GOODRICH PETROLEUM CORP
Form 10-Q
August 08, 2008
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-Q

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

For the Quarterly Period Ended June 30, 2008

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 incorporation or organization)	**(I.R.S. Employer Identification No.)**

808 Travis, Suite 1320

Houston, Texas 77002

(Address of principal executive offices) (Zip Code)

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

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 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 ¨	Smaller reporting company ¨

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

The number of shares outstanding of the Registrant s common stock as of August 4, 2008 was 37,524,285.

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GOODRICH PETROLEUM CORPORATION AND SUBSIDIARIES

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PART 1 FINANCIAL INFORMATION

Item 1 Financial Statements

GOODRICH PETROLEUM CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

(In Thousands, Except Share Amounts)

(Unaudited)

	June 30, 2008	December 31, 2007
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 5,982	$ 4,448
Accounts receivable, trade and other, net of allowance	7,031	8,539
Accrued oil and gas revenue	26,915	12,200
Fair value of oil and gas derivatives		2,267
Assets held for sale	305	311
Prepaid expenses and other	969	904
Total current assets	41,202	28,669
PROPERTY AND EQUIPMENT:		
Oil and gas properties (successful efforts method)	932,589	723,239
Furniture, fixtures and equipment	2,624	1,932
	935,213	725,171
Less: Accumulated depletion, depreciation and amortization	(221,960)	(168,523)
Net property and equipment	713,253	556,648
OTHER ASSETS:		
Fair value of interest rate derivatives	372	
Other	5,337	4,801
Total other assets	5,709	4,801
TOTAL ASSETS	$ 760,164	$ 590,118
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 46,773	$ 36,967
Accrued liabilities	37,133	32,565
Fair value of interest rate derivatives	725	384
Fair value of oil and gas derivatives	44,595	
Asset sale deposit	8,927	
Deferred revenue		12,500
Accrued abandonment costs	587	312
Total current liabilities	138,740	82,728

LONG-TERM DEBT	331,000	215,500
Accrued abandonment costs	6,815	5,868
Fair value of oil and gas derivatives	27,428	2,407
Total Liabilities	503,983	306,503
Commitments and contingencies (See Note 12)		
STOCKHOLDERS EQUITY:		
Preferred stock: 10,000,000 shares authorized: Series B convertible preferred stock, $1.00 par value, issued and outstanding 2,250,000 shares	2,250	2,250
Common stock: $0.20 par value, 100,000,000 shares authorized, issued and outstanding 34,282,957 and 34,821,317 shares, respectively:	6,532	6,340
Treasury stock (shares outstanding none and 16,359 respectively)		(422)
Additional paid in capital	377,458	341,098
Accumulated deficit	(130,059)	(65,651)
Total stockholders equity	256,181	283,615
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 760,164	$ 590,118

See accompanying notes to consolidated financial statements.

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GOODRICH PETROLEUM CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(In Thousands, Except Per Share Amounts)

(Unaudited)

	Three Months Ended June 30, 2008	Three Months Ended June 30, 2007	Six Months Ended June 30, 2008	Six Months Ended June 30, 2007
Revenues:				
Oil and gas revenues	$ 64,852	$ 27,860	$ 111,049	$ 51,177
Other	321	146	477	371
	65,173	28,006	111,526	51,548
Operating expenses:				
Lease operating expense	7,669	6,150	14,766	10,285
Production and other taxes	2,334	(590)	3,589	(296)
Transportation	2,386	1,440	4,256	2,515
Depreciation, depletion and amortization	29,033	19,461	54,118	37,169
Exploration	1,776	1,767	3,779	4,093
General and administrative	5,920	5,500	11,360	10,838
	49,118	33,728	91,868	64,604
Operating income (loss)	16,055	(5,722)	19,658	(13,056)
Other income (expense):				
Interest expense	(4,390)	(2,222)	(8,173)	(4,846)
Gain (loss) on derivatives not designated as hedges	(48,947)	3,634	(73,434)	(5,853)
	(53,337)	1,412	(81,607)	(10,699)
Loss before income taxes	(37,282)	(4,310)	(61,949)	(23,755)
Income tax benefit		1,519		8,262
Loss from continuing operations	(37,282)	(2,791)	(61,949)	(15,493)
Discontinued operations (See Notes 10 and 11):				
Gain (loss) on disposal, net of tax	(120)	(162)	280	10,751
Income (loss) from discontinued operations, net of tax	(101)	(346)	284	2,479
	(221)	(508)	564	13,230
Net loss	(37,503)	(3,299)	(61,385)	(2,263)
Preferred stock dividends	1,511	1,512	3,023	3,024
Net loss applicable to common stock	$ (39,014)	$ (4,811)	$ (64,408)	$ (5,287)

Loss per common share from continuing operations

Basic	$	(1.16)	$	(0.11)	$	(1.94)	$	(0.62)
Diluted	$	(1.16)	$	(0.11)	$	(1.94)	$	(0.62)
Income (loss) per common share from discontinued operations								
Basic	$	(0.01)	$	(0.02)	$	0.02	$	0.53
Diluted	$	(0.01)	$	(0.02)	$	0.02	$	0.53
Net loss per common share applicable to common stock								
Basic	$	(1.21)	$	(0.19)	$	(2.02)	$	(0.21)
Diluted	$	(1.21)	$	(0.19)	$	(2.02)	$	(0.21)
Weighted average common shares outstanding								
Basic		32,124		25,185		31,915		25,163
Diluted		32,124		25,185		31,915		25,163

See accompanying notes to consolidated financial statements.

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GOODRICH PETROLEUM CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands)

(Unaudited)

	Six Months Ended June 30, 2008	Six Months Ended June 30, 2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (61,385)	$ (2,263)
Adjustments to reconcile net loss to net cash provided by operating activities		
Depletion, depreciation, and amortization	54,118	37,169
Unrealized loss on derivatives not designated at hedges	71,852	10,680
Deferred income taxes		(1,138)
Dry hole costs		929
Amortization of leasehold costs	2,449	3,569
Stock based compensation (non-cash)	2,654	2,681
Gain on sale of assets	(280)	(16,538)
Other non-cash items	1,009	157
Change in assets and liabilities:		
Accounts receivable, trade and other, net of allowance	1,455	(2,735)
Deferred revenue	(12,500)	
Accrued oil and gas revenue	(14,715)	764
Prepaid expenses and other	484	(632)
Accounts payable	9,806	7,581
Accrued liabilities	2,149	(308)
Net cash provided by operating activities	57,096	39,916
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(175,620)	(135,375)
Asset sale deposit (See Note 11)	8,927	
Proceeds from sale of assets	280	74,029
Release of restricted cash funds		2,039
Net cash used in investing activities	(166,413)	(59,307)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments of bank borrowings	(72,500)	(65,000)
Proceeds from bank borrowings	188,000	87,000
Exercise of stock options and warrants	81	
Debt issuance costs	(1,492)	(144)
Preferred stock dividends	(3,023)	(3,024)
Other	(215)	
Net cash provided by financing activities	110,851	18,832
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,534	(559)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	4,448	6,184
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 5,982	$ 5,625

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION				
CASH PAID DURING THE PERIOD FOR INTEREST	$	6,033	$	3,861
CASH PAID DURING THE PERIOD FOR INCOME TAXES	$	20	$	

See accompanying notes to consolidated financial statements.

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GOODRICH PETROLEUM CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(In Thousands)

(Unaudited)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2008	**2007**	**2008**	**2007**
Net income (loss)	$ (37,503)	$ (3,299)	$ (61,385)	$ (2,263)
Other comprehensive income (loss):				
Reclassification adjustment (1)				1,261
Other comprehensive income (loss)				1,261
Comprehensive income (loss)	$ (37,503)	$ (3,299)	$ (61,385)	$ (1,002)
(1) Net of income tax expense of:	$	$	$	$ 679

See accompanying notes to consolidated financial statements.

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GOODRICH PETROLEUM CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 Description of Business and Significant Accounting Policies

The consolidated financial statements of Goodrich Petroleum Corporation (Goodrich or the Company or we) included in this Quarterly Report on Form 10-Q have been prepared, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (SEC) and, accordingly, certain information normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States has been condensed or omitted. The consolidated financial statements reflect all normal recurring adjustments that, in the opinion of management, are necessary for a fair presentation. Significant intercompany balances and transactions have been eliminated in consolidation.

The accompanying consolidated financial statements of the Company should be read in conjunction with the consolidated financial statements and notes included in the Company s Annual Report on Form 10-K for the year ended December 31, 2007. The results of operations for the three and six months ended June 30, 2008, are not necessarily indicative of the results to be expected for the full year.

Presentation Change The Consolidated Statements of Operations includes a category of expense titled Production and other taxes which is a change from Production taxes in prior period presentations. The changed category includes ad valorem taxes as well as production taxes for which all comparative periods presented have been adjusted.

Use of Estimates Our Management has made a number of estimates and assumptions relating to the reporting of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities to prepare these consolidated financial statements in conformity with accounting principles generally accepted in the United States. Actual results could differ from those estimates.

Assets Held for Sale Assets Held for Sale as of June 30, 2008, represent our remaining assets in South Louisiana. These assets include the St. Gabriel, Bayou Bouillon and Plumb Bob fields.

Income Taxes We follow the provisions of Statement of Financial Accounting Standards (SFAS) No. 109, *Accounting for Income Taxes*, (SFAS 109) as clarified by FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48), which requires income taxes be accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. We have established a valuation allowance against our entire deferred tax asset balance and have not provided for any income taxes in the three and six months ended June 30, 2008.

New Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 157, *Fair Value Measurements* (SFAS 157), which establishes a single authoritative definition of fair value based upon the assumptions market participants would use when pricing an asset or liability and creates a fair value hierarchy that prioritizes the information used to develop these assumptions. Under the standard, additional disclosures are required, including disclosures of fair value measurements by level within the fair value hierarchy. SFAS 157 is effective for fair value measures already required or permitted by other standards for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. FASB Staff Position (FSP) No. 157-2 (FSP 175-2) defers the effective date of SFAS 157 for non-financial assets and liabilities to fiscal years beginning after November 15, 2008. We have prospectively adopted SFAS 157 as of January 1, 2008, and this prospective adoption had an immaterial effect on our financial statements. See Note 9 Fair Value of Financial Instruments for additional information regarding the adoption of SFAS 157.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133* (SFAS 161). SFAS 161 amends and expands the disclosure requirements of SFAS No. 133, A*ccounting for Derivative Instruments and Hedging Activities* (SFAS No. 133), by requiring enhanced disclosures about how and why an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for under SFAS 133 and its related interpretations, and how derivative instruments and related hedged items affect an entity s financial position, financial performance, and cash flows. SFAS 161 requires qualitative disclosures about

GOODRICH PETROLEUM CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of and gains and losses on derivative instruments, and disclosures about credit-risk-related contingent features in derivative agreements. SFAS 161 will be effective as of January 1, 2009. As SFAS 161 provides only disclosure requirements, the adoption of this standard will not have a material impact on our results of operations, cash flows or financial positions.

In May 2008, the Financial Accounting Standards Board (FASB) issued FASB Staff Position APB 14-1, *Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (including Partial Cash Settlement)* (FSP APB 14-1). FSP APB 14-1 requires that issuers of certain convertible debt instruments that may be settled in cash upon conversion to separately account for the liability and equity components in a manner that will reflect the entity s nonconvertible debt borrowing rate when interest cost is recognized in subsequent periods. The effective date of FSP APB 14-1 for the Company is January 1, 2009 and does not permit earlier application. However, the transition guidance requires retrospective application to all periods presented and does not grandfather existing instruments. In December 2006, Goodrich Petroleum Corporation issued $175.0 million in 3.25% convertible senior notes due in December 2026. We are currently evaluating the impact of the provisions of FSP APB 14-1 on our financial statements as it relates to our convertible senior notes.

We do not believe that any other recently issued, but not yet effective accounting pronouncements, if adopted, would have a material effect on our accompanying financial statements.

NOTE 2 Share-Based Compensation Plans

On February 12, 2008, we granted 162,000 options under our 2006 Long-Term Incentive Plan to current employees who were employed by the Company on February 12, 2008. Executive vice presidents and above did not participate in this one time grant. The grant was intended for employee retention purposes. The stock options awarded have a term of seven years vesting over three years in equal increments on February 12, 2011, February 12, 2012 and February 12, 2013.

We apply SFAS No. 123 (revised 2004), *Share-Based Payment* (SFAS 123R), which requires us to measure the cost of stock based compensation granted, including stock options and restricted stock, based on the fair market value of the award as of the grant date, net of estimated forfeitures. SFAS 123R supersedes SFAS 123 *Accounting for Stock-Based Compensation* and Accounting Principles Board Opinion No. 25*, Accounting for Stock Issued to Employees*.

The following table provides information about stock option activity for the six months ended June 30, 2008:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)
Outstanding at December 31, 2007	949,333	$ 20.95	
Granted	162,000	21.59	
Exercised	(22,000)	3.69	
Forfeited			
Outstanding at June 30, 2008	1,089,333	$ 21.39	6.99
Exercisable at June 30, 2008	654,667	$ 20.29	6.87
Fair value of stock options granted		$ 10.72	

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The estimated fair value of the options granted during the six months ended June 30, 2008, was calculated using a Black Scholes Merton option pricing model (Black Scholes). The following schedule reflects the various assumptions for options granted in February 2008 included in this model as it relates to the valuation of our options:

	Six Months Ended June 30, 2008
Risk free interest rate	3.52%
Volatility	53.3%
Dividend yield	0%
Expected years until exercise	5

During the six months ended June 30, 2008, we granted 243,903 restricted (phantom) shares under our 2006 Long-Term Incentive Plan to employees. The following table summarizes information on restricted stock activity for the six months ended June 30, 2008:

	Number of Shares	Weighted Average Grant Date Fair Value Per Share
Unvested at December 31, 2007	108,251	$ 33.60
Vested	(17,977)	22.82
Granted	243,903	22.08
Forfeited	(5,266)	24.03
Unvested at June 30, 2008	328,911	25.80

For the three months ended June 30, 2008 we recorded $1.4 million in stock compensation expense comprised of $0.6 million from stock options and $0.8 million from restricted (phantom) share plans. In the six months ended June 30, 2008, we recorded $2.7 million in stock compensation expense comprised of $1.1 million from stock options and $1.6 million from restricted (phantom) share plans. In the three months ended June 30, 2007, we recorded $1.3 million in stock compensation expense comprised of $0.6 million from stock options and $0.7 million from restricted (phantom) share plans. In the six months ended June 30, 2007, we recorded $2.7 million in stock compensation expense comprised of $1.3 million from stock options and $1.4 million from restricted (phantom) share plans.

NOTE 3 Asset Retirement Obligations

The Company follows SFAS No. 143, *Accounting for Asset Retirement Obligations* (SFAS 143) which requires the Company to record the fair value of a liability associated with the retirement obligations of its tangible long-lived assets in the periods in which it is incurred. The Company capitalizes the discounted fair value of the liability when initially incurred. The liability is accreted through accretion expense to its full fair value during the life of the long-lived asset.

The reconciliation of the beginning and ending asset retirement obligation for the period ending June 30, 2008, is as follows (in thousands):

Beginning balance, January 1, 2008	$ 6,180
Liabilities incurred	1,089
Liabilities settled or sold	(33)

Accretion expense (reflected in depletion, depreciation and amortization expense)	166
Ending balance, June 30, 2008	7,402
Less current portion (including $0.3 million attributable to Assets Held for Sale)	587
	$ 6,815

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GOODRICH PETROLEUM CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4 Long-Term Debt

Long-term debt consisted of the following balances (in thousands):

	June 30, 2008	December 31, 2007
Senior Credit Facility	$ 81,000	$ 40,500
Second Lien Term Loan	75,000	
3.25% convertible senior notes due 2026	175,000	175,000
Total long-term debt	$ 331,000	$ 215,500

Senior Credit Facility

On November 17, 2005, we amended our existing credit agreement and entered into an amended and restated senior credit agreement (as amended, the Senior Credit Facility) and a term loan that expanded our borrowing capabilities and extended our credit facility for an additional two years. Total lender commitments under the Senior Credit Facility were $200 million, and the Senior Credit Facility matures on February 25, 2010. Revolving borrowings under the Senior Credit Facility are limited to, and subject to periodic redeterminations of the borrowing base. On May 7, 2008, the bank group established the new borrowing base at $175.0 million. At June 30, 2008, we had $81.0 million in outstanding revolving borrowings under the Senior Credit Facility. Interest on revolving borrowings under the Senior Credit Facility accrues at a rate calculated, at our option, at the bank base rate plus 0.00% to 0.75%, or LIBOR plus 1.25% to 2.25%, depending on borrowing base utilization.

The terms of the Senior Credit Facility, as amended, require us to maintain certain covenants. Capitalized terms used, but not defined, here have the meanings assigned to them in the Senior Credit Facility. As of June 30, 2008, we were in compliance with all of the financial covenants of our Senior Credit Facility. The covenants in effect at June 30, 2008 include:

Current Ratio of 1.0/1.0,

Interest Coverage Ratio of not less than 3.0/1.0 for the trailing four quarters, and

Total Debt of no greater than 3.0 times EBITDAX for the trailing four quarters. (EBITDAX is earnings before interest expense, income tax, DD&A, exploration expense and impairment of oil and gas properties. In calculating EBITDAX for this purpose, earnings includes realized gains (losses) from derivatives but excludes unrealized gains (losses) from derivatives. The 3.25% convertible senior notes are excluded from the calculation of Total Debt for the purpose of computing this ratio.)

Second Lien Term Loan

On January 16, 2008, we entered into a new Second Lien Term Loan Agreement which provides for a 3-year, non-revolving loan of $75.0 million and is due in a single maturity on December 31, 2010. We have no rights to prepay in the first year. Voluntary prepayment rights in the second year are at 101% of par, and thereafter at par. Interest on the Second Lien Term Loan accrues at a rate of LIBOR plus 550 basis points and is payable quarterly in arrears. As of June 30, 2008, we were in compliance with all of the financial covenants of our Second Lien Term Loan. The terms of the Second Lien Term Loan Agreement contain financial covenants which include:

Asset coverage ratio (defined as the present value of proved reserves discounted 10% to total debt, excludes 3.25% convertible senior notes) of not less than 1.5 to 1.0;

Total debt to EBITDAX ratio of not more than 3.0 to 1.0 (total debt to exclude the 3.25% convertible senior notes); and

EBITDAX to interest expense ratio of not less than 3.0 to 1.0.

Convertible Senior Notes

In December 2006, we sold $175.0 million of 3.25% convertible senior notes (the notes) due in December 2026. The notes mature on December 1, 2026, unless earlier converted, redeemed or repurchased. The notes are our senior unsecured obligations and rank equally in right of payment to all of our other existing and future indebtedness. The notes accrue interest at a rate of 3.25% annually, and interest is paid semi-annually on June 1 and December 1. Interest payments on the notes began on June 1, 2007.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Before December 1, 2011, we may not redeem the notes. On or after December 11, 2011, we may redeem for cash all or a portion of the notes, and the investors may require us to repurchase the notes on each of December 11, 2011, 2016 and 2021. The notes are convertible into shares of our common stock at a rate equal to the sum of:

a) 15.1653 shares per $1,000 principal amount of notes (equal to a base conversion price of approximately $65.94 per share) plus

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

NOTE 5 Net Loss Per Common Share

Net loss was used as the numerator in computing basic and diluted income (loss) per common share for the three and six months ended June 30, 2008 and 2007. The following table sets forth information related to the computations of basic and diluted loss per share.

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2008	2007	2008	2007
	(Amounts in thousands, except per share data)			
Basic loss per share:				
Loss applicable to common stock	$ (39,014)	$ (4,811)	$ (64,408)	$ (5,287)
Average shares of common stock outstanding	32,124	25,185	31,915	25,163
Basic loss per share	$ (1.21)	$ (0.19)	$ (2.02)	$ (0.21)
Diluted loss per share:				
Loss applicable to common stock	$ (39,014)	$ (4,811)	$ (64,408)	$ (5,287)
Dividends on convertible deferred (1)				
Interest and amortization of loan cost on senior convertible notes (2)				
Diluted loss	$ (39,014)	$ (4,811)	$ (64,408)	$ (5,287)
Average shares of common stock outstanding	32,124	25,185	31,915	25,163
Assumed conversion of convertible preferred stock (1)				
Assumed conversion of convertible senior notes (2)				
Stock options, warrants and restricted stock (3)				
Average diluted shares outstanding	32,124	25,185	31,915	25,163
Diluted loss per share	$ (1.21)	$ (0.19)	$ (2.02)	$ (0.21)

(1)

Common shares issuable upon assumed conversion the Company s convertible preferred stock amounting 3,587,850 shares and the accrued dividends on the preferred stock were not included in the computation of diluted loss per share for all periods presented as they would be anti-dilutive.

(2) Common shares issuable upon assumed conversion of the Company s convertible senior notes amounting to 2,653,927 shares and the accrued interest on the senior notes were not included in the computation of diluted loss per share for all periods presented as they would be anti-dilutive.

(3) Common shares on assumed conversion of restricted stock and employee stock options for the three months ended June 30, 2008 and 2007, in the amount of 590,845 and 298,785 shares and for the six months ended June 30, 2008, and 2007, in the amount of 428,676 shares and 271,956 shares respectively were not included in the computation of diluted loss per common share since their inclusion would be anti-dilutive.

GOODRICH PETROLEUM CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6 Income Taxes

The Company did not record a tax benefit for the three and six months ended June 30, 2008. We fully provided for additions to our deferred tax asset with a valuation allowance during the period. In determining the carrying value of a deferred tax asset, SFAS 109 provides for the weighing of evidence in estimating whether and how much of a deferred tax asset may be recoverable. As we have incurred net operating losses in 2006 and prior years, relevant accounting guidance suggests that cumulative losses in recent years constitute significant negative evidence, and that future expectations about income are insufficient to overcome a history of such losses. We increased our valuation allowance and reduced our net deferred tax asset to zero during 2007 after considering all available positive and negative evidence related to the realization of our deferred tax asset.

We may achieve profitable operations for 2008 due to the gain on our sale of oil and gas leasehold which closed on July 15, 2008 (see Note 11). If this occurs we anticipate reversing a portion of the valuation allowance in an amount at least sufficient to eliminate any 2008 tax provision. The valuation allowance has no impact on our net operating loss (NOL) position for tax purposes, and as we generate taxable income in future periods, we will be able to use our NOLs to offset taxes due at that time. The Company will continue to assess the valuation allowance against deferred tax assets considering all available evidence obtained in future reporting periods.

As of June 30, 2008, the Company had no unrecognized tax benefits. There were no significant changes to the calculation since December 31, 2007. The Company does not anticipate that total unrecognized tax benefits will significantly change due to the settlement of audits and the expiration of statute of limitations prior to June 30, 2009.

NOTE 7 Stockholders Equity

Share Lending Agreement

In connection with the offering of the notes, we agreed to lend an affiliate of Bear, Stearns & Co. (BSC) a total of 3,122,263 shares of our common stock under the Share Lending Agreement. Under this agreement, BSC is entitled to offer and sell such shares and use the sale to facilitate the establishment of a hedge position by investors in the notes. BSC will receive all proceeds from the common stock offerings and lending transactions under this agreement. BSC is obligated to return the shares to us in the event of certain circumstances, including the redemption of the notes or the conversion of the notes to shares of our common stock pursuant to the terms of the indenture governing the notes.

The Share Lending Agreement also requires BSC to post collateral if its credit rating is below either A3 by Moody s Investors Service (Moody s) or A- by Standard and Poors (S&P). As a result of the long term ratings downgrade of BSC in March 2008, BSC was required to return all or a portion of the borrowed shares or collateralize the return obligation with cash or highly liquid non-cash collateral. On March 20, 2008, BSC had returned 1,497,963 shares of the 3,122,263 originally borrowed shares and fully collateralized the remaining 1,624,300 borrowed shares with a cash collateral deposit of approximately $41.3 million. This amount represents the market value of the remaining borrowed shares at March 20, 2008. Under th