GULFPORT ENERGY CORP
Form 10-Q
August 09, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

ý QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE QUARTERLY PERIOD ENDED June 30, 2012
OR
¨ TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF SECURITIES EXCHANGE ACT OF 1934
Commission File Number 000-19514

Gulfport Energy Corporation
(Exact Name of Registrant As Specified in Its Charter)

Delaware (State or Other Jurisdiction of Incorporation or Organization)	73-1521290 (IRS Employer Identification Number)
14313 North May Avenue, Suite 100 Oklahoma City, Oklahoma (Address of Principal Executive Offices)	73134 (Zip Code)

(405) 848-8807
(Registrant Telephone Number, Including Area Code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check One):

Large Accelerated Filer	x	Accelerated Filer	¨
Non-Accelerated Filer	¨	Smaller Reporting Company	¨

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

As of August 1, 2012, 55,687,845 shares of common stock were outstanding.

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GULFPORT ENERGY CORPORATION
CONSOLIDATED BALANCE SHEETS
(Unaudited)

	June 30, 2012	December 31, 2011
Assets		
Current assets:		
Cash and cash equivalents	$6,613,000	$93,897,000
Accounts receivable - oil and gas	23,269,000	28,019,000
Accounts receivable - related parties	27,182,000	4,731,000
Prepaid expenses and other current assets	3,136,000	1,327,000
Short-term derivative instruments	9,714,000	1,601,000
Total current assets	69,914,000	129,575,000
Property and equipment:		
Oil and natural gas properties, full-cost accounting, $199,598,000 and $138,623,000 excluded from amortization in 2012 and 2011, respectively	1,219,376,000	1,035,754,000
Other property and equipment	8,387,000	8,024,000
Accumulated depletion, depreciation, amortization and impairment	(620,182,000)	(575,142,000)
Property and equipment, net	607,581,000	468,636,000
Other assets		
Equity investments	185,934,000	86,824,000
Note receivable - related party	1,595,000	—
Other assets	5,776,000	5,123,000
Total other assets	193,305,000	91,947,000
Deferred tax asset	1,000,000	1,000,000
Total assets	$871,800,000	$691,158,000
Liabilities and Stockholders’ Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$95,689,000	$43,872,000
Asset retirement obligation - current	60,000	620,000
Current maturities of long-term debt	145,000	141,000
Total current liabilities	95,894,000	44,633,000
Asset retirement obligation - long-term	13,120,000	12,033,000
Long-term debt, net of current maturities	70,072,000	2,142,000
Total liabilities	179,086,000	58,808,000
Commitments and contingencies (Note 10)		
Preferred stock, $.01 par value; 5,000,000 authorized, 30,000 authorized as redeemable 12% cumulative preferred stock, Series A; 0 issued and outstanding	—	—
Stockholders’ equity:		
Common stock - $.01 par value, 100,000,000 authorized, 55,687,845 issued and outstanding in 2012 and 55,621,371 in 2011	557,000	556,000
Paid-in capital	606,853,000	604,584,000
Accumulated other comprehensive income (loss)	8,771,000	2,663,000
Retained earnings	76,533,000	24,547,000
Total stockholders’ equity	692,714,000	632,350,000
Total liabilities and stockholders’ equity	$871,800,000	$691,158,000

See accompanying notes to consolidated financial statements.

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GULFPORT ENERGY CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Revenues:				
Oil and condensate sales	$65,020,000	$52,916,000	$129,024,000	$98,112,000
Gas sales	541,000	1,512,000	1,154,000	2,232,000
Natural gas liquids sales	694,000	1,034,000	1,500,000	1,693,000
Other income	70,000	127,000	108,000	190,000
	66,325,000	55,589,000	131,786,000	102,227,000
Costs and expenses:				
Lease operating expenses	5,714,000	4,706,000	11,563,000	9,359,000
Production taxes	7,572,000	6,732,000	15,341,000	12,239,000
Depreciation, depletion, and amortization	23,652,000	13,712,000	45,047,000	25,870,000
General and administrative	3,263,000	2,119,000	6,272,000	4,175,000
Accretion expense	177,000	164,000	353,000	323,000
	40,378,000	27,433,000	78,576,000	51,966,000
INCOME FROM OPERATIONS:	25,947,000	28,156,000	53,210,000	50,261,000
OTHER (INCOME) EXPENSE:				
Interest expense	474,000	285,000	627,000	938,000
Interest income	(4,000)	(37,000)	(31,000)	(75,000)
Loss from equity method investments	360,000	642,000	628,000	958,000
	830,000	890,000	1,224,000	1,821,000
INCOME BEFORE INCOME TAXES	25,117,000	27,266,000	51,986,000	48,440,000
INCOME TAX EXPENSE:	—	1,000	—	1,000
NET INCOME	$25,117,000	$27,265,000	$51,986,000	$48,439,000
NET INCOME PER COMMON SHARE:				
Basic	$0.45	$0.57	$0.93	$1.05
Diluted	$0.45	$0.57	$0.93	$1.04
Weighted average common shares outstanding - Basic	55,656,274	47,454,359	55,641,241	46,097,207
Weighted average common shares outstanding - Diluted	56,334,095	47,898,665	56,175,248	46,548,414

See accompanying notes to consolidated financial statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Net income	$25,117,000	$27,265,000	$51,986,000	$48,439,000
Foreign currency translation adjustment	(2,865,000)	401,000	(1,926,000)	1,570,000
Change in fair value of derivative instruments	18,194,000	6,780,000	7,573,000	(722,000)
Reclassification of settled contracts	561,000	1,164,000	461,000	2,011,000
Other comprehensive income	15,890,000	8,345,000	6,108,000	2,859,000
Comprehensive income	$41,007,000	$35,610,000	$58,094,000	$51,298,000

See accompanying notes to consolidated financial statements.

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

	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings (Accumulated Deficit)	Total Stockholders' Equity
	Shares	Amount				
Balance at January 1, 2012	55,621,371	$556,000	$604,584,000	$ 2,663,000	$24,547,000	$632,350,000
Net income	—	—	—	—	51,986,000	51,986,000
Other Comprehensive Loss	—	—	—	6,108,000	—	6,108,000
Stock Compensation	—	—	2,270,000	—	—	2,270,000
Issuance of Restricted Stock	66,474	1,000	(1,000)	—	—	—
Balance at June 30, 2012	55,687,845	$557,000	$606,853,000	$ 8,771,000	$76,533,000	$692,714,000
Balance at January 1, 2011	44,645,435	$446,000	$296,253,000	$ (1,768,000)	$(83,875,000)	$211,056,000
Net income	—	—	—	—	48,439,000	48,439,000
Other Comprehensive Loss	—	—	—	2,859,000	—	2,859,000
Stock Compensation	—	—	453,000	—	—	453,000
Issuance of Common Stock in public offering, net of related expenses	2,760,000	28,000	84,000,000	—	—	84,028,000
Issuance of Common Stock through exercise of options	41,000	1,000	396,000	—	—	397,000
Issuance of Restricted Stock	33,597	—	—	—	—	—
Balance at June 30, 2011	47,480,032	$475,000	$381,102,000	$ 1,091,000	$(35,436,000)	$347,232,000

See accompanying notes to consolidated financial statements.

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GULFPORT ENERGY CORPORATION
Consolidated Statements of Cash Flows
(Unaudited)

	Six Months Ended June 30, 2012	2011
Cash flows from operating activities:		
Net income	$51,986,000	$48,439,000
Adjustments to reconcile net income to net cash provided by operating activities:		
Accretion of discount - Asset Retirement Obligation	353,000	323,000
Depletion, depreciation and amortization	45,047,000	25,870,000
Stock-based compensation expense	1,362,000	272,000
Loss from equity investments	628,000	958,000
Interest income - note receivable	(1,000)	(76,000)
Unrealized gain on derivative instruments	(79,000)	—
Amortization of loan commitment fees	252,000	241,000
Changes in operating assets and liabilities:		
Decrease (increase) in accounts receivable	4,750,000	(4,920,000)
Increase in accounts receivable - related party	(22,451,000)	(8,985,000)
Increase in prepaid expenses	(1,809,000)	(191,000)
Increase in accounts payable and accrued liabilities	20,461,000	3,470,000
Settlement of asset retirement obligation	(1,002,000)	—
Net cash provided by operating activities	99,497,000	65,401,000
Cash flows from investing activities:		
Deductions to cash held in escrow	8,000	8,000
Additions to other property, plant and equipment	(503,000)	(92,000)
Additions to oil and gas properties	(150,653,000)	(108,368,000)
Proceeds from sale of other property, plant and equipment	140,000	—
Proceeds from sale of oil and gas properties	—	1,384,000
Advances on note receivable to related party	(1,594,000)	(3,181,000)
Contributions to equity method investments	(101,864,000)	(17,507,000)
Distributions from equity method investments	200,000	329,000
Net cash used in investing activities	(254,266,000)	(127,427,000)
Cash flows from financing activities:		
Principal payments on borrowings	(12,066,000)	(54,565,000)
Borrowings on line of credit	80,000,000	35,000,000
Loan commitment fees	(449,000)	(624,000)
Proceeds from issuance of common stock, net of offering costs, and exercise of stock options	—	84,425,000
Net cash provided by financing activities	67,485,000	64,236,000
Net (decrease) increase in cash and cash equivalents	(87,284,000)	2,210,000
Cash and cash equivalents at beginning of period	93,897,000	2,468,000
Cash and cash equivalents at end of period	$6,613,000	$4,678,000

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GULFPORT ENERGY CORPORATION
Consolidated Statements of Cash Flows, Continued
(Unaudited)

Supplemental disclosure of cash flow information:		
Interest payments	$237,000	$778,000
Income tax payments	$255,000	$—
Supplemental disclosure of non-cash transactions:		
Capitalized stock based compensation	$908,000	$181,000
Asset retirement obligation capitalized	$1,176,000	$449,000
Foreign currency translation gain (loss) on investment in Grizzly Oil Sands ULC	$(1,926,000)	$938,000
Foreign currency translation gain (loss) on note receivable - related party	$—	$632,000

See accompanying notes to consolidated financial statements.

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GULFPORT ENERGY CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

These consolidated financial statements have been prepared by Gulfport Energy Corporation (the “Company” or “Gulfport”) without audit, pursuant to the rules and regulations of the Securities and Exchange Commission, and reflect all adjustments which, in the opinion of management, are necessary for a fair presentation of the results for the interim periods, on a basis consistent with the annual audited consolidated financial statements. All such adjustments are of a normal recurring nature. Certain information, accounting policies, and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been omitted pursuant to such rules and regulations, although the Company believes that the disclosures are adequate to make the information presented not misleading. These consolidated financial statements should be read in conjunction with the consolidated financial statements and the summary of significant accounting policies and notes thereto included in the Company’s most recent annual report on Form 10-K. Results for the three month and six month periods ended June 30, 2012 are not necessarily indicative of the results expected for the full year.

1. ACQUISITIONS

Beginning in February 2011, the Company entered into agreements to acquire certain leasehold interests located in the Utica Shale in Ohio. Certain of the agreements also granted the Company an exclusive right of first refusal for a period of six months on certain additional tracts leased by the seller. Gulfport is the operator on this acreage in the Utica Shale. As of June 30, 2012, the Company had acquired leasehold interests in approximately 116,000 gross (58,000 net) acres in the Utica Shale for approximately $169.8 million. Gulfport funded these transactions with a portion of the proceeds from public offerings of an aggregate of 6.2 million shares of the Company’s common stock completed in March and July of 2011. The Company also has commitments with various future closing dates that could increase its acreage position in the Utica Shale to an aggregate of approximately 125,000 gross (62,500 net) leasehold acres. Entities controlled by Wexford Capital LP (“Wexford”) have participated with the Company on a 50/50 basis in the acquisition of all leases described above.

2. ACCOUNTS RECEIVABLE – RELATED PARTY

Included in the accompanying June 30, 2012 and December 31, 2011 consolidated balance sheets are amounts receivable from related parties of the Company. These receivables consist primarily of amounts billed by the Company to related parties as operator of such parties' Colorado and Ohio oil and gas properties. At June 30, 2012 and December 31, 2011, these receivables totaled $27,182,000 and $4,731,000, respectively.

The Company is a party to administrative service agreements with Stampede Farms LLC (“Stampede”), Everest Operations Management LLC (“Everest”) and Tatex Thailand III, LLC (“Tatex III”), which agreements were each entered into effective March 1, 2008. Under these agreements, the Company’s services include professional and technical support and the fees for such services can be amended by mutual agreement of the parties. Each of these administrative service agreements may be cancelled (1) by the Company with at least 60 days prior written notice, (2) by the counterparty at any time with at least 30 days prior written notice to the Company and (3) by either party if the other party is in material breach and such breach has not been cured within 30 days of receipt of written notice of such breach. The Company did not provide services under any of these agreements in 2011 and received no reimbursements thereunder. Each of Stampede, Everest and Tatex III is controlled by Wexford. Charles E. Davidson is the Chairman and Chief Investment Officer of Wexford and he beneficially owned approximately 13.3% and 9.5% of the Company’s outstanding common stock as of December 31, 2011 and March 13, 2012, respectively.

Effective July 1, 2008, the Company entered into an acquisition team agreement with Everest to identify and evaluate potential oil and gas properties in which the Company and Everest or its affiliates may wish to invest. Upon a successful closing of an acquisition or divestiture, the party identifying the acquisition or divestiture is entitled to receive a fee from the other party and its affiliates, if applicable, participating in such closing. The fee is equal to 1% of the party's proportionate share of the acquisition or divestiture consideration. The agreement may be terminated by either party upon 30 days notice. Affiliates of Everest were billed approximately $208,000 and $533,000 under this acquisition team agreement during the three months and six months ended June 30, 2012, respectively, and $401,000 and $401,000 during the three months and six months ended June 30, 2011, respectively, which amounts are reflected as a reduction of general and administrative expenses in the consolidated statements of operations.

Effective April 1, 2010, the Company entered into an area of mutual interest agreement with Windsor Niobrara LLC ("Windsor Niobrara"), an entity controlled by Wexford, to jointly acquire oil and gas leases on certain lands located in Northwest Colorado for the purpose of exploring, exploiting and producing oil and gas from the Niobrara Formation. The

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agreement provides that each party must offer the other party the right to participate in such acquisitions on a 50%/50% basis. The parties also agreed, subject to certain exceptions, to share third-party costs and expenses in proportion to their respective participating interests and pay certain other fees as provided in the agreement. In connection with this agreement, Gulfport and Windsor Niobrara also entered into a development agreement, effective as of April 1, 2010, pursuant to which the Company and Windsor Niobrara agreed to jointly develop the contract area, and Gulfport agreed to act as the operator under the terms of a joint operating agreement.

3. PROPERTY AND EQUIPMENT

The major categories of property and equipment and related accumulated depletion, depreciation, amortization and impairment as of June 30, 2012 and December 31, 2011 are as follows:

	June 30, 2012	December 31, 2011
Oil and natural gas properties	$1,219,376,000	$1,035,754,000
Office furniture and fixtures	4,201,000	3,692,000
Building	3,926,000	4,049,000
Land	260,000	283,000
Total property and equipment	1,227,763,000	1,043,778,000
Accumulated depletion, depreciation, amortization and impairment	(620,182,000)	(575,142,000)
Property and equipment, net	$607,581,000	$468,636,000

Included in oil and gas properties at June 30, 2012 is the cumulative capitalization of $27,630,000 in general and administrative costs incurred and capitalized to the full cost pool. General and administrative costs capitalized to the full cost pool represent management’s estimate of costs incurred directly related to exploration and development activities such as geological and other administrative costs associated with overseeing the exploration and development activities. All general and administrative costs not directly associated with exploration and development activities were charged to expense as they were incurred. Capitalized general and administrative costs were approximately $2,160,000 and $4,136,000 for the three months and six months ended June 30, 2012, respectively, and $1,411,000 and $2,788,000 for the three months and six months ended June 30, 2011, respectively.

The following table summarizes the Company’s non-producing properties excluded from amortization by area at June 30, 2012:

	June 30, 2012
West Texas Permian	$15,033,000
Colorado	5,697,000
Bakken	300,000
Southern Louisiana	709,000
Ohio	172,103,000
Belize	5,711,000
Other	45,000
	$199,598,000

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

A reconciliation of the asset retirement obligation for the six months ended June 30, 2012 and 2011 is as follows:

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	June 30, 2012	June 30, 2011
Asset retirement obligation, beginning of period	$12,653,000	$10,845,000
Liabilities incurred	1,176,000	449,000
Liabilities settled	(1,002,000)	—
Accretion expense	353,000	323,000
Asset retirement obligation as of end of period	13,180,000	11,617,000
Less current portion	60,000	635,000
Asset retirement obligation, long-term	$13,120,000	$10,982,000

On May 7, 2012, the Company entered into a contribution agreement with Diamondback Energy, Inc., ("Diamondback"). Under the terms of the contribution agreement, the Company agreed to contribute to Diamondback, prior to the closing of the Diamondback initial public offering ("Diamondback IPO"), all its oil and gas interests in the Permian Basin in exchange for (i) shares of common stock representing 35% of Diamondback's outstanding common stock immediately prior to the closing of the Diamondback IPO and (ii) $63,590,050.00 in the form of a non-interest bearing promissory note, which will be repaid in full upon the closing of the Diamondback IPO with a portion of the net proceeds from that offering. The aggregate consideration payable to the Company is subject to a post-closing cash adjustment based on changes in the working capital, long-term debt and other items of Windsor Permian LLC ("Windsor Permian") referred to in the contribution agreement as of the date of the contribution. Windsor Permian, an entity controlled by Wexford, is the operator of the Company's acreage to be contributed and will be a wholly-owned subsidiary of Diamondback at the time of the contribution. The Company's obligation to make this contribution is contingent upon, among other things, the contribution to Diamondback of all the outstanding equity interests in Windsor Permian, the Company's satisfaction with the terms of the Diamondback IPO and customary closing conditions. Under the contribution agreement, the Company is generally responsible for all liabilities and obligations with respect to the contributed properties arising prior to the contribution and Diamondback is responsible for such liabilities and obligations with respect to the contributed properties arising after the contribution.

In connection with the contribution, the Company and Diamondback will enter into an investor rights agreement in which the Company will have the right, for so long as it beneficially owns more than 10% of Diamondback's outstanding common stock, to designate one individual as a nominee to serve on Diamondback's board of directors. Such nominee, if elected to Diamondback's board, will also serve on each committee of the board so long as he or she satisfies the independence and other requirements for service on the applicable committee of the board. So long as the Company has the right to designate a nominee to Diamondback's board and there is no Gulfport nominee actually serving as a Diamondback director, the Company will have the right to appoint one individual as an advisor to the board who shall be entitled to attend board and committee meetings. The Company will also be entitled to certain information rights and Diamondback will grant the Company certain demand and "piggyback" registration rights obligating Diamondback to register with the SEC any shares of Diamondback common stock that the Company owns. If the contribution is completed, the Company will own a 35% equity interest in Diamondback immediately prior to the closing of the Diamondback IPO, rather than leasehold interests in the Company's Permian Basin acreage. In the event the contribution is completed, the investment in Diamondback will be accounted for as an equity method investment going forward.

4. EQUITY INVESTMENTS

Investments accounted for by the equity method consist of the following as of June 30, 2012 and December 31, 2011:

	June 30, 2012	December 31, 2011
Investment in Tatex Thailand II, LLC	$829,000	$1,030,000
Investment in Tatex Thailand III, LLC	8,840,000	8,282,000
Investment in Grizzly Oil Sands ULC	144,810,000	69,008,000
Investment in Bison Drilling and Field Services LLC	14,228,000	6,366,000
Investment in Muskie Holdings LLC	4,310,000	2,138,000
Investment in Timber Wolf Terminals LLC	977,000	—
Investment in Windsor Midstream LLC	7,710,000	—
Investment in Stingray Pressure Pumping LLC	3,940,000	—
Investment in Stingray Cementing LLC	290,000	—
Investment in Blackhawk Midstream LLC	—	—
	$185,934,000	$86,824,000

Tatex Thailand II, LLC

The Company has a 23.5% ownership interest in Tatex Thailand II, LLC ("Tatex"). The remaining interests in Tatex are owned by entities controlled by Wexford. Tatex holds 85,122 of the 1,000,000 outstanding shares of APICO, LLC ("APICO"), an international oil and gas exploration company. APICO has a reserve base located in Southeast Asia through its ownership of concessions covering two million acres which includes the Phu Horm Field. During the six months ended June 30, 2012, Gulfport received $200,000 in distributions, reducing its total net investment in Tatex to $829,000. The loss on equity investment related to Tatex was immaterial for the six months ended June 30, 2012 and 2011.

Tatex Thailand III, LLC

The Company has a 17.9% ownership interest in Tatex III. Approximately 68.7% of the remaining interests in Tatex III are owned by entities controlled by Wexford. During the six months ended June 30, 2012, Gulfport paid $626,000 in cash calls, increasing its total net investment in Tatex III to $8,840,000. The Company recognized a loss on equity investment of $68,000 and $138,000 for the six months ended June 30, 2012 and 2011, respectively, which is included in loss from equity method investments in the consolidated statements of operations.

Grizzly Oil Sands ULC

The Company, through its wholly owned subsidiary Grizzly Holdings Inc. ("Grizzly Holdings"), owns a 24.9999% interest in Grizzly Oil Sands ULC, a Canadian unlimited liability company ("Grizzly"). The remaining interest in Grizzly is owned by an entity controlled by Wexford. Since 2006, Grizzly has acquired leases in the Athabasca region located in the Alberta Province near Fort McMurray and other oil sands development projects. Grizzly has drilled core holes and water supply test wells in eleven separate lease blocks for feasibility of oil production and conducted a seismic program. In March 2010, Grizzly filed an application in Alberta, Canada for the development of a SAGD facility at Algar Lake. In November 2011, the Government of Alberta provided a formal Order-in Council authorizing the Alberta Energy Resources Conservation Board (ERCB) to issue formal regulatory approval of the project. Fabrication and onsite construction on the first phase of development at Algar Lake is currently underway. During the six months ended June 30, 2012, Gulfport paid $78,312,000 in cash calls, increasing Gulfport's net investment in Grizzly to $144,810,000. Grizzly's functional currency is the Canadian dollar. The Company's investment in Grizzly was decreased by $2,865,000 and $1,926,000 as a result of a currency translation loss for the three months and six months ended June 30, 2012, respectively. The Company recognized a loss on equity investment of $306,000 and $584,000 for the three months and six months ended June 30, 2012, respectively, and $558,000 and $813,000 for the three months and six months ended June 30, 2011, respectively, which is included in loss from equity method investments in the consolidated statements of operations.

The Company, through Grizzly Holdings, entered into a loan agreement with Grizzly effective January 1, 2008, as amended from time-to-time, under which Grizzly borrowed funds from the Company. Interest was paid on a paid-in-kind basis by increasing the outstanding balance of the loan. The Company recognized interest income of approximately $40,000 and $76,000 for the three months and six months ended June 30, 2011, respectively, which is included in interest income in the consolidated statements of operations. Effective December 7, 2011, Grizzly Holdings entered into a debt settlement agreement with Grizzly under which Grizzly agreed to satisfy the entire outstanding debt by issuing additional common shares of Grizzly with no effect to the composition of the ownership structure of Grizzly. At such date, the Company’s investment in Grizzly

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increased by the total $22,325,000 of outstanding advances and accrued interest due from Grizzly, the cumulative $75,000 currency translation loss for the note receivable was adjusted through accumulated other comprehensive income and the note receivable was considered paid in full.

Bison Drilling and Field Services LLC

During the third quarter of 2011, the Company purchased a 25% ownership interest in Bison Drilling and Field Services LLC ("Bison") at a cost of $6,009,000, subject to adjustment. In April 2012, the Company purchased an additional 15% ownership interest in Bison for $6,152,000, bringing its total ownership interest in Bison to 40%. The remaining interests in Bison are owned by entities controlled by Wexford. Bison owns and operates drilling rigs. During the six months ended June 30, 2012, Gulfport paid $1,373,000 in cash calls, increasing its total net investment in Bison to $14,228,000. The Company recognized income on equity investment of $342,000 and $337,000 for the three months and six months ended June 30, 2012, respectively, which is included in loss from equity method investments in the consolidated statements of operations.

The Company entered into a loan agreement with Bison effective May 15, 2012, under which Bison may borrow funds from the Company. Interest accrues at LIBOR plus 0.28% or 8%, whichever is lower, and shall be paid on a paid-in-kind basis by increasing the outstanding balance of the loan. The loan has a maturity date of January 31, 2015. The Company loaned Bison $1,594,000 during the six months ended June 30, 2012. The interest income recognized on the note was immaterial for the three months and six months ended June 30, 2012. The $1,595,000 balance due from Bison at June 30, 2012 is included in note receivable - related party on the accompanying consolidated balance sheets.

Muskie Holdings LLC

During the fourth quarter of 2011, the Company purchased a 25% ownership interest in Muskie Holdings LLC ("Muskie") at a cost of $2,142,000, subject to adjustment. The remaining interests in Muskie are owned by entities controlled by Wexford. Muskie holds certain assets, real estate and rights in a lease covering land in Wisconsin that is prospective for mining oil and natural gas fracture grade sand. During the six months ended June 30, 2012, Gulfport paid $2,244,000 in cash calls, increasing its total net investment in Muskie to $4,310,000. The Company recognized a loss on equity investment of $63,000 and $72,000 for the three months and six months ended June 30, 2012, respectively, which is included in loss from equity method investments in the consolidated statements of operations.

Timber Wolf Terminals LLC

During the first quarter of 2012, the Company purchased a 50% ownership interest in Timber Wolf Terminals LLC ("Timber Wolf") at a cost of $1,000,000. The remaining interests in Timber Wolf are owned by entities controlled by Wexford. Timber Wolf will operate a crude/condensate terminal and a sand transloading facility in Ohio. The Company recognized a loss on equity investment of $23,000 for the three months and six months months ended June 30, 2012, which is included in loss from equity method investments in the consolidated statements of operations.

Windsor Midstream LLC

During the first quarter of 2012, the Company purchased a 22.5% ownership interest in Windsor Midstream LLC ("Midstream") at a cost of $7,021,000. The remaining interests in Midstream are owned by entities controlled by Wexford. Midstream owns a 28.4% interest in MidMar Gas LLC, a gas processing plant in West Texas. During the six months ended June 30, 2012, the Company paid $574,000 in cash calls, increasing its total net investment in Midstream to $7,710,000. The Company recognized income on equity investment of $56,000 and $115,000 for the three months and six months ended June 30, 2012, respectively, which is included in loss from equity method investments in the consolidated statements of operations.

Stingray Pressure Pumping LLC

During the second quarter of 2012, the Company purchased a 50% ownership interest in Stingray Pressure Pumping LLC ("Stingray Pressure"). The remaining interest in Stingray Pressure is owned by an entity controlled by Wexford. Stingray Pressure provides well completion services. During the six months ended June 30, 2012, the Company paid $4,027,000 in cash calls, increasing its total net investment in Stingray Pressure to $3,940,000. The Company recognized a loss on equity investment of $87,000 for the three months and six months ended June 30, 2012, which is included in loss from equity method investments in the consolidated statements of operations.

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Stingray Cementing LLC

During the second quarter of 2012, the Company purchased a 50% ownership interest in Stingray Cementing LLC ("Stingray Cementing"). The remaining interest in Stingray Cementing is owned by an entity controlled by Wexford. Stingray Cementing provides well cementing services. During the six months ended June 30, 2012, the Company paid $291,000 in cash calls, increasing its net investment in Stingray Cementing to $290,000. The loss on equity investment related to Stingray Cementing was immaterial for the three months and six months ended June 30, 2012.

Blackhawk Midstream LLC

During the second quarter of 2012, the Company purchased a 50% ownership interest in Blackhawk Midstream LLC ("Blackhawk"). The remaining interest in Blackhawk is owned by an entity controlled by Wexford. Blackhawk provides gathering, compression, processing and marketing solutions for the Company's natural gas and natural gas liquids in the Utica Shale. During the six months ended June 30, 2012, the Company paid $244,000 in cash calls. The Company recognized a loss on equity investment of $244,000 for the three months and six months ended June 30, 2012, which is included in loss from equity method investments in the consolidated statements of operations.

5. OTHER ASSETS

Other assets consist of the following as of June 30, 2012 and December 31, 2011:

	June 30, 2012	December 31, 2011
Plugging and abandonment escrow account on the WCBB properties (Note 10)	$3,113,000	$3,121,000
Certificates of deposit securing letter of credit	275,000	275,000
Prepaid drilling costs	644,000	228,000
Loan commitment fees, net	1,740,000	1,495,000
Deposits	4,000	4,000
	$5,776,000	$5,123,000

6. LONG-TERM DEBT

A breakdown of long-term debt as of June 30, 2012 and December 31, 2011 is as follows:

	June 30, 2012	December 31, 2011
Revolving credit agreement (1)	$68,000,000	$—
Building loans (2)	2,217,000	2,283,000
Less: current maturities of long term debt	(145,000)	(141,000)
Debt reflected as long term	$70,072,000	$2,142,000

Maturities of long-term debt as of June 30, 2012 are as follows:

2013	$145,000
2014	154,000
2015	68,164,000
2016	1,754,000
2017	—

Thereafter	—
Total	$70,217,000

(1) On September 30, 2010, the Company entered into a $100.0 million senior secured revolving credit agreement with The Bank of Nova Scotia, as administrative agent and letter of credit issuer and lead arranger, and Amegy Bank National Association. The revolving credit facility initially matured on September 30, 2013 and had an initial borrowing base

availability of $50.0 million, which was increased to $65.0 million effective December 24, 2010. The credit agreement is secured by substantially all of the Company’s assets. The Company’s wholly-owned subsidiaries guaranteed the obligations of the Company under the credit agreement.

On May 3, 2011, the Company entered into a first amendment to the revolving credit agreement with The Bank of Nova Scotia, Amegy Bank, Key Bank National Association (“Key Bank”) and Société Générale. Pursuant to the terms of the first amendment, Key Bank and Société Générale were added as additional lenders, the maximum amount of the facility was increased to $350.0 million, the borrowing base was increased to $90.0 million, certain fees and rates payable by the Company under the credit agreement were decreased, and the maturity date was extended until May 3, 2015. On October 31, 2011, the Company entered into additional amendments to its revolving credit facility pursuant to which, among other things, the borrowing base under this facility was increased to $125.0 million. Effective May 2, 2012, the Company entered into additional amendments to its revolving credit facility pursuant to which, among other things, the borrowing base was increased to $155.0 million and Credit Suisse, Deutsche Bank Trust Company Americas and Iberiabank were added as additional lenders and Société Générale left the bank group. As of June 30, 2012, approximately $68,000,000 was outstanding under the credit agreement.

Advances under the credit agreement, as amended, may be in the form of either base rate loans or eurodollar loans. The interest rate for base rate loans is equal to (1) the applicable rate, which ranges from 1.00% to 1.75%, plus (2) the highest of: (a) the federal funds rate plus 0.5%, (b) the rate of interest in effect for such day as publicly announced from time to time by agent as its “prime rate,” and (c) the eurodollar rate for an interest period of one month plus 1.00%. The interest rate for eurodollar loans is equal to (1) the applicable rate, which ranges from 2.00% to 2.75%, plus (2) the London interbank offered rate that appears on Reuters Screen LIBOR01 Page for deposits in U.S. dollars, or, if such rate is not available, the offered rate on such other page or service that displays the average British Bankers Association Interest Settlement Rate for deposits in U.S. dollars, or, if such rate is not available, the average quotations for three major New York money center banks of whom the agent shall inquire as the “London Interbank Offered Rate” for deposits in U.S. dollars. At June 30, 2012, amounts borrowed under the credit agreement bore interest at the eurodollar rate (2.49%).

The credit agreement contains customary negative covenants including, but not limited to, restrictions on the Company’s and its subsidiaries’ ability to: incur indebtedness; grant liens; pay dividends and make other restricted payments; make investments; make fundamental changes; enter into swap contracts and forward sales contracts; dispose of assets; change the nature of their business; and enter into transactions with their affiliates. The negative covenants are subject to certain exceptions as specified in the credit agreement. The credit agreement also contains certain affirmative covenants, including, but not limited to the following financial covenants: (1) the ratio of funded debt to EBITDAX (net income, excluding any non-cash revenue or expense associated with swap contracts resulting from ASC 815, plus without duplication and to the extent deducted from revenues in determining net income, the sum of (a) the aggregate amount of consolidated interest expense for such period, (b) the aggregate amount of income, franchise, capital or similar tax expense (other than ad valorem taxes) for such period, (c) all amounts attributable to depletion, depreciation, amortization and asset or goodwill impairment or writedown for such period, (d) all other non-cash charges, (e) non-cash losses from minority investments, (f) actual cash distributions received from minority investments, (g) to the extent actually reimbursed by insurance, expenses with respect to liability on casualty events or business interruption, and (h) all reasonable transaction expenses related to dispositions and acquisitions of assets, investments and debt and equity offering, and less non-cash income attributable to equity income from minority investments) for a twelve-month period may not be greater than 2.00 to 1.00; and (2) the ratio of EBITDAX to interest expense for a twelve-month period may not be less than 3.00 to 1.00. The Company was in compliance with all covenants at June 30, 2012.

(2) In March 2011, the Company entered into a new building loan agreement for the office building it occupies in Oklahoma City, Oklahoma. The new loan agreement refinanced the $2.4 million outstanding under the previous

building loan agreement. The new agreement extended the maturity date of the building loan to February 2016 and reduced the interest rate to 5.82% per annum. The new building loan requires monthly interest and principal payments of approximately $22,000 and is collateralized by the Oklahoma City office building and associated land.

7. STOCK-BASED COMPENSATION

During the three months and six months ended June 30, 2012, the Company's stock-based compensation expense was $1,135,000 and $2,270,000, respectively, of which the Company capitalized $454,000 and $908,000, respectively, relating to its exploration and development efforts. During the three months and six months ended June 30, 2011, the Company's stock-based compensation expense was $325,000 and $453,000, respectively, of which the Company capitalized $130,000 and $181,000, respectively, relating to its exploration and development efforts.

Options and restricted common stock are reported as share based payments and their fair value is amortized to expense

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using the straight-line method over the vesting period. The shares of stock issued once the options are exercised will be from authorized but unissued common stock.

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

No stock options were issued during the six months ended June 30, 2012 and 2011.

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

A summary of the status of stock options and related activity for the six months ended June 30, 2012 is presented below:

	Shares	Weighted Average Exercise Price per Share	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Options outstanding at December 31, 2011	356,241	$6.51	3.41	$8,172,000
Granted	—	—		
Exercised	—	—		
Forfeited/expired	—	—		
Options outstanding at June 30, 2012	356,241	$6.51	2.91	$5,030,000
Options exercisable at June 30, 2012	356,241	$6.51	2.91	