

GULFPORT ENERGY CORP  
Form 10-Q  
August 02, 2018  
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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 June 30, 2018 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 73-1521290  
(State or Other Jurisdiction of (IRS Employer  
Incorporation or Organization) Identification Number)  
3001 Quail Springs Parkway  
Oklahoma City, Oklahoma 73134  
(Address of Principal Executive Offices) (Zip Code)  
(405) 252-4600  
(Registrant Telephone Number, Including Area Code)

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, a smaller reporting company, or an emerging growth company. See definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):  
Large Accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company   
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 August 1, 2018, 173,302,055 shares of the registrant's common stock were outstanding.



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GULFPORT ENERGY CORPORATION  
CONSOLIDATED BALANCE SHEETS  
(Unaudited)

	June 30, 2018	December 31, 2017
	(In thousands, except share data)	
Assets		
Current assets:		
Cash and cash equivalents	\$ 119,230	\$ 99,557
Accounts receivable—oil and natural gas sales	140,209	146,773
Accounts receivable—joint interest and other	53,619	35,440
Accounts receivable—related parties	110	—
Prepaid expenses and other current assets	10,698	4,912
Short-term derivative instruments	20,745	78,847
Total current assets	344,611	365,529
Property and equipment:		
Oil and natural gas properties, full-cost accounting, \$2,957,361 and \$2,912,974 excluded from amortization in 2018 and 2017, respectively	9,749,156	9,169,156
Other property and equipment	91,207	86,754
Accumulated depletion, depreciation, amortization and impairment	(4,386,370 )	(4,153,733 )
Property and equipment, net	5,453,993	5,102,177
Other assets:		
Equity investments	218,849	302,112
Long-term derivative instruments	7,657	8,685
Deferred tax asset	—	1,208
Inventories	9,419	8,227
Other assets	19,904	19,814
Total other assets	255,829	340,046
Total assets	\$6,054,433	\$ 5,807,752
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$584,416	\$ 553,609
Asset retirement obligation—current	120	120
Short-term derivative instruments	61,161	32,534
Current maturities of long-term debt	639	622
Total current liabilities	646,336	586,885
Long-term derivative instruments	17,479	2,989
Asset retirement obligation—long-term	76,815	74,980
Deferred tax liability	2,965	—
Other non-current liabilities	740	2,963
Long-term debt, net of current maturities	2,114,899	2,038,321
Total liabilities	2,859,234	2,706,138
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:	1,733	1,831

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Common stock - \$.01 par value, 200,000,000 authorized, 173,302,055 issued and outstanding at June 30, 2018 and 183,105,910 at December 31, 2017

Paid-in capital	4,317,391	4,416,250
Accumulated other comprehensive loss	(49,406 )	(40,539 )
Retained deficit	(1,074,519 )	(1,275,928 )
Total stockholders' equity	3,195,199	3,101,614
Total liabilities and stockholders' equity	\$6,054,433	\$5,807,752

See accompanying notes to consolidated financial statements.

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GULFPORT ENERGY CORPORATION  
CONSOLIDATED STATEMENTS OF OPERATIONS  
(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
	(In thousands, except share data)			
Revenues:				
Natural gas sales	\$232,695	\$205,367	\$482,094	\$383,204
Oil and condensate sales	49,319	29,468	95,005	53,879
Natural gas liquid sales	41,271	24,247	88,107	55,426
Net (loss) gain on natural gas, oil, and NGL derivatives	(70,545 )	64,871	(87,074 )	164,448
	252,740	323,953	578,132	656,957
Costs and expenses:				
Lease operating expenses	22,912	20,721	41,818	40,024
Production taxes	7,659	5,139	14,513	9,045
Midstream gathering and processing	71,440	58,945	135,633	106,886
Depreciation, depletion and amortization	121,915	82,246	232,933	148,237
General and administrative	14,008	12,257	27,107	24,857
Accretion expense	1,015	410	2,019	692
Acquisition expense	—	1,060	—	2,358
	238,949	180,778	454,023	332,099
INCOME FROM OPERATIONS	13,791	143,175	124,109	324,858
OTHER (INCOME) EXPENSE:				
Interest expense	33,704	24,188	67,669	47,667
Interest income	(33 )	(48 )	(70 )	(890 )
Insurance proceeds	(231 )	—	(231 )	—
Gain on sale of equity method investments	(122,035 )	(12,523 )	(122,035 )	(12,523 )
(Income) loss from equity method investments, net	(8,888 )	25,824	(22,424 )	30,731
Other income	(45 )	(202 )	(140 )	(518 )
	(97,528 )	37,239	(77,231 )	64,467
INCOME BEFORE INCOME TAXES	111,319	105,936	201,340	260,391
INCOME TAX BENEFIT	—	—	(69 )	—
NET INCOME	\$111,319	\$105,936	\$201,409	\$260,391
NET INCOME PER COMMON SHARE:				
Basic	\$0.64	\$0.58	\$1.14	\$1.47
Diluted	\$0.64	\$0.58	\$1.13	\$1.47
Weighted average common shares outstanding—Basic	173,623,630	182,840,213	177,158,230	176,591,166
Weighted average common shares outstanding—Diluted	174,140,627	182,841,730	177,737,282	176,842,239

See accompanying notes to consolidated financial statements.

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GULFPORT ENERGY CORPORATION  
 CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
 (Unaudited)

	Three months ended		Six months ended	
	June 30,		June 30,	
	2018	2017	2018	2017
	(In thousands)			
Net income	\$111,319	\$105,936	\$201,409	\$260,391
Foreign currency translation adjustment	(3,364 )	4,514	(8,867 )	5,887
Other comprehensive (loss) income	(3,364 )	4,514	(8,867 )	5,887
Comprehensive income	\$107,955	\$110,450	\$192,542	\$266,278

See accompanying notes to consolidated financial statements.



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

	Common Stock Shares	Amount	Paid-in Capital	Accumulated Other Comprehensive (Loss) Income	Retained Deficit	Total Stockholders' Equity
	(In thousands, except share data)					
Balance at January 1, 2018	183,105,910	\$1,831	\$4,416,250	\$ (40,539 )	\$(1,275,928)	\$3,101,614
Net income	—	—	—	—	201,409	201,409
Other Comprehensive Loss	—	—	—	(8,867 )	—	(8,867 )
Stock-based Compensation	—	—	6,040	—	—	6,040
Shares Repurchased	(10,104,872 )	(101 )	(104,896 )	—	—	(104,997 )
Issuance of Restricted Stock	301,017	3	(3 )	—	—	—
Balance at June 30, 2018	173,302,055	\$1,733	\$4,317,391	\$ (49,406 )	\$(1,074,519)	\$3,195,199
Balance at January 1, 2017	158,829,816	\$1,588	\$3,946,442	\$ (53,058 )	\$(1,711,080)	\$2,183,892
Net income	—	—	—	—	260,391	260,391
Other Comprehensive Income	—	—	—	5,887	—	5,887
Stock-based Compensation	—	—	5,233	—	—	5,233
Issuance of Common Stock for the Vitruvian Acquisition, net of related expenses	23,852,117	239	459,197	—	—	459,436
Issuance of Restricted Stock	172,988	1	(1 )	—	—	—
Balance at June 30, 2017	182,854,921	\$1,828	\$4,410,871	\$ (47,171 )	\$(1,450,689)	\$2,914,839

See accompanying notes to consolidated financial statements.

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GULFPORT ENERGY CORPORATION  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Unaudited)

	Six months ended June 30,	
	2018	2017
	(In thousands)	
Cash flows from operating activities:		
Net income	\$201,409	\$260,391
Adjustments to reconcile net income to net cash provided by operating activities:		
Accretion expense	2,019	692
Depletion, depreciation and amortization	232,933	148,237
Stock-based compensation expense	3,624	3,140
(Income) loss from equity investments	(22,322 )	31,185
Change in fair value of derivative instruments	102,248	(166,667 )
Deferred income tax benefit	(69 )	—
Amortization of loan commitment fees	3,006	2,288
Gain on sale of equity method investments	(122,035 )	(12,523 )
Changes in operating assets and liabilities:		
Decrease (increase) in accounts receivable—oil and natural gas sales	6,564	(3,332 )
Increase in accounts receivable—joint interest and other	(16,385 )	(24,061 )
Increase in accounts receivable—related parties	(110 )	(169 )
Increase in prepaid expenses and other current assets	(5,786 )	(1,144 )
Increase in other assets	(1,517 )	(4,425 )
Increase in accounts payable, accrued liabilities and other	28,184	53,385
Settlement of asset retirement obligation	(719 )	(344 )
Net cash provided by operating activities	411,044	286,653
Cash flows from investing activities:		
Additions to other property and equipment	(6,252 )	(10,645 )
Acquisition of oil and natural gas properties	—	(1,339,222 )
Additions to oil and natural gas properties	(579,734 )	(460,765 )
Proceeds from sale of oil and natural gas properties	3,762	3,730
Proceeds from sale of other property and equipment	167	—
Proceeds from sale of equity method investments	221,965	—
Contributions to equity method investments	(1,569 )	(24,151 )
Distributions from equity method investments	1,196	1,429
Net cash used in investing activities	(360,465 )	(1,829,624 )
Cash flows from financing activities:		
Principal payments on borrowings	(150,285 )	(47 )
Borrowings on line of credit	225,000	210,000
Borrowings on term loan	—	2,951
Debt issuance costs and loan commitment fees	(624 )	(7,889 )
Payments on repurchase of stock	(104,997 )	—
Proceeds from issuance of common stock, net of offering costs	—	(5,364 )
Net cash (used in) provided by financing activities	(30,906 )	199,651
Net increase (decrease) in cash, cash equivalents and restricted cash	19,673	(1,343,320 )
Cash, cash equivalents and restricted cash at beginning of period	99,557	1,460,875
Cash, cash equivalents and restricted cash at end of period	\$119,230	\$117,555

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Supplemental disclosure of cash flow information:

Interest payments	\$59,915	\$48,118
Income tax payments	\$—	\$—

Supplemental disclosure of non-cash transactions:

Capitalized stock-based compensation	\$2,416	\$2,093
Asset retirement obligation capitalized	\$535	\$9,505
Interest capitalized	\$2,351	\$6,699
Foreign currency translation (loss) gain on equity method investments	\$(8,867 )	\$5,887

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 six month periods ended June 30, 2018 are not necessarily indicative of the results expected for the full year.

1. ACQUISITIONS

Vitruvian Acquisition

In December 2016, the Company, through its wholly-owned subsidiary Gulfport MidCon LLC (“Gulfport MidCon”) (formerly known as SCOOP Acquisition Company, LLC), entered into an agreement to acquire certain assets of Vitruvian II Woodford, LLC (“Vitruvian”), an unrelated third-party seller (the “Vitruvian Acquisition”). The assets included in the Vitruvian Acquisition include 46,400 net surface acres located in Grady, Stephens and Garvin Counties, Oklahoma. On February 17, 2017, the Company completed the Vitruvian Acquisition for a total initial purchase price of approximately \$1.85 billion, consisting of \$1.35 billion in cash, subject to certain adjustments, and approximately 23.9 million shares of the Company’s common stock (of which approximately 5.2 million shares were placed in an indemnity escrow). The cash portion of the purchase price was funded with the net proceeds from the Company’s December 2016 common stock and senior note offerings and cash on hand. Acquisition costs of \$1.1 million and \$2.4 million were incurred during the three and six months ended June 30, 2017, respectively, related to the Vitruvian Acquisition. No acquisition costs were incurred during the three and six months ended June 30, 2018.

Allocation of Purchase Price

The Vitruvian 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 February 17, 2017 acquisition date. The fair value of the assets acquired and liabilities assumed was estimated using assumptions that represent Level 3 inputs. See Note 11 for additional discussion of the measurement inputs.

The Company estimated that the consideration paid in the Vitruvian 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 by the Company in the Vitruvian Acquisition to acquire the properties and the fair value amount of the assets acquired as of February 17, 2017.

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	(In thousands)
Consideration:	
Cash, net of purchase price adjustments	\$ 1,354,093
Fair value of Gulfport's common stock issued	464,639
Total consideration	\$ 1,818,732
Estimated fair value of identifiable assets acquired and liabilities assumed:	
Oil and natural gas properties	
Proved properties	\$ 362,264
Unproved properties	1,462,957
Asset retirement obligations	(6,489 )
Total fair value of net identifiable assets acquired	\$ 1,818,732

The equity consideration included in the initial purchase price was based on an equity offering price of \$20.96 on December 15, 2016. The decrease in the price of Gulfport's common stock from \$20.96 on December 15, 2016 to \$19.48 on February 17, 2017 resulted in a decrease to the fair value of the total consideration paid as compared to the initial purchase price of approximately \$35.3 million, which resulted in a closing date fair value lower than the initial purchase price.