GOODRICH PETROLEUM CORP
Form 10-K
February 22, 2013
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2012

OR

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number: 001-12719

GOODRICH PETROLEUM CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	**76-0466193**
(State or other jurisdiction of	**(I.R.S. Employer**

incorporation or organization)	Identification No.)
801 Louisiana, Suite 700	
Houston, Texas	**77002**
(Address of principal executive offices)	**(Zip Code)**

(713) 780-9494 (Registrant s telephone number, including area code)

Securities Registered Pursuant to Section 12(b) of the Act:

Common Stock, par value $0.20 per share	New York Stock Exchange
(Title of Class)	***(Name of Exchange)***

Securities Registered Pursuant to Section 12(g) of the Act:

Series B Preferred Stock, $1.00 par value

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

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

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

Large accelerated filer ¨ Accelerated filer x Non-accelerated filer ¨ Small reporting company ¨

Indicate by check mark whether the Registrant is a shell company (as defined in Exchange Act Rule 12b-2). Yes ¨ No x

The aggregate market value of Common Stock, par value $0.20 per share (Common Stock), held by non-affiliates (based upon the closing sales price on the New York Stock Exchange on June 30, 2012, the last business day of the registrant s most recently completed second fiscal quarter) was approximately $359.7 million. The number of shares of the registrant s common stock outstanding as of February 18, 2013 was 36,759,232.

Documents Incorporated By Reference:

Portions of Goodrich Petroleum Corporation s definitive Proxy Statement, which will be filed with the Securities and Exchange Commission within 120 days of December 31, 2012, are incorporated by reference in Part III of this Form 10-K.

Table of Contents

GOODRICH PETROLEUM CORPORATION

ANNUAL REPORT ON FORM 10-K

FOR THE FISCAL YEAR ENDED

December 31, 2012

Table of Contents

PART I

Items 1. and 2. ***Business and Properties***

General

Goodrich Petroleum Corporation, a Delaware corporation (together with its subsidiary, we, our, or the Company) formed in 1995, is an independent oil and natural gas company engaged in the exploration, development and production of oil and natural gas on properties primarily in (i) South Texas, which includes the Eagle Ford Shale Trend, (ii) Northwest Louisiana and East Texas, which includes the Haynesville Shale and Cotton Valley Taylor Sand and (iii) Southwest Mississippi and Southeast Louisiana which includes the Tuscaloosa Marine Shale. In the current depressed natural gas price environment, we are concentrating the vast majority of our development efforts on existing leased acreage within formations that are prospective for oil. In addition, we continue to aggressively pursue the evaluation and acquisition of prospective acreage and oil and natural gas drilling opportunities outside of our existing leased acreage. We own working interests in 392 producing oil and natural gas wells located in 32 fields in eight states. At December 31, 2012, we had estimated proved reserves of approximately 333.1 Bcfe, comprised of 254.0 Bcf of natural gas, 5.1 MMBbls of natural gas liquids (NGLs) and 8.1 MMBbls of oil and condensate.

We operate as one segment as each of our operating areas have similar economic characteristics and each meet the criteria for aggregation as defined by accounting standards related to disclosures about segments of an enterprise.

Available Information

Our principal executive offices are located at 801 Louisiana Street, Suite 700, Houston, Texas 77002.

Our website address is *http://www.goodrichpetroleum.com.* We make available, free of charge through the Investor Relations portion of our website, our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports, as filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (the Exchange Act) as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission (SEC). Reports of beneficial ownership filed pursuant to Section 16(a) of the Exchange Act are also available on our website. Information contained on our website is not part of this report.

We file or furnish annual, quarterly and current reports, proxy statements and other documents with the SEC under the Exchange Act. The public may read and copy any materials that we file with the SEC at the SEC s Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. Also, the SEC maintains a website that contains reports, proxy and information statements, and other information regarding issuers, including us, that file electronically with the SEC. The public can obtain any documents that we file with the SEC at *http://www.sec.gov*.

Table of Contents

GLOSSARY OF CERTAIN OIL AND NATURAL GAS TERMS

As used herein, the following terms have specific meanings as set forth below:

Bbls	Barrels of crude oil or other liquid hydrocarbons
Bcf	Billion cubic feet
Bcfe	Billion cubic feet equivalent
MBbls	Thousand barrels of crude oil or other liquid hydrocarbons
Mcf	Thousand cubic feet of natural gas
Mcfe	Thousand cubic feet equivalent
MMBbls	Million barrels of crude oil or other liquid hydrocarbons
MMBtu	Million British thermal units
Mmcf	Million cubic feet of natural gas
Mmcfe	Million cubic feet equivalent
MMBoe	Million barrels of crude oil or other liquid hydrocarbons equivalent
NGL	Natural gas liquids
SEC	United States Securities and Exchange Commission
U.S.	United States

Crude oil and other liquid hydrocarbons are converted into cubic feet of natural gas equivalent based on six Mcf of natural gas to one barrel of crude oil or other liquid hydrocarbons.

Development well is a well drilled within the proved area of an oil or natural gas field to the depth of a stratigraphic horizon known to be productive.

Dry hole is an exploratory, development or extension well that proves to be incapable of producing either oil or natural gas in sufficient quantities to justify completion as an oil or natural gas well.

Economically producible as it relates to a resource, means a resource that generates revenue that exceeds, or is reasonably expected to exceed, the costs of the operation. The value of the products that generate revenue shall be determined at the terminal point of oil-and-natural gas producing activities.

Estimated ultimate recovery is the sum of reserves remaining as of a given date and cumulative production as of that date.

Exploratory well is a well drilled to find a new field or to find a new reservoir in a field previously found to be productive of oil or natural gas in another reservoir. Generally, an exploratory well is any well that is not a development well, a service well or a stratigraphic test well.

Farm-in or farm-out is an agreement whereby the owner of a working interest in an oil and natural gas lease or license assigns the working interest or a portion thereof to another party who desires to drill on the leased or licensed acreage. Generally, the assignee is required to drill one

or more wells to earn its interest in the acreage. The assignor (the farmor) usually retains a royalty or reversionary interest in the lease. The interest received by an assignee is a farm-in, while the interest transferred by the assignor is a farm-out.

Field is an area consisting of a single reservoir or multiple reservoirs all grouped on or related to the same individual geological structural feature or stratigraphic condition. The SEC provides a complete definition of field in Rule 4-10 (a) (15).

PV-10 is the pre-tax present value, discounted at 10% per year, of estimated future net revenues from the production of proved reserves, computed by applying the 12-month average price for the year and holding that price constant throughout the productive life of the reserves (except for consideration of price changes to the extent provided by contractual arrangements), and deducting the estimated future costs to be incurred in

Table of Contents

developing, producing and abandoning the proved reserves (computed based on current costs and assuming continuation of existing economic conditions). PV-10 is not a Generally Accepted Accounting Principles (GAAP) financial measure.

Productive well is an exploratory, development or extension well that is not a dry well.

Proved reserves are those quantities of oil and natural gas which, by analysis of geosciences and engineering data can be estimated with reasonable certainty to be economically producible from a given date forward, from known reservoirs, and under existing economic conditions, operating methods, and government regulation prior to the time at which contracts providing the right to operate expire, unless evidence indicates that renewal is reasonably certain, regardless of whether deterministic probabilistic methods are used for the estimation. The project to extract the hydrocarbons must have commenced or the operator must be reasonably certain that it will commence the project within a reasonable time. As used in this definition, existing economic conditions include prices and costs at which economic producibility from a reservoir is to be determined. The prices shall be the average price during the 12-month period prior to the ending date of the period covered by the report, determined as an unweighted arithmetic average of the first-day-of-the-month price for each month within such period, unless prices are defined by contractual arrangements, excluding escalations based on future reconditions. The SEC provides a complete definition of proved reserves in Rule 4-10 (a) (22) of Regulation S-X.

Developed oil and natural gas reserves are proved reserves that can be expected to be recovered through existing wells with existing equipment and operating methods or in which the cost of the required equipment is relatively minor compared with the cost of a new well or through installed extraction equipment and infrastructure operational at the time of the reserves estimates if the extraction is by means not involving a well.

Reasonable certainty means a high degree of confidence that the quantities will be recovered, if deterministic methods are used. If probabilistic methods are used, there should be at least a 90 percent probability that the quantities actually recovered will equal or exceed the estimate. A high degree of confidence exists if the quantity is much more likely to be achieved than not, and, as changes due to increased availability of geosciences (geological, geophysical, and geochemical), engineering, and economic data are made to estimated ultimate recovery with time, reasonably certain estimated ultimate recovery is much more likely to increase or remain constant than to decrease. The deterministic method of estimating reserves or resources uses a single value for each parameter (from the geosciences, engineering, or economic data) in the reserves calculation. The probabilistic method of estimation of reserves or resources uses the full range of values that could reasonably occur for each unknown parameter (from the geosciences and engineering data) to generate a full range of possible outcomes and their associated probabilities of occurrence.

Reserves are estimated remaining quantities of oil and natural gas and related substances anticipated to be economically producible, as of a given date, by application of development projects to known accumulations. In addition, there must exist, the legal right to produce or a revenue interest in the production, installed means of delivering oil and natural gas or related substances to market, and all permits and financing required to implement the project.

Undeveloped reserves are proved reserves that are expected to be recovered from new wells on undrilled acreage, or from existing wells where a relatively major expenditure is required for recompletion. Reserves on undrilled acreage shall be limited to those directly offsetting development spacing areas that are reasonably certain of production when drilled, unless evidence using reliable technology exists that establishes reasonable certainty of economic producibility at greater distances. Undrilled locations can be classified as having undeveloped reserves only if a development plan has been adopted indicating that they are scheduled to be drilled within five years, unless the specific circumstances, justify a longer time. Under no circumstances shall estimates for undeveloped reserves be attributable to any acreage for which an application of fluid injection or other improved recovery technique is contemplated, unless such techniques have been proved effective by actual projects in the same reservoir or an analogous reservoir, or by other evidence using reliable technology establishing reasonable certainty.

Table of Contents

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

Workover is a series of operations on a producing well to restore or increase production.

Gross well or acre is a well or acre in which the registrant owns a working interest. The number of gross wells is the total number of wells in which the registrant owns a working interest.

Net well or acre is deemed to exist when the sum of fractional ownership working interests in gross wells or acres equals one. The number of net wells or acres is the sum of the fractional working interests owned in gross wells or acres expressed as whole numbers and fractions of whole numbers.

Table of Contents

Oil and Natural Gas Operations and Properties

Overview. As of December 31, 2012, nearly all of our proved oil and natural gas reserves were located in Louisiana, Texas and Mississippi. We spent substantially all of our 2012 capital expenditures of $250.7 million in these areas, with $173.5 million, or 69%, spent on the Eagle Ford Shale Trend, $48.7 million, or 19%, on the Tuscaloosa Marine Shale and $26.8 million, or 11%, spent on the Haynesville Shale Trend. Our total capital expenditures, including accrued costs for services performed during 2012, consist of $221.3 million for drilling and completion costs, $22.3 million for leasehold acquisitions, $5.7 million for facilities, infrastructure and equipment and $1.4 million for geological and geophysical costs.

The table below details our acreage positions, average working interest and producing wells as of December 31, 2012.

	Acreage As of December 31, 2012		Average Working	Producing Wells at
Field or Area	Gross	Net	Interest	December 31, 2012
Eagle Ford Shale Trend	53,515	38,582	72%	51
Cotton Valley Taylor Sand	43,185	38,339	93%	5
Haynesville Shale Trend	122,555	78,860	46%	78
Tuscaloosa Marine Shale	158,214	134,244	84%	2
Other	32,029	6,831	39%	256

Table of Contents

Eagle Ford Shale Trend

As of December 31, 2012, we have acquired or farmed-in leases totaling approximately 53,500 gross (38,600 net) lease acres. In 2010 we began development and production activity in the Eagle Ford Shale and Buda Lime formations (Eagle Ford Shale Trend) in La Salle and Frio Counties located in South Texas. During 2012, we drilled 33 gross (22 net) oil wells.

Tuscaloosa Marine Shale

As of December 31, 2012, we have acquired approximately 158,200 gross (134,200 net) lease acres in the Tuscaloosa Marine Shale Trend, an emerging oil shale play in East Feliciana, West Feliciana, St. Helena, Concordia and Washington parishes in Southeast Louisiana and Wilkinson, Pike and Amite Counties in Southwest Mississippi. During 2012, we conducted drilling operations on six gross (two net) and added to production two gross (0.5 net) Tuscaloosa Marine Shale wells. One gross (0.8 net) drilling well resulted in a mechanical failure in which operations have been suspended.

Haynesville Shale Trend

As of December 31, 2012, we have acquired or farmed-in leases totaling approximately 122,600 gross (78,900 net) acres in the Haynesville Shale. During 2012, we drilled and completed six gross (three net) successful Haynesville Shale wells. Our Haynesville Shale drilling activities are located in five primary leasehold areas in East Texas and Northwest Louisiana.

In December 2010, we sold a significant amount of our shallow rights in fields in East Texas and Northwest Louisiana, but retained ownership of all the deep rights including the Haynesville and Bossier Shale formations. The sale resulted in net proceeds of $64.9 million, after normal closing adjustments.

Cotton Valley Taylor Sand

As of December 31, 2012, we have acquired or farmed-in leases totaling approximately 43,200 gross (38,300 net) lease acres in the Cotton Valley Taylor Sand Trend. During 2012, we drilled and completed one gross (0.5 net) well, with a 100% success rate.

Other

As of December 31, 2012, we maintained ownership interests in acreage and/or wells in several additional fields including: the Midway field in San Patricio County, Texas and the Garfield Unit in Kalkaska County, Michigan.

On September 28, 2012, we closed the sale of certain non-core natural gas properties in the South Henderson field in the Cotton Valley Taylor Sand Trend to Memorial Resource Development, L.L.C. The total consideration paid for these assets was $95 million and we recognized a gain on the sale of assets of $44.0 million. The sale was effective as of July 1, 2012.

See Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations in this Annual Report on Form 10-K for additional information on our recent operations and plans for 2013 in the Haynesville Shale, Eagle Ford Shale and Tuscaloosa Marine Shale Trends.

Table of Contents

Oil and Natural Gas Reserves

The following tables set forth summary information with respect to our proved reserves as of December 31, 2012 and 2011, as estimated by Netherland, Sewell & Associates, Inc. (NSAI), our independent reserve engineers. A copy of their summary reserve report for 2012 is included as an exhibit to this Annual Report on Form 10-K. For additional information see *Supplemental Information Oil and Natural Gas Producing Activities (Unaudited) to our consolidated financial statements in Part II Item 8 of this Annual Report on Form 10-K.*

	Proved Reserves at December 31, 2012			
	Developed Producing	Developed Non-Producing	Undeveloped	Total
	(dollars in thousands)			
Net Proved Reserves:				
Oil (MBbls) (1)	3,549	1,058	3,453	8,060
NGL (MBbls) (5) (6)	1,674	166	3,289	5,129
Natural Gas (Mmcf)	100,949	18,722	134,310	253,981
Natural Gas Equivalent (Mmcfe) (2)	132,284	26,068	174,764	333,116
Estimated Future Net Cash Flows				$ 675,529
PV-10 (3)				$ 359,094
Discounted Future Income Taxes				(1,645)
Standardized Measure of Discounted Net Cash Flows (3)				$ 357,449

	Proved Reserves at December 31, 2011			
	Developed Producing	Developed Non-Producing	Undeveloped	Total
	(dollars in thousands)			
Net Proved Reserves:				
Oil (MBbls) (1)	2,329	222	3,151	5,702
NGL (MBbls) (4) (6)	3,854	127	3,833	7,814
Natural Gas (Mmcf) (4)	152,066	17,277	239,364	408,707
Natural Gas Equivalent (Mmcfe) (2)	189,161	19,377	281,267	489,805
Estimated Future Net Cash Flows				$ 1,049,967
PV-10 (3)				$ 452,009
Discounted Future Income Taxes				(4,039)
Standardized Measure of Discounted Net Cash Flows (3)				$ 447,970

(1) Includes condensate.
(2) Based on ratio of six Mcf of natural gas per Bbl of oil and per Bbl of NGLs.
(3) PV-10 represents the discounted future net cash flows attributable to our proved oil and natural gas reserves before income tax, discounted at 10%. PV-10 of our total year-end proved reserves is considered a non-GAAP financial measure as defined by the SEC. We believe that the presentation of the PV-10 is relevant and useful to our investors because it presents the discounted future net cash flows attributable to our proved reserves before taking into account future corporate income taxes and our current tax structure. We further believe investors and creditors use our PV-10 as a basis for comparison of the relative size and value of our reserves to other companies. Our standardized

measure of discounted future net cash flows of proved reserves, or standardized measure, as of December 31, 2012 was $357.4 million. See the reconciliation of our PV-10 to the standardized measure of discounted future net cash flows in the table above.

(4) Reserves were recast for 2011 to break out NGLs from our natural gas in our Eagle Ford Shale Trend, West Brachfield, South Henderson, Minden and Beckville fields.

Table of Contents

(5) NGL reserves for 2012 include our Eagle Ford Shale Trend, West Brachfield, Minden and Beckville fields but not South Henderson as it was sold in September 2012.

(6) Our production and sales volumes are accounted for and disclosed based on the wet gas stream at the point of sale. We report no NGL production, as NGLs are processed after the point of sale. However, we share and receive the pricing benefit of the revenue stream of the gas through the processing. We believe that presenting NGLs separately from natural gas and oil in our reserve report provides more information for our investors. The presentation of NGLs as a separate commodity more accurately presents to investors our economic interest in those NGLs separated, produced and sold from the wet gas streams (which we realize through our sharing in the revenue stream attributable to the processed NGLs). These commodities have separate pricing that is monitored in the marketplace.

The following table presents our reserves by targeted geologic formation in Mmcfe.

	December 31, 2012			
Area	Proved Developed	Proved Undeveloped	Proved Reserves	% of Total
Haynesville Shale Trend	84,231	65,812	150,043	45%
Cotton Valley Taylor Sand Trend	8,609	87,989	96,598	29%
Eagle Ford Shale Trend	30,991	20,434	51,425	16%
Tuscaloosa Marine Shale Trend	516	529	1,045	
Other	34,005		34,005	10%
Total	158,352	174,764	333,116	100%

Reserve engineering is a subjective process of estimating underground accumulations of crude oil, condensate and natural gas that cannot be measured in an exact manner, and the accuracy of any reserve estimate is a function of the quality of available data and of engineering and geological interpretation and judgment. The quantities of oil and natural gas that are ultimately recovered, production and operating costs, the amount and timing of future development expenditures and future oil and natural gas sales prices may differ from those assumed in these estimates. Therefore, the PV-10 amounts shown above should not be construed as the current market value of the oil and natural gas reserves attributable to our properties.

In accordance with the guidelines of the SEC, our independent reserve engineers estimates of future net revenues from our estimated proved reserves, and the PV-10 and standardized measure thereof, were determined to be economically producible under existing economic conditions, which requires the use of the 12-month average price for each product, calculated as the unweighted arithmetic average of the first-day-of-the-month price for the period of January 2012 through December 2012, except where such guidelines permit alternate treatment, including the use of fixed and determinable contractual price escalations. For reserves at December 31, 2012, the average twelve month prices used were $2.76 per MMBtu of natural gas and $91.21 per Bbl of crude oil/condensate. These prices do not include the impact of hedging transactions, nor do they include the adjustments that are made for applicable transportation and quality differentials, and price differentials between natural gas liquids and oil, which are deducted from or added to the index prices on a well by well basis in estimating our proved reserves and related future net revenues.

Our proved reserve information as of December 31, 2012 included in this Annual Report on Form 10-K was estimated by our independent petroleum consultant, NSAI, in accordance with petroleum engineering and evaluation principles and definitions and guidelines set forth in the Standards Pertaining to the Estimating and Auditing of Oil and Natural Gas Reserve Information promulgated by the Society of Petroleum Engineers. The technical persons responsible for preparing the reserves estimates presented herein meet the requirements regarding qualifications, independence, objectivity and confidentiality set forth in the Standards Pertaining to the Estimating and Auditing of Oil and Natural Gas Reserves Information promulgated by the Society of Petroleum Engineers.

10

Table of Contents

Our principal engineer has over 30 years of experience in the oil and natural gas industry, including over 25 years as a reserve evaluator, trainer or manager. Further professional qualifications of our principal engineer include a degree in petroleum engineering, extensive internal and external reserve training, and experience in asset evaluation and management. In addition, the principal engineer is an active participant in professional industry groups and has been a member of the Society of Petroleum Engineers for over 30 years.

Our estimates of proved reserves are made by NSAI, as our independent petroleum engineers. Our internal professional staff works closely with our external engineers to ensure the integrity, accuracy and timeliness of data that is furnished to them for their reserve estimation process. In addition, other pertinent data such as seismic information, geologic maps, well logs, production tests, material balance calculations, well performance data, operating procedures and relevant economic criteria is provided to them. We make available all information requested, including our pertinent personnel, to the external engineers as part of their evaluation of our reserves.

We consider providing independent fully engineered third-party estimate of reserves from a nationally reputable petroleum engineering firm, such as NSAI, to be the best control in ensuring compliance with Rule 4-10 of Regulation S-X for reserve estimates.

While we have no formal committee specifically designated to review reserves reporting and the reserves estimation process, a preliminary copy of the NSAI reserve report is reviewed by our senior management with representatives of NSAI and our internal technical staff. Additionally, our senior management reviews and approves any internally estimated significant changes to our proved reserves semi-annually.

Proved reserves are those quantities of oil and natural gas, which, by analysis of geosciences and engineering data, can be estimated with reasonable certainty to be economically producible from a given date forward, from known reservoirs, and under existing economic conditions, operating methods, and government regulations. The term reasonable certainty implies a high degree of confidence that the quantities of oil and/or natural gas actually recovered will equal or exceed the estimate. To achieve reasonable certainty, NSAI employed technologies that have been demonstrated to yield results with consistency and repeatability. The technologies and economic data used in the estimation of our proved reserves include, but are not limited to, well logs, geologic maps, availa