwriters. Unless otherwise indicated in the applicable prospectus supplement, the underwriters are subject to certain conditions precedent and will be obligated to purchase all the offered securities of a series if they purchase any of the offered securities.

If a dealer is used in the sale of the offered securities, we will sell the offered securities to the dealer as principal. The dealer may then resell the offered securities to the public at varying prices to be determined by the dealer at the time of resale. The name of the dealer and the terms of the transaction will be set forth in the applicable prospectus supplement.

Offers to purchase the offered securities may be solicited directly by us and the sale thereof may be made by us directly to institutional investors or others. The terms of any such sales will be described in the applicable prospectus supplement.

The offered securities may also be offered and sold by a remarketing firm in connection with a remarketing arrangement upon their purchase. Remarketing firms will act as principals for their own accounts or as agents for us. These remarketing firms will offer or sell the offered securities pursuant to the terms of the offered securities. Any remarketing firm will be identified and the terms of its agreements, if any, with us and its compensation will be described in the applicable prospectus supplement.

We may authorize underwriters, dealers and agents to solicit from third parties offers to purchase the offered securities under contracts providing for payment and delivery on future dates. The applicable prospectus supplement will describe the material terms of these contracts, including any conditions to the purchasers' obligations, and will include any required information about commissions we may pay for soliciting these contracts.

In connection with the sale of the offered securities, agents, underwriters, dealers or remarketing firms may receive compensation from us or from purchasers of the offered securities for whom they act as agents in the form of discounts, concessions or commissions. Underwriters may sell the offered securities to or through dealers, and those dealers may receive compensation in the form of discounts, concessions or commissions from the underwriters or commissions from the purchasers for whom they may act as agents. Agents, underwriters, dealers and remarketing firms that participate in the distribution of the offered securities, and any institutional investors or others that purchase offered securities directly and then resell the securities, may be deemed to be underwriters, and any discounts or commissions received by them from us and any profit on the resale of the securities by them may be deemed to be underwriting discounts and commissions under the Securities Act.

Agents, underwriters, dealers and remarketing firms may be entitled under relevant agreements entered into with us to indemnification by us against certain civil liabilities, including liabilities under the Securities Act or to contribution with respect to payments which the agents, underwriters or dealers may be required to make.

Each series of the offered securities will be a new issue and, other than the shares of common stock which are listed on the American Stock Exchange, will have no established trading market. Any underwriters to whom we sell the offered securities for public offering and sale may make a market in the securities, but such underwriters will not be obligated to do so and may discontinue any market making at any time without notice. We may elect to list any series of offered securities on an exchange, and in the case of common stock, on any additional exchange, but, unless

otherwise specified in the applicable prospectus supplement, we will not be obligated to do so. We cannot predict the liquidity of the trading market for any of the offered securities.

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In connection with an offering, the underwriters may purchase and sell the offered securities in the open market. These transactions may include short sales, stabilizing transactions and purchases to cover positions created by short sales. Short sales involve the sale by the underwriters of a greater number of offered securities than they are required to purchase in an offering. Stabilizing transactions consist of certain bids or purchases made for the purpose of preventing or retarding a decline in the market price of the offered securities while an offering is in progress.

The underwriters also may impose a penalty bid. This occurs when a particular underwriter repays to the underwriters a portion of the underwriting discount received by it because the underwriters have repurchased offered securities sold by or for the account of that underwriter in stabilizing or short-covering transactions.

These activities by the underwriters may stabilize, maintain or otherwise affect the market price of the offered securities. As a result, the price of the offered securities may be higher than the price that otherwise might exist in the open market. If these activities are commenced, they may be discontinued by the underwriters at any time. These transactions may be effected on an exchange or automated quotation system, if the offered securities are listed on that exchange or admitted for trading on that automated quotation system, or in the over-the-counter market or otherwise.

Underwriters, dealers, agents and remarketing firms, or their affiliates, may be customers of, engage in transactions with, or perform services for, us and our subsidiaries in the ordinary course of business.

**LEGAL MATTERS**

Gersten Savage LLP, New York, New York, will pass upon the validity of the securities for us in connection with this offering. Gersten Savage owns 56,250 shares of the Company's common stock and a member of the firm owns approximately 57,250 shares.

**EXPERTS**

The financial statements incorporated in this prospectus by reference to the Annual Report on Form 10-K as of and for the year ended December 31, 2005 have been so incorporated in reliance on the report of Ehrhardt Keefe Steiner & Hottman PC, independent registered public accountants, given on the authority of said firm as experts in auditing and accounting.

Information incorporated by reference in this prospectus regarding our estimated quantities of natural gas and oil reserves were independently determined by Netherland, Sewell & Associates, Inc., independent petroleum engineers, based on operating information provided by us and are incorporated herein upon the authority of such firm as experts in petroleum engineering.

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**You should rely only on the information incorporated by reference or contained in this prospectus supplement and the accompanying prospectus. We have not authorized any dealer, salesperson or other person to give you different information. This prospectus supplement and the accompanying prospectus do not constitute an offer to sell nor are they seeking an offer to buy the securities referred to in this prospectus supplement or the accompanying prospectus in any jurisdiction where the offer or sale is not permitted. The information contained in this prospectus supplement, the accompanying prospectus and the documents incorporated by reference are correct only as of the date shown on the cover page of these documents, regardless of the time of the delivery of these documents or any sale of the securities referred to in this prospectus supplement and the accompanying prospectus.**

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**5,760,000 Shares of Common Stock**

**PROSPECTUS SUPPLEMENT**

July 16, 2007