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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, 2013

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)

(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 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 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 2, 2013 was 36,806,242.

GOODRICH PETROLEUM CORPORATION AND SUBSIDIARY

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PART 1 FINANCIAL INFORMATION

Item 1 Financial Statements

GOODRICH PETROLEUM CORPORATION AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

(In thousands, except share amounts)

	June 30, 2013 (unaudited)	December 31, 2012
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 2,650	$ 1,188
Accounts receivable, trade and other, net of allowance	3,366	7,078
Accrued oil and natural gas revenue	19,246	19,054
Fair value of oil and natural gas derivatives	5,808	2,125
Inventory	1,872	2,202
Prepaid expenses and other	4,118	926
Total current assets	37,060	32,573
PROPERTY AND EQUIPMENT:		
Oil and natural gas properties (successful efforts method)	1,703,778	1,619,914
Furniture, fixtures and equipment	6,415	6,212
	1,710,193	1,626,126
Less: Accumulated depletion, depreciation and amortization	(957,351)	(906,377)
Net property and equipment	752,842	719,749
Fair value of oil and natural gas derivatives	2,597	
Deferred tax assets	1,594	636
Deferred financing cost and other	13,493	15,427
TOTAL ASSETS	$ 807,586	$ 768,385
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 67,858	$ 73,094
Accrued liabilities	38,174	37,634
Accrued abandonment costs	112	168
Deferred tax liabilities current	1,594	636
Fair value of oil and natural gas derivatives	1,744	351
Total current liabilities	109,482	111,883
LONG-TERM DEBT	554,108	568,671
Accrued abandonment costs	18,635	18,138
Fair value of oil and natural gas derivatives		3,987
Transportation obligation	5,755	5,461
Total liabilities	687,980	708,140

Commitments and contingencies (See Note 9)		
STOCKHOLDERS EQUITY:		
Preferred stock: 10,000,000 shares $1.00 par value per share authorized:		
5.375% Series B convertible preferred stock, issued and outstanding 2,250,000 shares	2,250	2,250
10% Series C cumulative preferred stock, issued and outstanding 4,400 shares	4	
Common stock: $0.20 par value, 100,000,000 shares authorized; issued and outstanding 36,806,209 and 36,758,141 shares, respectively	7,361	7,352
Treasury stock (77,788 and 77,142 shares, respectively)	(647)	(639)
Additional paid in capital	757,888	648,458
Retained earnings (accumulated deficit)	(647,250)	(597,176)
Total stockholders equity	119,606	60,245
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 807,586	$ 768,385

See accompanying notes to consolidated financial statements.

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GOODRICH PETROLEUM CORPORATION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, Except Per Share Amounts)

(Unaudited)

	Three Months Ended June 30, 2013	Three Months Ended June 30, 2012	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
REVENUES:				
Oil and natural gas revenues	$ 48,071	$ 41,411	$ 95,125	$ 86,788
Other	414	(65)	444	(134)
	48,485	41,346	95,569	86,654
OPERATING EXPENSES:				
Lease operating expense	5,881	6,695	13,097	15,049
Production and other taxes	2,742	2,087	5,502	4,080
Transportation and processing	2,476	3,522	5,073	7,650
Depreciation, depletion and amortization	34,513	34,562	69,487	66,840
Exploration	9,511	2,019	12,846	4,232
Impairment				2,662
General and administrative	7,645	6,690	17,032	14,611
Gain on sale of assets		(72)	(43)	(72)
Other	(91)		(91)	
	62,677	55,503	122,903	115,052
Operating income (loss)	(14,192)	(14,157)	(27,334)	(28,398)
OTHER INCOME (EXPENSE):				
Interest expense	(13,027)	(13,089)	(26,400)	(26,002)
Interest income and other	15	1	19	1
Gain on derivatives not designated as hedges	11,061	24,043	9,109	33,468
	(1,951)	10,955	(17,272)	7,467
Income (loss) before income taxes	(16,143)	(3,202)	(44,606)	(20,931)
Income tax benefit				
Net income (loss)	(16,143)	(3,202)	(44,606)	(20,931)
Preferred stock dividends	3,956	1,512	5,468	3,024
Net loss applicable to common stock	$ (20,099)	$ (4,714)	$ (50,074)	$ (23,955)
PER COMMON SHARE				
Net loss applicable to common stock - basic	$ (0.55)	$ (0.13)	$ (1.36)	$ (0.66)
Net loss applicable to common stock - diluted	$ (0.55)	$ (0.13)	$ (1.36)	$ (0.66)
Weighted average common shares outstanding - basic	36,701	36,366	36,692	36,352
Weighted average common shares outstanding - diluted	36,701	36,366	36,692	36,352

See accompanying notes to consolidated financial statements.

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GOODRICH PETROLEUM CORPORATION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Six Months Ended June 30, 2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (44,606)	$ (20,931)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depletion, depreciation and amortization	69,487	66,840
Unrealized (gain) loss on derivatives not designated as hedges	(8,874)	3,753
Impairment		2,662
Amortization of leasehold costs	9,744	2,551
Share based compensation (non-cash)	3,474	3,035
Gain on sale of assets	(43)	(72)
Exploration cost	589	
Amortization of finance cost and debt discount	6,842	6,272
Amortization of transportation obligation	636	589
Change in assets and liabilities:		
Accounts receivable, trade and other, net of allowance	3,649	(1,964)
Accrued oil and natural gas revenue	(192)	5,692
Inventory	330	4,371
Prepaid expenses and other	(2,618)	3,196
Accounts payable	(5,236)	6,095
Accrued liabilities	2,678	(4,159)
Net cash provided by operating activities	35,860	77,930
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(114,673)	(131,777)
Proceeds from sale of assets	433	39
Net cash used in investing activities	(114,240)	(131,738)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from bank borrowings	105,500	63,000
Principal payments of bank borrowings	(125,500)	(7,500)
Proceeds from preferred stock offering	105,610	
Preferred stock dividends	(5,468)	(3,024)
Debt issuance costs	(312)	(56)
Other	(8)	(20)
Exercise of stock options and warrants	20	16
Net cash provided by financing activities	79,842	52,416
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,462	(1,392)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	1,188	3,347
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 2,650	$ 1,955

See accompanying notes to consolidated financial statements.

GOODRICH PETROLEUM CORPORATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 Description of Business and Significant Accounting Policies

Goodrich Petroleum Corporation (together with its subsidiary, we, our, or the Company) 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, primarily targeting 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, primarily targeting the Tuscaloosa Marine Shale.

Principles of Consolidation The consolidated financial statements of the Company 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 (the SEC) and accordingly, certain information normally included in the financial statements prepared in accordance with accounting principles generally accepted in the United States (US GAAP) has been condensed or omitted. The consolidated financial statements include the financial statements of Goodrich Petroleum Corporation and its wholly-owned subsidiary. Intercompany balances and transactions have been eliminated in consolidation. The consolidated financial statements reflect all normal recurring adjustments that, in the opinion of management, are necessary for a fair presentation. Certain data in prior periods financial statements have been adjusted to conform to the presentation of the current period. We have evaluated subsequent events through the date of this filing.

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 US GAAP.

Cash and Cash Equivalents Cash and cash equivalents include cash on hand, demand deposit accounts and temporary cash investments with maturities of ninety days or less at date of purchase.

Inventory Inventory consists of casing and tubulars that are expected to be used in our capital drilling program and oil in storage tanks. Inventory is carried on our Consolidated Balance Sheets at the lower of cost or market.

Property and Equipment We follow the successful efforts method of accounting for exploration and development expenditures. Under this method, costs of acquiring unproved and proved oil and natural gas leasehold acreage are capitalized. When proved reserves are found on an unproved property, the associated leasehold cost is transferred to proved properties. Significant unproved leases are reviewed periodically, and a valuation allowance is provided for any estimated decline in value. Costs of all other unproved leases are amortized over the estimated average holding period of the leases. Development costs are capitalized, including the costs of unsuccessful development wells.

Exploration Exploration expenditures, including geological and geophysical costs, delay rentals and exploratory dry hole costs are expensed as incurred. Costs of drilling exploratory wells are initially capitalized pending determination of whether proved reserves can be attributed to the exploratory well. If management determines that commercial quantities of hydrocarbons have not been discovered, capitalized costs associated with exploratory wells are expensed.

Fair Value Measurement Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of an asset should reflect its highest and best use by market participants, whether in-use or an in-exchange valuation premise. The fair value of a liability should reflect the risk of nonperformance, which includes, among other things, our credit risk.

We use various methods, including the income approach and market approach, to determine the fair values of our financial instruments that are measured at fair value on a recurring basis, which depend on a number of factors, including the availability of observable market data over the contractual term of the underlying instrument. For some of our instruments, the fair value is calculated based on directly observable market data or data available for similar instruments in similar markets. For other instruments, the fair value may be calculated based on these inputs as well as other assumptions related to estimates of future settlements of these instruments. We separate our financial instruments into three levels (levels 1, 2 and 3) based on our assessment of the availability of observable market data and the significance of non-observable data used to determine the fair value of our instruments. Our assessment of an instrument can change over time based on the maturity or liquidity of the instrument, which could result in a change in the classification of the instruments between levels.

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GOODRICH PETROLEUM CORPORATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Each of these levels and our corresponding instruments classified by level are further described below:

Level 1 Inputs unadjusted quoted market prices in active markets for identical assets or liabilities. Included in this level is our senior notes;

Level 2 Inputs quotes which are derived principally from or corroborated by observable market data. Included in this level are our Senior Credit Facility and commodity derivatives whose fair values are based on third-party quotes or available interest rate information and commodity pricing data obtained from third party pricing sources and our creditworthiness or that of our counterparties; and

Level 3 Inputs unobservable inputs for the asset or liability, such as discounted cash flow models or valuations, based on our various assumptions and future commodity prices. Included in this level are our oil and natural gas properties which are deemed impaired.

At each of June 30, 2013 and December 31, 2012, the carrying amounts of our cash and cash equivalents, trade receivables and payables represented fair value because of the short-term nature of these instruments.

Impairment We periodically assess our long-lived assets recorded in oil and natural gas properties on the Consolidated Balance Sheets to ensure that they are not carried in excess of fair value, which is computed using Level 3 inputs such as discounted cash flow models or valuations, based on estimated future commodity prices and our various operational assumptions. An evaluation is performed on a field-by-field basis at least annually or whenever changes in facts and circumstances indicate that our oil and natural gas properties may be impaired. There was no indication of impairment of the carrying value of our oil and natural gas properties as of June 30, 2013.

Depreciation Depreciation and depletion of producing oil and natural gas properties is calculated using the units-of-production method. Proved developed reserves are used to compute unit rates for unamortized tangible and intangible development costs, and proved reserves are used for unamortized leasehold costs.

Gains and losses on disposals or retirements that are significant or include an entire depreciable or depletable property unit are included in operating income. Depreciation of furniture, fixtures and equipment, consisting of office furniture, computer hardware and software and leasehold improvements is computed using the straight-line method over their estimated useful lives, which vary from three to five years.

Transportation Obligation We entered into a natural gas gathering agreement with an independent service provider, effective July 27, 2010. The agreement is scheduled to remain in effect for a period of ten years and requires the service provider to construct pipelines and facilities to connect our wells to the service provider s gathering system in our Eagle Ford Shale area of South Texas. In compensation for the services, we agreed to pay the service provider 110% of the total capital cost incurred by the service provider to construct new pipelines and facilities. The service provider will bill us for 20 percent of the accumulated unpaid capital costs annually.

We account for the agreement by recording a long-term asset, included in Deferred financing cost and other on our Consolidated Balance Sheets. The asset is amortized using the units-of-production method and the amortization expense is included in Transportation and processing on our Consolidated Statements of Operations. The related current and long-term liabilities are presented on our Consolidated Balance Sheets in Accrued liabilities and Transportation obligation, respectively.

Asset Retirement Obligations These obligations are related to the abandonment and site restoration requirements that result from the acquisition, construction and development of our oil and natural gas properties. We record the fair value of a liability for an asset retirement obligation in the period in which it is incurred and a corresponding increase in the carrying amount of the related long-lived asset. Accretion expense is included in depreciation, depletion and amortization on our Consolidated Statements of Operations.

Revenue Recognition Oil and natural gas revenues are recognized when production is sold to a purchaser at a fixed or determinable price, when delivery has occurred and title has transferred, and if collectability of the revenue is probable. Revenues from the production of oil and natural gas properties in which we have an interest with other producers are recognized using the entitlements method. We record a liability or an asset for natural gas balancing when we have sold more or less than our working interest share of natural gas production, respectively. At each of June 30, 2013 and December 31, 2012, the net liability for natural gas balancing was immaterial. Differences between actual production and net working interest volumes are routinely adjusted.

Derivative Instruments We use derivative instruments such as futures, forwards, options, collars and swaps for purposes of hedging our exposure to fluctuations in the price of crude oil and natural gas and to hedge our exposure to changing interest rates.

GOODRICH PETROLEUM CORPORATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Accounting standards related to derivative instruments and hedging activities require that all derivative instruments subject to the requirements of those standards be measured at fair value and recognized as assets or liabilities in the balance sheet. We offset the fair value of our asset and liability positions with the same counter party for each commodity type. Changes in fair value are required to be recognized in earnings unless specific hedge accounting criteria are met. We have not designated any of our derivative contracts as hedges, accordingly; changes in fair value are reflected in earnings.

Income Taxes We account for income taxes, as required, under the 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 carry-forwards. 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 recognize, as required, the financial statement benefit of an uncertain tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more-likely-than-not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement with the relevant tax authority.

Earnings Per Share Basic income per common share is computed by dividing net income available to common stockholders for each reporting period by the weighted-average number of common shares outstanding during the period. Diluted income per common share is computed by dividing net income available to common stockholders for each reporting period by the weighted average number of common shares outstanding during the period, plus the effects of potentially dilutive stock options, restricted stock, convertible notes and convertible preferred stock. We use the Treasury Stock method to calculate dilution associated with stock options and restricted stock. The potential dilutive effect of the conversion of shares are associated with our 5.375% Series B Convertible Preferred Stock, 3.25% Convertible Senior Notes due 2026 (the 2026 Notes) and 5% Convertible Senior Notes due 2029 (the 2029 Notes) .

Commitments and Contingencies Liabilities for loss contingencies, including environmental remediation costs, arising from claims, assessments, litigation, fines and penalties, and other sources are recorded when it is probable that a liability has been incurred and the amount of the assessment and/or remediation can be reasonably estimated. Recoveries from third parties, when probable of realization, are separately recorded and are not offset against the related liability.

Guarantee On March 2, 2011, we issued and sold $275 million aggregate principal amount of our 8.875% Senior Notes due 2019 (the 2019 Notes). Upon issuance of the guarantee related to the 2019 Notes, our subsidiary also became a guarantor on our outstanding 2029 Notes and our 2026 Notes, pursuant to the respective indentures governing the 2029 Notes and 2026 Notes. The 2019 Notes, 2029 Notes and 2026 Notes are guaranteed on a senior unsecured basis by our wholly-owned subsidiary, Goodrich Petroleum Company, L.L.C.

Goodrich Petroleum Corporation, as the parent company (the Parent Company), has no independent assets or operations. The guarantee is full and unconditional, subject to customary exceptions pursuant to the indenture governing our 2019 notes, 2026 notes and 2029 notes, as discussed below. The Parent Company has no other subsidiaries. In addition, there are no restrictions on the ability of the Parent Company to obtain funds from its subsidiary by dividend or loan. Finally, the Parent Company s wholly-owned subsidiary does not have restricted assets that exceed 25% of net assets as of the most recent fiscal year end that may not be transferred to the Parent Company in the form of loans, advances or cash dividends by the subsidiary without the consent of a third party.

Guarantees of the 2019 Notes will be released under certain circumstances, including in the event a Subsidiary Guarantor is sold or disposed of (whether by merger, consolidation, the sale of its capital stock or the sale of all or substantially all of its assets (other than by lease)) and whether or not the Subsidiary Guarantor is the surviving entity in such transaction to a person which is not the Parent Company or a Restricted Subsidiary of the Parent Company, such Subsidiary Guarantor will be released from its obligations under its Subsidiary Guarantee if the sale or other disposition does not violate the covenants described under Limitation on Sales of Assets and Subsidiary Stock in the indenture governing the 2019 Notes. In addition, a Subsidiary Guarantor will be released from its obligations under the indenture and its guarantee if such Subsidiary

Guarantor ceases to guarantee any other indebtedness of the Parent Company or a Subsidiary Guarantor under a credit facility, and is not a borrower under the Senior Secured Credit Agreement, provided no Event of Default (as defined in the indenture governing the 2019 Notes) has occurred and is continuing; or if the Parent Company designates such subsidiary as an Unrestricted Subsidiary and such designation complies with the other applicable provisions

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GOODRICH PETROLEUM CORPORATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

of the indenture or if such subsidiary otherwise no longer meets the definition of a Restricted Subsidiary; or in connection with any covenant defeasance, legal defeasance or satisfaction and discharge of the 2019 Notes in accordance with the indenture.

Guarantees of the 2029 Notes and 2026 Notes will be released if the Subsidiary Guarantor no longer guarantees the 2019 Notes, if the Subsidiary Guarantor is dissolved or liquidated, if the Subsidiary Guarantor is no longer the Parent Company s subsidiary or upon satisfaction and discharge of the 2029 Notes or 2026 Notes in accordance with their respective indentures.

New Accounting Pronouncements

Accounting Standards Update (ASU) 2011-11 Balance Sheet: Disclosures about Offsetting Assets and Liabilities. In December 2011, the Financial Accounting Standards Board (FASB) issued guidance intended to result in convergence between United States Generally Accepted Accounting Principles (US GAAP) and International Financial Reporting Standards (IFRS) requirements for offsetting (netting) assets and liabilities presented in the statements of financial position. The guidance requires an entity to disclose information about offsetting and related arrangements to enable users of its financial statements to understand the effect of those arrangements on its financial position. The disclosure affects all entities with financial instruments and derivatives that are either offset on the balance sheet in accordance with Accounting Standards Codification (ASC), ASC 210-20-45 or ASC 815-10-45, or subject to a master netting arrangement, irrespective of whether they are offset on the balance sheet. This information will enable users of an entity s financial statements to evaluate the effect or potential effect of netting arrangements on an entity s financial position, including the effect or potential effect of rights of setoff associated with certain financial instruments and derivative instruments. The guidance is effective for annual periods beginning on or after January 1, 2013 and interim periods within those annual periods. Entities should provide the disclosures required by this ASU retrospectively for all comparative periods presented. We have adopted this guidance effective January 1, 2013.

We enter into oil and natural gas derivative contracts under which we have netting arrangements with each counter party. The following table discloses and reconciles the gross amounts to the amounts as presented on the Statement of Financial Position for the periods ending June 30, 2013 and December 31, 2012.

	June 30, 2013			December 31, 2012		
Fair Value of Oil and Natural Gas Derivatives (in thousands)	**Gross Amount**	**Amount Offset**	**As Presented**	**Gross Amount**	**Amount Offset**	**As Presented**
Derivative Current Asset	$ 6,406	$ (598)	$ 5,808	$ 2,410	$ (285)	$ 2,125
Derivative Non-current Asset	5,497	(2,900)	2,597			
Derivative Current Liability	(2,342)	598	(1,744)	(636)	285	(351)
Derivative Non-current Liability	(2,900)	2,900		(3,987)		(3,987)
Total	$ 6,661	$	$ 6,661	$ (2,213)	$	$ (2,213)

NOTE 2 Asset Retirement Obligations

The reconciliation of the beginning and ending asset retirement obligation for the six months ended June 30, 2013, is as follows (in thousands):

	June 30, 2013
Beginning balance	$ 18,306
Liabilities incurred	213
Revisions in estimated liabilities	

Liabilities settled	(56)
Accretion expense	609
Dispositions	(325)
Ending balance	$ 18,747
Current liability	$ 112
Long term liability	$ 18,635

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GOODRICH PETROLEUM CORPORATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3 Debt

Debt consisted of the following balances as of the dates indicated (in thousands):

	June 30, 2013			December 31, 2012		
	Principal	Carrying Amount	Fair Value (1)	Principal	Carrying Amount	Fair Value (1)
Senior Credit Facility	$ 75,000	$ 75,000	$ 75,000	$ 95,000	$ 95,000	$ 95,000
3.25% Convertible Senior Notes due 2026	429	429	429	429	429	429
5.0% Convertible Senior Notes due 2029 (2)	218,500	203,679	215,791	218,500	198,242	204,975
8.875% Senior Notes due 2019	275,000	275,000	268,125	275,000	275,000	261,250
Total debt	$ 568,929	$ 554,108	$ 559,345	$ 588,929	$ 568,671	$ 561,654

(1) The carrying amount for the Senior Credit Facility represents fair value because the variable interest rates are reflective of current market condition. The fair value of the notes was obtained by direct market quotes within Level 2 of the fair value hierarchy.

(2) The debt discount is amortized using the effective interest rate method based upon an original five year term through October 1, 2014, the first repurchase date applicable to these notes. The debt discount was $14.8 million and $20.3 million as of June 30, 2013 and December 31, 2012, respectively.

The following table summarizes the total interest expense (contractual interest expense, amortization of debt discount and financing costs) and the effective interest rate on the liability component of the debt (amounts in thousands, except effective interest rates):

	Three Months Ended June 30, 2013		Three Months Ended June 30, 2012		Six Months Ended June 30, 2013		Six Months Ended June 30, 2012	
	Interest Expense	Effective Interest Rate	Interest Expense	Effective Interest Rate	Interest Expense	Effective Interest Rate	Interest Expense	Effective Interest Rate
Senior Credit Facility	$ 998	4.9%	$ 1,336	3.7%	$ 2,341	4.6%	$ 2,496	3.9%
3.25% Convertible Senior Notes due 2026	3	3.3%	3	3.3%	7	3.3%	7	3.3%
5.0% Convertible Senior Notes due 2029	5,699	11.3%	5,423	11.3%	11,398	11.5%	10,846	11.4%
8.875% Senior Notes due 2019	6,327	9.2%	6,327	9.2%	12,654	9.3%	12,653	9.2%
Total	$ 13,027		$ 13,089		$ 26,400		$ 26,002	

Senior Credit Facility

On May 5, 2009, we entered into a Second Amended and Restated Credit Agreement (including all amendments, the Senior Credit Facility) that replaced our previous facility. On February 25, 2011, we entered into a Fourth Amendment to the Senior Credit Facility. The primary conditions for the effectiveness of the Fourth Amendment were (i) the closing of the issuance and sale of our 2019 Notes, and (ii) the placement of not less than $175 million of net proceeds from the sale of the 2019 Notes in an escrow account with the lenders to be used for the redemption or earlier repurchase of all our outstanding the 2026 Notes, both of which occurred on March 2, 2011.

On March 13, 2013, we entered into an Eighth Amendment to our Senior Credit Facility, which was declared effective as of March 25, 2013, to amend certain covenants applicable to permit payment of regular cash dividends on up to $250 million in stated or liquidation value of any new series of preferred stock, for so long as no Default, Event of Default or Borrowing Base Deficiency (as such terms are defined in the Senior Credit Facility) exists. The Eighth Amendment also permits us to fund an escrow on or prior to June 30, 2014 sufficient to provide for the repurchase or redemption of $218.5 million outstanding principal amount of our 2029 Notes with future bank borrowings or cash on hand in an amount of aggregate net proceeds from any future offerings of certain qualifying debt or equity securities. Our Senior Credit Facility currently matures on July 1, 2014, however, to the extent that sufficient funds are deposited in the escrow account on or prior to June 30, 2014 to redeem any remaining 2029 Notes at par, our Senior Credit Facility will automatically be extended to February 25, 2016. The Eighth Amendment also provides additional flexibility to exchange or modify the 2029 Notes for certain qualifying debt and equity securities.

GOODRICH PETROLEUM CORPORATION AND SUBSIDIARY

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Total lender commitments under the Senior Credit Facility are $600 million subject to borrowing base limitations. Pursuant to the terms of the Senior Credit Facility, borrowing base redeterminations occur on a semi-annual basis on April 1 and October 1. In connection with the April 1, 2013 redetermination, the borrowing base was established at $225 million. Interest on revolving borrowings under the Senior Credit Facility accrues at a rate calculated, at our option, at the bank base rate plus 1.00% to 1.75%, or LIBOR plus 2.00% to 2.75%, depending on borrowing base utilization. As of June 30, 2013, we had $75 million outstanding under the Senior Credit Facility. Substantially all our assets are pledged as collateral to secure the Senior Credit Facility.

The terms of the Senior Credit Facility require us to maintain certain covenants. Capitalized terms used here, but not defined, have the meanings assigned to them in the Senior Credit Facility. The primary financial covenants include:

- Current Ratio of 1.0/1.0;
- Ratio of EBITDAX to cash Interest Expense of not less than 2.5/1.0 for the trailing four quarters; and
- Total Debt no greater than 4.0 times EBITDAX for the trailing four quarters.

As used in connection with the Senior Credit Facility, Current Ratio is consolidated current assets (including current availability under the Senior Credit Facility, but excluding non-cash assets related to our derivatives) to consolidated current liabilities (excluding non-cash liabilities related to our derivatives, accrued capital expenditures and current maturities under the Senior Credit Facility).

As used in connection with the Senior Credit Facility, EBITDAX is earnings before interest expense, income tax, depreciation, depletion and amortization, exploration expense, stock based compensation and impairment of oil and natural gas properties. In calculating EBITDAX for this purpose, earnings include realized gains (losses) from derivatives not designated as hedges but exclude unrealized gains (losses) from derivatives not designated as hedges.

We were in compliance with all the financial covenants of the Senior Credit Facility as of June 30, 2013.

8.875% Senior Notes due 2019

On March 2, 2011, we sold $275 million of our 2019 Notes. The 2019 Notes mature on March 15, 2019, unless earlier redeemed or repurchased. The 2019 Notes are our senior unsecured obligations and rank equally in right of payment to all of our other existing and future indebtedness. The 2019 Notes accrue interest at a rate of 8.875% annually, and interest is paid semi-annually in arrears on March 15 and September 15. The 2019 Notes are guaranteed by our subsidiary that also guarantees our Senior Credit Facility.

Before March 15, 2014, we may on one or more occasions redeem up to 35% of the aggregate principal amount of the 2019 Notes at a redemption price of 108.875% of the principal amount of the 2019 Notes, plus accrued and unpaid interest to the redemption date, with the net cash proceeds of certain equity offerings. On or after March 15, 2015, we may redeem all or a portion of the 2019 Notes at redemption prices (expressed as percentages of principal amount) equal to (i) 104.438% for the twelve-month period beginning on March 15, 2015; (ii) 102.219% for the twelve-month period beginning on March 15, 2016 and (iii) 100% on or after March 15, 2017, in each case plus accrued and unpaid interest to the redemption date. In addition, prior to March 15, 2015, we may redeem all or a part of the 2019 Notes at a redemption price equal to 100% of the principal amount of the 2019 Notes to be redeemed plus a make-whole premium, plus accrued and unpaid interest to the redemption date.

The indenture governing the 2019 Notes restricts our ability and the ability of certain of our subsidiaries to: (i) incur additional debt; (ii) make certain dividends or pay dividends or distributions on our capital stock or purchase, redeem or retire such capital stock; (iii) sell assets, including the capital stock of our restricted subsidiaries; (iv) pay dividends or other payments of our restricted subsidiaries; (v) create liens that secure debt; (vi) enter into transactions with affiliates and (vii) merge or consolidate with another company. These covenants are subject to a number of important exceptions and qualifications. At any time when the 2019 Notes are rated investment grade by both Moody s Investors Service, Inc. and Standard & Poor s Ratings Services and no Default (as defined in the indenture governing the 2019 Notes) has occurred and is continuing, many of these covenants will terminate.

5% Convertible Senior Notes due 2029

In September 2009, we sold $218.5 million of our 2029 Notes. The 2029 Notes mature on October 1, 2029, unless earlier converted, redeemed or repurchased. The 2029 Notes are our senior unsecured obligations and rank equally in right of payment to all of our other existing and future indebtedness. The 2029 Notes accrue interest at a rate of 5% annually, and interest is paid semi-

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annually in arrears on April 1 and October 1 of each year, beginning in 2010. Interest began accruing on the 2029 Notes on September 28, 2009.

Before October 1, 2014, we may not redeem the 2029 Notes. On or after October 1, 2014, we may redeem all or a portion of the 2029 Notes for cash, and the investors may require us to repurchase the 2029 Notes on each of October 1, 2014, 2019 and 2024. Upon conversion, we have the option to deliver shares at the applicable conversion rate, redeem in cash or in certain circumstances redeem in a combination of cash and shares.

Investors may convert their 2029 Notes at their option at any time prior to the close of business on the second business day immediately preceding the maturity date under the following circumstances: (1) during any fiscal quarter (and only during such fiscal quarter), if the last reported sale price of our common stock is greater than or equal to 135% of the conversion price of the 2029 Notes for at least 20 trading days in the period of 30 consecutive trading days ending on the last trading day of the preceding fiscal quarter; (2) prior to October 1, 2014, during the five business-day period after any ten consecutive trading-day period (the measurement period) in which the trading price of $1,000 principal amount of 2029 Notes for each trading day in the measurement period was less than 97% of the product of the last reported sale price of our common stock and the conversion rate on such trading day; (3) if the 2029 Notes have been called for redemption; or (4) upon the occurrence of one of specified corporate transactions. Investors may also convert their 2029 Notes at their option at any time beginning on September 1, 2029, and ending at the close of business on the second business day immediately preceding the maturity date.

The 2029 Notes are convertible into shares of our common stock at a rate equal to 28.8534 shares per $1,000 principal amount of 2029 Notes (equal to an initial conversion price of approximately $34.66 per share of common stock per share).

Proceeds received from the issuance of the 2029 Notes were used, in part, to fully pay-off a second lien term loan of $75 million and for general corporate purposes.

We separately account for the liability and equity components of our 2029 Notes in a manner that reflects our nonconvertible debt borrowing rate when interest is recognized in subsequent periods. Upon issuance of the notes in September 2009, in accordance with accounting standards related to convertible debt instruments that may be settled in cash upon conversion, we recorded a debt discount of $49.4 million, thereby reducing the carrying the value of $218.5 million notes on the December 31, 2009 balance sheet to $171.1 million and recorded an equity component net of tax of $32.1 million. The debt discount is amortized using the effective interest rate method based upon an original five year term through October 1, 2014. At June 30, 2013, $14.8 million debt discount remains to be amortized on the 2029 notes.

3.25% Convertible Senior Notes Due 2026

During the year ended December 31, 2011, we repurchased $174.6 million of our 3.25% Convertible Senior Notes due 2026 (the 2026 Notes) using a portion of the net proceeds from the issuance of our 2019 Notes. At June 30, 2013, $0.4 million of the 2026 Notes remained outstanding. Holders may present to us for redemption the remaining outstanding 2026 Notes on December 1, 2016 and December 1, 2021. Upon conversion, we have the option to deliver shares at the applicable conversion rate, redeem in cash or in certain circumstances redeem in a combination of cash and shares.

The 2026 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 2026 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 2026 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.

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NOTE 4 Net Loss Per Common Share

Net loss applicable to common stock was used as the numerator in computing basic and diluted loss per common share for the three and six months ended June 30, 2013 and 2012. The following table sets forth information related to the computations of basic and diluted loss per share (amounts in thousands, except per share data):

	Three Months Ended June 30, 2013	Three Months Ended June 30, 2012	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
	(Amounts in thousands, except per share data)			
Basic loss per share:				
Loss applicable to common stock	$ (20,099)	$ (4,714)	$ (50,074)	$ (23,955)
Weighted average shares of common stock outstanding	36,701	36,366	36,692	36,352
Basic loss per share	$ (0.55)	$ (0.13)	$ (1.36)	$ (0.66)
Diluted loss per share:				
Loss applicable to common stock	$ (20,099)	$ (4,714)	$ (50,074)	$ (23,955)
Dividends on convertible preferred stock (1)				
Interest and amortization of loan cost on senior convertible notes, net of tax (2)				
	$ (20,099)	$ (4,714)	$ (50,074)	$ (23,955)
Weighted average shares of common stock outstanding	36,701	36,366	36,692	36,352
Assumed conversion of convertible preferred stock (1)				
Assumed conversion of convertible senior notes (2)				
Stock options and restricted stock (3)				
Weighted average diluted shares outstanding	36,701	36,366	36,692	36,352
Diluted loss per share	$ (0.55)	$ (0.13)	$ (1.36)	$ (0.66)
(1) Common shares issuable upon assumed conversion of convertible preferred stock were not presented as they would have been anti-dilutive.	3,587,850	3,587,850	3,587,850	3,587,850
(2) Common shares issuable upon assumed conversion of the 2026 Notes and the 2029 Notes were not presented as they would have been anti-dilutive.	6,310,974	6,310,974	6,310,974	6,310,974
(3) Common shares issuable on assumed conversion of restricted stock and employee stock option were not included in the computation of diluted loss per common share since their inclusion would have been anti-dilutive.	509,845	216,846	423,819	199,001

NOTE 5 Income Taxes

We recorded no income tax expense or benefit for the three and six months ended June 30, 2013. We increased our valuation allowance and reduced our net deferred tax assets to zero during 2009 after considering all available positive and negative evidence related to the realization of our deferred tax assets. Our assessment of the realization of our deferred tax assets has not changed, and, as a result, we continue to maintain a full valuation allowance for our net deferred assets as of June 30, 2013.

As of June 30, 2013, we have no unrecognized tax benefits. There were no significant changes to the calculation since December 31, 2012.

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NOTE 6 Stockholders Equity

On April 10, 2013, we issued $100 million of 10% Series C Cumulative Preferred Stock (the Series C Preferred Stock) and received $96.5 million net proceeds from the sale. The sale consisted of 4,000,000 depositary shares each representing a 1/1000th ownership interest in a share, par value $1.00 per preferred share with a liquidation preference of $25,000 per preferred share ($25.00 per depositary share) in an underwritten public offering. On April 18, 2013, we issued $10 million of Series C Preferred Stock and received proceeds of $9.7 million from the sale. The sale consisted of an additional 400,000 depositary shares issued pursuant to the partial exercise of the over-allotment option granted to the underwriters.

The Series C Preferred Stock ranks senior to our common stock and on parity with our 5.375% Series B Cumulative Convertible Preferred Stock with respect to the payment of dividends and distribution of assets upon liquidation, dissolution or winding up. The Series C Preferred Stock has no stated maturity and is not subject to mandatory redemption or any sinking fund and will remain outstanding indefinitely unless repurchased or redeemed by us or converted into our common stock in connection with certain changes of control.

At any time on or after April 10, 2018, we may, at our option, redeem the Series C Preferred Stock, in whole at any time or in part from time to time, for cash at a redemption price of $25,000 per preferred share, plus all accumulated and unpaid dividends to, but not including, the date of redemption. We may redeem the Series C Preferred Stock following certain changes of control, if we do not exercise this option, then the holders of the Series C Preferred Stock have the option to convert the shares of preferred stock into up to 3,371.54 shares of our common stock per share of Series C Preferred Stock, subject to certain adjustments. If we exercise any of our redemption rights relating to shares of Series C Preferred Stock, the holders of Series C Preferred Stock will not have the conversion right described above with respect to the shares of Series C Preferred Stock called for redemption.

Holders of the Series C Preferred Stock have no voting rights except for limited voting rights if we fail to pay dividends for six or more quarterly periods (whether or not consecutive) and in certain other limited circumstances or as required by law.

We used the net proceeds from the offering of our Series C Preferred Stock to enhance liquidity and financial flexibility through the repayment of borrowings outstanding under our Senior Credit Facility and used the remainder for general corporate purposes.

NOTE 7 Derivative Activities

We use commodity and financial derivative contracts to manage our exposure to fluctuations in commodity prices and interest rates. We are currently not designating our derivative contracts for hedge accounting. All gains and losses both realized and unrealized from our derivative contracts have been recognized in other income (expense) on our Consolidated Statements of Operations.

The following table summarizes the realized and unrealized gains and losses we recognized on our oil and natural gas derivatives for the three and six month periods ended June 30, 2013 and 2012.

	Three Months Ended June 30,		Six Months Ended June 30,	
Oil and Natural Gas Derivatives (in thousands)	**2013**	**2012**	**2013**	**2012**
Realized gain on oil and natural gas derivatives	$ 83	$ 21,328	$ 235	$ 37,221
Unrealized gain (loss) on oil and natural gas derivatives	10,978	2,715	8,874	(3,753)
Total gain on oil and natural gas derivatives	$ 11,061	$ 24,043	$ 9,109	$ 33,468

Commodity Derivative Activity

We enter into swap contracts, costless collars or other derivative agreements from time to time to manage commodity price risk for a portion of our production. Our policy is that all hedges are approved by the Hedging Committee of our Board of Directors, and reviewed periodically by the entire Board of Directors. As of June 30, 2013, the commodity derivatives we used were in the form of:

(a) swaps, where we receive a fixed price and pay a floating price, based on NYMEX or specific transfer point quoted prices;

(b) swaptions, where we grant the counter party the right but not the obligation to enter into an underlying swap by a specific date at a specific strike price; and

(c) calls, where we grant the counter party the option to buy an underlying commodity at a specified strike price, within a certain period.

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Despite the measures taken by us to attempt to control price risk, we remain subject to price fluctuations for natural gas and crude oil sold in the spot market. Prices received for natural gas sold on the spot market are volatile due to seasonality of demand and other factors beyond our control. Domestic crude oil and natural gas prices could have a material adverse effect on our financial position, results of operations and quantities of reserves recoverable on an economic basis. We routinely exercise our contractual right to net realized gains against realized losses when settling with our financial counterparties. Neither our counterparties nor we require any collateral upon entering derivative contracts. We would have been at risk of losing fair value of $7.9 million had our counterparties as a group been unable to fulfill their obligations as of June 30, 2013.

As of June 30, 2013, our open forward positions on our outstanding commodity derivative contracts, all of which were with BNP Paribas, Royal Bank of Canada, JPMorgan Chase Bank, N.A., Merrill Lynch Commodities, Inc. and Wells Fargo Bank, N.A., were as follows:

Contract Type	Daily Volume	Total Remaining Volume	Fixed Price	Fair Value at June 30, 2013 (in thousands)
Natural gas (MMBtu):				
2013 Swaps	10,000	920,000	$ 4.1825	$ 461
2014 Swaptions	20,000	7,300,000	5.35	(129)
2014 Swaps	30,000	10,950,000	4.1825 - 5.06	9,158
2015-2016 Calls	20,000	14,620,000	5.05 - 5.06	(2,900)
Oil (BBL):				
2013 Swaps	3,500	644,000	92.25 - 103.15	(394)
2014 Swaps	2,000	730,000	90.95 - 92.95	1,428
2014 Swaptions	1,500	547,500	97.30 - 101.00	(963)
			Total	$ 6,661

During the second quarter of 2013 we entered into the following contracts:

Contract Type	Daily Volume	Strike Price	Contract Start Date	Contract Termination
Oil swap (BBL)	1,000	$ 92.95	January 1, 2014	December 31, 2014
Natural Gas swap (MMBtu)	20,000	$ 5.05 - 5.06	January 1, 2014	December 31, 2014
Natural Gas calls (MMBtu)	20,000	$ 5.05 - 5.06	January 1, 2015	December 31, 2016
Natural Gas swap (MMBtu)	10,000	$ 4.1825	October 1, 2013	December 31, 2014

The following table summarizes the fair values of our derivative financial instruments that are recorded at fair value classified in each level as of June 30, 2013 (in thousands). We measure the fair value of our commodity derivative contracts by applying the income approach. See Note 1 Description of Business and Significant Accounting Policies Fair Value Measurement for our discussion for inputs used and valuation techniques for determining fair values.

Description	June 30, 2013 Fair Value Measurements Using Level 1	Level 2	Level 3	Total
Current Assets Commodity Derivatives	$	$ 5,808	$	$ 5,808
Non-current Assets Commodity Derivatives		2,597		2,597

Current Liabilities Commodity Derivatives		(1,744)		(1,744)
Non-current Liabilities Commodity Derivatives				
Total	$	$ 6,661	$	$ 6,661

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NOTE 8 Subsequent Event

We have entered into a definitive agreement to purchase a 66.7% working interest in producing assets and approximately 277,000 gross acres in the Tuscaloosa Marine Shale (TMS) for $26.7 million, with an effective date of March 1, 2013. The remaining 33.3% working interest owner in the producing assets and leasehold has elected to retain its interest and participate with us in developing the assets.

NOTE 9 Commitments and Contingencies

As of June 30, 2013, we did not have any changes in material commitments and contingencies, including outstanding and pending litigation.

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Item 2 Management s Discussion and Analysis of Financial Condition and Results of Operations

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

We have made in this report, and may from time to time otherwise make in other public filings, press releases and discussions with Company management, forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 concerning our operations, economic performance and financial condition. These forward-looking statements include information concerning future production and reserves, schedules, plans, timing of development, contributions from oil and natural gas properties, marketing and midstream activities, and also include those statements accompanied by or that otherwise include the words may, could, believes, expects, anticipates, intends, estimates, projects, predicts, target, goal, plans, objective, potential, s or variations on such expressions that convey the uncertainty of future events or outcomes. For such statements, the Company claims the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995. We have based these forward-looking statements on our current expectations and assumptions about future events. These statements are based on certain assumptions and analyses made by us in light of our experience and our perception of historical trends, current conditions and expected future developments as well as other factors we believe are appropriate under the circumstances. Although we believe that the expectations reflected in such forward-looking statements are reasonable, we can give no assurance that such expectations will prove to be correct. These forward-looking statements speak only as of the date of this report, or if earlier, as of the date they were made; we undertake no obligation to publicly update or revise any forward-looking statements whether as a result of new information, future events or otherwise.

These forward-looking statements involve risk and uncertainties. Important factors that could cause actual results to differ materially from our expectations include, but are not limited to, the following risk and uncertainties:

- planned capital expenditures;
- future drilling activity;
- our financial condition;
- our ability to repay our debt;
- business strategy, including our ability to successfully transition to more liquids-focused operations;
- the market prices of oil and natural gas;
- uncertainties about our estimated quantities of oil and natural gas reserves;
- financial market conditions and availability of capital;
- production;
- hedging arrangements;

future cash flows and borrowings;

litigation matters;

pursuit of potential future acquisition opportunities;

sources of funding for exploration and development;

general economic conditions, either nationally or in the jurisdictions in which we do business;

legislative or regulatory changes, including retroactive royalty or production tax regimes**,** hydraulic-fracturing regulation, drilling and permitting regulations, derivatives reform, changes in state and federal corporate taxes, environmental regulation, environmental risks and liability under federal, state and foreign and local environmental laws and regulations;

the creditworthiness of our financial counterparties and operation partners;

the securities, capital or credit markets; and

other factors discussed below and elsewhere in this Quarterly Report on Form 10-Q and in our other public filings, press releases and discussions with our management. For additional information regarding known material factors that could cause our actual results to differ from projected results, please read the rest of this report and Part I, Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2012.

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Overview

We are an independent oil and natural gas company engaged in the exploration, development and production of properties primarily in (i) South Texas, primarily targeting the Eagle Ford Shale Trend, (ii) Northwest Louisiana and East Texas, primarily targeting the Haynesville Shale, Bossier Shale and Cotton Valley Trends and (iii) Southwest Mississippi and Southeast Louisiana primarily targeting the Tuscaloosa Marine Shale.

We seek to increase shareholder value by growing our oil and natural gas reserves, production revenues and operating cash flow through exploration and development activities. In our opinion, on a long term basis, growth in oil and natural gas reserves and cash flow on a cost-effective basis are the most important indicators of performance success for an independent oil and natural gas company.

We develop an annual capital expenditure budget which is reviewed and approved by our board of directors on a quarterly basis and revised throughout the year as circumstances warrant. We take into consideration our projected operating cash flow and externally available sources of financing, such as bank debt, when establishing our capital expenditure budget.

We place primary emphasis on our cash flow from operating activities (operating cash flow) in managing our business. Management considers operating cash flow a more important indicator of our financial success than other traditional performance measures such as net income because operating cash flow considers only the cash expenses incurred during the period and excludes the non-cash impact of unrealized hedging gains (losses), noncash general and administrative expenses and impairments.

Our revenues and operating cash flow depend on the successful development of our inventory of drilling locations, the volume and timing of our production, as well as commodity prices for oil and natural gas. Such pricing factors are largely beyond our control, but we employ commodity hedging techniques in an attempt to minimize the volatility of short term commodity price fluctuations on our earnings and operating cash flow.

Business Strategy

Our business strategy is to provide long-term growth in reserves and cash flow on a cost-effective basis. We focus on maximizing our return on capital employed and adding reserve value through the timely development of our Eagle Ford Shale Trend, Haynesville Shale, Cotton Valley Taylor Sand and Tuscaloosa Marine Shale acreage. We regularly evaluate possible acquisitions of prospective acreage and oil and natural gas drilling opportunities.

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

- *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 potential rate of return. We intend to develop our multi-year inventory of drilling locations on our acreage in the Eagle Ford Shale Trend, Haynesville Shale, Cotton Valley Taylor Sand and Tuscaloosa Marine Shale in order to develop our oil and natural gas reserves.

- *Increase our oil production.* During the past two years, we have concentrated on increasing our crude oil production and reserves by investing and drilling in the Eagle Ford Shale Trend and, more recently, the Tuscaloosa Marine Shale. We intend to take advantage of the current favorable sales price of oil compared to the relative sales price of natural gas, and continue to grow our oil production as a percentage of total production.

- *Expand acreage position in shale plays.* As of June 30, 2013, we had acquired approximately 135,000 net acres in the Tuscaloosa Marine Shale in Southeastern Louisiana and Southwestern Mississippi. We continue to 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 areas that exhibit characteristics similar to our existing properties. We continually strive to rationalize our portfolio of properties by selling marginal non-core properties in an effort to redeploy capital to exploitation, development and exploration projects that offer a potentially higher overall return.

Focus on maximizing cash flow margins. We intend to maximize operating cash flow by focusing on higher-margin oil development in the Eagle Ford Shale Trend and the Tuscaloosa Marine Shale. In the current commodity price environment, our Eagle Ford Shale Trend and Tuscaloosa Marine Shale assets offer more attractive rates of return on capital invested and cash flow margins than our natural gas assets.

Maintain financial flexibility. As of June 30, 2013, we had a borrowing base of $225 million under our $600 million Senior Credit Facility, of which $75 million was outstanding. In April 2013, we repaid approximately $100 million of the amount outstanding on our Senior Credit Facility using the proceeds received from the offering of our Series C Preferred Stock. We have historically funded growth through operating cash flow, debt, equity and equity-linked security issuances, divestments of non-core assets and entering into strategic joint ventures. We actively manage our exposure to commodity price fluctuations by hedging meaningful portions of our expected production through the use of derivatives, including fixed price swaps, swaptions 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 p