

GULFPORT ENERGY CORP
Form 10-Q
November 05, 2015
Table of Contents

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, 2015 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)

73-1521290
(IRS Employer
Identification Number)
73134
(Zip Code)

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

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, par value \$0.01 per share	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

Edgar Filing: GULFPORT ENERGY CORP - Form 10-Q

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 2, 2015, 108,244,331 shares of the registrant's common stock were outstanding.

Table of Contents

GULFPORT ENERGY CORPORATION
TABLE OF CONTENTS

	Page
<u>PART I FINANCIAL INFORMATION</u>	
Item 1.	<u>Consolidated Financial Statements (unaudited):</u> 2
	<u>Consolidated Balance Sheets at September 30, 2015 and December 31, 2014</u> 2
	<u>Consolidated Statements of Operations for the Three and Nine Months Ended September 30, 2015 and 2014</u> 3
	<u>Consolidated Statements of Comprehensive (Loss) Income for the Three and Nine Months Ended September 30, 2015 and 2014</u> 4
	<u>Consolidated Statements of Stockholders' Equity for the Nine Months Ended September 30, 2015 and 2014</u> 5
	<u>Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2015 and 2014</u> 6
	<u>Notes to Consolidated Financial Statements</u> 7
Item 2.	<u>Management's Discussion and Analysis of Financial Conditions and Results of Operations</u> 36
Item 3.	<u>Quantitative and Qualitative Disclosures About Market Risk</u> 51
Item 4.	<u>Controls and Procedures</u> 53
<u>PART II OTHER INFORMATION</u>	
Item 1.	<u>Legal Proceedings</u> 54
Item 1A.	<u>Risk Factors</u> 54
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u> 54
Item 3.	<u>Defaults Upon Senior Securities</u> 54
Item 4.	<u>Mine Safety Disclosures</u> 54
Item 5.	<u>Other Information</u> 55
Item 6.	<u>Exhibits</u> 55
	<u>Signatures</u> 57

Table of Contents

GULFPORT ENERGY CORPORATION
CONSOLIDATED BALANCE SHEETS
(Unaudited)

	September 30, 2015	December 31, 2014
	(In thousands, except share data)	
Assets		
Current assets:		
Cash and cash equivalents	\$228,111	\$142,340
Accounts receivable—oil and gas	66,271	103,858
Accounts receivable—related parties	149	46
Prepaid expenses and other current assets	16,156	3,714
Short-term derivative instruments	116,100	78,391
Total current assets	426,787	328,349
Property and equipment:		
Oil and natural gas properties, full-cost accounting, \$2,018,803 and \$1,465,538 excluded from amortization in 2015 and 2014, respectively	5,258,762	3,923,154
Other property and equipment	27,670	18,344
Accumulated depletion, depreciation, amortization and impairment	(1,896,413	) (1,050,879
Property and equipment, net	3,390,019	2,890,619
Other assets:		
Equity investments	295,103	369,581
Derivative instruments	51,171	24,448
Deferred tax asset	27,368	—
Other assets	24,982	19,396
Total other assets	398,624	413,425
Total assets	\$4,215,430	\$3,632,393
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$312,116	\$371,410
Asset retirement obligation—current	75	75
Deferred tax liability	38,734	27,070
Short-term derivative instruments	2,351	—
Current maturities of long-term debt	1,695	168
Total current liabilities	354,971	398,723
Long-term derivative instrument	3,208	—
Asset retirement obligation—long-term	23,073	17,863
Deferred tax liability	—	203,195
Long-term debt, net of current maturities	963,048	716,316
Total liabilities	1,344,300	1,336,097
Commitments and contingencies (Note 9)		
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:		
	1,082	856

Edgar Filing: GULFPORT ENERGY CORP - Form 10-Q

Common stock - \$.01 par value, 200,000,000 authorized, 108,241,831 issued
and outstanding at September 30, 2015 and 85,655,438 at December 31, 2014

Paid-in capital	2,820,500	1,828,602	
Accumulated other comprehensive loss	(49,950	) (26,675)
Retained earnings	99,498	493,513	
Total stockholders' equity	2,871,130	2,296,296	
Total liabilities and stockholders' equity	\$4,215,430	\$3,632,393	

See accompanying notes to consolidated financial statements.

Table of Contents

GULFPORT ENERGY CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
	(In thousands, except share data)			
Revenues:				
Gas sales	\$179,215	\$85,168	\$363,656	\$139,039
Oil and condensate sales	41,747	58,196	111,712	199,651
Natural gas liquid sales	9,431	27,021	43,396	64,054
Other income	176	419	392	825
	230,569	170,804	519,156	403,569
Costs and expenses:				
Lease operating expenses	17,568	11,883	51,411	36,192
Production taxes	3,593	5,213	11,163	18,771
Midstream gathering and processing	42,166	18,714	100,451	37,263
Depreciation, depletion and amortization	90,329	72,409	251,393	185,280
Impairment of oil and gas properties	594,776	—	594,776	—
General and administrative	11,001	8,939	31,315	28,832
Accretion expense	212	192	594	569
Gain on sale of assets	—	—	—	(11)
	759,645	117,350	1,041,103	306,896
(LOSS) INCOME FROM OPERATIONS	(529,076)	53,454	(521,947)	96,673
OTHER (INCOME) EXPENSE:				
Interest expense	14,124	5,706	34,906	11,993
Interest income	(279)	(25)	(536)	(167)
Litigation settlement	—	1,500	—	25,500
Loss (income) from equity method investments	61,891	34,477	57,036	(163,567)
	75,736	41,658	91,406	(126,241)
(LOSS) INCOME BEFORE INCOME TAXES	(604,812)	11,796	(613,353)	222,914
INCOME TAX (BENEFIT) EXPENSE	(216,603)	4,876	(219,338)	85,584
NET (LOSS) INCOME	\$(388,209)	\$6,920	\$(394,015)	\$137,330
NET (LOSS) INCOME PER COMMON SHARE:				
Basic	\$(3.59)	\$0.08	\$(4.06)	\$1.61
Diluted	\$(3.59)	\$0.08	\$(4.06)	\$1.60
Weighted average common shares outstanding—Basic	108,217,062	85,506,095	96,935,897	85,405,630
Weighted average common shares outstanding—Diluted	108,217,062	85,907,307	96,935,897	85,790,433

See accompanying notes to consolidated financial statements.

Table of Contents

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

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
	(In thousands)			
Net (loss) income	\$(388,209)	\$6,920	\$(394,015)	\$137,330
Foreign currency translation adjustment	(11,538)	(9,536)	(23,275)	(9,998)
Other comprehensive loss	(11,538)	(9,536)	(23,275)	(9,998)
Comprehensive (loss) income	\$(399,747)	\$(2,616)	\$(417,290)	\$127,332

See accompanying notes to consolidated financial statements.

Table of Contents

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, 2015	85,655,438	\$856	\$1,828,602	\$ (26,675)	\$493,513	\$2,296,296
Net loss	—	—	—	—	(394,015)	(394,015)
Other Comprehensive Loss	—	—	—	(23,275)	—	(23,275)
Stock Compensation	—	—	10,556	—	—	10,556
Issuance of Common Stock in public offerings, net of related expenses	22,425,000	224	981,299	—	—	981,523
Issuance of Restricted Stock	156,393	2	(2)	—	—	—
Issuance of Common Stock through exercise of options	5,000	—	45	—	—	45
Balance at September 30, 2015	108,241,831	\$1,082	\$2,820,500	\$ (49,950)	\$99,498	\$2,871,130
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

See accompanying notes to consolidated financial statements.

Table of Contents

GULFPORT ENERGY CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Nine months ended September 30,	
	2015	2014
	(In thousands)	
Cash flows from operating activities:		
Net (loss) income	\$(394,015	) \$137,330
Adjustments to reconcile net income to net cash provided by operating activities:		
Accretion of discount—Asset Retirement Obligation	594	569
Depletion, depreciation and amortization	251,393	185,280
Impairment of oil and gas properties	594,776	—
Stock-based compensation expense	6,334	6,747
Loss (gain) from equity investments	64,062	(78,304
Interest income - note receivable	—	(38
Unrealized gain on derivative instruments	(58,873	) (23,049
Deferred income tax (benefit) expense	(219,338	) 38,566
Amortization of loan commitment fees	2,287	1,093
Amortization of note discount and premium	(1,611	) (13
Changes in operating assets and liabilities:		
Decrease (increase) in accounts receivable	37,587	(80,767
(Increase) decrease in accounts receivable—related party	(103	) 2,464
Increase in prepaid expenses	(12,442	) (997
(Decrease) increase in accounts payable and accrued liabilities	(34,440	) 101,990
Settlement of asset retirement obligation	(1,120	) (4,972
Net cash provided by operating activities	235,091	285,899
Cash flows from investing activities:		
Deductions to cash held in escrow	8	8
Additions to other property and equipment	(8,209	) (3,937
Additions to oil and gas properties	(1,373,292	) (1,040,607
Proceeds from sale of oil and gas properties	18,192	4,198
Proceeds from sale of investments	—	197,565
Contributions to equity method investments	(13,837	) (61,750
Distributions from equity method investments	4,761	476
Net cash used in investing activities	(1,372,377	) (904,047
Cash flows from financing activities:		
Principal payments on borrowings	(350,130	) (115,126
Borrowings on line of credit	250,000	115,000
Proceeds from bond issuance	350,000	318,000
Debt issuance costs and loan commitment fees	(8,381	) (6,453
Proceeds from issuance of common stock, net of offering costs and exercise of stock options	981,568	654
Net cash provided by financing activities	1,223,057	312,075
Net increase (decrease) in cash and cash equivalents	85,771	(306,073
Cash and cash equivalents at beginning of period	142,340	458,956
Cash and cash equivalents at end of period	\$228,111	\$152,883
Supplemental disclosure of cash flow information:		

Edgar Filing: GULFPORT ENERGY CORP - Form 10-Q

Interest payments	\$24,195	\$11,930
Income tax payments	\$29,753	\$23,800
Supplemental disclosure of non-cash transactions:		
Capitalized stock based compensation	\$4,222	\$4,499
Asset retirement obligation capitalized	\$5,736	\$5,713
Interest capitalized	\$12,041	\$9,606
Foreign currency translation loss on investment in Grizzly Oil Sands ULC	\$(23,275)	\$(9,998)
See accompanying notes to consolidated financial statements.		

6

Table of Contents

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, 2015 are not necessarily indicative of the results expected for the full year.

1. ACQUISITIONS

In February 2014, the Company entered into a definitive agreement with Rhino Exploration LLC ("Rhino") to acquire additional oil and natural gas properties consisting of approximately 8,000 net acres in the Utica Shale, as well as Rhino's interest in all of the producing wells on this acreage (the "Rhino Acquisition"). The Company purchased approximately \$182.0 million (\$179.5 million net of purchase price adjustments) of these assets in 2014.

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 11 - "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 amount of the assets acquired as of March 20, 2014.

	(In thousands)
Consideration paid	
Cash, net of purchase price adjustments	\$ 179,527
Fair value of identifiable assets acquired	
Oil and natural gas properties	
Proved	\$ 31,961
Unproved	6,263
Unevaluated	141,303
Fair value of net identifiable assets acquired	\$ 179,527

In April 2015, the Company entered into an agreement to acquire Paloma Partners III, LLC ("Paloma") for a total purchase price of approximately \$301.9 million, subject to certain adjustments. Paloma holds approximately 24,000 net nonproducing acres in the Utica Shale of Ohio. In accordance with the agreement, the Company deposited \$75.0 million into an escrow account. At the closing of the transaction the deposit was credited toward the purchase price. This transaction closed on August 31, 2015 for a purchase price of approximately \$302.3 million, net of purchase

price adjustments. At closing, approximately \$30.1 million of the purchase price was placed in escrow pending completion of title review after the closing.

On June 9, 2015, the Company completed the acquisition of 6,198 gross and net acres located in Belmont and Jefferson Counties, Ohio from American Energy-Utica, LLC ("AEU") for a purchase price of approximately \$68.2 million, subject to

7

Table of Contents

adjustment. On June 12, 2015, the Company completed the acquisition of 38,965 gross (27,228 net) acres located in Monroe County, Ohio, 14.6 MMcf per day of average net production (estimated for April 2015), 18 gross (11.3 net) drilled but uncompleted wells, an 11 mile gas gathering system and a four well pad location from AEU for a total purchase price of approximately \$319.0 million (the "Monroe Acquisition"). On June 29, 2015, the Company acquired an additional 4,950 gross (1,900 net) acres in Monroe County for an additional \$18.2 million from AEU. The total purchase price of these transactions, collectively referred to as the ("AEU Acquisition"), was approximately \$405.4 million, subject to closing adjustments. At closing, approximately \$67.1 million of the purchase price was placed in escrow pending completion of title review after the closing.

The AEU 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 June 12, 2015 acquisition date. The fair value of the assets and liabilities acquired was estimated using assumptions that represent Level 3 inputs. See Note 11 - "Fair Value Measurements" for additional discussion of the measurement inputs.

The Company estimated that the consideration paid in the AEU 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.