ENCORE ACQUISITION CO
Form 10-K
February 25, 2010

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K

(Mark One)

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2009

or

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to

Commission File Number: 001-16295
ENCORE ACQUISITION COMPANY
(Exact name of registrant as specified in its charter)

Delaware *(State or other jurisdiction of incorporation or organization)*	**75-2759650** *(I.R.S. Employer Identification No.)*
777 Main Street, Suite 1400, Fort Worth, Texas *(Address of principal executive offices)*	**76102** *(Zip Code)*

Registrant s telephone number, including area code: (817) 877-9955

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	**Name of each exchange on which registered**
Common Stock	New York Stock Exchange
Rights to Purchase Series A Junior Participating Preferred Stock	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

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

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

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 þ No o

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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No o

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

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. (Check one):

Large accelerated filer þ	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes o No þ

Aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity of the registrant was last sold as of June 30, 2009 (the last business day of the registrant s most recently completed second fiscal quarter)	$ 1,522,208,999
Number of shares of Common Stock, $0.01 par value, outstanding as of February 17, 2010	55,988,169

DOCUMENTS INCORPORATED BY REFERENCE:
None

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GLOSSARY

The following are abbreviations and definitions of certain terms used in this annual report on Form 10-K (the Report). The definitions of proved developed reserves, proved reserves, and proved undeveloped reserves have been abbreviated from the applicable definitions contained in Rule 4-10(a)(2-4) of Regulation S-X.

ASC. FASB Accounting Standards Codification.

Bbl. One stock tank barrel, or 42 U.S. gallons liquid volume, used in reference to oil or other liquid hydrocarbons.

Bbl/D. One Bbl per day.

Bcf. One billion cubic feet, used in reference to natural gas.

BOE. One barrel of oil equivalent, calculated by converting natural gas to oil equivalent barrels at a ratio of six Mcf of natural gas to one Bbl of oil.

BOE/D. One BOE per day.

CO_2. Carbon dioxide.

Completion. The installation of permanent equipment for the production of oil or natural gas.

Council of Petroleum Accountants Societies (COPAS). A professional organization of oil and gas accountants that maintains consistency in accounting procedures and interpretations, including the procedures that are part of most joint operating agreements. These procedures establish a drilling rate and an overhead rate to reimburse the operator of a well for overhead costs, such as accounting and engineering.

Delay Rentals. Fees paid to the lessor of an oil and natural gas lease during the primary term of the lease prior to the commencement of production from a well.

Developed Acreage. The number of acres allocated or assignable to producing wells or wells capable of production.

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

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

EAC. Encore Acquisition Company, a publicly traded Delaware corporation, together with its subsidiaries.

ENP. Encore Energy Partners LP, a publicly traded Delaware limited partnership, together with its subsidiaries.

EOR. Enhanced oil recovery.

Exploratory Well. A well drilled to find a new field or to find a new reservoir in a field previously producing oil or natural gas in another reservoir.

Extension Well. A well drilled to extend the limits of a known reservoir.

Farm-out. Transfer of all or part of the operating rights from the working interest holder to an assignee, who assumes all or some of the burden of development, in return for an interest in the property. The assignor usually retains an overriding royalty, but may retain any type of interest.

FASB. Financial Accounting Standards Board.

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Field. An area consisting of a single reservoir or multiple reservoirs, all grouped on or related to the same individual geological structural feature and/or stratigraphic condition.

GAAP. Accounting principles generally accepted in the United States.

Gross Acres or Gross Wells. The total acres or wells, as the case may be, in which an entity owns a working interest.

Horizontal Drilling. A drilling operation in which a portion of a well is drilled horizontally within a productive or potentially productive formation, which usually yields a well which has the ability to produce higher volumes than a vertical well drilled in the same formation.

Lease Operating Expense (LOE). All direct and allocated indirect costs of producing hydrocarbons after completion of drilling and before commencement of production. Such costs include labor, superintendence, supplies, repairs, maintenance, and direct overhead charges.

LIBOR. London Interbank Offered Rate.

MBbl. One thousand Bbls.

MBOE. One thousand BOE.

MBOE/D. One thousand BOE per day.

Mcf. One thousand cubic feet, used in reference to natural gas.

Mcf/D. One Mcf per day.

Mcfe. One Mcf equivalent, calculated by converting oil to natural gas equivalent at a ratio of one Bbl of oil to six Mcf of natural gas.

Mcfe/D. One Mcfe per day.

MMBbl. One million Bbls.

MMBOE. One million BOE.

MMBtu. One million British thermal units. One British thermal unit is the quantity of heat required to raise the temperature of a one-pound mass of water by one degree Fahrenheit.

MMcf. One million cubic feet, used in reference to natural gas.

Natural Gas Liquids (NGLs). The combination of ethane, propane, butane, and natural gasolines that when removed from natural gas become liquid under various levels of higher pressure and lower temperature.

Net Acres or Net Wells. Gross acres or wells, as the case may be, multiplied by the working interest percentage owned by an entity.

Net Production. Production owned by an entity less royalties, net profits interests, and production due others.

Net Profits Interest. An interest that entitles the owner to a specified share of net profits from the production of hydrocarbons.

NYMEX. New York Mercantile Exchange.

NYSE. The New York Stock Exchange.

Oil. Crude oil, condensate, and NGLs.

Operator. The entity responsible for the exploration, development, and production of a well or lease.

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Present Value of Future Net Revenues (PV-10). The present value of estimated future revenues to be generated from the production of proved reserves, net of estimated future production and development costs, using prices and costs as of the date of estimation without future escalation, without giving effect to commodity derivative activities, non-property related expenses such as general and administrative expenses, debt service, depletion, depreciation, and amortization, and income taxes, discounted at an annual rate of 10 percent.

Production Margin. Wellhead revenues less production costs.

Production Taxes. Production expense attributable to production, ad valorem, and severance taxes.

Productive Well. A well capable of producing hydrocarbons in commercial quantities, including natural gas wells awaiting pipeline connections to commence deliveries and oil wells awaiting connection to production facilities.

Proved Developed Reserves. Proved reserves that can be expected to be recovered from existing wells with existing equipment and operating methods or in which the cost of the required equipment is relatively minor compared to the cost of a new well.

Proved Reserves. The estimated quantities of hydrocarbons, which, by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be economically producible from a given date forward from known reservoirs under existing conditions and operating methods.

Proved Undeveloped Reserves. Proved reserves that are expected to be recovered from new wells on undrilled acreage for which the existence and recoverability of such reserves can be estimated with reasonable certainty, or from existing wells where a relatively major expenditure is required for recompletion. Includes unrealized production response from enhanced recovery techniques that have been proved effective by projects in the same reservoir or an analogous reservoir, or by other evidence using reliable technology establishing reasonable certainty.

Recompletion. The completion for production of an existing well bore in another formation from that in which the well has been previously completed.

Reliable Technology. A grouping of one or more technologies (including computational methods) that have been field tested and have been demonstrated to provide reasonably certain results with consistency and repeatability in the formation being evaluated or in an analogous formation.

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

Reservoir. A porous and permeable underground formation containing a natural accumulation of producible hydrocarbons that is confined by impermeable rock or water barriers and is individual and separate from other reservoirs.

Royalty. An interest in an oil and natural gas lease that gives the owner the right to receive a portion of the production from the leased acreage (or of the proceeds from the sale thereof), but does not require the owner to pay any portion of the production or development costs on the leased acreage. Royalties may be either landowner s royalties, which are reserved by the owner of the leased acreage at the time the lease is granted, or overriding royalties, which are usually reserved by an owner of the leasehold in connection with a transfer to a subsequent owner.

SEC. The United States Securities and Exchange Commission.

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Secondary Recovery. Enhanced recovery of hydrocarbons from a reservoir beyond the hydrocarbons that can be recovered by normal flowing and pumping operations. Involves maintaining or enhancing reservoir pressure by injecting water, gas, or other substances into the formation in order to displace hydrocarbons toward the wellbore. The most common secondary recovery techniques are gas injection and waterflooding.

SFAS. Statement of Financial Accounting Standards.

Standardized Measure. Future cash inflows from proved reserves, less future production costs, development costs, net abandonment costs, and income taxes, discounted at 10 percent per annum to reflect the timing of future net cash flows. Standardized Measure differs from PV-10 because Standardized Measure includes the effect of estimated future net abandonment costs and income taxes.

Tertiary Recovery. An enhanced recovery operation that normally occurs after waterflooding in which chemicals or natural gases are used as the injectant.

Undeveloped Acreage. Lease acreage on which wells have not been drilled or completed to a point that would permit the production of economic quantities of oil or natural gas regardless of whether such acreage contains proved reserves.

Unit. A specifically defined area within which acreage is treated as a single consolidated lease for operations and for allocations of costs and benefits without regard to ownership of the acreage. Units are established for the purpose of recovering hydrocarbons from specified zones or formations.

Waterflood. A secondary recovery operation in which water is injected into the producing formation in order to maintain reservoir pressure and force oil toward and into the producing wells.

Working Interest. An interest in an oil or natural gas lease that gives the owner the right to drill for and produce hydrocarbons on the leased acreage and requires the owner to pay a share of the production and development costs.

Workover. Operations on a producing well to restore or increase production.

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As used in this Report, references to EAC, we, our, us, or similar terms refer to Encore Acquisition Company and i subsidiaries, unless the context indicates otherwise. References to ENP refers to Encore Energy Partners LP and its subsidiaries. The financial position, results of operations, and cash flows of ENP are consolidated with those of EAC. This Report contains forward-looking statements, which give our current expectations or forecasts of future events. The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements made by us or on our behalf. Please read Item 1A. Risk Factors for a description of various factors that could materially affect our ability to achieve the anticipated results described in the forward-looking statements. Certain terms commonly used in the oil and natural gas industry and in this Report are defined under the caption Glossary. In addition, all production and reserve volumes disclosed in this Report represent amounts net to us, unless otherwise noted.

PART I

ITEMS 1 and 2. *BUSINESS AND PROPERTIES*

General

Our Business. We are a Delaware corporation engaged in the acquisition and development of oil and natural gas reserves from onshore fields in the United States. Since 1998, we have acquired producing properties with proven reserves and leasehold acreage and grown the production and proven reserves by drilling, exploring, reengineering, or expanding existing waterflood projects, and applying tertiary recovery techniques. Our properties and oil and natural gas reserves are located in four core areas:

- the Cedar Creek Anticline (CCA) in the Williston Basin in Montana and North Dakota;
- the Permian Basin in West Texas and southeastern New Mexico;
- the Rockies, which includes non-CCA assets in the Williston, Big Horn, and Powder River Basins in Wyoming, Montana, and North Dakota, and the Paradox Basin in southeastern Utah; and
- the Mid-Continent area, which includes the Arkoma and Anadarko Basins in Arkansas and Oklahoma, the North Louisiana Salt Basin, and the East Texas Basin.

In August 2009, we acquired certain oil and natural gas properties and related assets in the Mid-Continent and East Texas from EXCO Resources, Inc. (together with its affiliates, EXCO) for approximately $357.4 million in cash, substantially all of which are proved producing.

Merger with Denbury. On October 31, 2009, we entered into an Agreement and Plan of Merger (the Merger Agreement) with Denbury Resources Inc. (Denbury) pursuant to which we have agreed to merge with and into Denbury, with Denbury as the surviving entity (the Merger). The Merger Agreement, which was unanimously approved by our Board of Directors (the Board) and by Denbury s Board of Directors, provides for Denbury s acquisition of all of our issued and outstanding shares of common stock, par value $.01 per share, in a transaction valued at approximately $4.5 billion, including the assumption of debt and the value of our interest in ENP. We expect to complete the Merger during the first quarter of 2010, although completion by any particular date cannot be assured.

Proved Reserves. Our estimated total proved reserves at December 31, 2009 were 147.1 MMBbls of oil and 439.1 Bcf of natural gas, based on 2009 average market prices of $61.18 per Bbl for oil and $3.83 per Mcf for natural gas. On a BOE basis, our proved reserves were 220.3 MMBOE at December 31, 2009, of which 67 percent was oil, 80 percent was proved developed, and 20 percent was proved undeveloped.

Most Valuable Asset. The CCA represented approximately 32 percent of our total proved reserves as of December 31, 2009 and is our most valuable asset today and in the foreseeable future. A large portion of our future success revolves around current and future CCA exploitation and production through primary, secondary, and tertiary recovery techniques.

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Drilling. In 2009, we drilled 34 gross (27.5 net) operated productive wells and participated in drilling 78 gross (14.8 net) non-operated productive wells for a total of 112 gross (42.3 net) productive wells. In 2009, we drilled six gross (5.9 net) operated dry holes and participated in drilling another two gross (0.6 net) dry holes for a total of eight gross (6.6 net) dry holes. This represents a success rate of over 93 percent during 2009. We invested $286.9 million in development, exploitation, and exploration activities in 2009, of which $25.4 million related to dry holes.

ENP. As of February 17, 2010, we owned 20,924,055 of ENP s outstanding common units, representing an approximate 45.7 percent limited partner interest. Through our indirect ownership of ENP s general partner, we also hold all 504,851 general partner units, representing a 1.1 percent general partner interest in ENP. As we control ENP s general partner, ENP s financial position, results of operations, and cash flows are consolidated with ours.

In February 2008, we sold certain oil and natural gas properties and related assets in the Permian Basin in West Texas and in the Williston Basin in North Dakota to ENP for approximately $125.0 million in cash and 6,884,776 ENP common units. In determining the total sales price, the common units were valued at $125.0 million. In January 2009, we sold certain oil and natural gas properties and related assets in the Arkoma Basin in Arkansas and royalty interest properties primarily in Oklahoma, as well as 10,300 unleased mineral acres (the Arkoma Basin Assets), to ENP for approximately $46.4 million in cash. In June 2009, we sold certain oil and natural gas properties and related assets in the Williston Basin in North Dakota and Montana (the Williston Basin Assets) to ENP for approximately $25.2 million in cash. In August 2009, we sold certain oil and natural gas properties and related assets in the Big Horn Basin in Wyoming, the Permian Basin in West Texas and New Mexico, and the Williston Basin in Montana and North Dakota (the Rockies and Permian Basin Assets) to ENP for approximately $179.6 million in cash.

Financial Information About Operating Segments. We have operations in only one industry segment: the oil and natural gas exploration and production industry in the United States. However, we are organizationally structured along two operating segments: EAC Standalone and ENP. The contribution of each operating segment to revenues and operating income (loss), and the identifiable assets and liabilities attributable to each operating segment, are set forth in Note 16 of Notes to Consolidated Financial Statements included in Item 8. Financial Statements and Supplementary Data.

Operations

Well Operations

In general, we seek to be the operator of wells in which we have a working interest. As operator, we design and manage the development of a well and supervise operation and maintenance activities on a day-to-day basis. We do not own drilling rigs or other oilfield service equipment used for drilling or maintaining wells on properties we operate. Independent contractors engaged by us provide all the equipment and personnel associated with these activities.

As of December 31, 2009, we operated properties representing approximately 79 percent of our proved reserves. As the operator, we are able to better control expenses, capital allocation, and the timing of exploitation and development activities on our properties. We also own working interests in properties that are operated by third parties for which we are required to pay our share of production, exploitation, and development costs. Please read Properties Nature of Our Ownership Interests. During 2009, 2008, and 2007, our development costs on non-operated properties were approximately 39 percent, 22 percent, and 40 percent, respectively, of our total development costs. We also own royalty interests in wells operated by third parties that are not burdened by production or capital costs; however, we have little or no control over the implementation of projects on these properties.

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Natural Gas Gathering

We own and operate a network of natural gas gathering systems in our Elk Basin area of operation. These systems gather and transport our natural gas and a small amount of third-party natural gas to larger gathering systems and intrastate, interstate, and local distribution pipelines. Our network of natural gas gathering systems permits us to transport production from our wells with fewer interruptions and also minimizes any delays associated with a gathering company extending its lines to our wells. Our ownership and control of these lines enables us to:

- realize faster connection of newly drilled wells to the existing system;
- control pipeline operating pressures and capacity to maximize our production;
- control compression costs and fuel use;
- maintain system integrity;
- control the monthly nominations on the receiving pipelines to prevent imbalances and penalties; and
- track sales volumes and receipts closely to assure all production values are realized.

Seasonal Nature of Business

Oil and natural gas producing operations are generally not seasonal. However, demand for some of our products can fluctuate season to season, which impacts price. In particular, heavy oil is typically in higher demand in the summer for its use in road construction, and natural gas is generally in higher demand in the winter for heating.

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Production and Price History

The following table sets forth information regarding our production volumes, average realized prices, and average costs per BOE for the periods indicated:

	Year Ended December 31, 2009	2008	2007
Total Production Volumes:			
Oil (MBbls)	10,016	10,050	9,545
Natural gas (MMcf)	33,919	26,374	23,963
Combined (MBOE)	15,669	14,446	13,539
Average Daily Production Volumes:			
Oil (Bbls/D)	27,441	27,459	26,152
Natural gas (Mcf/D)	92,928	72,060	65,651
Combined (BOE/D)	42,929	39,470	37,094
Average Realized Prices:			
Oil (per Bbl)	$ 54.85	$ 89.30	$ 58.96
Natural gas (per Mcf)	3.87	8.63	6.26
Combined (per BOE)	43.43	77.87	52.66
Average Costs per BOE:			
Lease operating	$ 10.53	$ 12.12	$ 10.59
Production, ad valorem, and severance taxes	4.44	7.66	5.51
Depletion, depreciation, and amortization	18.56	15.80	13.59
Impairment of long-lived assets	0.64	4.12	
Exploration	3.35	2.71	2.05
Derivative fair value loss (gain)	3.80	(23.97)	8.31
General and administrative	3.45	3.35	2.89
Provision for doubtful accounts	0.49	0.14	0.43
Other operating	1.64	0.90	1.26
Marketing, net of revenues	(0.05)	(0.06)	(0.11)

Productive Wells

The following table sets forth information relating to productive wells in which we owned a working interest at December 31, 2009. Wells are classified as oil or natural gas wells according to their predominant production stream. We also hold royalty interests in units and acreage beyond the wells in which we own a working interest.

	Oil Wells			Natural Gas Wells		
	Gross Wells(a)	Net Wells	Average Working Interest	Gross Wells(a)	Net Wells	Average Working Interest
CCA	729	645.2	89%	23	6.3	27%

Permian Basin	1,969	772.2	39%	692	353.5	51%
Rockies	1,476	851.7	58%	42	29.7	71%
Mid-Continent	484	282.6	58%	1,355	569.7	42%
Total	4,658	2,551.7	55%	2,112	959.2	45%

(a) Our total wells include 3,810 operated wells and 2,960 non-operated wells. At December 31, 2009, 62 of our wells had multiple completions.

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Acreage

The following table sets forth information relating to our leasehold acreage at December 31, 2009. Developed acreage is assigned to productive wells. Undeveloped acreage is acreage held under lease, permit, contract, or option that is not in a spacing unit for a producing well, including leasehold interests identified for exploitation or exploratory drilling. As of December 31, 2009, our undeveloped acreage in the Rockies represented approximately 40 percent of our total net undeveloped acreage. A portion of our oil and natural gas leases are held by production, which means that for as long as our wells continue to produce oil or natural gas, we will continue to own the lease. Leases which are not held by production expire at various dates between 2010 and 2020, with leases representing $28.9 million of cost set to expire in 2010 if not developed.

	Gross Acreage	Net Acreage