

GULFPORT ENERGY CORP

Form 10-Q

November 07, 2014

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

☒ QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2014 OR

☐ TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number 000-19514

Gulfport Energy Corporation

(Exact Name of Registrant As Specified in Its Charter)

Delaware

(State or Other Jurisdiction of

Incorporation or Organization)

14313 North May Avenue, Suite 100

Oklahoma City, Oklahoma

(Address of Principal Executive Offices)

(405) 848-8807

(Registrant Telephone Number, Including Area Code)

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

Title of Each Class

Common Stock, par value \$0.01 per share

73-1521290

(IRS Employer

Identification Number)

73134

(Zip Code)

Name of Each Exchange on Which Registered

The NASDAQ Stock Market LLC

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 ☒ 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 (Section 232.405 of this chapter) during the preceding 12 months (or such shorter period that the registrant was required to submit and post such files). Yes ☐ 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 definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☐

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

As of November 1, 2014, 85,531,504 shares of the registrant's common stock were outstanding.

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GULFPORT ENERGY CORPORATION
CONSOLIDATED BALANCE SHEETS
(Unaudited)

	September 30, 2014	December 31, 2013
	(In thousands, except share data)	
Assets		
Current assets:		
Cash and cash equivalents	\$ 152,883	\$ 458,956
Accounts receivable—oil and gas	139,591	58,824
Accounts receivable—related parties	153	2,617
Prepaid expenses and other current assets	3,578	2,581
Deferred tax asset	7,819	6,927
Short-term derivative instruments	5,753	324
Note receivable - related party	875	875
Total current assets	310,652	531,104
Property and equipment:		
Oil and natural gas properties, full-cost accounting, \$1,452,730 and \$950,590 excluded from amortization in 2014 and 2013, respectively	3,586,016	2,477,178
Other property and equipment	16,880	11,131
Accumulated depletion, depreciation, amortization and impairment	(969,962	) (784,717
Property and equipment, net	2,632,934	1,703,592
Other assets:		
Equity investments (\$70,443 and \$178,708 attributable to fair value option in 2014 and 2013, respectively)	373,215	440,068
Derivative instruments	1,156	521
Other assets	23,430	17,851
Total other assets	397,801	458,440
Total assets	\$3,341,387	\$2,693,136
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 358,082	\$ 190,707
Asset retirement obligation—current	75	795
Short-term derivative instruments	3,891	12,280
Current maturities of long-term debt	166	159
Total current liabilities	362,214	203,941
Long-term derivative instrument	2,771	11,366
Asset retirement obligation—long-term	16,318	14,288
Deferred tax liability	153,733	114,275
Long-term debt, net of current maturities	616,881	299,028
Total liabilities	1,151,917	642,898
Commitments and contingencies (Note 8)		
Preferred stock, \$.01 par value; 5,000,000 authorized, 30,000 authorized as redeemable 12% cumulative preferred stock, Series A; 0 issued and outstanding	—	—
Stockholders' equity:		
Common stock - \$.01 par value, 200,000,000 authorized, 85,531,504 issued and outstanding in 2014 and 85,177,532 in 2013	854	851

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Paid-in capital	1,824,955	1,813,058
Accumulated other comprehensive loss	(19,779) (9,781)
Retained earnings	383,440	246,110
Total stockholders' equity	2,189,470	2,050,238
Total liabilities and stockholders' equity	\$3,341,387	\$2,693,136
See accompanying notes to consolidated financial statements.		

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GULFPORT ENERGY CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
	(In thousands, except share data)			
Revenues:				
Oil and condensate sales	\$58,196	\$52,972	\$199,651	\$167,051
Gas sales	85,168	10,755	139,039	19,014
Natural gas liquid sales	27,021	5,100	64,054	7,828
Other income	419	425	825	793
	170,804	69,252	403,569	194,686
Costs and expenses:				
Lease operating expenses	11,883	7,297	36,192	18,347
Production taxes	5,213	7,071	18,771	20,381
Midstream processing and marketing	18,714	3,622	37,263	5,940
Depreciation, depletion and amortization	72,409	30,691	185,280	81,814
General and administrative	8,939	5,259	28,832	14,571
Accretion expense	192	180	569	529
(Gain) loss on sale of assets	—	(5	) (11	) 567
	117,350	54,115	306,896	142,149
INCOME FROM OPERATIONS	53,454	15,137	96,673	52,537
OTHER (INCOME) EXPENSE:				
Interest expense	5,706	2,602	11,993	9,365
Interest income	(25	) (70	) (167	) (211
Litigation settlement	1,500	—	25,500	—
Loss (income) from equity method investments	34,477	(51,322	) (163,567	) (162,640
	41,658	(48,790	) (126,241	) (153,486
INCOME BEFORE INCOME TAXES	11,796	63,927	222,914	206,023
INCOME TAX EXPENSE	4,876	23,400	85,584	77,109
NET INCOME	\$6,920	\$40,527	\$137,330	\$128,914
NET INCOME PER COMMON SHARE:				
Basic	\$0.08	\$0.52	\$1.61	\$1.70
Diluted	\$0.08	\$0.52	\$1.60	\$1.69
Weighted average common shares outstanding—Basic	85,506,095	77,554,386	85,405,630	75,955,040
Weighted average common shares outstanding—Diluted	85,907,307	77,931,738	85,790,433	76,374,107

See accompanying notes to consolidated financial statements.

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GULFPORT ENERGY CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME
(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
	(In thousands)			
Net income	\$6,920	\$40,527	\$137,330	\$128,914
Foreign currency translation adjustment	(9,536	) 3,894	(9,998	) (5,786
Change in fair value of derivative instruments (1)	—	630	—	(444
Reclassification of settled contracts (2)	—	1,617	—	4,818
Other comprehensive (loss) income	(9,536	) 6,141	(9,998	) (1,412
Comprehensive (loss) income	\$(2,616	) \$46,668	\$127,332	\$127,502

(1) Net of \$0.4 million and \$(0.3) million in taxes for the three and nine months ended September 30, 2013, respectively. No taxes were recorded in the three and nine months ended September 30, 2014.

(2) Net of \$1.0 million and \$3.0 million in taxes for the three and nine months ended September 30, 2013, respectively. No taxes were recorded in the three and nine months ended September 30, 2014.

See accompanying notes to consolidated financial statements.

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GULFPORT ENERGY CORPORATION
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(Unaudited)

	Common Stock		Paid-in	Accumulated	Retained	Total
	Shares	Amount	Capital	Other Comprehensive Loss	Earnings	Stockholders' Equity
	(In thousands, except share data)					
Balance at January 1, 2014	85,177,532	\$851	\$1,813,058	\$ (9,781)	\$246,110	\$2,050,238
Net income	—	—	—	—	137,330	137,330
Other Comprehensive Loss	—	—	—	(9,998)	—	(9,998)
Stock Compensation	—	—	11,246	—	—	11,246
Issuance of Restricted Stock	159,064	1	(1)	—	—	—
Issuance of Common Stock through exercise of options	194,908	2	652	—	—	654
Balance at September 30, 2014	85,531,504	\$854	\$1,824,955	\$ (19,779)	\$383,440	\$2,189,470
Balance at January 1, 2013	67,527,386	\$674	\$1,036,245	\$ (3,429)	\$92,918	\$1,126,408
Net income	—	—	—	—	128,914	128,914
Other Comprehensive Loss	—	—	—	(1,412)	—	(1,412)
Stock Compensation	—	—	4,619	—	—	4,619
Issuance of Common Stock in public offerings, net of related expenses	9,812,500	99	357,541	—	—	357,640
Issuance of Restricted Stock	119,519	1	(1)	—	—	—
Issuance of Common Stock through exercise of options	125,000	1	1,399	—	—	1,400
Balance at September 30, 2013	77,584,405	\$775	\$1,399,803	\$ (4,841)	\$221,832	\$1,617,569

See accompanying notes to consolidated financial statements.

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GULFPORT ENERGY CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Nine months ended September 30,	
	2014	2013
	(In thousands)	
Cash flows from operating activities:		
Net income	\$ 137,330	\$ 128,914
Adjustments to reconcile net income to net cash provided by operating activities:		
Accretion of discount—Asset Retirement Obligation	569	529
Depletion, depreciation and amortization	185,280	81,814
Stock-based compensation expense	6,747	2,771
Gain from equity investments	(78,304)	(162,265)
Interest income - note receivable	(38)	(13)
Unrealized (gain) loss on derivative instruments	(23,049)	1,311
Deferred income tax expense	38,566	77,107
Amortization of loan commitment fees	1,093	750
Amortization of note discount and premium	(13)	221
Changes in operating assets and liabilities:		
Increase in accounts receivable	(80,767)	(22,058)
Decrease in accounts receivable—related party	2,464	5,051
Increase in prepaid expenses	(997)	(3,128)
Increase in accounts payable and accrued liabilities	101,990	30,833
Settlement of asset retirement obligation	(4,972)	(807)
Net cash provided by operating activities	285,899	141,030
Cash flows from investing activities:		
Deductions to cash held in escrow	8	8
Additions to other property and equipment	(3,937)	(1,502)
Additions to oil and gas properties	(1,040,607)	(608,270)
Proceeds from sale of oil and gas properties	4,198	—
Proceeds from sale of investments	197,565	74,544
Advances on note receivable to related party	—	(875)
Contributions to equity method investments	(61,750)	(34,936)
Distributions from equity method investments	476	203
Net cash used in investing activities	(904,047)	(570,828)
Cash flows from financing activities:		
Principal payments on borrowings	(115,126)	(111)
Borrowings on line of credit	115,000	—
Proceeds from bond issuance	318,000	—
Debt issuance costs and loan commitment fees	(6,453)	(753)
Proceeds from issuance of common stock, net of offering costs and exercise of stock options	654	359,040
Net cash provided by financing activities	312,075	358,176
Net decrease in cash and cash equivalents	(306,073)	(71,622)
Cash and cash equivalents at beginning of period	458,956	167,088
Cash and cash equivalents at end of period	\$ 152,883	\$ 95,466
Supplemental disclosure of cash flow information:		

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Interest payments	\$ 11,930	\$ 12,618
Income tax payments	\$ 23,800	\$ 2,751
Supplemental disclosure of non-cash transactions:		
Capitalized stock based compensation	\$ 4,499	\$ 1,848
Asset retirement obligation capitalized	\$ 5,713	\$ 1,771
Interest capitalized	\$ 9,606	\$ 9,013
Foreign currency translation loss on investment in Grizzly Oil Sands ULC	\$ (9,998) \$(5,786)
See accompanying notes to consolidated financial statements.		

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GULFPORT ENERGY CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

These consolidated financial statements have been prepared by Gulfport Energy Corporation (the "Company" or "Gulfport") without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC"), and reflect all adjustments which, in the opinion of management, are necessary for a fair presentation of the results for the interim periods, on a basis consistent with the annual audited consolidated financial statements. All such adjustments are of a normal recurring nature. Certain information, accounting policies, and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been omitted pursuant to such rules and regulations, although the Company believes that the disclosures are adequate to make the information presented not misleading. These consolidated financial statements should be read in conjunction with the consolidated financial statements and the summary of significant accounting policies and notes thereto included in the Company's most recent annual report on Form 10-K. Results for the three and nine month periods ended September 30, 2014 are not necessarily indicative of the results expected for the full year.

1. ACQUISITIONS

On February 15, 2013, the Company completed an acquisition of approximately 22,000 net acres in the Utica Shale in Eastern Ohio. The purchase price was approximately \$220.0 million, subject to certain adjustments. At closing, approximately \$33.6 million of the purchase price was placed in escrow pending completion of title review after the closing. Gulfport funded this acquisition with a portion of the net proceeds from its common stock offering that closed on February 15, 2013. The Company received aggregate net proceeds of approximately \$325.8 million from this equity offering. All of the acreage included in these transactions was nonproducing at the time of the applicable transaction and the Company is the operator of all of this acreage, subject to existing development and operating agreements between the parties. These acquisitions excluded the seller's interest in 14 existing wells and 16 proposed future wells together with certain acreage surrounding these wells.

In February 2014, the Company agreed to acquire additional oil and natural gas properties consisting of approximately 8,000 net acres from Rhino Exploration LLC ("Rhino"), as well as its interest in all of the producing wells, in the Utica Shale of Eastern Ohio from Rhino, for a gross purchase price of approximately \$184.0 million (the "Rhino Acquisition"), of which the Company closed on approximately \$179.0 million (\$177.4 million net of purchase price adjustments) on March 20, 2014. The remainder of the acquisition remains pending. The Company recognized \$4.9 million of net revenues and \$0.7 million of lease operating expenses as a result of the Rhino Acquisition from the closing date of March 20, 2014 through September 30, 2014, which is included in the accompanying consolidated statements of operations.

The Rhino Acquisition qualified as a business combination for accounting purposes and, as such, the Company estimated the fair value of the acquired properties as of the March 20, 2014 acquisition date. The fair value of the assets and liabilities acquired was estimated using assumptions that represent Level 3 inputs. See "Note 10 - Fair Value Measurements" for additional discussion of the measurement inputs.

The Company estimated that the consideration paid in the Rhino Acquisition for these properties approximated the fair value that would be paid by a typical market participant. As a result, no goodwill or bargain purchase gain was recognized in conjunction with the purchase.

The following table summarizes the consideration paid in the Rhino Acquisition to acquire the properties and the fair value amounts of the assets acquired as of March 20, 2014. Both the consideration paid and the fair value assigned to the assets is preliminary and subject to adjustment upon final closing.

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	(in thousands)
Consideration paid	
Cash, net of purchase price adjustments	\$ 177,444
Fair value of identifiable assets acquired	
Oil and natural gas properties	
Proved	\$ 32,005
Unproved	6,263
Unevaluated	139,176
Fair value of net identifiable assets acquired	\$