NOTABLE DEAL TERMS: ACQUISITION OF PARALLEL PETROLEUM BY APOLLO GLOBAL MANAGEMENT, LLC

On September 15, 2009, Parallel Petroleum Corporation (Nasdaq: PLLL) announced that it had entered into an agreement to be acquired by an affiliate of Apollo Global Management, LLC in a transaction valued at approximately $483 million, including the assumption or repayment of approximately $351 million of net debt. The transaction was structured as an all-cash tender offer with a second-step squeeze-out merger. We have highlighted below certain of the notable deal terms. In many instances, we have compared the Parallel transaction terms to the terms of the recent $571 million acquisition of Bankrate, Inc. by funds advised by Apax Partners, which was also structured as an all-cash tender offer with a second-step squeeze-out merger. We would be happy to discuss any of the transaction terms with you in more detail.

- Going Private/ Rule 13e-3 Transaction:[1] Unlike the Bankrate transaction, the Parallel filings indicate that the acquisition is not a "going private" transaction.

- Non-Tender and Support Agreements: None. In the Bankrate transaction, concurrent with the execution of the merger agreement, certain of the Bankrate insiders (representing approximately 24% of the Bankrate shares) executed Non-Tender and Support Agreements pursuant to which they agreed (i) not to tender their shares into the tender offer, (ii) to vote in favor of the second-step merger, if necessary, and (iii) to roll-over certain of their shares into the parent entity formed by the Apax funds to consummate the acquisition.

- Top-up Option:[2] None. In the Bankrate transaction, Apax[3] was obligated to exercise a top-up option if following completion of the tender offer Apax would not own 80% (plus one share) of the outstanding shares.[4]

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1 Rule 13e-3 of the Securities Exchange Act of 1934 applies to transactions by the target or its "affiliates" that have certain effects, including causing the target to go private. If Rule 13e-3 applies, it requires, among other things, additional more detailed disclosures to the target stockholders. Accordingly, parties will generally try to avoid triggering Rule 13e-3. Many times Rule 13e-3 will apply when the target's management is deemed to be on both sides of a transaction (e.g., due to management "rolling over" a material equity stake into the acquiror, or management otherwise having a material equity stake in the acquiror following the closing).

2 A "top-up option" is a contractual right provided to the acquiror in a tender offer transaction which permits (sometimes requires, such as in the Bankrate transaction) the acquiror to purchase additional shares of the target if doing so would result in the acquiror owning a sufficient amount of shares of the target so that the acquiror can consummate a short-form merger immediately following the closing of the tender offer.

3 The Apax funds formed parent/subsidiary entities which were parties to the Bankrate merger agreement. For ease of reading, we refer to these entities as "Apax."

4 80% is the Florida threshold (Bankrate was a Florida corporation) for consummating a short-form merger. Delaware has a 90% threshold for consummating a short-form merger.

- MAE Exclusions: The exclusions from the MAE definition included (i) changes in general economic/regulatory/business conditions, (ii) changes in the general economic conditions that affect Parallel's industry (subject to a "materially disproportionate" qualifier[5]), (iii) the outbreak of hostilities or war, natural disasters and other force majeure events, (iv) changes in the oil and gas exploration and development industry (subject to a materially disproportionate qualifier), (v) changes in Parallel's stock price or trading volume, credit ratings or analyst recommendations (unless due to circumstances that would separately constitute an MAE), (vi) failure by Parallel to meet any published or internally prepared estimates of oil and gas reserves, earnings or projections (unless due to circumstances that would separately constitute an MAE), (vii) changes in the law (subject to a disproportionality qualifier (no materiality)), (viii) changes in GAAP or accounting standards, (ix) Parallel's failure to maintain listing of its shares on NASDAQ as a result of the trading price of its shares (unless due to circumstances that would separately constitute an MAE), (x) changes resulting from announcement or pendency of the transaction or (xi) compliance by Parallel with certain covenants in the merger agreement.

- Quantitative MAE/Financial Based Closing Conditions: None.

- Financing: Similar to the Bankrate transaction, the Apollo funds provided an equity commitment letter for 100% of the purchase price, including the repurchase price (approximately $150 million) for certain outstanding senior notes that Parallel will be obligated to repurchase if tendered in connection with a "change of control" offer required to be made pursuant to an indenture governing the notes (as discussed below). In addition, similar to the Bankrate transaction, there is no financing condition or ability for Apollo[6] to terminate the merger agreement if financing is not available (which is prevalent in many transactions structured as a tender offer due to limitations imposed by margin rules and other complexities caused by using leverage in a tender offer structure).

- Credit Facility/Senior Notes: Apollo and Parallel agreed to use "reasonable best efforts" to obtain third-party consents, including a waiver by Parallel's lenders of certain change of control and merger restrictions in Parallel's credit facility. Although the receipt of the consent of the lenders is not a condition to closing the tender offer or the second-step merger, the "background to the offer" section of the tender offer materials indicate that, in advance of signing the merger agreement, the Apollo funds received a commitment from the lenders to waive the covenants in the credit facility that would otherwise be

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5 The parties may agree that certain exclusions from MAE definitions (e.g., industry-wide adverse events) are further qualified so that the target is not entitled to the benefit of the exclusion if the event has a disproportionate impact (sometimes a "materially" disproportionate impact) on the target relative to other entities in the same industry as the target. The Bankrate MAE definition did not have any "disproportionality qualifiers", making it more favorable to Bankrate.

6 The Apollo funds formed parent/subsidiary entities which were parties to the Parallel merger agreement. For ease of reading, we refer to these entities as "Apollo."

breached, subject to customary conditions and an undertaking by the Apollo funds to provide sufficient funds to satisfy the senior note repurchase obligations. In addition, consummation of the tender offer constitutes a "change of control" under an indenture governing Parallel's outstanding senior notes, requiring Parallel to offer to repurchase the notes at 101% of face value. Apollo agreed to cause Parallel to have sufficient funds to repurchase any notes that are tendered. For any funds provided to Parallel by Apollo, Parallel agreed to issue to Apollo "equity in an amount equal to the Offer Price."

- Minimum Tender Condition: Similar to the Bankrate transaction, Apollo's obligation to close the tender offer is subject to the condition that the Parallel stockholders tender at least a majority of the outstanding Parallel shares. In the Bankrate transaction, however, in which Non-Tender and Support Agreements were entered into between Apax and certain Bankrate stockholders, Apax had the right to waive the minimum tender condition if approximately 27% of the Bankrate shares were tendered, so that when the tendered shares were combined with the approximately 24% of the Bankrate shares subject to the Non-Tender and Support Agreements, Apax would have sufficient votes to close the second-step merger.

- Walk-Away Termination Right/Reverse Break-Up Fee: None. Unlike many of the private equity acquisitions completed prior to the credit crisis, Apollo does not have the right to terminate for lack of financing or any other discretionary reason by paying a reverse termination fee. The Bankrate transaction was effectively structured the same way. In the Bankrate transaction, Apax had the right to terminate the merger agreement at any time if Apax paid Bankrate the full purchase price of approximately $571 million. On its face this appeared to be a very unusual termination right, but the "background to the offer" section of the disclosure documents indicated that Apax originally asked for an absolute termination right at a much lower price ($100 million), and as a result of the negotiations the original request of $100 million was increased to approximately $571 million.

- Termination Fee: Parallel's termination fee is $5.5 million (4.2% of the $132 million in equity value). In the Bankrate transaction, Bankrate's termination fee was $30 million (5.3% of the equity/enterprise value; Bankrate did not have a material amount of outstanding debt).

- Apollo Expense Reimbursement: None. In the Bankrate transaction, Apax had the right to be reimbursed for up to $3.0 million of its expenses if Apax terminated the merger agreement due to the failure of the minimum tender condition to be satisfied, provided that all of the other conditions were satisfied. Apax could not terminate the merger agreement for failure of the minimum tender condition to be satisfied until the later of (i) 120 business days following commencement of the offer and (ii) the 30th business day following the date on which Apax believed that the SEC had concluded its review of the tender offer documents.

- Limited Guarantee: From a review of the public filings, it does not appear that the Apollo funds provided a limited guarantee. However, Apollo provided an equity commitment letter for $283.2 million and the merger agreement provides that Parallel is a third-party beneficiary of the equity commitment letter and is permitted to enforce it against the Apollo funds. In the Bankrate transaction, the Apax funds provided a limited guarantee subject to a liability cap of approximately $571 million (i.e., the purchase price). In addition, the Apax funds provided a second equity commitment letter for approximately $571 million for the purpose of the Apax entities satisfying any liability obligations to Bankrate. Bankrate was a party to the equity commitment letter and was permitted to enforce it against the Apax funds.

- Stockholder Losses Included in Computation of Parallel Damages: Yes. Similar to the Bankrate transaction, the merger agreement provides that Parallel's damages for breach by Apollo are not limited to reimbursement of Parallel's expenses and could include, to the extent proven, "the benefit of the bargain lost by Parallel's stockholders (taking into consideration relevant matters, including other combination opportunities and the time value of money)."

- Specific Performance: Similar to the Bankrate transaction, Parallel was required to first seek specific performance in the event of a breach by Apollo. If the court did not award specific performance, then Parallel could seek monetary damages. If a court granted Parallel a damages award, Parallel is only permitted to enforce the award if, within two weeks following the award, Apollo has not consummated the transaction.

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If you have any questions regarding this transaction, please contact Steven J. Gartner (212-728-8222, sgartner@willkie.com), Robert T. Langdon (212-728-8843, rlangdon@willkie.com) or the attorney with whom you regularly work.

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