GULFPORT ENERGY CORP
Form 10-Q
November 05, 2013
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

ý QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE QUARTERLY PERIOD ENDED September 30, 2013
OR
¨ TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF SECURITIES EXCHANGE ACT OF 1934
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)	73-1521290 (IRS Employer Identification Number)
14313 North May Avenue, Suite 100 Oklahoma City, Oklahoma	73134
(Address of Principal Executive Offices)	(Zip Code)

(405) 848-8807
(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 past 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 ý 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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý 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. (Check One):

Large Accelerated Filer x Accelerated Filer ¨

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 ý

As of November 1, 2013, 77,584,405 shares of common stock were outstanding.

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GULFPORT ENERGY CORPORATION
CONSOLIDATED BALANCE SHEETS
(Unaudited)

	September 30, 2013	December 31, 2012
	(In thousands, except share data)	
Assets		
Current assets:		
Cash and cash equivalents	$95,466	$167,088
Accounts receivable—oil and gas	47,673	25,615
Accounts receivable—related parties	29,797	34,848
Prepaid expenses and other current assets	4,634	1,506
Deferred tax asset	787	—
Short-term derivative instruments	1,633	664
Note receivable - related party	875	—
Total current assets	180,865	229,721
Property and equipment:		
Oil and natural gas properties, full-cost accounting, $952,697 and $626,295 excluded from amortization in 2013 and 2012, respectively	2,253,605	1,611,090
Other property and equipment	10,164	8,662
Accumulated depletion, depreciation, amortization and impairment	(747,698)	(665,884)
Property and equipment, net	1,516,071	953,868
Other assets:		
Equity investments ($242,174 and $151,317 attributable to fair value option in 2013 and 2012, respectively)	500,679	381,484
Derivative instruments	127	—
Other assets	12,827	13,295
Total other assets	513,633	394,779
Total assets	$2,210,569	$1,578,368
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$179,357	$110,244
Asset retirement obligation—current	780	60
Short-term derivative instruments	4,808	10,442
Current maturities of long-term debt	156	150
Total current liabilities	185,101	120,896
Long-term derivative instrument	962	—
Asset retirement obligation—long-term	13,988	13,215
Deferred tax liability	93,957	18,607
Long-term debt, net of current maturities	298,992	298,888
Other non-current liabilities	—	354
Total liabilities	593,000	451,960
Commitments and contingencies (Note 11)		
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, 77,584,405 issued and outstanding in 2013 and 67,527,386 in 2012	775	674

Paid-in capital	1,399,803	1,036,245
Accumulated other comprehensive loss	(4,841)	(3,429)
Retained earnings	221,832	92,918
Total stockholders’ equity	1,617,569	1,126,408
Total liabilities and stockholders’ equity	$2,210,569	$1,578,368

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,	
	2013	2012	2013	2012
	(In thousands, except share data)			
Revenues:				
Oil and condensate sales	$52,972	$58,609	$167,051	$187,633
Gas sales	10,755	973	19,014	2,127
Natural gas liquid sales	5,100	874	7,828	2,374
Other income	425	81	793	189
	69,252	60,537	194,686	192,323
Costs and expenses:				
Lease operating expenses	7,297	6,638	18,347	18,201
Production taxes	7,071	6,974	20,381	22,228
Midstream transportation, processing and marketing	3,622	96	5,940	183
Depreciation, depletion, and amortization	30,691	25,377	81,814	70,424
General and administrative	5,259	3,098	14,571	9,370
Accretion expense	180	176	529	529
(Gain) loss on sale of assets	(5)	—	567	—
	54,115	42,359	142,149	120,935
INCOME FROM OPERATIONS	15,137	18,178	52,537	71,388
OTHER (INCOME) EXPENSE:				
Interest expense	2,602	1,003	9,365	1,630
Interest income	(70)	(6)	(211)	(37)
(Income) loss from equity method investments	(51,322)	1,165	(162,640)	1,793
	(48,790)	2,162	(153,486)	3,386
INCOME BEFORE INCOME TAXES	63,927	16,016	206,023	68,002
INCOME TAX EXPENSE	23,400	15,514	77,109	15,514
NET INCOME	$40,527	$502	$128,914	$52,488
NET INCOME PER COMMON SHARE:				
Basic	$0.52	$0.01	$1.70	$0.94
Diluted	$0.52	$0.01	$1.69	$0.93
Weighted average common shares outstanding—Basic	77,554,386	55,692,664	75,955,040	55,658,507
Weighted average common shares outstanding—Diluted	77,931,738	56,291,792	76,374,107	56,174,581

See accompanying notes to consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(In thousands)			
Net income	$40,527	$502	$128,914	$52,488
Foreign currency translation adjustment	3,894	5,320	(5,786)	3,394
Change in fair value of derivative instruments (1)	630	(19,251)	(444)	(11,678)
Reclassification of settled contracts (2)	1,617	185	4,818	646
Other comprehensive income (loss)	6,141	(13,746)	(1,412)	(7,638)
Comprehensive income	$46,668	$(13,244)	$127,502	$44,850

(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, 2012.

(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, 2012.

See accompanying notes to consolidated financial statements.

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

	Common Stock		Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total Stockholders' Equity
	Shares	Amount				
	(In thousands, except share data)					
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
Balance at January 1, 2012	55,621,371	$556	$604,584	$ 2,663	$24,547	$632,350
Net income	—	—	—	—	52,488	52,488
Other Comprehensive Loss	—	—	—	(7,638)	—	(7,638)
Stock Compensation	—	—	3,427	—	—	3,427
Issuance of Restricted Stock	96,331	1	(1)	—	—	—
Balance at September 30, 2012	55,717,702	$557	$608,010	$ (4,975)	$77,035	$680,627

See accompanying notes to consolidated financial statements.

GULFPORT ENERGY CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Nine Months Ended September 30,	
	2013	2012
	(In thousands)	
Cash flows from operating activities:		
Net income	$128,914	$52,488
Adjustments to reconcile net income to net cash provided by operating activities:		
Accretion of discount—Asset Retirement Obligation	529	529
Depletion, depreciation and amortization	81,814	70,424
Stock-based compensation expense	2,771	2,056
(Gain) loss from equity investments	(162,265)	1,793
Interest income - note receivable	(13)	(2)
Unrealized loss on derivative instruments	1,311	100
Deferred income tax expense	77,107	15,514
Amortization of loan commitment fees	750	405
Amortization of note discount and premium	221	—
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable	(22,058)	3,199
Decrease (increase) in accounts receivable—related party	5,051	(6,184)
Increase in prepaid expenses	(3,128)	(1,461)
Increase in accounts payable and accrued liabilities	30,833	28,017
Settlement of asset retirement obligation	(807)	(1,002)
Net cash provided by operating activities	141,030	165,876
Cash flows from investing activities:		
Deductions to cash held in escrow	8	8
Additions to other property and equipment	(1,502)	(599)
Additions to oil and gas properties	(608,270)	(269,177)
Proceeds from sale of other property and equipment	—	140
Advances on note receivable to related party	(875)	—
Proceeds from sale of investments	74,544	—
Contributions to equity method investments	(34,936)	(118,975)
Distributions from equity method investments	203	710
Net cash used in investing activities	(570,828)	(387,893)
Cash flows from financing activities:		
Principal payments on borrowings	(111)	(12,103)
Borrowings on line of credit	—	153,000
Debt issuance costs and loan commitment fees	(753)	(497)
Proceeds from issuance of common stock, net of offering costs	359,040	—
Net cash provided by financing activities	358,176	140,400
Net decrease in cash and cash equivalents	(71,622)	(81,617)
Cash and cash equivalents at beginning of period	167,088	93,897
Cash and cash equivalents at end of period	$95,466	$12,280
Supplemental disclosure of cash flow information:		
Interest payments	$12,618	$941

Income tax payments	$2,751	$255
Supplemental disclosure of non-cash transactions:		
Capitalized stock based compensation	$1,848	$1,371
Asset retirement obligation capitalized	$1,771	$1,711
Interest capitalized	$9,013	$—
Foreign currency translation (loss) gain on investment in Grizzly Oil Sands ULC	$(5,786)	$3,394

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, 2013 are not necessarily indicative of the results expected for the full year.

1. ACQUISITIONS

Beginning in February 2011, the Company entered into agreements to acquire certain leasehold interests located in the Utica Shale in Ohio. Certain of the agreements also granted the Company an exclusive right of first refusal for a period of six months to acquire certain additional tracts leased by the seller. Affiliates of Gulfport initially participated with the Company on a 50/50 basis in the acquisition of all leases described above. On December 17, 2012, Gulfport entered into a definitive agreement to purchase approximately 30,000 net acres in the Utica Shale in Eastern Ohio for approximately $302.0 million. On December 19, 2012, the parties amended that agreement to provide for Gulfport's acquisition of approximately 7,000 additional net acres for approximately $70.0 million, resulting in a total purchase price of approximately $372.0 million, subject to certain adjustments. This transaction closed on December 24, 2012. At closing, approximately $53.9 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 December 24, 2012 (with a second closing for the underwriters' purchase of 900,000 shares pursuant to their over-allotment option on January 7, 2013). The Company received aggregate net proceeds of approximately $460.7 million from this equity offering, as discussed below in Note 7.

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. In the February 2013 transaction, the Company acquired an additional approximately 16.2% interest in these leases, increasing its working interest in the acreage to 93.8%. 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 May 2013, both escrow accounts terminated and an aggregate of $10.0 million was returned to the Company. The balance of the escrow accounts was distributed to the seller based on the results of the title review.

2. ACCOUNTS RECEIVABLE—RELATED PARTIES

Included in the accompanying consolidated balance sheets as of September 30, 2013 and December 31, 2012 are amounts receivable from related parties of the Company. These receivables consist primarily of amounts billed by the Company to related parties as operator of such parties' Colorado and Ohio oil and natural gas properties. At September 30, 2013 and December 31, 2012, these receivables totaled $29.8 million and $34.8 million, respectively. Effective July 1, 2008, the Company entered into an acquisition team agreement with Everest Operations Management LLC ("Everest") to identify and evaluate potential oil and gas properties in which the Company and Everest or its affiliates may wish to invest. Upon a successful closing of an acquisition or divestiture, the party identifying the acquisition or divestiture is entitled to receive a fee from the other party and its affiliates, if applicable, participating in such closing. The fee is equal to 1% of the party’s proportionate share of the acquisition or divestiture consideration. The agreement may be terminated by either party upon 30 days notice. Affiliates of Everest were billed approximately $0.4 million and $0.9 million under this acquisition

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team agreement during the three and nine months ended September 30, 2012, respectively, which amounts are reflected as a reduction of general and administrative expenses in the consolidated statements of operations. Amounts billed under the acquisition team agreement during the three and nine months ended September 30, 2013 were immaterial.

3. PROPERTY AND EQUIPMENT

The major categories of property and equipment and related accumulated depletion, depreciation, amortization and impairment as of September 30, 2013 and December 31, 2012 are as follows:

	September 30, 2013	December 31, 2012
	(In thousands)	
Oil and natural gas properties	$2,253,605	$1,611,090
Office furniture and fixtures	5,576	4,476
Building	4,176	3,926
Land	412	260
Total property and equipment	2,263,769	1,619,752
Accumulated depletion, depreciation, amortization and impairment	(747,698)	(665,884)
Property and equipment, net	$1,516,071	$953,868

Included in oil and natural gas properties at September 30, 2013 is the cumulative capitalization of $42.2 million in general and administrative costs incurred and capitalized to the full cost pool. General and administrative costs capitalized to the full cost pool represent management's estimate of costs incurred directly related to exploration and development activities such as geological and other administrative costs associated with overseeing the exploration and development activities. All general and administrative costs not directly associated with exploration and development activities were charged to expense as they were incurred. Capitalized general and administrative costs were approximately $3.5 million and $9.6 million for the three and nine months ended September 30, 2013, respectively, and $2.0 million and $6.2 million for the three and nine months ended September 30, 2012, respectively.

The following table summarizes the Company's non-producing properties excluded from amortization by area at September 30, 2013:

	September 30, 2013
	(In thousands)
Colorado	$6,160
Bakken	312
Southern Louisiana	914
Ohio	945,261
Other	50
	$952,697

At December 31, 2012, approximately $626.3 million of non-producing leasehold costs was not subject to amortization.

The Company evaluates the costs excluded from its amortization calculation at least annually. Subject to industry conditions and the level of the Company's activities, the inclusion of most of the above referenced costs into the Company's amortization calculation is expected to occur within three to five years.

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A reconciliation of the Company's asset retirement obligation for the nine months ended September 30, 2013 and 2012 is as follows:

	September 30, 2013	September 30, 2012
	(In thousands)	
Asset retirement obligation, beginning of period	$13,275	$12,653
Liabilities incurred	1,771	1,711
Liabilities settled	(807)	(1,002)
Accretion expense	529	529
Asset retirement obligation as of end of period	14,768	13,891
Less current portion	780	60
Asset retirement obligation, long-term	$13,988	$13,831

On May 7, 2012, the Company entered into a contribution agreement with Diamondback Energy Inc. ("Diamondback"). Under the terms of the contribution agreement, the Company agreed to contribute to Diamondback, prior to the closing of the Diamondback initial public offering (“Diamondback IPO”), all its oil and natural gas interests in the Permian Basin (the "Contribution"). The Contribution was completed on October 11, 2012. At the closing of the Contribution, Diamondback issued to the Company (i) 7,914,036 shares of Diamondback common stock and (ii) a promissory note for $63.6 million, which was repaid to the Company at the closing of the Diamondback IPO on October 17, 2012. This aggregate consideration was subject to a post-closing cash adjustment based on changes in the working capital, long-term debt and certain other items of Diamondback O&G LLC, formerly Windsor Permian LLC ("Diamondback O&G"), as of the date of the Contribution. In January 2013, the Company received an additional payment from Diamondback of approximately $18.6 million as a result of this post-closing adjustment. Diamondback O&G is a wholly-owned subsidiary of Diamondback. Under the contribution agreement, the Company is generally responsible for all liabilities and obligations with respect to the contributed properties arising prior to the Contribution and Diamondback is responsible for such liabilities and obligations with respect to the contributed properties arising after the Contribution.

In connection with the Contribution, the Company and Diamondback entered into an investor rights agreement under which the Company has the right, for so long as it beneficially owns more than 10% of Diamondback’s outstanding common stock, to designate one individual as a nominee to serve on Diamondback’s board of directors. Such nominee, if elected to Diamondback’s board, will also serve on each committee of the board so long as he or she satisfies the independence and other requirements for service on the applicable committee of the board. So long as the Company has the right to designate a nominee to Diamondback’s board and there is no Gulfport nominee actually serving as a Diamondback director, the Company has the right to appoint one individual as an advisor to the board who shall be entitled to attend board and committee meetings. The Company is also entitled to certain information rights and Diamondback granted the Company certain demand and “piggyback” registration rights obligating Diamondback to register with the SEC any shares of Diamondback common stock that the Company owns. Immediately upon completion of the Contribution, the Company owned a 35% equity interest in Diamondback, rather than leasehold interests in the Company’s Permian Basin acreage. Upon completion of the Diamondback IPO in October 2012, Gulfport owned approximately 21.4% of Diamondback's outstanding common stock. As of September 30, 2013, Gulfport owned approximately 12.1% of Diamondback's outstanding common stock. Following the Contribution, the Company accounts for its interest in Diamondback as an equity investment. See also Note 4, " Equity Investments - Diamondback Energy, Inc."

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4. EQUITY INVESTMENTS

Investments accounted for by the equity method consist of the following as of September 30, 2013 and December 31, 2012:

	September 30, 2013	December 31, 2012
	(In thousands)	
Investment in Tatex Thailand II, LLC	$—	$203
Investment in Tatex Thailand III, LLC	10,871	8,657
Investment in Grizzly Oil Sands ULC	189,943	172,766
Investment in Bison Drilling and Field Services LLC	12,559	13,518
Investment in Muskie Holdings LLC	8,650	7,320
Investment in Timber Wolf Terminals LLC	870	878
Investment in Windsor Midstream LLC	10,379	9,503
Investment in Stingray Pressure Pumping LLC	17,755	13,265
Investment in Stingray Cementing LLC	3,345	3,110
Investment in Blackhawk Midstream LLC	—	—
Investment in Stingray Logistics LLC	978	947
Investment in Diamondback Energy LLC	242,174	151,317
Investment in Stingray Energy Services LLC	3,155	—
	$500,679	$381,484

Tatex Thailand II, LLC

The Company has a 23.5% indirect ownership interest in Tatex Thailand II, LLC (“Tatex”). The remaining indirect interests in Tatex are owned by entities controlled by Wexford Capital LP ("Wexford"). Tatex holds 85,122 of the 1,000,000 outstanding shares of APICO, LLC (“APICO”), an international oil and gas exploration company. APICO has a reserve base located in Southeast Asia through its ownership of concessions covering approximately 243,000 acres which includes the Phu Horm Field. During the three and nine months ended September 30, 2013, Gulfport received $0.2 million and $0.6 million, respectively, in distributions from Tatex and recognized $0.2 million and $0.4 million in distribution income for the same periods, which is included in (income) loss from equity method investments in the consolidated statements of operations.

Tatex Thailand III, LLC

The Company has a 17.9% ownership interest in Tatex Thailand III, LLC ("Tatex III"). Approximately 68.7% of the remaining interests in Tatex III are owned by entities controlled by Wexford. During the nine months ended September 30, 2013, the Company paid cash cash calls of $2.4 million, and had a total net investment in Tatex III of $10.9 million at September 30, 2013. The Company recognized a loss on equity investment of $0.1 million and $0.2 million for the three and nine months ended September 30, 2013, respectively. The Company recognized an immaterial loss on equity investment related to Tatex III during the three months ended September 30, 2012 and a loss of $0.2 million for the nine months ended September 30, 2012, which is included in (income) loss from equity method investments in the consolidated statements of operations.

Grizzly Oil Sands ULC

The Company, through its wholly owned subsidiary Grizzly Holdings Inc. ("Grizzly Holdings"), owns a 24.9999% interest in Grizzly Oil Sands ULC ("Grizzly"), a Canadian unlimited liability company. The remaining interest in Grizzly is owned by certain investment funds managed by Wexford. As of September 30, 2013, Grizzly had approximately 800,000 acres under lease in the Athabasca and Peace River oil sands regions of Alberta, Canada. During the nine months ended September 30, 2013, Gulfport paid $25.1 million in cash calls increasing its total net investment in Grizzly to $189.9 million at September 30, 2013. Grizzly’s functional currency is the Canadian dollar. The Company's investment in Grizzly was increased by $3.9 million as a result of a foreign currency translation gain and decreased by $5.8 million as a result of a foreign currency translation loss for the three and nine months ended

September 30, 2013, respectively, and increased by $5.3 million and $3.4 million as a result of a foreign currency translation gain for the three and nine months ended September 30, 2012. The Company recognized a loss on equity investment of $0.8 million and $2.1 million for the three and nine months ended September 30, 2013, respectively, and a loss of $0.3 million and $0.9 million for the three and nine months ended September

30, 2012, respectively, which is included in (income) loss from equity method investments in the consolidated statements of operations.

Bison Drilling and Field Services LLC

During the third quarter of 2011, the Company purchased a 25% ownership interest in Bison Drilling and Field Services LLC (“Bison”). In April 2012, the Company increased its ownership interest in Bison to 40% for a payment of $6.2 million, The remaining interests in Bison are owned by entities controlled by Wexford. Bison owns and operates drilling rigs. During the nine months ended September 30, 2013, Gulfport paid $0.3 million in cash calls, increasing its total net investment in Bison to $12.6 million. The Company recognized a loss on its equity investment in Bison of $1.3 million and $1.3 million for the three and nine months ended September 30, 2013, respectively. The Company recognized a loss on equity investment of $0.1 million and a gain on equity investment of $0.2 million, for the three and nine months ended September 30, 2012, respectively, which is included in (income) loss from equity method investments in the consolidated statements of operations.

The Company entered into a loan agreement with Bison effective May 15, 2012, under which Bison may borrow funds from the Company. Interest accrues at LIBOR plus 0.28% or 8%, whichever is lower, and shall be paid on a paid-in-kind basis by increasing the outstanding balance of the loan. The loan has a maturity date of January 31, 2015. The Company loaned Bison $1.6 million during the first nine months of 2012, all of which was repaid by Bison during the third quarter of 2012.

Muskie Holdings LLC

During the fourth quarter of 2011, the Company purchased a 25% ownership interest in Muskie Proppant LLC (“Muskie”), formerly known as Muskie Holdings LLC. The remaining interests in Muskie are owned by entities controlled by Wexford. Muskie holds certain rights in a lease covering land in Wisconsin for mining oil and natural gas fracture grade sand. During the nine months ended September 30, 2013, Gulfport paid $2.2 million in cash calls, increasing its total net investment in Muskie to $8.7 million. The Company recognized a loss on equity investment of $0.1 million and $0.9 million for the three and nine months ended September 30, 2013, respectively, and a loss of $0.1 million and $0.2 million for the three and nine months ended September 30, 2012, respectively, which is included in (income) loss from equity method investments in the consolidated statements of operations.

The Company entered into a loan agreement with Muskie effective July 1, 2013, for $0.9 million. Interest accrues at Prime plus 2.5%. The loan has a maturity date of July 31, 2014. As of September 30, 2013, the outstanding balance on the loan is included in notes receivable-related party on the accompanying consolidated balance sheets.

Timber Wolf Terminals LLC

During the first quarter of 2012, the Company and entities controlled by or affiliated with Wexford formed Timber Wolf Terminals LLC (“Timber Wolf”). The Company has a 50% interest in Timber Wolf and its initial investment during 2012 was $1.0 million. Timber Wolf will operate a crude/condensate terminal and a sand transloading facility in Ohio. The loss on equity investment related to Timber Wolf was immaterial for the three and nine months ended September 30, 2013 and 2012.

Windsor Midstream LLC

During the first quarter of 2012, the Company purchased a 22.5% ownership interest in Windsor Midstream LLC (“Midstream”) at a cost of $7.0 million. The remaining interests in Midstream are owned by entities controlled by Wexford. Midstream owns a 28.4% interest in MidMar Gas LLC, a gas processing plant in West Texas. During the nine months ended September 30, 2013, Gulfport paid an immaterial amount in net cash calls to Midstream, bringing its total net investment in Midstream to $10.4 million. The Company recognized income on equity investment of $0.9 million for the nine months ended September 30, 2013, and income on equity investment of $0.1 million and $0.2 million for the three and nine months ended September 30, 2012, respectively, which is included in (income) loss from equity method investments in the consolidated statements of operations. Income on equity investment for the three months ended September 30, 2013, was immaterial.

Stingray Pressure Pumping LLC

During the second quarter of 2012, the Company and certain individuals and entities primarily affiliated with Wexford formed Stingray Pressure Pumping LLC ("Stingray Pressure"). The Company's initial interest is 50%. Stingray Pressure provides well completion services. During the nine months ended September 30, 2013, the Company paid $1.8 million in cash calls, increasing its total net investment in Stingray Pressure to $17.8 million. After intercompany profit eliminations, the

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Company recognized income on equity investment of $0.3 million and $0.7 million for the three and nine months ended September 30, 2013. The Company recognized a loss on equity investment of $0.4 million and $0.5 million for the three and nine months ended September 30, 2012, respectively, which is included in (income) loss from equity method investments in the consolidated statements of operations.

Stingray Cementing LLC

During the second quarter of 2012, the Company and certain individuals and entities primarily affiliated with Wexford formed Stingray Cementing LLC ("Stingray Cementing"). The Company's initial interest is 50%. Stingray Cementing provides well cementing services. During the nine months ended September 30, 2013, the Company did not pay any cash calls related to Stingray Cementing. The Company recognized an immaterial loss, after intercompany profit eliminations, on equity investment related to Stingray Cementing during the three and nine months ended September 30, 2013. The loss on equity investment related to Stingray Cementing was immaterial for the three and nine months ended September 30, 2012.

Blackhawk Midstream LLC

During the second quarter of 2012, the Company and an entity controlled by Wexford formed Blackhawk Midstream LLC ("Blackhawk"). The Company has an initial 50% interest. Blackhawk coordinates gathering, compression, processing and marketing activities for the Company in connection with the development of its Utica Shale acreage. During the nine months ended September 30, 2013, the Company paid $0.3 million in cash calls related to Blackhawk. The Company recognized a loss on equity investment related to Blackhawk of $0.2 million and $0.3 million for the three and nine months ended September 30, 2013, respectively. The Company recognized a loss on equity investment of $0.1 million and $0.4 million for the three and nine months ended September 30, 2012, respectively, which is included in (income) loss from equity method investments in the consolidated statements of operations.

Stingray Logistics LLC

During the fourth quarter of 2012, the Company and certain individuals and entities affiliated with Wexford formed Stingray Logistics LLC ("Stingray Logistics"). The Company's initial interest is 50%. Stingray Logistics provides well services. The Company recognized an immaterial loss on equity investment related to Stingray Logistics during the three and nine months ended September 30, 2013, which is included in (income) loss from equity method investments in the consolidated statements of operations.

Diamondback Energy, Inc.

As noted above in Note 3, on May 7, 2012, the Company entered into a contribution agreement with Diamondback. Under the terms of the contribution agreement, the Company agreed to contribute to Diamondback, prior to the closing of the Diamondback IPO, all its oil and natural gas interests in the Permian Basin. The Contribution was completed on October 11, 2012. At the closing of the Contribution, Diamondback issued to the Company (i) 7,914,036 shares of Diamondback common stock and (ii) a promissory note for $63.6 million, which was repaid to the Company at the closing of the Diamondback IPO on October 17, 2012. Following the closing of the Diamondback IPO, the Company owned approximately 21.4% of Diamondback's outstanding common stock for an initial investment in Diamondback of $138.5 million. On June 24, 2013, the Company sold 1,951,781 shares of its Diamondback common stock for net proceeds of $65.1 million in an underwritten public offering in which certain entities controlled by Wexford also participated as selling stockholders. On July 5, 2013, the underwriters purchased an additional 282,755 shares of Diamondback common stock from Gulfport pursuant to an option to purchase additional shares from the selling stockholders granted to the underwriters resulting in net proceeds to the Company of

$9.4 million. The shares were sold to the public at $34.75 per share. As of September 30, 2013, the Company owned approximately 12.1% of Diamondback's outstanding common stock.

The Company accounts for its interest in Diamondback as an equity method investment and has elected the fair value option of accounting for this investment. The Company valued its investment in Diamondback using the quoted closing market price of Diamondback's stock on September 30, 2013 of $42.64 per share multiplied by the number of outstanding shares of Diamondback's stock held by the Company. The value of the Company's investment in Diamondback was approximately $242.2 million at September 30, 2013. The Company recognized an aggregate gain of approximately $52.9 million and $165.4 million on its investment in Diamondback for the three and nine months ended September 30, 2013, respectively, which is included in (income) loss from equity method investments in the consolidated statements of operations.

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The table below summarizes balance sheet information for Diamondback as of September 30, 2013 and December 31, 2012:

	September 30, 2013	December 31, 2012
	(In thousands)	
Current assets	$91,915	$50,275
Noncurrent assets	$1,373,981	$556,426
Current liabilities	$109,451	$79,232
Noncurrent liabilities	$533,507	$65,401

The table below summarizes the results of operations for Diamondback for the three and nine months ended September 30, 2013 and 2012, respectively:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(In thousands)			
Gross revenue	$57,791	$16,814	$132,094	$49,195
Income from operations	$29,423	$4,086	$57,468	$15,130
Net income	$14,596	$452	$34,463	$15,553

Stingray Energy Services LLC

During the first quarter of 2013, the Company purchased a 50% ownership in Stingray Energy Services LLC ("Stingray Energy") at a cost of $2.2 million. The remaining interests in Stingray Energy are owned by certain individuals and entities primarily affiliated with Wexford. Stingray Energy provides rental tools for land-based oil and natural gas drilling, completion and workover activities as well as the transfer of fresh water to wellsites. Other than its initial investment, the Company paid cash calls of $0.7 million during the three and nine months ended September 30, 2013. After intercompany profit eliminations, the Company recognized income on equity investment of $0.2 million and $0.1 million for the three and nine months ended September 30, 2013, respectively, which is included in (income) loss from equity method investments in the consolidated statements of operations.

5. OTHER ASSETS

Other assets consist of the following as of September 30, 2013 and December 31, 2012:

	September 30, 2013	December 31, 2012
	(In thousands)	
Plugging and abandonment escrow account on the WCBB properties (Note 11)	$3,105	$3,113
Certificates of Deposit securing letter of credit	275	275
Prepaid drilling costs	527	515
Loan commitment fees	8,889	9,388
Pipeline imbalance receivable	27	—
Deposits	4	4
	$12,827	$13,295

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6. LONG-TERM DEBT

Long-term debt consisted of the following items as of September 30, 2013 and December 31, 2012:

	September 30, 2013	December 31, 2012
	(In thousands)	
Revolving credit agreement (1)	$—	$—
Building loans (2)	2,033	2,143
7.75% senior unsecured notes due 2020 (3)	300,000	300,000
Unamortized original issue (discount) premium, net (4)	(2,885)	(3,105)
Less: current maturities of long term debt	(156)	(150)
Debt reflected as long term	$298,992	$298,888

The Company capitalized approximately $3.5 million and $9.0 million in interest expense to undeveloped oil and natural gas properties during the three and nine months ended September 30, 2013, respectively. There was no interest expense capitalized during the three and nine months ended September 30, 2012, respectively.

(1) On September 30, 2010, the Company entered into a $100.0 million senior secured revolving credit agreement with The Bank of Nova Scotia, as administrative agent and letter of credit issuer and lead arranger, and Amegy Bank National Association ("Amegy Bank"). The revolving credit facility initially matured on September 30, 2013 and had an initial borrowing base availability of $50.0 million, which was increased to $65.0 million effective December 24, 2010. The amounts borrowed under the credit agreement were used to repay all of the Company's outstanding indebtedness under its prior revolving credit facility ($42.0 million) and term loan ($2.5 million), each with Bank of America, N.A., as administrative agent, and for general corporate purposes. The credit agreement is secured by substantially all of the Company's assets. The Company's wholly-owned subsidiaries guaranteed the obligations of the Company under the credit agreement.

On May 3, 2011, the Company entered into a first amendment to the revolving credit agreement with The Bank of Nova Scotia, Amegy Bank, KeyBank National Association ("KeyBank") and Société Générale. Pursuant to the terms of the first amendment, KeyBank and Société Générale were added as additional lenders, the maximum amount of the facility was increased to $350.0 million, the borrowing base was increased to $90.0 million, certain fees and rates payable by the Company under the credit agreement were decreased, and the maturity date was extended until May 3, 2015. On October 31, 2011, the Company entered into additional amendments to its revolving credit facility pursuant to which, among other things, the borrowing base under this facility was increased to $125.0 million.

Effective May 2, 2012, the Company entered into a fourth amendment to its revolving credit facility under which, among other things, the borrowing base was increased to $155.0 million and Credit Suisse, Deutsche Bank Trust Company Americas and Iberiabank were added as additional lenders and Société Générale left the bank group.

On October 9, 2012 and October 17, 2012, the Company entered into a fifth amendment and a sixth amendment, respectively, to the revolving credit agreement. The fifth amendment modified certain covenants in the credit agreement to permit the Company to issue senior unsecured notes in an aggregate principal amount of up to $300.0 million and provided for a reduction in the borrowing base to an amount to be determined upon the completion of any senior unsecured notes issuance. The sixth amendment lowered the applicable rate set forth in the credit agreement (i) from a range of 1.00% to 1.75% to a range of 0.75% to 1.50% for the base rate loans and (ii) from a range of 2.00% to 2.75% to a range of 1.75% to 2.50% for the eurodollar rate loans and letters of credit. The sixth amendment lowered the commitment fees for Level 1 and Level 2 usage levels, in each case, from 0.50% per annum to 0.375% per annum. Also, effective as of October 17, 2012, in connection with the Company's completion of the offering of $250.0 million 7.75% senior unsecured notes due 2020, (the "October Notes"), the repayment of all outstanding amounts under the revolving credit agreement with the proceeds of the October Notes, and the contribution of Gulfport's oil and natural gas interests in the Permian Basin to Diamondback discussed in Note 3 above, Gulfport's borrowing base under the credit agreement was reduced to $45.0 million until the next borrowing base redetermination.

On December 18, 2012, the Company entered into a seventh amendment to the revolving credit agreement under which the Company was permitted to issue $50.0 million 7.75% senior unsecured notes due 2020 (the "December Notes") under the same indenture as the October Notes (collectively, the "Notes"), and upon the issuance of the December Notes, the borrowing base under the revolving credit agreement was reduced from $45.0 million to $40.0 million until the next borrowing base redetermination.

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On June 6, 2013, the Company entered into an eighth amendment to the revolving credit agreement. The eighth amendment lowered the applicable rate set forth in the revolving credit agreement (i) from a range of 1.75% to 2.50% to a range of 1.50% to 2.50% for eurodollar rate loans and (ii) from a range of 0.75% to 1.50% to a range of 0.50% to 1.50% for base rate loans. Additionally, the eighth amendment extended the maturity date from May 3, 2015 to June 6, 2018, provided for an increase in the borrowing base from $40.0 million to $50.0 million, and amended certain other provisions. As of September 30, 2013, the Company had no balance outstanding under the revolving credit agreement.

Advances under the credit agreement, as amended, may be in the form of either base rate loans or eurodollar loans. The interest rate for base rate loans is equal to (1) the applicable rate, which ranges from 0.50% to 1.50%, plus (2) the highest of: (a) the federal funds rate plus 0.50%, (b) the rate of interest in effect for such day as publicly announced from time to time by agent as its "prime rate," and (c) the eurodollar rate for an interest period of one month plus 1.00%. The interest rate for eurodollar loans is equal to (1) the applicable rate, which ranges from 1.50% to 2.50%, plus (2) the London interbank offered rate that appears on Reuters Screen LIBOR01 Page for deposits in U.S. dollars, or, if such rate is not available, the offered rate on such other page or service that displays the average British Bankers Association Interest Settlement Rate for deposits in U.S. dollars, or, if such rate is not available, the average quotations for three major New York money center banks of whom the agent shall inquire as the "London Interbank Offered Rate" for deposits in U.S. dollars.

The credit agreement contains customary negative covenants including, but not limited to, restrictions on the Company's and its subsidiaries' ability to:

- incur indebtedness;
- grant liens;
- pay dividends and make other restricted payments;
- make investments;
- make fundamental changes;
- enter into swap contracts and forward sales contracts;
- dispose of assets;
- change the nature of their business; and
- enter into transactions with affiliates.

The negative covenants are subject to certain exceptions as specified in the credit agreement. The credit agreement also contains certain affirmative covenants, including, but not limited to the following financial covenants:

(i) the ratio of funded debt to EBITDAX (net income, excluding any non-cash revenue or expense associated with swap contracts resulting from ASC 815, plus without duplication and to the extent deducted from revenues in determining net income, the sum of (a) the aggregate amount of consolidated interest expense for such period, (b) the aggregate amount of income, franchise, capital or similar tax expense (other than ad valorem taxes) for such period, (c) all amounts attributable to depletion, depreciation, amortization and asset or goodwill impairment or writedown for such period, (d) all other non-cash charges, (e) non-cash losses from minority investments, (f) actual cash distributions received from minority investments, (g) to the extent actually reimbursed by insurance, expenses with respect to liability on casualty events or business interruption, and (h) all reasonable transaction expenses related to dispositions and acquisitions of assets, investments and debt and equity offerings, and less non-cash income attributable to equity income from minority investments) for a twelve-month period may not be greater than 2.00 to 1.00; and

(ii) the ratio of EBITDAX to interest expense for a twelve-month period may not be less than 3.00 to 1.00.

The Company was in compliance with all covenants at September 30, 2013.

(2) In March 2011, the Company entered into a new building loan agreement for the office building it occupies in Oklahoma City, Oklahoma. The new loan agreement refinanced the $2.4 million outstanding under the previous building loan agreement. The new agreement matures in February 2016 and bears interest at the rate of 5.82% per annum. The new building loan requires monthly interest and principal payments of approximately $22,000 and is collateralized by the Oklahoma City office building and associated land.

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(3) On October 17, 2012, the Company issued $250.0 million in aggregate principal amount of October Notes to qualified institutional buyers pursuant to Rule 144A under the Securities Act and to certain non-U.S. persons in accordance with Regulation S under the Securities Act, (the "October Notes Offering") under an indenture among the Company, its subsidiary guarantors and Wells Fargo Bank, National Association, as the trustee, (the "senior note indenture"). On December 21, 2012, the Company issued an additional $50.0 million in aggregate principal amount of December Notes to qualified institutional buyers pursuant to Rule 144A under the Securities Act and to certain non-U.S. persons in accordance with Regulation S under the Securities Act ("the December Notes Offering"). The December Notes were issued as additional securities under the senior note indenture. The October Notes Offering and the December Notes Offering are collectively referred to as the "Notes Offerings". The Company used a portion of the net proceeds from the October Notes Offering to repay all amounts outstanding at such time under its revolving credit facility. The Company used the remaining net proceeds of October Notes Offering and the net proceeds of the December Notes Offering for general corporate purposes, which included funding a portion of its 2013 capital development plan.

Under the senior note indenture, interest on the Notes accrues at a rate of 7.75% per annum on the outstanding principal amount from October 17, 2012, payable semi-annually on May 1 and November 1 of each year, commencing on May 1, 2013. The Notes are the Company's senior unsecured obligations and rank equally in the right of payment with all of the Company's other senior indebtedness and senior in right of payment to any future subordinated indebtedness. All of the Company's existing and future restricted subsidiaries that guarantee the Company's secured revolving credit facility or certain other debt guarantee the Notes; provided, however, that the Notes are not guaranteed by Grizzly Holdings, Inc. and will not be guaranteed by any of the Company's future unrestricted subsidiaries. The Company may redeem some or all of the Notes at any time on or after November 1, 2016, at the redemption prices listed in the senior note indenture. Prior to November 1, 2016, the Company may redeem the Notes at a price equal to 100% of the principal amount plus a “make-whole” premium. In addition, prior to November 1, 2015, the Company may redeem up to 35% of the aggregate principal amount of the Notes with the net proceeds of certain equity offerings, provided that at least 65% of the aggregate principal amount of the Notes initially issued remains outstanding immediately after such redemption.

(4) The October Notes were issued at a price of 98.534% resulting in a gross discount of $3.7 million and an effective rate of 8.000%. The December Notes were issued at a price of 101.000% resulting in a gross premium of $0.5 million and an effective rate of 7.531%. The premium and discount are being amortized using the effective interest method.

7. COMMON STOCK OPTIONS, WARRANTS AND CHANGES IN CAPITALIZATION

Sale of Common Stock

On December 24, 2012, the Company completed the sale of an aggregate of 11,750,000 shares of its common stock in an underwritten public offering (including the partial exercise of a 1,650,000 share over-allotment option granted to the underwriters, which option was initially exercised to the extent of 750,000 shares) at a public offering price of $38.00 per share less the underwriting discount. The underwriters subsequently exercised their option to purchase the remaining 900,000 additional shares of common stock subject to the over-allotment option in a second closing, which occurred on January 7, 2013. The Company received aggregate net proceeds from both closings of approximately $460.7 million from the sale of these shares after deducting the underwriting discount and before offering expenses. The Company used a portion of these net proceeds to fund the acquisition of approximately 37,000 net acres in the Utica Shale in Eastern Ohio, as described above in Note 1, and for general corporate purposes, including the funding of a portion of its 2013 capital development plan.

On February 15, 2013, the Company completed the sale of an aggregate of 8,912,500 shares of its common stock in an underwritten public offering at a public offering price of $38.00 per share less the underwriting discount. The Company received aggregate net proceeds of approximately $325.8 million from the sale of these shares after deducting the underwriting discount and before offering expenses. The Company used a portion of the net proceeds from this equity offering to fund its acquisition of additional Utica Shale acreage as described in Note 1, and intends to use the balance for general corporate purposes, including the funding of a portion of its 2013 capital development plan.

8. STOCK-BASED COMPENSATION

During the three and nine months ended September 30, 2013, the Company’s stock-based compensation cost was $1.6 million and $4.6 million, respectively, of which the Company capitalized $0.6 million and $1.8 million, respectively, relating to its exploration and development efforts. During the three and nine months ended September 30, 2012, the Company's stock-based compensation cost was $1.2 million and $3.4 million, respectively, of which the Company capitalized $0.5 million and $1.4 million, respectively, relating to its exploration and development efforts.

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The fair value of each option award is estimated on the date of grant using the Black-Scholes option valuation model. Expected volatilities are based on the historical volatility of the market price of Gulfport's common stock over a period of time ending on the grant date. Based upon the historical experience of the Company, the expected term of options granted is equal to the vesting period plus one year. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of the grant. The 2005 Plan provides that all options must have an exercise price not less than the fair value of the Company's common stock on the date of the grant.

No stock options were issued during the nine months ended September 30, 2013 and 2012.

The Company has not declared dividends and does not intend to do so in the foreseeable future, and thus did not use a dividend yield. In each case, the actual value that will be realized, if any, depends on the future performance of the common stock and overall stock market conditions. There is no assurance that the value an optionee actually realizes will be at or near the value estimated using the Black-Scholes model.

A summary of the status of stock options and related activity for the nine months ended September 30, 2013 is presented below:

	Shares	Weighted Average Exercise Price per Share	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value (In thousands)
Options outstanding at December 31, 2012	335,241	$6.37	2.39	$10,678
Granted	—	—		
Exercised	(125,000)	11.20		$4,797
Forfeited/expired	—	—		
Options outstanding at September 30, 2013	210,241	$3.50	1.32	$12,792
Options exercisable at September 30, 2013	210,241	$3.50	1.32	$12,792

The following table summarizes information about the stock options outstanding at September 30, 2013:

Exercise Price	Number Outstanding	Weighted Average Remaining Life (in years)	Number Exercisable
$3.36	205,241	1.31	205,241
$9.07	5,000	1.94	5,000
	210,241		210,241

The following table summarizes restricted stock activity for the nine months ended September 30, 2013:

	Number of Unvested Restricted Shares	Weighted Average Grant Date Fair Value
Unvested shares as of December 31, 2012	245,831	$31.88
Granted	209,500	38.98
Vested	(119,519)	35.58
Forfeited	(8,500)	38.54
Unvested shares as of September 30, 2013	327,312	$34.90

Unrecognized compensation expense as of September 30, 2013 related to outstanding stock options and restricted shares was $10.0 million. The expense is expected to be recognized over a weighted average period of 1.66 years.

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9. EARNINGS PER SHARE

Reconciliations of the components of basic and diluted net income per common share for the three and nine months ended September 30, 2013 and 2012 are presented in the tables below:

	Three Months Ended September 30,					
	2013			2012		
	Income	Shares	Per Share	Income	Shares	Per Share
	(In thousands, except share data)					
Basic:						
Net income	$40,527	77,554,386	$0.52	$502	55,692,664	$0.01
Effect of dilutive securities:						
Stock options and awards	—	377,352		—	599,128	
Diluted:						
Net income						