

Edgar Filing: GULFPORT ENERGY CORP - Form 10-Q

GULFPORT ENERGY CORP  
Form 10-Q  
November 14, 2002

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, 2002

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF  
THE SECURITIES EXCHANGE ACT OF 1934

COMMISSION FILE NUMBER 1-10753

GULFPORT ENERGY CORPORATION  
(Exact name of Registrant as specified in its charter)

Delaware 73-1521290  
(State or other jurisdiction of I.R.S. Employer  
incorporation or organization Identification No.)

6307 Waterford Blvd.  
Building D, Suite 100  
Oklahoma City, Oklahoma 73118  
(405) 848-8807  
(Address, including zip code, and telephone number,  
including area code, of registrant's principal  
executive office)

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 Issuer was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes  No

APPLICABLE ONLY TO REGISTRANTS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PRECEDING FIVE YEARS.

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Securities and Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes  No

The number of shares of the Registrant's Common Stock, \$0.01 par value, outstanding as of November 13, 2002 was 10,146,566.

1

GULFPORT ENERGY CORPORATION

TABLE OF CONTENTS

# Edgar Filing: GULFPORT ENERGY CORP - Form 10-Q

## FORM 10-Q QUARTERLY REPORT

### PART I FINANCIAL INFORMATION

#### Item 1 Financial Statements

Balance Sheets at September 30, 2002 (unaudited) and December 31, 2001 4

Statements of Income for the Three and Nine Month Periods Ended  
September 30, 2002 and 2001 (unaudited) 5

Statements of Common Stockholders' Equity for the Nine Months Ended  
September 30, 2002 and 2001 (unaudited) 6

Statements of Cash Flows for the Nine Months Ended  
September 30, 2002 and 2001 (unaudited) 7

Notes to Financial Statements 8

Item 2 Management's Discussion and Analysis of Financial  
Condition and Results of Operations 14

Item 3 Quantitative and Qualitative Disclosures About Market Risk 25

Item 4 Controls and Procedures 25

### PART II OTHER INFORMATION

Item 1 Legal Proceedings 25

Item 2 Changes in Securities and Use of Proceeds 25

Item 3 Defaults upon Senior Securities 26

Item 4 Submission of Matters to a Vote of Security Holders 26

Item 5 Other Information 26

Item 6 Exhibits and Reports on Form 8-K 26

Signatures 27

2

GULFPORT ENERGY CORPORATION

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

September 30, 2002 and 2001

Forming a part of Form 10-Q Quarterly Report to the

# Edgar Filing: GULFPORT ENERGY CORP - Form 10-Q

Securities and Exchange Commission

This quarterly report on Form 10-Q should be read in conjunction with Gulfport Energy Corporation's Annual Report on Form 10-K for the year ended December 31, 2001.

3

## GULFPORT ENERGY CORPORATION

### BALANCE SHEETS

	September 30, 2002	December 31, 2001
	-----	-----
	(Unaudited)	
Assets		
Current assets:		
Cash and cash equivalents	\$ 4,165,000	\$ 1,077,000
Accounts receivable, net of allowance for doubtful accounts of \$239,000 as of September 30, 2002 and December 31, 2001	589,000	1,096,000
Accounts receivable - related party	95,000	160,000
Prepaid expenses and other current assets	204,000	253,000
	-----	-----
Total current assets	5,053,000	2,586,000
	-----	-----
Property and equipment:		
Oil and natural gas properties	110,889,000	103,344,000
Other property and equipment	1,985,000	1,976,000
Accumulated depletion, depreciation, amortization	(72,043,000)	(69,597,000)
	-----	-----
Property and equipment, net	40,831,000	35,723,000
	-----	-----

Edgar Filing: GULFPORT ENERGY CORP - Form 10-Q

Other assets	2,763,000	2,583,000
	-----	-----
	\$ 48,647,000	\$ 40,892,000
	=====	=====

Liabilities and Stockholders' Equity

Current liabilities:

Accounts payable and accrued liabilities	\$ 3,919,000	\$ 2,637,000
Note payable - related party	-	3,000,000
Current maturities of long-term debt	22,000	1,120,000
	-----	-----

Total current liabilities	3,941,000	6,757,000
	-----	-----

Long-term debt	119,000	143,000
	-----	-----

Total liabilities	4,060,000	6,900,000
	-----	-----

Commitments and contingencies	-	-
-------------------------------	---	---

Redeemable 12% cumulative preferred stock, Series A, \$.01 par value, with a redemption and liquidation value of \$1,000 per share; 15,000 and 0 authorized, 10,001 and 0 issued and outstanding at September 30, 2002 and December 31, 2001, respectively	10,001,000	-
--	------------	---

Preferred stock, \$.01 par value; 4,985,000 and 1,000,000 authorized at September 30, 2002 and December 31, 2001, respectively, none issued	-	-
--	---	---

Common stockholders' equity:

Common stock - \$.01 par value, 20,000,000 and 15,000,000 authorized, 10,146,566 issued and outstanding at September 30, 2002 and December 31, 2001, respectively	101,000	101,000
Paid-in capital	84,192,000	84,192,000
Accumulated deficit	(49,707,000)	(50,301,000)
	-----	-----

	34,586,000	33,992,000
	-----	-----

Total liabilities and stockholders' equity	\$ 48,647,000	\$ 40,892,000
	=====	=====

The "full cost" method of accounting for oil and gas exploration and production activities has been followed in preparing this balance sheet.

See accompanying notes to financial statements.

Edgar Filing: GULFPORT ENERGY CORP - Form 10-Q

GULFPORT ENERGY CORPORATION  
 STATEMENTS OF INCOME  
 (Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2002	2001	2002	2001
<b>Revenues:</b>				
Gas sales	\$ 92,000	\$ 56,000	\$ 280,000	\$ 222,000
Oil and condensate sales	3,655,000	4,068,000	9,253,000	12,245,000
Other income	2,000	58,000	236,000	118,000
	<u>3,749,000</u>	<u>4,182,000</u>	<u>9,769,000</u>	<u>12,585,000</u>
<b>Costs and expenses:</b>				
Operating expenses	1,240,000	1,059,000	3,630,000	3,630,000
Production taxes	414,000	447,000	1,061,000	1,391,000
Depreciation, depletion, and amortization	871,000	991,000	2,459,000	2,787,000
General and administrative	428,000	273,000	1,255,000	1,132,000
	<u>2,953,000</u>	<u>2,770,000</u>	<u>8,405,000</u>	<u>8,940,000</u>
<b>INCOME FROM OPERATIONS:</b>	<u>796,000</u>	<u>1,412,000</u>	<u>1,364,000</u>	<u>3,645,000</u>
<b>OTHER (INCOME) EXPENSE:</b>				
Gain on settlement of disputed items	-	-	-	(482,000)
Interest expense	3,000	103,000	109,000	274,000
Interest income	(16,000)	(28,000)	(48,000)	(115,000)
	<u>(13,000)</u>	<u>75,000</u>	<u>61,000</u>	<u>(323,000)</u>
<b>INCOME BEFORE INCOME TAXES</b>	<u>809,000</u>	<u>1,337,000</u>	<u>1,303,000</u>	<u>3,968,000</u>
<b>INCOME TAX EXPENSE (BENEFIT):</b>				
Current	324,000	535,000	521,000	1,587,000
Deferred	(324,000)	(535,000)	(521,000)	(1,587,000)
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>NET INCOME</b>	<u>809,000</u>	<u>1,337,000</u>	<u>1,303,000</u>	<u>3,968,000</u>
Less: Preferred stock dividends	(356,000)	-	(709,000)	-
<b>NET INCOME AVAILABLE TO COMMON STOCKHOLDERS</b>	<u>\$ 453,000</u>	<u>\$ 1,337,000</u>	<u>\$ 594,000</u>	<u>\$ 3,968,000</u>
<b>NET INCOME PER COMMON SHARE:</b>				

Edgar Filing: GULFPORT ENERGY CORP - Form 10-Q

Basic	\$	0.04	\$	0.13	\$	0.06	\$	0.39
	=====		=====		=====		=====	
Diluted	\$	0.04	\$	0.13	\$	0.06	\$	0.38
	=====		=====		=====		=====	

See accompanying notes to financial statements.

5

GULFPORT ENERGY CORPORATION  
 Statements of Common Stockholders' Equity  
 (Unaudited)

	Preferred Stock		Common Stock		Additional	Accumulated
	Shares	Amount	Shares	Amount	Paid-in Capital	Deficit
	-----	-----	-----	-----	-----	-----
Balance at December 31, 2000	-	\$ -	10,145,400	\$101,000	\$84,190,000	\$(55,718,000)
Common shares issued	-	-	1,166	-	2,000	-
Net income	-	-	-	-	-	3,968,000
Balance at September 30, 2001	-	\$ -	10,146,566	\$101,000	\$84,192,000	\$(51,750,000)
	=====	=====	=====	=====	=====	=====
Balance at December 31, 2001	-	\$ -	10,146,566	\$101,000	\$84,192,000	\$(50,301,000)
Net income	-	-	-	-	-	1,303,000
Preferred stock dividends	-	-	-	-	-	(709,000)
Balance at September 30, 2002	-	\$ -	10,146,566	\$101,000	\$84,192,000	\$(49,707,000)
	=====	=====	=====	=====	=====	=====

See accompanying notes to financial statements.

Edgar Filing: GULFPORT ENERGY CORP - Form 10-Q

6

GULFPORT ENERGY CORPORATION  
 Statements of Cash Flows  
 (Unaudited)

	For the Nine Months Ended September 30,	
	2002	2001
Cash flows from operating activities:		
Net income	\$ 1,303,000	\$ 3,968,000
Adjustments to reconcile net income to net cash provided by operating activities:		
Depletion, depreciation and amortization	2,446,000	2,760,000
Amortization of debt issuance costs	13,000	27,000
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable	507,000	1,916,000
(Increase) decrease in accounts receivable - related	65,000	(239,000)
(Increase) decrease in prepaid expenses	36,000	(35,000)
(Decrease) increase in accounts payable and accrued liabilities	1,545,000	(1,457,000)
Net cash provided by operating activities	5,915,000	6,940,000
Cash flows from investing activities:		
(Additions) to cash held in escrow	(180,000)	(469,000)
(Additions) to other assets	-	-
(Additions) to other property, plant and equipment	(9,000)	(50,000)
(Additions) to oil and gas properties	(7,545,000)	(11,871,000)
Net cash used in investing activities	(7,734,000)	(12,390,000)
Cash flows from financing activities:		
Borrowings on note payable - related party	-	3,000,000
Borrowings on note payable	-	960,000
Principal payments on borrowings	(1,122,000)	(556,000)
Proceeds from issuance of preferred and common stock	6,029,000	2,000
Net cash provided by financing activities	4,907,000	3,406,000
Net increase (decrease) in cash and cash equivalents	3,088,000	(2,044,000)
Cash and cash equivalents at beginning of period	1,077,000	3,657,000
Cash and cash equivalents at end of period	\$ 4,165,000	\$ 1,613,000

Edgar Filing: GULFPORT ENERGY CORP - Form 10-Q

Supplemental disclosure of cash flow information:		
Interest payments	\$ 31,000	\$ 81,000
Supplemental disclosure of non-cash transactions:		
Repayment of note payable to related party through issuance of Series A Preferred Stock	\$ 3,000,000	\$ -
Repayment of accrued interest due on note payable to related party through issuance of Series A Preferred Stock	\$ 263,000	\$ -
Payment of Series A Preferred Stock dividends through issuance of Series A Preferred Stock	\$ 709,000	\$ -

See accompanying notes to financial statements.

7

GULFPORT ENERGY CORPORATION  
 NOTES TO FINANCIAL STATEMENTS  
 (Unaudited)

These condensed financial statements have been prepared by Gulfport Energy Corporation (the "Company") without audit, pursuant to the rules and regulations of the Securities and Exchange Commission, and reflect all adjustments, which are in the opinion of management, necessary for a fair statement of the results for the interim periods, on a basis consistent with the annual audited 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 financial statements should be read in conjunction with the 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.

1. ACCOUNTS RECEIVABLE - RELATED PARTY

Included in the accompanying September 30, 2002 balance sheet are amounts receivable from entities that have similar controlling interests as those controlling the Company. These receivables represent amounts billed by the Company for general and administrative functions performed by Gulfport's personnel on behalf of the related party companies during 2001 and 2002. Gulfport has reduced its corresponding expenses for the three and nine-month periods ending September 30, 2002 by \$18,000 and \$231,000, respectively, billed to the companies for performance of these services. As of September 30, 2001, the Company had billed the companies a total of \$239,000 and reduced its corresponding expenses accordingly.

2. PROPERTY AND EQUIPMENT



## Edgar Filing: GULFPORT ENERGY CORP - Form 10-Q

The major categories of property and equipment and related accumulated depreciation, depletion and amortization are as follows:

	September 30, 2002	December 31, 2001
	-----	-----
Oil and gas properties	\$ 110,889,000	\$ 103,344,000
Office furniture and fixtures	1,508,000	1,499,000
Building	217,000	217,000
Land	260,000	260,000
	-----	-----
Total property and equipment	112,874,000	105,320,000
Accumulated depreciation, depletion, amortization and impairment reserve	(72,043,000)	(69,597,000)
	-----	-----
Property and equipment, net	\$ 40,831,000	\$ 35,723,000
	=====	=====

8

### 3. OTHER ASSETS

Other assets consist of the following:

	September 30, 2002	December 31, 2001
	-----	-----
Plugging and abandonment escrow account		
on the WCBB properties	\$ 2,452,000	\$ 2,272,000
CD's securing letter of credit	200,000	200,000
Deposits	111,000	111,000
	-----	-----
	\$ 2,763,000	\$ 2,583,000
	=====	=====

### 4. LONG-TERM DEBT

The building loan of \$141,000 relates to a building in Lafayette, Louisiana, purchased in 1996 to be used as the Company's Louisiana headquarters. The building is 12,480 square feet with approximately 6,180 square feet of finished office area and 6,300 square feet of warehouse space. This building allows the Company to provide office space for Louisiana personnel, have access to meeting space close to the fields and to maintain a corporate presence in Louisiana.

A break down of long-term debt is as follows:

Edgar Filing: GULFPORT ENERGY CORP - Form 10-Q

	September 30, 2002	December 31, 2001
	-----	-----
Note payable	\$ -	\$ 1,100,000
Building loan	141,000	163,000
	-----	-----
	-	1,263,000
Less - current maturities of long-term debt	(22,000)	(1,120,000)
	-----	-----
Debt reflected as long term	\$ 119,000	\$ 143,000
	=====	=====

5. NOTE PAYABLE - RELATED PARTY

On March 29, 2002, the outstanding balance of the Company's note payable due to Gulfport Funding, LLC ("Gulfport Funding") along with all related accumulated interest on the note, were retired through Gulfport Funding's participation in the Company's Private Placement Offering as described in Note 10.

9

6. REVOLVING LINE OF CREDIT

On June 20, 2002, the Company entered into a line of credit with Bank of Oklahoma. Under the terms of the new agreement, the Company was extended a commitment to borrow up to \$2,300,000. Amounts borrowed under the line bear interest at Chase Manhattan Prime plus 1%, with payments of interest on outstanding balances due monthly beginning August 1, 2002. Any principal amounts borrowed under the line will be due on July 1, 2003. As of September 30, 2002, no amounts had been borrowed under this line.

7. CASTEX BACK-IN

Gulfport sold its interest in the Bayou Penchant, Bayou Pigeon, Deer Island and Golden Meadow fields to Castex Energy 1996 Limited Partnership (Castex) effective April 1, 1998 subject to a 25% reversionary interest in the partnership after Castex had received 100% of the initial investment. Castex informed Gulfport that the investment had paid out effective September 1, 2001. In lieu of a 25% interest in the partnership, Gulfport elected to take a proportionately reduced 25% working interest in the properties. During March, 2002 the Company received approximately \$220,000 from Castex which the Company believes consists of sales income for the period after payout net of operating expenses, although the Company has not received confirmation of such. As a result, this amount received has been included in the accompanying statement of income for the nine months ended September 30, 2002 as "Other Income".

8. EARNINGS PER SHARE

A reconciliation of the components of basic and diluted net income per common share is presented in the table below:

Edgar Filing: GULFPORT ENERGY CORP - Form 10-Q

For the Three Months Ended September 30,						
2002			2001			
Income	Shares	Per Share	Income	Shares	Per Share	
Basic:						
Income attributable to						
common stock	\$453,000	10,146,566	\$0.04	\$1,337,000	10,146,566	\$0.13
Effect of dilutive securities						
Stock options	-	232,904	-	-	325,187	
Diluted:						
Income attributable to						
common stock, after assumed dilutions	\$453,000	10,379,470	\$0.04	\$1,337,000	10,471,753	\$0.13

10

For the Nine Months Ended September 30,						
2002			2001			
Income	Shares	Per Share	Income	Shares	Per Share	
Basic:						
Income attributable to						
common stock	\$594,000	10,146,566	\$0.06	\$3,968,000	10,145,960	\$0.39
Effect of dilutive securities						
Stock options	-	281,726	-	-	345,081	
Diluted:						
Income attributable to						
common stock, after assumed dilutions	\$594,000	10,428,292	\$0.06	\$3,968,000	10,491,041	\$0.38

Common stock equivalents not included in the calculation of diluted earnings per share at September 30, 2001, above consists of 1,163,195 warrants issued at the time of the Company's reorganization. By their terms, these warrants expired in July 2002. Not included in the calculation of 2002 diluted earnings per share are 108,625 warrants issued in connection with the Company's revolving line of credit with Gulfport Funding and 2,322,893 warrants issued in connection with the Company's Private Placement Offering as discussed in Note

## Edgar Filing: GULFPORT ENERGY CORP - Form 10-Q

10. These potential common shares were not considered in the calculation due to their anti-dilutive effect during the periods presented.

### 9. COMMITMENTS

#### Plugging and Abandonment Funds

In connection with the acquisition of the remaining 50% interest in the WCBB properties, the Company assumed the obligation to contribute approximately \$18,000 per month through March, 2004, to a plugging and abandonment trust and the obligation to plug a minimum of 20 wells per year for 20 years commencing March 11, 1997. Texaco (acquired by Chevron USA during 2001) retained a security interest in production from these properties until abandonment obligations to Texaco have been fulfilled. Once the plugging and abandonment trust is fully funded, the Company can access it for use in plugging and abandonment charges associated with the property. As of September 30, 2002, the plugging and abandonment trust totaled \$2,452,000, including interest received during 2002 of approximately \$22,000.

During March 2002, Gulfport began to fulfill its yearly plugging commitment of 20 wells at WCBB for the twelve-month period ending March 31, 2002. As of the date of this filing, the plugging had been completed.

During July 2002, the Company commenced its plugging commitment program for the twelve-month period ending March 31, 2003. As of the date of this filing, the plugging had been completed.

11

#### Office Lease

On August 8, 2002, the Company executed a 60-month lease on 12,035 square feet of office space to commence on or around December 1, 2002. Payments due under the lease during its term are as follows:

For the 12 months ended September 30,	
-----	
2003	\$ 198,000
2004	217,000
2005	217,000
2006	217,000
2007	217,000
2008	17,000
	-----
Total	\$1,083,000
	=====

### 10. PRIVATE PLACEMENT OFFERING

In March 2002, the Company commenced a Private Placement Offering of \$10 million dollars consisting of 10,000 Units. Each Unit consists of (i) one (1) share of Cumulative Preferred Stock, Series A, of the Company (Preferred) and (ii) a warrant to purchase up to 250 shares of common stock, par value \$0.01 per

## Edgar Filing: GULFPORT ENERGY CORP - Form 10-Q

share. Dividends accrue on the Preferred prior to the Mandatory Redemption Date at the rate of 12% per annum payable quarterly in cash or, at the option of the Company for a period not to exceed two (2) years from the Closing Date, payable in whole or in part in additional shares of the Preferred based on the Liquidation Preference of the Preferred at the rate of 15% per annum. No other dividends shall be declared or shall accrue on the Preferred. To the extent funds are legally available, the Company is obligated to declare and pay the dividends on the Preferred. The Warrants have a term of ten (10) years and an exercise price of \$4.00. The Company is required to redeem the Preferred on the fifth anniversary of the first issuance and the Company may at its sole option, choose to redeem the Preferred at any time before the expiration of the five years. Accordingly, the Preferred issued in connection with this Offering is treated as redeemable stock in the accompanying balance sheet.

Two-thirds of the Preferred Stockholders can affect any Company action, which would effect their preference position. The Preferred cannot be sold or transferred by its holders and the Company must use its best efforts to register with the Securities and Exchange Commission ("SEC") the common stock issued in connection with the exercise of the Warrants or, if possible, piggyback the issued common stock if the Company participates in a public offering with the SEC.

The Offering was made available to stockholders (some of whom were affiliates) of the Company as of December 31, 2001 who were known to be accredited investors by the Company. Purchasers were able to participate up to their pro rata share of ownership in the Company as of December 31, 2001. The Offering's initial closing began March 29, 2002 and continued until April 15, 2002, with a total subscription of \$9,292,000 or 9,291.85 units. Mike Liddell, the Company's Chief Executive Officer, had the option to subscribe for his proportionate share of the Offering until September 30, 2002. On September 30, 2002, Mike Liddell elected not to participate.

On March 29, 2002, Gulfport Funding, LLC, participated in the Offering through a conversion of its \$3.0 million dollar loan along with the accumulated

12

interest due from the Company for 3,262.98 Units. Additionally, on March 29, 2002 entities controlled by the majority shareholder initially funded a share of the Preferred Offering in the amount of \$2,738,000.

### 11. DIVIDENDS ON SERIES A PREFERRED STOCK

As discussed in Note 10, the Company may, at its option, accrue additional shares of Preferred for the payment of dividends at a rate of 15% per annum rather than accrue cash dividends payable at a rate of 12% per annum during the initial two years following the closing date of its Offering. The Company has chosen to do so for the three and nine-month periods ended September 30, 2002 and has therefore accrued additional shares payable totaling 356.13 and 709.42, respectively, for those periods related to the Preferred Stock Series A shares issued and outstanding during that time period. These dividends payable were calculated based upon their \$1,000 per share redemptive value and are reflected as "Series A preferred stock" in the accompanying balance sheet.

### 12. RECLASSIFICATIONS

Certain reclassifications have been made to the 2001 financial statements presentation in order to conform to the 2002 financial statements presentation. Net income and total assets were not affected by these reclassifications.

### 13. ACCOUNTING PRONOUNCEMENT

## Edgar Filing: GULFPORT ENERGY CORP - Form 10-Q

In August 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 143, "Accounting for Asset Retirement Obligations". SFAS No. 143 requires entities to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred. When the liability is initially recorded, the entity capitalizes a cost by increasing the carrying amount of the related long-lived asset. Over time, the liability is accreted to its present value each period and the capitalized cost is depreciated over the useful life of the related asset. Upon settlement of the liability, an entity either settles the obligation for its recorded amount or incurs a gain or loss upon settlement. The Company is required to implement SFAS No. 143 beginning January 1, 2003. The effect of implementation on the Company's financial statements has not yet been determined.

### 14. SUBSEQUENT EVENT

Hurricane Lili hit the southern gulf coast of Louisiana on October 3, 2002 with estimated sustained winds over 120 mph and a 9 1/2' tidal surge. The eye of the hurricane came onshore directly East of Gulfport's WCBB field. The storm caused significant damage to the Company's production facilities and the WCBB field, which normally provides approximately 80% of the Company's overall production. WCBB was totally without production for seventeen days. When production was first restored, the facilities were only able to handle wells that contributed approximately 50% of the total average daily production of the field. As of November 10, 2002, the field's production had been restored to approximately 75% and was expected to be at or near 100% by mid-November. The total cost to restore production to the field and the portion of those costs which will be reimbursed by the Company's insurer were not yet determinable as of the date of this filing.

During the third quarter of 2002, the Company underwent a royalty audit, which was conducted by the State of Louisiana. The audit covered the period from January 1, 1999 through December 31, 2001. The Company was notified during October of 2002 that the total additional royalty to be paid as a result of the audit approximated \$400,000. The Company anticipates recording the liability for payment of these royalties during the fourth quarter of 2002 once the final amount of the liability is determined.

13

### ITEM 2

#### MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATIONS DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

This Form 10-Q includes "forward-looking statements" within the meaning of Section 21E of the Securities Exchange Act of 1934 (the "Exchange Act"). All statements, other than statements of historical facts, included in this Form 10-Q that address activities, events or developments that Gulfport Energy Corporation ("Gulfport" or the "Company"), a Delaware corporation, expects or anticipates will or may occur in the future, including such things as estimated future net revenues from oil and gas reserves and the present value thereof, future capital expenditures (including the amount and nature thereof), business strategy and measures to implement strategy, competitive strengths, goals, expansion and growth of the Company's business and operations, plans, references to future success, references to intentions as to future matters and other such matters are forward-looking statements. These statements are based on certain assumptions and analyses made by the Company in light of its experience and its perception of historical trends, current conditions and expected future

## Edgar Filing: GULFPORT ENERGY CORP - Form 10-Q

developments as well as other factors it believes are appropriate in the circumstances. However, whether actual results and developments will conform with the Company's expectations and predictions is subject to a number of risks and uncertainties; general economic, market or business conditions; the opportunities (or lack thereof) that may be presented to and pursued by the Company; competitive actions by other oil and gas companies; changes in laws or regulations; and other factors, many of which are beyond the control of the Company. Consequently, all of the forward-looking statements made in this Form 10-Q are qualified by these cautionary statements and there can be no assurance that the actual results or developments anticipated by the Company will be realized, or even if realized, that they will have the expected consequences to or effects on the Company or its business or operations.

The following discussion is intended to assist in an understanding of the Company's financial position as of September 30, 2002 and its results of operations for the three and nine-month periods ended September 30, 2002 and 2001. The Financial Statements and Notes included in this report contain additional information and should be referred to in conjunction with this discussion. It is presumed that the readers have read or have access to Gulfport Energy Corporation's 2001 annual report on Form 10-K.

### Overview

Gulfport is an independent oil and gas exploration and production company with properties located in the Louisiana Gulf Coast. Gulfport has a market enterprise value (the Company's diluted shares multiplied by the trading price plus long-term debt less cash and short-term investments on a given day) of approximately \$20.5 million dollars on November 12, 2002 and generated EBITDA (earnings before interest, taxes and depletion, depreciation and amortization) of \$3.9 million and \$6.5 million dollars for the nine months ended September 30, 2002 and 2001, respectively.

As of January 1, 2002, the Company had in excess of 28.9 MMBOE proved reserves with a present value (discounted at 10%) of estimated future net

14

reserves of \$130 million dollars and a standardized measure of discounted future net cash flows of \$128.9 million dollars.

Gulfport is actively pursuing further development of its properties in order to fully exploit its reserves. The Company has a portfolio of developmental projects for the next several years. Gulfport's developmental program is designed to penetrate several producing horizons increasing the probability of success.

Additionally, Gulfport owns 3-D seismic data which will be used by the Company's geophysicists and geologists to identify exploratory prospects and test undrilled fault blocks in its existing fields.

The Company's operations are concentrated in two fields: West Cote Blanche Bay and the Hackberry Fields. In addition, during the first quarter of 2002, the Company backed in to a working interest in the Bayou Penchant, Bayou Pigeon, Deer Island and Golden Meadow fields operated by Castex Energy.

West Cote Blanche Bay

### Background

West Cote Blanche Bay ("WCBB") Field lies approximately five miles off the coast of Louisiana primarily in St. Mary's Parish in a shallow bay, with water

## Edgar Filing: GULFPORT ENERGY CORP - Form 10-Q

depths averaging eight to ten feet. WCBB overlies one of the largest salt dome structures in the Gulf Coast. There are over 100 distinct sandstone reservoirs throughout most of the field and nearly 200 major and minor discrete intervals have been tested. Within almost 900 wellbores that have been drilled to date in the field, over 4,000 potential zones have been penetrated. The sands are highly porous and permeable reservoirs primarily with a strong water drive.

As of September 30, 2002, there have been 877 wells drilled at WCBB, and of these: 40 are currently producing, 297 are shut-in and five are utilized as salt water disposal wells. The balance of the wells (or 535) have been plugged and abandoned.

### Activity for the Nine Months Ended September 30, 2002

During the first quarter of 2002, Gulfport performed two re-completions and one workover at the West Cote Blanche Bay Field. Some of this work commenced during the fourth quarter of 2001.

In March 2002, Gulfport began work on the yearly 20 well plugging commitment at West Cote Blanche Bay. As of the date of this filing, the pluggings were completed.

During July 2002, the Company commenced its plugging commitment program for the twelve-month period ending March 31, 2003. As of the date of this filing, the pluggings were completed.

Gulfport began a seven well drilling program in April and finished it in July of 2002. The Company completed and is currently producing five wells drilled during the program. Four of the five wells that are currently producing are directional wells that were steered by downhole motors so as to encounter multiple hydrocarbon targets at the best structural position possible. The four directional wells drilled during this program encountered a total of 328 feet of

15

net pay with a combined initial production rate of 460 barrels of oil, 548 mcf of gas and 233 barrels of water per day. Gulfport drilled two non-productive wells in the most recent drilling program. One of these wells was a shallow exploratory well drilled near the lease boundary, while the other well encountered the target zones but the zones were deemed to be too thin to justify completion.

During the three months ended September 30, 2002, Gulfport's net current daily production in this field averaged 1,365 barrels of oil equivalent.

Effective August 1, 2002 Gulfport acquired additional interest in the deep rights, those rights located below the base of the Rob C formation found at a depth of approximately 10,000', at the West Cote Blanche Bay Field. This acquisition brings Gulfport's interest to a total of 40.40% working interest and 29.95% net revenue interest in the deep rights at this field to go with 100% working interest and 78.665% net revenue interest in the shallow rights. The Company continues to work to increase its interest in its primary asset, West Cote Blanche Bay.

### Subsequent Events

Hurricane Lili hit the southern gulf coast of Louisiana on October 3, 2002 with estimated sustained winds over 120 mph and a 9' tidal surge. The eye of the hurricane came on shore directly East of Gulfport's WCBB field. The storm caused significant damage to the Company's production facilities and the WCBB field, which normally provides approximately 80% of the Company's overall



## Edgar Filing: GULFPORT ENERGY CORP - Form 10-Q

production. WCBB was totally without production for seventeen days. When production was first restored, the facilities were only able to handle wells that contributed approximately 50% of the total average daily production of the field. As of November 10, 2002, the field's production had been restored to approximately 75% and was expected to be at or near 100% by mid-November. The total cost to restore production to the field and the portion of those costs which will be reimbursed by the Company's insurer were not yet determinable as of the date of this filing.

Gulfport plans to commence a four to six well drilling program at West Cote Blanche Bay around December 1, 2002. These wells will have total depths ranging from 2,500' to 5,000' and each well will test at least two zones. The Company is drilling generally shallower wells in this drilling program in order to lower risk and reduce drilling costs.

Gulfport has three recompletions planned in the next 30 to 60 days at West Cote Blanche Bay. These projects will be done while the rig is in the field for the drilling program.

Gulfport is in the process of filing for a permit to convert a well that is currently inactive to a saltwater disposal well. The Company is nearing capacity with its current saltwater disposal system and feels that adding another disposal well will not only service additional production that it hopes to discover in the field, but will allow Gulfport to put into production wells that are currently inactive due to a high salt water cut.

16

### Hackberry Fields

#### Background

The Hackberry fields are located along the shore of Lake Calcasieu in Cameron Parish, Louisiana. The Hackberry Field is a major salt intrusive feature, elliptical in shape with East Hackberry on the east end of the ridge with West Hackberry located on the western end of the ridge. There are over 30 pay zones in this field. The salt intrusion formed a series of structurally complex and steeply dipping fault blocks in the Lower Miocene and Oligocene age rocks. These fault blocks serve as traps for hydrocarbon accumulation. West Hackberry consists of a series of fault-bounded traps in the Oligocene-age Vincent and Keough sands associated with the Hackberry Salt Ridge.

The East Hackberry field was discovered in 1926 by Gulf Oil Company (now Chevron Corporation) by a gravitational anomaly survey. The massive shallow salt stock presented an easily recognizable gravity anomaly indicating a productive field. Initial production began in 1927 and has continued to the present. The estimated cumulative oil and condensate production through 1999 was 111 million barrels of oil with casinghead gas production being 60 billion cubic feet of gas. There have been a total of 170 wells drilled on Gulfport's portion of the field with 17 having current daily production; 3 produce intermittently; 69 wells are shut-in and 4 wells have been converted to salt water disposal wells. The remaining 77 wells have been plugged and abandoned.

On Gulfport's West Hackberry lease blocks, the first discovery well was drilled in 1938 and was developed by Superior Oil Company (now Exxon-Mobil Corporation) between 1938 and 1988. The estimated cumulative oil and condensate production through 2000 was 170 million barrels of oil with casinghead gas production of 120 billion cubic feet of gas. There have been 36 wells drilled to date on Gulfport's portion of West Hackberry and currently 1 is producing, 26 are shut-in and 1 well has been converted to a saltwater disposal well. The remaining 8 wells have been plugged and abandoned.

## Edgar Filing: GULFPORT ENERGY CORP - Form 10-Q

Gulfport's continued plan of development includes the testing of additional wells that are currently inactive, mostly in the southern portion of State Lease 50. These additional tests should allow the Company to restore more wells to productive status in the near future.

### Activity for the Nine Months Ended September 30, 2002

During the first quarter of 2002, Gulfport worked over one salt-water disposal well at the East Hackberry Field. The Company also commenced a four well plugging program on the State Lease 50 portion of East Hackberry and completed the work in the second quarter.

During September 2002, total net production per day for both Hackberry fields averaged 221 barrels of oil equivalent.

### Subsequent Events

Gulfport is in the process of recompleting a well at the SL 50 portion of its East Hackberry field. Before the rig could be moved on the well, the Company had to perform major dredging work to access the location. While the

17

dredge was in the field Gulfport also chose to scour an area that had filled with silt that will allow easier access to the southern side of the SL 50 portion of East Hackberry.

Gulfport shut-in the Hackberry field production for about ten days during September and October of 2002 in conjunction with hurricanes. The field suffered no major damage due to hurricanes.

During the fourth quarter of 2002, Gulfport plans to drill a new saltwater disposal well at the Erwin Lease. The Company also plans to workover four wells on the M. P. Erwin portion of East Hackberry and recomplete one well at State Lease 50.

Gulfport has filed a permit with the State of Louisiana in order to drill an additional saltwater disposal well at the Erwin portion of the East Hackberry field. This disposal well will allow the Company to fully activate wells that have been inactive or occasionally productive thereby increasing production at the Erwin portion of East Hackberry. Gulfport also plans to replace the saltwater tanks at both SL 50 and the Erwin portions of East Hackberry.

Gulfport is in the process of re-mapping the East Hackberry field, has found four new drilling locations and is in the process of compiling costs and running economics on these projects. If the wells prove to be economic, between one and four wells will likely be drilled during the first half of 2003.

Gulfport has several wells that it plans to workover or recomplete at the Hackberry field within the next year.

### Castex Back-In

Gulfport sold its interest in the Bayou Penchant, Bayou Pigeon, Deer Island and Golden Meadow fields to Castex Energy 1996 Limited Partnership effective April 1, 1998 subject to a 25% reversionary interest in the partnership after Castex had received 100% of the initial investment. Castex informed Gulfport that the investment had paid out effective September 1, 2001. In lieu of a 25% interest in the partnership, Gulfport elected to take a proportionately reduced 25% working interest in the properties. During March, 2002 the Company received

## Edgar Filing: GULFPORT ENERGY CORP - Form 10-Q

approximately \$220,000 from Castex which the Company believes consists of sales income for the period after payout net of operating expenses, although the Company has not received confirmation of such. As a result, this amount received has been included in the accompanying statement of income for the nine months ended September 30, 2002 as "Other Income".

18

The following financial table recaps the Company's operating activity for the three and nine-month periods ended September 30, 2002 as compared to the same periods in 2001.

FINANCIAL DATA (unaudited):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2002	2001	2002	2001
Revenues:				
Gas sales	\$ 92,000	\$ 56,000	\$ 280,000	\$ 222,000
Oil and condensates sales	3,655,000	4,068,000	9,253,000	12,245,000
Other income, net	18,000	86,000	284,000	233,000
	3,765,000	4,210,000	9,817,000	12,700,000
Expenses				
Lease operating expenses	1,240,000	1,059,000	3,630,000	3,630,000
Production taxes	414,000	447,000	1,061,000	1,391,000
General and administrative	428,000	273,000	1,255,000	1,132,000
	2,082,000	1,779,000	5,946,000	6,153,000
EBITDA (1)	1,683,000	2,431,000	3,871,000	6,547,000
Depreciation, depletion and amortization	871,000	991,000	2,459,000	2,787,000
Income before interest and taxes	812,000	1,440,000	1,412,000	3,760,000
Gain on settlement of disputed items	-	-	-	482,000
Interest expense	(3,000)	(103,000)	(109,000)	(274,000)
Income before taxes	809,000	1,337,000	1,303,000	3,968,000
Income tax expense (benefit):				

Edgar Filing: GULFPORT ENERGY CORP - Form 10-Q

Current	324,000	535,000	521,000	1,587,000
Deferred	(324,000)	(535,000)	(521,000)	(1,587,000)
	-----	-----	-----	-----
Net income	\$ 809,000	\$ 1,337,000	\$ 1,303,000	\$ 3,968,000
Less: Preferred stock dividends	356,000	-	709,000	-
	-----	-----	-----	-----
Net income available to common shareholders	\$ 453,000	\$ 1,337,000	\$ 594,000	\$ 3,968,000
	=====	=====	=====	=====
Per share data:				
Net income	\$ 0.04	\$ 0.13	\$ 0.06	\$ 0.39
	=====	=====	=====	=====
Weighted average common shares	10,146,566	10,146,566	10,146,566	10,145,960
	=====	=====	=====	=====

(1) EBITDA is defined as earnings before interest, taxes, depreciation, depletion and amortization. EBITDA is an analytical measure frequently used by securities analysts and is presented to provide additional information about the Company's ability to meet its future debt service, capital expenditure and working capital requirements. EBITDA should not be considered as a better measure of liquidity than cash flow from operations.

19

RESULTS OF OPERATIONS

Comparison of the Three Months Ended September 30, 2002 and 2001

During the three months ended September 30, 2002, the Company reported net income of \$.81 million, a decrease from net income of \$1.3 million for the corresponding period in 2001. This decrease is primarily due to the following factors:

Oil and Gas Revenues. For the three months ended September 30, 2002, the Company reported oil and gas revenues of \$3.7 million, a decrease from \$4.1 million for the comparable period in 2001. This decrease was due principally to a decrease in oil production from 156,000 mbbls to 137,000 mbbls for the three months ended September 30, 2001 and 2002, respectively. This decrease in production was primarily a result of expected decline rates from the initial targeted zones of wells drilled last year and from decline rates of the older existing producing wells. This decrease in production was partially offset by a slight increase in the average oil and gas prices for the three months ended September 30, 2002 as compared to the same period in 2001.

The following table summarizes the Company's oil and gas production and related pricing for the three months ended September 30, 2002 and 2001:

	Three Months Ended September 30,	
	2002	2001
	----	----
Oil production volumes (Mbbls)	137	156

## Edgar Filing: GULFPORT ENERGY CORP - Form 10-Q

Gas production volumes (Mmcf)	25	20
Average oil price (per Bbl)	\$26.70	\$26.05
Average gas price (per Mcf)	\$ 3.71	\$ 2.81

Operating Expenses. Lease operating expenses increased \$.1 million from \$1.1 million for the three months ended September 2001 to \$1.2 million for the comparable period in 2002. This increase was due primarily to slight increases miscellaneous expenses as a result of the new wells drilled and completed during 2001.

Depreciation, Depletion and Amortization. Depreciation, depletion and amortization decreased \$.12 million from \$.99 million for the three months ended September 30, 2001 to \$.87 million for the comparable period in 2002. This decrease was attributable primarily to a decrease in production to 141 MBOEs for the three months ended September 30, 2002 as compared to 159 MBOEs for the same period in 2001.

General and Administrative Expenses. General and administrative expenses increased from \$.27 million for the three months ended September 30, 2001 to \$.43 million for the comparable period in 2002. This \$.16 million increase is due mainly to a reduction in administrative services reimbursement of \$.22 million. Of the \$.22 million total difference however, \$.12 million related to reimbursements for prior periods in 2001 booked during the third quarter so the actual change in general and administrative services for the three months ended September 30, 2002 as compared to the same period in 2001 was only \$.1 million. This reduction resulted from the Company's allocation of some its resources to entities that have similar controlling interests as those controlling the Company. During 2002, several of those similarly controlled entities were sold which eliminated the need for the Company to allocate its resources to those entities and also eliminated the corresponding reimbursement of those expenses.

Interest Expense. Interest expense decreased from \$.10 million for the three months ended September 30, 2001 to \$3,000 for the comparable period in

20

2002. This decrease was primarily the result of the payoff of the loan from a related party (see Note 5 to Financial Statements). In addition, at September 30, 2002, the Company had reduced the outstanding balance on its existing credit facility with Bank of Oklahoma from \$1.43 million at September 30, 2001 to \$0.

Income Taxes. As of December 31, 2001, the Company had a net operating loss carryforward of approximately \$83 million, in addition to numerous timing differences which gave rise to a deferred tax asset of approximately \$47 million, which was fully reserved by a valuation allowance at that date. Utilization of net operating loss carryforwards and other timing differences will be recognized as a reduction in income tax expense in the year utilized. A current tax provision of \$.32 million was provided for the three-month period ended September 30, 2002, which was fully offset by an equal income tax benefit due to operating loss carryforwards.

### Comparison of the Nine Months Ended September 30, 2002 and 2001

During the nine months ended September 30, 2002, the Company reported net income of \$1.3 million, a decrease from net income of \$4.0 million for the corresponding period in 2001. This decrease is primarily due to the following factors:

Oil and Gas Revenues. For the nine months ended September 30, 2002, the Company reported oil and gas revenues of \$9.5 million, a decrease from \$12.5

## Edgar Filing: GULFPORT ENERGY CORP - Form 10-Q

million for the comparable period in 2001. This decrease was due to a decrease in oil production from 445 mbbbls to 381 mbbbls for the nine months ended September 30, 2001 and 2002, respectively. This decrease in production was primarily a result of expected decline rates from the initial targeted zones of wells drilled last year and from decline rates of the older existing producing wells. In addition, there was a decrease in total revenues due to lower product prices from \$25.86 per MBOE to \$24.13 per MBOE for the nine months ended September 30, 2001 and 2002 respectively

The following table summarizes the Company's oil and gas production and related pricing for the nine months ended September 30, 2002 and 2001:

	Nine Months Ended September 30,	
	2002	2001
	----	----
Oil production volumes (Mbbbls)	381	445
Gas production volumes (Mmcf)	84	45
Average oil price (per Bbl)	\$24.28	\$27.50
Average gas price (per Mcf)	\$ 3.35	\$ 4.96

**Operating Expenses.** Lease operating expenses remained constant for the nine months ended September 30, 2001 compared to the same period in 2002.

**Depreciation, Depletion and Amortization.** Depreciation, depletion and amortization decreased \$.3 million from \$2.8 million for the nine months ended September 30, 2001 to \$2.5 million for the comparable period in 2002. This decrease was attributable primarily to a decrease in production to 395 MBOEs for the nine months ended September 30, 2002 as compared to 453 MBOEs for the same period in 2001.

21

**General and Administrative Expenses.** General and administrative expenses increased slightly from \$1.1 million for the nine months ended September 30, 2001 to \$1.3 million for the comparable period in 2002. This increase is due to overall increases in the premiums charged to the Company for both general business insurance and for director's and officer's liability insurance, as well as an increase in legal costs incurred in conjunction with the Company's Private Placement Offering which took place during March and April of 2002.

**Interest Expense.** Interest expense decreased from \$.27 million for the nine months ended September 30, 2001 to \$.11 million for the comparable period in 2002. This decrease was primarily the result of the payoff of the loan from a related party (see Note 5 to Financial Statements). In addition, at September 30, 2002, the Company had reduced its outstanding balance on its current line to \$0 from \$1.43 million at September 30, 2001.

**Income Taxes.** As of December 31, 2001, the Company had a net operating loss carryforward of approximately \$83 million, in addition to numerous timing differences which gave rise to a deferred tax asset of approximately \$47 million, which was fully reserved by a valuation allowance at that date. Utilization of net operating loss carryforwards and other timing differences will be recognized as a reduction in income tax expense in the year utilized. A current tax provision of \$521,000 was provided for the nine-month period ended September 30, 2002, which was fully offset by an equal income tax benefit due to

## Edgar Filing: GULFPORT ENERGY CORP - Form 10-Q

operating loss carryforwards.

### Capital Expenditures, Capital Resources and Liquidity

Net cash flow provided by operating activities for the nine-month period ended September 30, 2002 was \$5.9 million, as compared to net cash flow provided of \$6.9 million for the comparable period in 2001. This decrease was primarily due to a decrease in the Company's net income related to a decline in oil and gas volumes produced and sold as well as a decline in oil and gas prices.

Net cash used in investing activities during the nine months ended September 30, 2002 was \$7.7 million as compared to \$12.4 million used during the same period of 2001. This decrease was a result of the Company's more expensive drilling and workover/recompletion program it initiated and completed in 2001 as compared to the Company's initial 2002 program completed in July 2002.

Net cash provided in financing activities for the nine months ended September 30, 2002 was \$4.9 million as compared to net cash provided of \$3.4 million during the same period of 2001. The increase is primarily a result of the proceeds received as a result of the Private Placement Offering initiated in March 2002 and completed in April 2002 (see Note 10 to the Financial Statements).

Capital Expenditures. During the nine months ended September 30, 2002, Gulfport invested \$7.5 million in oil and gas properties and other property and equipment as compared to \$11.9 million invested during the comparable period in 2001. Of the \$7.5 million spent on capital expenditures during the nine months ended September 30, 2002, \$4.6 was spent on drilling activity and \$2.9 was spent on capitalized recompletions, workovers and plugging and abandonment costs.

During the nine month period ended September 30, 2002, Gulfport financed its capital expenditure payment requirements with cash flows provided by

22

operations, borrowings under the Company's credit facilities and proceeds from the Private Placement Offering completed in April 2002.

Gulfport's strategy is to continue to increase cash flows generated by its properties by undertaking new drilling, workover, sidetrack and recompletion projects in the fields to exploit its reserves. The Company has upgraded its infrastructure by enhancing its existing facilities to increase operating efficiencies, increase volume capacities and lower lease operating expenses. Additionally, Gulfport completed the reprocessing of its 3-D seismic data in its principal property, West Cote Blanche Bay. The reprocessed data will enable the Company's geophysicists to generate new prospects and enhance existing prospects in the intermediate zones in the field thus creating a portfolio of new drilling opportunities.

Capital Resources. On July 11, 1997 Gulfport entered into a \$15,000,000 credit facility with ING (U.S.) Capital Corporation ("ING"). During 1998 and 1999, there were two amendments to the facility and the maturity date was reset to September 30, 2000. On September 28, 2000, the Company repaid in full its credit facility at ING and established a new credit facility at Bank of Oklahoma ("BOK"). Gulfport was advanced \$1.6 million on this new facility, which called for interest payments to be made monthly in addition to twelve monthly principal payments of \$100,000, with the remaining unpaid balance due on August 31, 2001. On March 22, 2001, Gulfport executed a new note with BOK increasing the availability to \$1,760,000, increasing the monthly payments slightly to \$110,000 beginning July 1, 2001 and extending the maturity date to October 1, 2002. This new note replaces the original BOK note dated September 28, 2000. In April 2001,

## Edgar Filing: GULFPORT ENERGY CORP - Form 10-Q

the Company borrowed the amount remaining and available on its BOK credit facility.

On May 22, 2001, the Company entered in to a revolving line of credit agreement with Gulfport Funding, LLC, ("Gulfport Funding") which has ownership in common with the Company. Under the terms of the agreement, the Company may borrow up to \$3,000,000, with borrowed amounts bearing interest at Bank of America Prime Rate plus four percent. All outstanding principal amounts along with accrued interest were due on February 22, 2002. At March 29, 2002, the Company had borrowed the \$3,000,000 available under this line. As a result of the Private Placement Offering initiated in March 2002, this debt along with its accumulated interest was retired in exchange for shares of preferred stock and related detachable warrants.

23

In March 2002, the Company commenced a Private Placement Offering of \$10 million dollars consisting of 10,000 Units. Each Unit consists of (i) one (1) share of Cumulative Preferred Stock, Series A, of the Company (Preferred) and (ii) a warrant to purchase up to 250 shares of common stock, par value \$0.01 per share. Dividends accrue on the Preferred prior to the Mandatory Redemption Date at the rate of 12% per annum payable quarterly in cash or, at the option of the Company for a period not to exceed two (2) years from the Closing Date, payable in whole or in part in additional shares of the Preferred based on the Liquidation Preference of the Preferred at the rate of 15% per annum. No other dividends shall be declared or shall accrue on the Preferred. To the extent funds are legally available, the Company is obligated to declare and pay the dividends on the Preferred. The Warrants have a term of ten (10) years and an exercise price of \$4.00. The Company is required to redeem the Preferred on the fifth anniversary of the first issuance and the Company may at its sole option, choose to redeem the Preferred at any time before the expiration of the five years. Accordingly, the Preferred issued in connection with this Offering is treated as redeemable stock in the accompanying balance sheet.

Two-thirds of the Preferred Stockholders can affect any Company action, which would effect their preference position. The Preferred cannot be sold or transferred by its holders and the Company must use its best efforts to register with the Securities and Exchange Commission ("SEC") the common stock issued in connection with the exercise of the Warrants or, if possible, piggyback the issued common stock if the Company participates in a public offering with the SEC.

The Offering was made available to stockholders (some of whom were affiliates) of the Company as of December 31, 2001 and who were known to be accredited investors by the Company. Purchasers were able to participate up to their pro rata share of ownership in the Company as of December 31, 2001. The Offering's initial closing began March 29, 2002 and continued until April 15, 2002, with a total subscription of \$9,292,000 or 9,291.85 units. Mike Liddell, the Company's Chief Executive Officer, had the option to subscribe for his proportionate share of the Offering until September 30, 2002. On September 30, 2002, Mike Liddell elected not to participate.

On March 29, 2002, Gulfport Funding, LLC, participated in the Offering through a conversion of its \$3.0 million dollar loan along with the accumulated interest due from the Company for 3,262.98 Units. Additionally, on March 29, 2002 entities controlled by the majority shareholder initially funded a share of the Preferred Offering in the amount of \$2,738,000.

On June 20, 2002, the Company entered into a new line of credit with BOK. Under the terms of the new agreement, the Company was extended a commitment to borrow up to \$2,300,000. Amounts borrowed under the line bear interest at Chase



## Edgar Filing: GULFPORT ENERGY CORP - Form 10-Q

Manhattan Prime plus one percent, with payments of interest on outstanding balances due monthly beginning August 1, 2002. Any principal amounts borrowed under the line will be due on July 1, 2003. The outstanding balance under this credit facility was \$0 at September 30, 2002.

Liquidity. The primary capital commitments faced by the Company are the capital requirements needed to continue developing the Company's proved reserves and to continue meeting the required principal payments on its Credit Facilities.

In Gulfport's January 1, 2002 reserve report, 85% of Gulfport's net reserves were categorized as proved undeveloped. The proved reserves of Gulfport will generally decline as reserves are depleted, except to the extent that Gulfport conducts successful exploration or development activities or acquires properties containing proved developed reserves, or both.

To realize reserves and increase production, the Company must continue its exploratory drilling, undertake other replacement activities or utilize third parties to accomplish those activities. In the year 2002, Gulfport expects to undertake several intermediate drilling programs. It is anticipated that these reserve development projects will be funded either through the use of cash flow from operations when available, funds received through its Preferred Stock Offering, interim bank financing or related third party financing, a long-term credit facility or by accessing the capital markets. The cash flow generated from these new projects will be used to make the Company's required principal

24

payments on its debt with the remainder reinvested in the field to complete more capital projects.

### COMMITMENTS

#### Plugging and Abandonment Funds

In connection with the acquisition of the remaining 50% interest in the WCBB properties, the Company assumed the obligation to contribute approximately \$18,000 per month through March 2004 to a plugging and abandonment trust and the obligation to plug a minimum of 20 wells per year for 20 years commencing March 11, 1997. Texaco retained a security interest in production from these properties and the plugging and abandonment trust until such time the Company's obligations to Texaco have been fulfilled. Once the plugging and abandonment trust is fully funded, the Company can access it for use in plugging and abandonment charges associated with the property. As of September 30, 2002, the plugging and abandonment trust totaled \$2,452,000. These funds are invested in a U.S. Treasury Money Market.

During March 2002, Gulfport began to fulfill its yearly plugging commitment of 20 wells at WCBB for the twelve-month period ending March 31, 2002. As of this date of this filing, the pluggings were completed.

During July 2002, the Company commenced its plugging commitment program for the twelve-month period ending March 31, 2003. As of the date of this filing, the pluggings were completed.

In addition, the Company has letters of credit totaling \$200,000 secured by certificates of deposit being held for plugging costs in the East Hackberry field. Once specific wells are plugged and abandoned the \$200,000 will be returned to the Company.

#### Office Lease

## Edgar Filing: GULFPORT ENERGY CORP - Form 10-Q

On August 8, 2002, the Company executed a 60-month lease on 12,035 square feet of office space to commence on or around December 1, 2002. Monthly payments under the lease are approximately \$18,000.

### SUBSEQUENT EVENTS

During the third quarter of 2002, the Company underwent a royalty audit, which was conducted by the State of Louisiana. The audit covered the period from January 1, 1999 through December 31, 2001. The Company was notified during October of 2002 that the total additional royalty to be paid as a result of the audit approximated \$400,000. The Company anticipates recording the liability for payment of these royalties during the fourth quarter of 2002 once the final amount of the liability is determined.

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

None

### ITEM 4. CONTROLS AND PROCEDURES

Gulfport Energy Corporation, under the direction of the Chief Executive Officer and the Vice President and Chief Financial Officer, has established disclosure controls and procedures that are designed to ensure that information required to be disclosed by Gulfport in the reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. The disclosure controls and procedures are also intended to ensure that such information is accumulated and communicated to Gulfport's management, including the Chief Executive Officer and the Vice President and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosures.

Within 90 days prior to the filing of this Form 10-Q, an evaluation was performed under the supervision and with the participation of Gulfport management, including the Chief Executive Officer and the Vice President and Chief Financial Officer, of Gulfport's disclosure controls and procedures (as those terms are defined in Rule 13a-14(c) under the Securities Exchange Act of 1934). Based upon their evaluation, the Chairman and Chief Executive Officer and the Executive Vice President and Chief Financial Officer have concluded that Gulfport's disclosure controls and procedures are effective as of the date of this Form 10-Q. In compliance with Section 302 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350), each of these officers executed a Certification included in this Form 10-Q.

As of the date of this Form 10-Q, there have not been any significant changes in Gulfport's internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation. No significant deficiencies or material weaknesses in such internal controls were identified in the evaluation and as a consequence, no corrective action was required to be taken.

## PART II.

### OTHER INFORMATION

#### ITEM 1. LEGAL PROCEEDINGS

Gulfport has been named as a defendant in various lawsuits. The ultimate resolution of these matters is not expected to have a material adverse effect on the Company's financial condition or results of operations for the periods presented in the financial statements.

Edgar Filing: GULFPORT ENERGY CORP - Form 10-Q

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

Not applicable

25

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

On March 5, 2002, the holders of a majority of the outstanding shares of the Company's common stock executed a written consent electing five directors for the next year.

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

- 2.1 Form 8-K filed on March 8, 2002 between Registrant and Gulfport Funding, LLC.
- 10.1 Credit Agreement dated June 28, 2000 between Registrant and Bank of Oklahoma filed March 30, 2001 (1)
- 10.2 Stock Option Plan filed March 30, 2001 (1)
- 10.3 Credit Agreement dated February 1, 2001 between Registrant and Bank of Oklahoma (1)
- 10.4 Credit Agreement dated May 22, 2001 between Registrant and Gulfport Funding, LLC (1)
- 10.5 Warrant Agreement dated May 22, 2001 between Registrant and Gulfport Funding, LLC (1)
- 10.6 Promissory Note dated May 22, 2001 between Registrant and Gulfport Funding, LLC (1)
- 10.7 Confidential Disclosure Statement Relating to Offer and Sale of Up to 10,000 Units dated March 29, 2002

---

(1) Previously filed as an exhibit to Form 10-K for the year ended December 31, 2001, and incorporated herein by reference.

26

SIGNATURES

Pursuant to the requirements of the Securities and Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

GULFPORT ENERGY CORPORATION

Edgar Filing: GULFPORT ENERGY CORP - Form 10-Q

Date: November 14, 2002

/s/Mike Liddell

-----  
Mike Liddell  
Chief Executive Officer

/s/Mike Moore

-----  
Mike Moore  
Chief Financial Officer

27

CERTIFICATION

I, Mike Liddell, Chief Executive Officer of Gulfport Energy Corporation, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Gulfport Energy Corporation;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statement made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
  - a) designed such disclosure controls and procedures to ensure that

Edgar Filing: GULFPORT ENERGY CORP - Form 10-Q

material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

- b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
  - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
- a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 14, 2002 /s/Mike Liddell  
-----  
Mike Liddell  
Chief Executive Officer

CERTIFICATION OF PERIODIC REPORT

I, Mike Liddell, Chief Executive Officer of Gulfport Energy Corporation, certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that, to the best of my knowledge:

- (1) the Quarterly Report on Form 10-Q of the Company for the quarterly period ended September 30, 2002 (the "Report") fully complies with the requirements of Section 13 (a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78M or 78o(d); and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: November 14, 2002 /s/Mike Liddell

-----  
Mike Liddell  
Chief Executive Officer

CERTIFICATION

I, Michael G. Moore, Chief Financial Officer of Gulfport Energy Corporation, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Gulfport Energy Corporation;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statement made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
  - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
  - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

Edgar Filing: GULFPORT ENERGY CORP - Form 10-Q

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
- a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 14, 2002 /s/Mike Moore  
-----  
Mike Moore  
Chief Financial Officer

CERTIFICATION OF PERIODIC REPORT

I, Michael G. Moore, Chief Financial Officer of Gulfport Energy Corporation, certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that, to the best of my knowledge:

- (1) the Quarterly Report on Form 10-Q of the Company for the quarterly period ended September 30, 2002 (the "Report") fully complies with the requirements of Section 13 (a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78M or 78o(d); and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: November 14, 2002 /s/Mike Moore  
-----  
Mike Moore  
Chief Financial Officer

Risk-free interest rate

0.6 – 1.6 %

0.2 – 1.0 %

Expected life (years)

2.5 – 5.0

2.5 – 5.0

Dividend yield

-

-

During the six months ended June 30, 2014, we entered into an agreement whereby we may sell up to \$10,000,000 of our common stock to Lincoln Park Capital Fund LLC. As part of entering into that agreement, we issued 671,785 shares of common stock for no consideration.

**Note 5 – Equity-based Compensation**



Amounts recognized in the condensed consolidated financial statements related to equity-based compensation are as follows:

	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
Total cost of stock-based compensation charged against income	\$ 1,600,000	\$ --	\$ 9,550,000	\$ --
Impact on net loss per common share:				
Basic and diluted	\$ (0.03)	\$ --	\$ (0.18)	\$ --

The fair value of each stock option grant is estimated on the date of grant using the Black-Scholes option-pricing model (“Black-Scholes”). We use historical data to estimate the expected price volatility, the expected stock option life and expected forfeiture rate. The risk-free interest rate is based on the United States Treasury yield curve in effect at the time of grant for the estimated life of the stock option. The following summarizes the Black-Scholes assumptions used for stock option grants:

	Six months ended June 30,		
	2014		2013
Volatility	320 - 325	%	-
Risk-free interest rate		2.7%	-
Expected stock option life (years)		10	-
Dividend yield		-	-

The following is a summary of stock option activity:

	Number of Shares	Weighted-average Exercise Price per Share	Weighted-average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding, December 31, 2013	-			
Stock options granted	6,000,000	\$ 1.92	No expiration	\$ -
Outstanding, June 30, 2014	6,000,000	\$ 1.92	No expiration	\$ -
Exercisable, June 30, 2014	6,000,000	\$ 1.92	No expiration	\$ -

### Note 6 – Net Loss per Share

Basic net loss per share is computed by dividing net loss by the weighted-average number of common shares outstanding during the reporting period. Diluted net loss per share is computed similarly to basic loss per share, except that it includes the potential dilution that could occur if dilutive securities are exercised.

The following table presents a reconciliation of the denominators used in the computation of net loss per share – basic and diluted:

	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
Net loss available for stockholders	\$ (3,790,126)	\$ (788,779)	\$ (18,883,852)	\$ (1,297,833)
Weighted average outstanding shares of common stock	55,248,993	43,505,741	52,892,940	43,268,781
Dilutive effect of stock options and warrants	--	--	--	--
Common stock and equivalents	55,248,993	43,505,741	52,892,940	43,268,781
Net loss per share – Basic and diluted	\$ (0.07)	\$ (0.02)	\$ (0.36)	\$ (0.03)

Outstanding stock options and common stock warrants are considered anti-dilutive because we are in a net loss position.

### Note 7 – Subsequent Events

On July 1, 2014, we entered into a 36 month independent contractor agreement with PGC Investments LLC (“PGC Agreement”), to manage the day-to-day operations of Ultimate Power Truck. The PGC Agreement includes monthly cash compensation, warrants in our common stock and shares of our common stock, as follows: a) 350,000 cashless warrants with a strike price of \$1.00 that vest upon reaching revenues of \$1,000,000; b) 1,530,000 cashless warrants with a strike price of \$1.00 that vest ratably upon reaching incremental revenues of \$3,000,000 with a total target revenue of \$100,000,000; c) 720,000 cashless warrants with a strike price of \$1.00 that vest ratably over 36 months; and d) 500,000 shares of our common stock that vest upon reaching revenues of \$100,000,000 or upon sale of the Company.

On July 30, 2014, we reached preliminary terms on an LLC Agreement (the “Preliminary LLC Agreement”) with Alfred A. Cullere (“Cullere”) concerning the governance and operations of Ultimate Power Truck. Under the terms of the Preliminary LLC Agreement, we would own 95% of the membership interests and Cullere would own 5%. Cullere’s interest cannot be diluted, even if additional membership interests are issued. These terms may change upon formalizing the final agreement.

## **Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

### **General Discussion and Outlook**

HPEV, Inc., (we, us, our, the "Company" or "HPEV") was incorporated in the State of Nevada on July 22, 2002. We are formerly known as Bibb Corporation and Z3 Enterprises. We have developed and intend to commercialize dispersion technologies in various product platforms, and have developed and intend to commercialize an electric load assist technology around which we have designed a vehicle retrofit system. In preparation, we have applied for trademarks for one of our technologies and its acronym. The Company currently has two trademarks in the application process: HPEV and TEHPC. We believe that our proprietary technologies, including our patent portfolio and trade secrets, can help increase the efficiency and positively impact the manufacturing cost structure in several large industries beginning with motor/generator and fleet vehicles. The markets for products utilizing our technology include consumer, industrial and military markets, both in the U.S. and worldwide. As of June 30, 2014, we have 5 patents and 5 patent applications pending in the area of composite heat structures, motors, and related structures, heat pipe architecture, applications (commonly referred to as "thermal" or "heat dispersion technology") and a parallel vehicle power platform. The Company intends to commercialize our patents by licensing our thermal technologies and applications to electric motor, pump and vehicle component manufacturers; by licensing or selling a mobile electric power system powered by the Company's proprietary gearing system to commercial vehicle and fleet owners; and by licensing a plug-in hybrid conversion system for heavy duty trucks, buses and tractor trailers to fleet owners and service centers.

The patents and patents-pending cover heat pipe architecture(s) and their applications, a parallel power platform and a parallel power gearing system. Additionally, we believe that the technology enhances the lifespan and effectiveness of many types of heat-producing mechanical equipment including vehicle components. HPEV thermal technology delivers the power density of a water-cooled motor or generator in a totally enclosed and nearly maintenance free enclosure. We project that our patent-pending Radial Vent Thermal technology can increase power density in several classes of motor enclosure ratings including Open, WPI (Weather Protected I) and WPPII (Weather Protected II) enclosures by up to 20%. The parallel power platform enables vehicles, regardless of their fuel type (diesel, gas, CNG, LNG, fuel cell and battery operated), to alternate between two sources of power and forms the basis of the electric load assist delivered to the engine. The parallel power input gearing unit enables vehicles to run an on-board generator to deliver mobile electric power.

We intend to license heat pipe technology to manufacturers of electric motors, electric generators, as well as manufacturers of vehicle parts, such as brakes, resistors and calipers. In Mobile Generation, we have nearly completed the conversion of our 25 kilowatt ("kW") demonstration vehicle and we intend to commercialize the product through retrofit on three vehicle platforms this year. We also intend to develop and commercialize Mobile Generation in power output ranges from 25kW up to 200kW in 2014. The demonstration vehicles will be used to showcase the effectiveness of the technology, generate data and as a marketing tool to generate orders. The target markets include public utilities, commercial and fleet vehicles, including heavy duty pick-up trucks, tractor trailer trucks and buses. We have executed product development agreements with two multi-national manufacturers. We are currently negotiating with a number of fleet owners and manufacturers to install our Mobile Generation system in their work

vehicles. We expect to open our first showcase facility in the fourth quarter of 2014 in Largo, Florida, servicing the state's west coast and Port Tampa Bay.

We generated our first Mobile Generation order during the quarter ended June 30, 2014, and received a partial deposit in advance of completing the sale. We currently expect to begin generating revenues in the fourth quarter of 2014, and hope to be cash flow positive in 2015, although there can be no assurances that we will be able to do so in this timeframe, or at all. We generally incur expenses to commercialize our products, which include costs for research and development, professional fees and general operations.

## **Results of Operations**

The following table sets forth, for the periods indicated, condensed statements of operations data. The table and the discussion below should be read in conjunction with the accompanying condensed consolidated financial statements and the notes thereto, appearing elsewhere in this report.

-

	<b>Three months ended</b>			
	<b>June 30,</b>			
	<b>2014</b>	<b>2013</b>	<b>Change</b>	<b>%</b>
Revenues	\$ --	\$ --	N/A	N/A
<b>Operating expenses</b>				
Payroll and related expenses	\$ 289,850	\$ --	\$ 289,850	N/A
Consulting	743,005	595,314	147,691	25%
Professional fees	213,073	38,853	174,220	448%
Research and development	259,339	87,700	171,639	196%
General and administrative	683,449	66,912	616,537	921%
Equity-based compensation	1,600,000	--	1,600,000	N/A
Total operating expenses	\$ 3,788,716	\$ 788,779	\$ 2,999,937	380%
Other income and (expense)	\$ (1,410)	\$ --	\$ (1,410)	N/A
Net loss	\$ (3,790,126)	\$ (788,779)	\$ (3,001,347)	381%

	<b>Six months ended June</b>			
	<b>30,</b>			
	<b>2014</b>	<b>2013</b>	<b>Change</b>	<b>%</b>
Revenues	\$ --	\$ --	N/A	N/A
<b>Operating expenses</b>				
Payroll and related expenses	\$ 487,361	\$ --	\$ 487,361	N/A
Consulting	7,245,150	1,022,317	6,222,833	609%
Professional fees	316,971	86,369	230,602	267%
Research and development	435,413	89,700	345,713	385%
General and administrative	839,708	118,922	720,786	606%
Equity-based compensation	9,550,000	--	9,550,000	N/A
Total operating expenses	\$ 18,874,603	\$ 1,317,308	\$ 17,450,628	1,333%

Other income and (expense)	\$	(9,249)	\$	19,475	\$	(28,724)	N/A
Net loss	\$	18,883,852	\$	(1,297,833)	\$	(17,586,019)	1,355%

### ***Revenues***

During the three months ended June 30, 2014 and 2013, and since inception, we have not generated any revenues. We generated our first Mobile Generation order during the quarter ended June 30, 2014, and received a partial deposit in advance of completing the sale.

### ***Operating Expenses***

Operating expenses have increased during the three and six months ended June 30, 2014 compared to June 30, 2013, due primarily to increased efforts and expenditures associated with raising capital, bringing our technology to the point of commercialization, and positioning ourselves to generate revenue. The most significant increase was for equity-based compensation to our key management members, and common stock warrants issued to individuals who assisted with our capital raises and provided other consulting services.

### ***Other Income and Expense***

The increase in other expense related to our debt structure, as we had a gain on debt settlement during the three and six months ended June 30, 2013, while we incurred interest expense during the three and six months ended June 30, 2014.

### ***Net Loss***

Since we have incurred losses since inception, we have not recorded any income tax expense or benefit. Accordingly, our net loss is driven by our operating and other expenses.

### **Liquidity and Capital Resources**

We have historically met our liquidity requirements primarily through the public sale and private placement of equity securities, debt financing, and exchanging common stock warrants and options for professional and consulting services. At June 30, 2014, we had cash and cash equivalents of \$1,704,663.



We executed an agreement on February 19, 2014, with Lincoln Park Capital Fund, LLC (“Lincoln Park”), which gives us the right to sell to Lincoln Park up to \$10,000,000 in shares of our common stock, subject to certain limitations, over a 36-month period. The registration statement with respect to 4,671,785 of our common stock was declared effective July 3, 2014. We hope that the funds from selling shares to Lincoln Park will be sufficient to meet our liquidity needs until we begin generating cash flows from revenues.

Working capital is the amount by which current assets exceed current liabilities. We had working capital of \$397,027 and \$(58,880), respectively, at June 30, 2014 and December 31, 2013. The increase in working capital was due primarily to sales of common stock.

We currently have no off-balance sheet arrangements.

**Cash Flows**

Our cash flows from operating, investing and financing activities were as follows:

	<b>Six months ended June 30,</b>	
	<b>2014</b>	<b>2013</b>
Net cash used in operating activities	\$ (1,602,186)	\$ (463,160)
Net cash used in investing activities	(19,583)	(21,225)
Net cash provided by financing activities	2,848,883	338,800

Net cash used in operating activities increased primarily due to increased efforts and expenditures associated with bringing our technology to the point of commercialization. Our investing activity relates to the development of patents, and has remained steady since inception. Our improvement in cash provided by financing activities reflects our successful efforts to raise capital.

**Going Concern**

We have incurred net losses since inception and have not fully commenced operations, raising substantial doubt about our ability to continue as a going concern. Our ability to continue as a going concern is dependent on our ability to generate revenue, achieve profitable operations and repay our obligations when they come due. The accompanying condensed consolidated financial statements have been prepared assuming we will continue as a going concern.

**Critical Accounting Estimates**

Our condensed consolidated financial statements and the accompanying notes have been prepared in accordance with U.S. GAAP. The preparation of these financial statements requires management to make estimates, judgments and assumptions that affect reported amounts of assets, liabilities, and expenses. We continually evaluate the accounting policies and estimates used to prepare the condensed consolidated financial statements. The estimates are based on historical experience and assumptions believed to be reasonable under current facts and circumstances. Actual amounts and results could differ from these estimates made by management. Certain accounting policies that require significant management estimates and are deemed critical to our results of operations and financial position are discussed in our Annual Report on Form 10-K/A for the year ended December 31, 2013 in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations."



### **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

As a smaller reporting company, we are not required to provide the information required by this Item.

### **Item 4. Controls and Procedures**

Our management does not expect that our internal controls over financial reporting will prevent all errors and all fraud. Control systems, no matter how well conceived and managed, can provide only reasonable assurance that the objectives of the control system are met. The design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake.

Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, control may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

#### ***Evaluation of Disclosure Controls and Procedures***

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, as of June 30, 2014, we conducted an evaluation of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) and Rule 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended. Based on this evaluation, our principal executive officer and principal financial officer have concluded that, based on the material weaknesses discussed below, our disclosure controls and procedures were not effective as of such date to ensure that information required to be disclosed by us in reports filed or submitted under the Securities Exchange Act were recorded, processed, summarized, and reported within the time periods specified in the Securities and Exchange Act Commission's rules and forms and that our disclosure controls are not effectively designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act is accumulated and communicated to management, including our principal executive officer and principal financial officer, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

Our internal controls are not effective for the following reasons, (1) there are no entity level controls, because of the limited time and abilities of the Company's five officers, (2) there is no separate audit committee, and (3) there is a lack of segregation of duties, due to our limited personnel. As a result, the Company's internal controls have inherent weaknesses, which may increase the risks of errors in financial reporting under current operations and accordingly are not effective as evaluated against the criteria set forth in the Internal Control – Integrated Framework issued by the committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation, our management concluded that our internal controls over financial reporting were not effective as of June 30, 2014.

Going forward, we intend to evaluate our processes and procedures and, where practicable, implement changes in order to have more effective controls over financial reporting.

#### ***Changes in Internal Control over Financial Reporting***

Other than engaging an accounting and financial consulting firm to assist with our technical accounting and the preparation of our SEC filings, there have been no changes in our internal control over financial reporting during the last quarterly period covered by this report, that have materially affected, or are reasonably likely to affect, our internal control over financial reporting.

## **PART II. OTHER INFORMATION**

### **Item 1. Legal Proceedings**

Set forth below is an update of the litigation between the Company and Spirit Bear Limited and its affiliates (“Spirit Bear”). For a full description of the litigation among the parties, see the information previously provided in the Company’s filings with the Securities and Exchange Commission.

On April 7, 2014, management of the Company, except Mr. Banzhaf who had not yet been served, filed a Motion to Dismiss the Third Party Lawsuit for, among other things, lack of personal jurisdiction and failure to state a claim upon which relief may be granted. Spirit Bear opposed the Motion to Dismiss. The matter is fully briefed and is pending a decision from the Court.

Also on April 7, 2014, Spirit Bear filed an Emergency Motion for a Preliminary Injunction which seeks an Order from the Court requiring the Company to maintain an effective registration statement with the SEC applicable to the Company’s securities that Spirit Bear previously acquired. The Company has opposed the Motion for Preliminary Injunction. By Order dated August 5, 2014, the Court denied Spirit Bear’s Motion for Preliminary Injunction.

On May 5, 2014, Spirit Bear filed a Motion for Leave to Amend its Answer to First Amended Complaint and Verified Derivative Counter & Third Party Claim. The Amended Counterclaim sets forth various causes of action against the Company including Breach of the Securities Purchase Agreement, Breach of the Implied Covenant of Good Faith and Fair Dealing with respect to the Securities Purchase Agreement, Breach of the Registration Rights Agreement, Breach of the Implied Covenant of Good Faith and Fair Dealing with respect to the Registration Rights Agreement, Conversion, Declaratory Relief seeking a declaration that (a) Spirit Bear’s three designees to the Board (i.e. Palmer, Dwyer and Holt) remain holdover directors of the Company until their successors are elected, (b) every action taken by the Board since the annual meeting is not valid, (c) the Lincoln Park Registration Statement is not valid, (d) every action to be taken by the Board in the future is invalid, and (e).the amendment to HPEV’s Bylaws from plurality voting to majority voting and the election of directors that occurred at the annual meeting was improper and invalid. The Company has filed a Motion to Dismiss respecting the Amended Counterclaim.

On July 8, 2014, Spirit Bear filed a Motion for Partial Summary Judgment regarding the composition of the Company’s Board of Directors. The Motion seeks an Order from the Court declaring that HPEV’s Board is and has been comprised of six directors since March 6, 2013, which includes the Management Directors and the Spirit Bear Directors. The Company has opposed this Motion.

**Item 1A. Risk Factors**

As a smaller reporting company, we are not required to provide the information required by this Item.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

We made the following sales of common stock and five-year warrants to purchase shares of our common stock at a purchase price of \$0.60 per share, which have a cashless exercise feature, in private offerings to accredited investors during the six months ended June 30, 2014:

<b>Date</b>	<b>Common</b>	<b>Warrants</b>	<b>Proceeds</b>
February 2014	4,954,778	4,536,445	\$ 2,289,152
March 2014	1,116,673	950,007	527,500
<b>Total</b>	<b>6,071,451</b>	<b>5,486,452</b>	<b>\$ 2,816,652</b>

We issued common stock in exchange for preferred stock held by an accredited investor, during the six months ended June 30, 2014, as follows:

<b>Date</b>	<b>Common</b>	<b>Preferred</b>
March 2014	1,950,000	(39)
April 2014	500,000	(10)
<b>Total</b>	<b>2,450,000</b>	<b>(49)</b>

We issued common stock to accredited investors in exchange for services during the six months ended June 30, 2014, as follows:

<b>Date</b>	<b>Common</b>	<b>Consideration</b>
March 2014	195,000	\$ 302,250
June 2014	310,000	294,500
<b>Total</b>	<b>505,000</b>	<b>\$ 596,750</b>

We issued warrants for our common stock to accredited investors in exchange for services during the six months ended June 30, 2014, as follows:

<b>Date</b>	<b>Warrants</b>	<b>Consideration</b>
February 2014	2,914,666	\$ 1,709,161
March 2014	2,402,000	4,368,574
May 2014	400,000	318,205
<b>Total</b>	<b>5,716,666</b>	<b>\$ 6,395,940</b>

We issued to employees stock options for our common stock in exchange for services during the six months ended June 30, 2014, as follows:

<b>Date</b>	<b>Options</b>	<b>Consideration</b>
March 2014	5,000,000	\$ 7,950,000
May 2014	1,000,000	1,600,000
<b>Total</b>	<b>6,000,000</b>	<b>\$ 9,550,000</b>

None of the above issuances involved any underwriters, underwriting discounts or commissions, or any public offering. We believe the issuances were exempt from the registration requirements of the Securities Act of 1933 by virtue of Section 4(2) thereof and/or Regulation D promulgated thereunder.

### **Item 3. Defaults Upon Senior Securities**

None.

### **Item 5. Other Information**

None.

### **Item 6. Exhibits**



31.1 Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer

31.2 Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer

32.1 Chief Executive Officer Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2 Chief Financial Officer Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

101.INS \*\* XBRL Instance Document

101.SCH \*\* XBRL Taxonomy Extension Schema Document

101.CAL \*\* XBRL Taxonomy Extension Calculation Linkbase Document

101.DEF \*\* XBRL Taxonomy Extension Definition Linkbase Document

101.LAB \*\* XBRL Taxonomy Extension Label Linkbase Document

101.PRE \*\* XBRL Taxonomy Extension Presentation Linkbase Document

---

\*\* XBRL (Extensible Business Reporting Language) information is furnished and not filed or a part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, is deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise is not subject to liability under these sections.

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**HPEV, Inc.**

Dated: August 13, 2014

By: */s/ Timothy Hassett*  
Timothy Hassett  
Its: Chief Executive Officer

(Principal Executive Officer)

Dated: August 13, 2014

By: */s/ Quentin Ponder*  
Quentin Ponder  
Its: Chief Financial Officer

(Principal Financial and Accounting  
Officer)