GOODRICH PETROLEUM CORP
Form 10-K
March 14, 2007
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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, 2006

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

Commission file number: 001-7940

GOODRICH PETROLEUM CORPORATION

(Exact name of registrant as specified in its charter)

Delaware **(State or other jurisdiction of** **incorporation or organization)**	**76-0466193** **(I.R.S. Employer** **Identification No.)**
808 Travis, Suite 1320 **Houston, Texas** **(Address of principal executive offices)**	**77002** **(Zip Code)**

(713) 780-9494 (Registrant s telephone number)

Title of each class	Name of exchange on which registered
Securities Registered Pursuant to Section 12 (b) of the Act:	
Common Stock, par value $0.20 per share	New York Stock Exchange
Securities Registered Pursuant to Section 12 (g) of the Act:	
Series A and B Preferred Stock, $1.00 par value	NASDAQ Capital Market

None

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 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, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large accelerated filer ¨ Accelerated filer *x* Non-accelerated filer ¨

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 National Market on June 30, 2006) the last business day of the registrant s most recently completed second fiscal quarter was approximately $348 million. The number of shares of the registrant s common stock outstanding as of March 9, 2007 was 28,288,838.

Documents Incorporated By Reference:

Portions of Goodrich Petroleum Corporation s definitive Proxy Statement are incorporated by reference in Part III of this Form 10-K.

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GOODRICH PETROLEUM CORPORATION

ANNUAL REPORT ON FORM 10-K

FOR THE FISCAL YEAR ENDED

December 31, 2006

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PART I

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

General

Goodrich Petroleum Corporation and subsidiaries (we or the Company) is an independent oil and gas company engaged in the exploration, exploitation, development and production of oil and natural gas properties primarily in the Cotton Valley Trend of East Texas and Northwest Louisiana and in the transition zone of South Louisiana. We own working interests in 233 active oil and gas wells located in 25 fields in three states. At December 31, 2006, Goodrich had estimated proved reserves of approximately 187.0 Bcf of natural gas and 3.2 MMBbls of oil and condensate, or an aggregate of 206.2 Bcfe with a pre-tax present value of future net cash flows, discounted at 10% of $214.2 million and an after-tax present value of discounted future net cash flows of $200.3 million, which is also referred to as the standardized measure of discounted future net cash flows. See Note 13 Oil and Gas Producing Activities (Unaudited) Oil and Natural Gas Reserves to our consolidated financial statements for a reconciliation to the standardized measure of discounted future net cash flows.

Our principal executive offices are located at 808 Travis Street, Suite 1320, Houston, Texas 77002.

Business Strategy

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

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

Exploit and Develop Existing Property Base. We seek to maximize the value of our existing assets by developing and exploiting our properties with the lowest risk and the highest production and reserve growth potential. We intend to concentrate on developing our multi-year inventory of drilling locations in the Cotton Valley Trend. Our Cotton Valley Trend inventory is currently estimated to include over 1,900 possible future drilling locations, based generally on 40 acre spacing. We are continually performing field studies of our existing properties and reevaluating the possibility of additional exploration and development opportunities on these properties utilizing advanced technologies available at present.

Expand Acreage Position in the Cotton Valley Trend. We have increased our acreage position from approximately 129,000 gross acres at December 31, 2005, to 163,200 gross acres as of December 31, 2006. We concentrate our efforts in areas where we can apply our technical expertise and where we have significant operational control or experience. To leverage our extensive regional knowledge base, we seek to acquire leasehold acreage with significant drilling potential in the Cotton Valley Trend and other areas, which exhibit similar characteristics to our existing properties.

Focus on Low Operating Costs. We continually seek ways to minimize lease operating expenses. We will continue to seek to control costs to the greatest extent possible by controlling our operations. We announced in January 2007, that we had entered into an agreement to sell substantially all of our properties in South Louisiana. See Note 12 Acquisitions and Divestitures to our consolidated financial statements. These properties have higher operating costs per Mcfe than our other properties. Upon closing of the sale, we expect our ongoing operating costs per Mcfe to decrease due to the lower cost nature of our Cotton Valley Trend operations.

Maintain an Active Hedging Program. We actively manage our exposure to commodity price fluctuations by hedging meaningful portions of our expected production through the use of derivatives, typically fixed price swaps and costless collars. The level of our hedging activity and the duration of the instruments employed depend upon our view of market conditions, available hedge prices and our operating strategy. For the first quarter of 2007, we currently have an average of 10,000 MMbtu per day of gas hedged at an average price of $7.77 per MMbtu and 400 Bbls per day of oil hedged at an average price of $53.35 per Bbl. Additionally, we have 25,000 MMbtu per day collared in the first quarter of 2007, and 30,000 MMbtu per day collared in the second, third and fourth quarters of 2007, at average floor and ceiling prices respectively, of $7.80-$12.42 and $7.67-$12.67. Subsequent to year end, we have entered into a series of physical sales contracts which will result in us selling approximately 18,500 MMbtu of gas per day in calendar year 2008 for an average price of $7.95 per MMbtu before transportation charges.

Oil and Gas Operations and Properties

Cotton Valley Trend

Overview. As of December 31, 2006, approximately 84% of our proved oil and gas reserves were in the Cotton Valley Trend of East Texas and Northwest Louisiana. We spent approximately 78% of our 2006 capital expenditures of $269.4 million in the Cotton Valley Trend. As of year-end, we have acquired or farmed in leases totaling approximately 163,200 gross (102,000 net) acres and are continually attempting to acquire additional acreage in the area. As of February 15, 2007, we have acquired an additional 16,800 gross (8,000 net) acres, bringing the total currently to 180,000 gross (110,000 net) acres. Company operated acreage comprised 117,000 acres (with an average working interest of approximately 81%) and non-operated acreage comprised 46,000 gross acres (with an average working interest of approximately 40%). As of the year end, we have drilled and/or completed 156 Cotton Valley Trend wells with a success rate in excess of 99%. Our current Cotton Valley Trend drilling activities are located in six primary leasehold areas in East Texas and Northwest Louisiana as further described below:

Dirgin-Beckville. The Dirgin-Beckville area is located in Rusk and Panola Counties in Texas. As of year end, we had acquired leases totaling approximately 12,600 gross (11,400 net) acres with an average working interest of approximately 99%. As of December 31, 2006, we had successfully completed 52 Cotton Valley Trend wells in the Dirgin-Beckville area.

North Minden. The North Minden area is located in Rusk County, Texas. As of year end, we had acquired leases totaling approximately 32,800 gross (27,400 net) acres with a working interest of approximately 93%. As of December 31, 2006, we had successfully drilled 60 Cotton Valley Trend wells in the North Minden area.

South Henderson. The South Henderson area is located in Rusk County, Texas. As of year end, we had acquired leases totaling approximately 13,800 gross (11,100 net) acres with an average working interest of approximately 80%. As of December 31, 2006, we had successfully completed 7 Cotton Valley Trend wells in the South Henderson area.

Bethany-Longstreet. The Bethany-Longstreet field is located in Caddo and DeSoto Parishes in Northwest Louisiana. As of December 31, 2006, we had successfully drilled 14 Cotton Valley Trend wells in the field. Our initiative in this area began in the third quarter of 2003, when we obtained, via farmout, exploration rights to approximately 21,300 gross (14,900 net) acres in the field. We have an average 70% working interest in the Bethany-Longstreet field.

Angelina River. The Angelina River area is located in Angelina, Nacogdoches, and Cherokee Counties, Texas. We had acquired approximately 51,800 gross (22,800 net) acres in the area as of December 31, 2006. As of February 15, 2007, we had acquired an additional 16,800 gross (8,400 net) acres, bringing the total to 68,600 gross (31,200 net) acres. We own an average 50% working interest in the acreage. We currently are the operator of 22,600 gross acres, while owning a 40% non-operated interest in 44,200 gross acres. At year end, we had successfully drilled and logged 6 wells and recompleted three additional wells in the field.

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Other Cotton Valley Trend. We also own 30,900 gross (14,400 net) acres in four separate areas of the Cotton Valley Trend in Harrison, Smith and Upshur Counties, Texas, and Bienville Parish, Louisiana, with an average working interest of approximately 65%. We have successfully drilled and logged 13 wells, with one well in Harrison County, Texas unsuccessful.

Production and Reserves. For the wells completed to date in the Cotton Valley Trend, the average initial gross production rate per well was approximately 1,700 Mcfe per day. This average initial gross production rate is approximately 200 Mcfe per day higher than that calculated on a similar basis at the end of 2005. Initial production from the Cotton Valley Trend wells commenced in June 2004 and for the quarter ended December 31, 2006, gross production from the initial and subsequently drilled wells averaged approximately 54,500 Mcfe per day. Net production averaged 33,100 Mcfe per day for the fourth quarter of 2006.

South Louisiana

In January 2007, we entered into an agreement to sell substantially all of our South Louisiana properties to a private company with an anticipated closing date of late March, 2007. The St. Gabriel, Bayou Bouillon, and Plumb Bob fields will not be included in the sale and we continue to own and operate our interests in these fields. See Note 12 Acquisitions and Divestitures to our consolidated financial statements.

Overview. As of December 31, 2006, approximately 15% of our proved oil and natural gas reserves were in the transition zone of South Louisiana. This region refers to the geographic area that covers the onshore and in-land waters of South Louisiana lying in the southern half of Louisiana, which is one of the most prolific oil and natural gas producing sedimentary basins. Our production in this region during 2006, came predominately from the following areas:

Burrwood and West Delta 83 Fields. The Burrwood/West Delta 83 fields, located in Plaquemines Parish, Louisiana, were discovered in 1955 by Chevron. At December 31, 2006, we had an interest in 77 active wells in the fields, with 21 producing at that time. By July, 2006, we had restored all of our production from the fields to pre-hurricane Katrina levels. We had an average 55% working interest in the production and a 65% working interest in the leasehold in the fields.

Lafitte Field. The Lafitte field is located in Jefferson Parish, Louisiana and was discovered in 1935 by Texaco. At December 31, 2006, we owned a non-operated, 49% working interest and had interests in 30 active producing wells in the Lafitte field.

Second Bayou Field. The Second Bayou field is located in Cameron Parish, Louisiana and was discovered in 1955 by the Sun Texas Company. As of December 31, 2006, we served as the operator of eight active wells, all of which had been restored to production levels experienced prior to Hurricane Rita. At December 31, 2006, we had an average working interest of approximately 31% in 411 gross acres.

St.Gabriel Field. This field was not part of the sale of properties. The St. Gabriel field is located in Ascension and Iberville Parishes in southern Louisiana and was originally discovered by Shell Oil Company in 1939. In July 2004, we announced that we had acquired a 70% working interest in 3-D seismic permits and oil and gas lease options enabling us to acquire an approximate 30 square mile 3-D seismic survey over the field. We commenced shooting the 3-D seismic survey in July 2004 and data acquisition was completed in September 2004. As of December 31, 2006, we had successfully drilled one well in the field.

Other Fields. As of December 31, 2006, we maintained ownership interests in acreage and/or wells in several additional fields in Louisiana, including the (i) Lake Raccourci field, located in Terrebonne Parish, (ii) Pecan Lake field, located in Cameron Parish, (iii) Plumb Bob field, located in St. Martin Parish, and (iv) Bayou Bouillon field in St. Martin Parish, the first two of which are part of the sale properties.

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Other Properties

As of December 31, 2006, we maintain ownership interests in acreage and/or wells in several additional fields including the (i) Mary Blevins field, located in Smith County, Texas, (ii) Midway field, located in San Patricio County, Texas, (iii) Mott Slough field, located in Wharton County, Texas and (iv) the Garfield Unit, located in Kalkaska County, Michigan.

Oil and Natural Gas Reserves

The following tables set forth summary information with respect to our proved reserves as of December 31, 2006 and 2005, as estimated by us by compiling reserve information derived from the evaluations performed by Netherland, Sewell & Associates, Inc. (NSA), our independent reserve engineers. See Note 13 Oil and Gas Producing Activities (unaudited) to our consolidated financial statements for additional information.

	Oil (MBbls)	Gas (MMcf)	Total (MMcfe)	PV10 Value (1) (000s)
December 31, 2006				
Proved Developed	1,862	76,679	87,852	$ 208,490
Proved Undeveloped	1,339	110,333	118,365	5,697
Total Proved	3,201	187,012	206,217	214,187
Discounted Future Income Taxes				(13,906)
Standardized Measure of Discounted Future Net Cash Flows (1)				$ 200,281
December 31, 2005				
Proved Developed	1,796	56,700	67,474	$ 328,058
Proved Undeveloped	3,177	86,263	105,325	259,618
Total Proved	4,973	142,963	172,799	587,676
Discounted Future Income Taxes				(177,056)
Standardized Measure of Discounted Future Net Cash Flows (1)				$ 410,620

(1) The PV10 Value represents the discounted future net cash flows attributable to our proved oil and gas reserves before income tax, discounted at 10%. PV10 may be considered a non-GAAP measure as defined by the SEC. We believe that the presentation of the PV10 Value is relevant and useful to our investors because it presents the discounted future net cash flows attributable to our proved reserves prior to taking into account future corporate income taxes and our current tax structure. We further believe investors and creditors utilize our PV10 as a basis for comparison of the relative size and value of our reserves to other companies. The standardized measure of discounted future net cash flows represents the present value of future cash flows attributable to our proved oil and natural gas reserves

after estimated future income tax, discounted at 10%. Neither PV10 Value nor standardized measure of discounted future net cash flows reflects the impact of hedging transactions.

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 pre-tax PV10 Value amounts shown above should not be construed as the current market value of the oil and natural gas reserves attributable to our properties.

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In accordance with the guidelines of the SEC, the engineers estimates of future net revenues from our properties and the pre-tax PV10 Value thereof are made using oil and natural gas sales prices in effect as of the dates of such estimates and are held constant throughout the life of the properties, except where such guidelines permit alternate treatment, including the use of fixed and determinable contractual price escalations. The prices as of December 31, 2006 and 2005, used in such estimates averaged $5.64 and $10.54 per Mcf, respectively, of natural gas and $57.75 and $58.80 per Bbl, respectively, of crude oil/condensate. These prices do not include the impact of hedging transactions.

Productive Wells

The following table sets forth the number of active well bores in which we maintain ownership interests as of December 31, 2006:

	Oil		Gas		Total	
	Gross (2)	Net (3)	Gross (2)	Net (3)	Gross (2)	Net (3)
Louisiana (1)	59.00	28.60	26.00	14.52	85.00	43.12
Michigan			1.00	0.01	1.00	0.01
Texas	4.00	2.59	143.00	125.05	147.00	127.64
Total Productive Wells	63.00	31.19	170.00	139.58	233.00	170.77

(1) In late March 2007, we expect to close the sale of substantially all of our South Louisiana properties to a private company. After adjusting for the sale in late March 2007, we will maintain ownership interests in a total of 20.00 gross (13.23 net) wells, of which 1.00 gross (0.70 net) wells produced oil and 19.00 gross (12.53 net) wells produced natural gas, in Louisiana.

(2) Does not include royalty or overriding royalty interests.

(3) Net working interest.

Productive wells consist of producing wells and wells capable of production, including gas wells awaiting pipeline connections. A gross well is a well in which we maintain an ownership interest, while a net well is deemed to exist when the sum of the fractional working interests owned by us equals one. Wells that are completed in more than one producing horizon are counted as one well. Of the gross wells reported above, 33 wells had multiple completions.

Acreage

The following table summarizes our gross and net developed and undeveloped acreage under lease as of December 31, 2006. Acreage in which our interest is limited to a royalty or overriding royalty interest is excluded from the table.

	Developed		Undeveloped		Total	
	Gross	Net	Gross	Net	Gross	Net

Louisiana (1)	31,974	17,252	40,008	20,104	71,982	37,356
Michigan	1,920	19			1,920	19
Texas	43,037	38,933	76,760	39,418	119,797	78,351
Total	76,931	56,204	116,768	59,522	193,699	115,726

(1) In late March, 2007, we expect to close the sale of substantially all of our South Louisiana properties to a private company. After adjusting for the sale as of late March, 2007, we will have under lease in Louisiana a total of 44,300 gross (24,000 net) acres, of which 7,800 gross (5,200 net) acres are classified as developed and 36,500 gross (18,800 net) acres are classified as undeveloped.

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Undeveloped acreage is considered to be those lease acres on which wells have not been drilled or completed to the extent that would permit the production of commercial quantities of natural gas or oil, regardless of whether or not such acreage contains proved reserves. As is customary in the oil and gas industry, we can retain our interest in undeveloped acreage by drilling activity that establishes commercial production sufficient to maintain the leases or by payment of delay rentals during the remaining primary term of such a lease. The natural gas and oil leases in which we have an interest are for varying primary terms; however, most of our developed lease acreage is beyond the primary term and is held so long as natural gas or oil is produced.

Operator Activities

We operate a majority in value of our producing properties, and will generally seek to become the operator of record on properties we drill or acquire in the future.

Drilling Activities

The following table sets forth our drilling activities for the last three years. As denoted in the following table, Gross wells refer to wells in which a working interest is owned, while a Net well is deemed to exist when the sum of the fractional working interests we own in gross wells equals one.

	Year Ended December 31,					
	2006		2005		2004	
	Gross	Net	Gross	Net	Gross	Net
Development Wells:						
Productive	99.00	75.89	57.00	51.72	15.00	12.44
Non-Productive	1.00	1.00	1.00	0.42	2.00	0.89
Total	100.00	76.89	58.00	52.14	17.00	13.33
Exploratory Wells:						
Productive	4.00	1.60	5.00	3.00	3.00	2.55
Non-Productive	1.00	0.56	1.00	0.49		
Total	5.00	2.16	6.00	3.49	3.00	2.55
Total Wells:						
Productive	103.00	77.49	62.00	54.72	18.00	14.99
Non-Productive	2.00	1.56	2.00	0.91	2.00	0.89
Total	105.00	79.05	64.00	55.63	20.00	15.88

At December 31, 2006, we had 16 development wells (12.4 net) and one exploratory well that were in the process of being drilled and/or completed.

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Net Production, Unit Prices and Costs

The following table presents certain information with respect to natural gas and oil production attributable to our interests in all of our fields, the revenue derived from the sale of such production, average sales prices received and average production costs during each of the years in the three-year period ended December 31, 2006.

	2006	2005	2004
Net Production:			
Natural gas (MMcf)	13,001	6,237	4,818
Oil and Condensate (MBbls)	474	408	475
Total (MMcfe)	15,843	8,686	7,669
Average Net Daily Production:			
Natural gas (Mcf)	35,620	17,087	13,163
Oil and Condensate (Bbls)	1,298	1,118	1,299
Natural gas equivalents (Mcfe)	43,406	23,797	20,957
Revenues (in thousands) (1):			
Natural gas	$ 86,621	$ 53,746	$ 29,485
Oil and condensate (Bbl)	$ 27,075	$ 14,641	$ 15,376
Total	$ 113,696	$ 68,387	$ 44,861
Average Realized Sales Price Per Unit (1):			
Natural gas (Mcf)	$ 6.66	8.62	6.12
Oil and condensate (Bbl)	$ 57.12	29.91	32.35
Average realized price (Mcfe)	$ 7.18	7.88	5.85
Other Data:			
Lease operating expense (per Mcfe)	$ 1.38	$ 1.14	$ 0.97
Production taxes (per Mcfe)	$ 0.38	$	