GULFPORT ENERGY CORP
Form 10-K
February 28, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

ý ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2013
OR

¨ TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission File Number 000-19514

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

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

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

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

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, par value $0.01 per share	The NASDAQ Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes ý No ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No ý

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes 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 (Section 232.405 of this chapter) during the preceding 12 months (or such shorter period that the registrant was required to submit and post such files). Yes ý No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (Section 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this

Form 10-K. ý

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

Large Accelerated filer ý 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

The aggregate market value of the voting and non-voting common stock held by non-affiliates of the registrant computed as of June 28, 2013, based on the closing price of the common stock on the NASDAQ Global Select Market on June 28, 2013, the last business day of the registrant’s most recently completed second fiscal quarter ($47.09 per share), was $3,651,716,766,540.00.

As of February 21, 2014, 85,217,533 shares of the registrant’s common stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of Gulfport Energy Corporation’s Proxy Statement for the 2014 Annual Meeting of Stockholders are incorporated by reference in Items 10, 11, 12, 13 and 14 of Part III of this Form 10-K.

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FORWARD-LOOKING STATEMENTS

Our disclosure and analysis in this Form 10-K may include forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act, and the Private Securities Litigation Reform Act of 1995, that are subject to risks and uncertainties. These statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. In some cases, you can identify forward-looking statements by terms such as “may,” “will,” “should,” “could,” “would,” “expects,” “plans,” “anticipates,” “int “believes,” “estimates,” “projects,” “predicts,” “potential” and similar expressions intended to identify forward-looking statements. All statements, other than statements of historical facts, included in this Form 10-K that address activities, events or developments that we expect or anticipate 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 strength, goals, expansion and growth of our business and operations, plans, references to future success, reference to intentions as to future matters and other such matters are forward-looking statements.

These forward-looking statements are largely based on our expectations and beliefs concerning future events, which reflect estimates and assumptions made by our management. These estimates and assumptions reflect our best judgment based on currently known market conditions and other factors relating to our operations and business environment, all of which are difficult to predict and many of which are beyond our control.

Although we believe our estimates and assumptions to be reasonable, they are inherently uncertain and involve a number of risks and uncertainties that are beyond our control. In addition, management's assumptions about future events may prove to be inaccurate. Management cautions all readers that the forward-looking statements contained in this Form 10-K are not guarantees of future performance, and we cannot assure any reader that those statements will be realized or the forward-looking events and circumstances will occur. Actual results may differ materially from those anticipated or implied in the forward-looking statements due to the factors listed in the “Risk Factors” and “Management's Discussion and Analysis of Financial Condition and Results of Operations” sections and elsewhere in this Form 10-K. All forward-looking statements speak only as of the date of this Form 10-K. We do not intend to publicly update or revise any forward-looking statements as a result of new information, future events or otherwise, except as required by law. These cautionary statements qualify all forward-looking statements attributable to us or persons acting on our behalf.

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PART I
ITEM 1. BUSINESS
General
We are an independent oil and natural gas exploration and production company focused on the exploration, exploitation, acquisition and production of crude oil, natural gas liquids and natural gas in the United States. Our corporate strategy is to internally identify prospects, acquire lands encompassing those prospects and evaluate those prospects using subsurface geology and geophysical data and exploratory drilling. Using this strategy, we have developed an oil and natural gas portfolio of proved reserves, as well as development and exploratory drilling opportunities on high potential conventional and unconventional oil and natural gas prospects. Our principal properties are located in the Utica Shale in Eastern Ohio and along the Louisiana Gulf Coast in the West Cote Blanche Bay, or WCBB, and Hackberry fields. In addition, we have producing properties in the Niobrara Formation of Northwestern Colorado and the Bakken Formation. We also hold a significant acreage position in the Alberta oil sands in Canada through our interest in Grizzly Oil Sands ULC, or Grizzly, an equity interest in Diamondback Energy, Inc., or Diamondback, a NASDAQ Global Select Market listed company to which we contributed our Permian Basin oil and natural gas interests in October 2012 immediately prior to Diamondback's initial public offering, or the Diamondback IPO, and interests in entities that operate in Southeast Asia, including the Phu Horm gas field in Thailand. We seek to achieve reserve growth and increase our cash flow through our annual drilling programs.

On February 26, 2014, we entered into an agreement to acquire approximately 8,200 additional net acres in the Utica Shale. See "- Recent Developments" below. As of February 27, 2014, after giving pro forma effect to the acquisition, we would have owned leasehold interests in approximately 167,700 gross (165,400 net) acres in the Utica Shale in Eastern Ohio. We spud our first well, the Wagner 1-28H, on our Utica Shale acreage in February 2012 and, as of December 31, 2013, had spud 66 wells, 38 of which were completed and are producing. In 2013, we spud 52 gross (39 net) wells, of which 24 were completed as producing wells, 11 were waiting on completion, one was non-productive, nine were waiting on horizontal rigs and seven were still being drilled as of December 31, 2013. As of February 14, 2014, we had spud six gross (five net) wells all of which were still drilling. In addition, 61 gross (3.5 net) wells were drilled by other operators on our Utica Shale acreage during 2012 and 2013.
We have seven rigs under contract on our Utica Shale acreage. We currently intend to drill 85 to 95 gross (64 to 71 net) wells on our Utica Shale acreage in 2014 for an estimated aggregate cost of $594.0 million to $634.0 million. Aggregate net production from our Utica Shale acreage during the three months ended December 31, 2013 was approximately 984,528 net barrels of oil equivalent, or BOE, or 10,701 BOE per day, 68% of which was from natural gas and 32% of which was from oil and natural gas liquids, or NGLs. During January 2014, our average daily net production from the Utica Shale was approximately 15,897 BOE, 27% of which was from oil and NGLs and 73% of which was from natural gas.
In 2013, at our WCBB field, we recompleted 87 wells and drilled 22 wells. Of the 22 new wells drilled at WCBB in 2013, 21 were completed as producing wells and one was being drilled at year end. In the fourth quarter of 2013, production at WCBB was approximately 346,736 BOE, or an average of 3,769 BOE per day, 97% of which was from oil and 3% of which was from natural gas. During January 2014, our average net daily production at WCBB was approximately 3,158 BOE, 100% of which was from oil. During 2014, we currently anticipate drilling 22 to 24 wells at our WCBB field for an estimated aggregate cost of $42.0 million to $45.0 million.
In 2013, at our East Hackberry field, we recompleted 61 wells and drilled 16 wells. Of the 16 new wells drilled at East Hackberry during 2013, 13 were completed as producing wells, one was non-productive, one was waiting on completion and one was being drilled at year end. In the fourth quarter of 2013, net production at East Hackberry was approximately 188,536 BOE, or an average of 2,049 BOE per day, 90% of which was from oil and 10% of which was from natural gas. During January 2014, our average net daily production at East Hackberry was approximately 2,431 BOE, 93% of which was from oil and 7% of which was from natural gas. During 2014, we currently anticipate drilling ten to twelve wells for an estimated aggregate cost of $24.0 million to $26.0 million.

In 2013, at our West Hackberry field, we recompleted two wells and drilled two wells as of December 31, 2013. Of the two new wells drilled at West Hackberry during 2013, both were productive. In the fourth quarter of 2013, net production at West Hackberry was approximately 6,466 BOE, or an average of 70 BOE per day, 100% of which was from oil. During January 2014, our average net daily production at West Hackberry was approximately 110 BOE, 100% of which was from oil.

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Effective as of April 1, 2010, we acquired leasehold interests in the Niobrara Formation in Northwestern Colorado and, as of December 31, 2013, we held leases for approximately 7,481 net acres. During the year ended December 31, 2013, there were no wells spud on our Niobrara Formation acreage. In the fourth quarter of 2013, net production from our Niobrara Formation acreage was approximately 4,552 BOE, or an average of 49 BOE per day, 100% of which was from oil. During January 2014, our average net daily production from our Niobrara Formation acreage was approximately 55 BOE, 100% of which was from oil. During 2014, we currently do not anticipate drilling any wells in the Niobrara Formation.

As of December 31, 2013, we held approximately 864 net acres in the Bakken Formation of Western North Dakota and Eastern Montana with interests in 13 wells and overriding royalty interests in certain existing and future wells. In the fourth quarter of 2013, our net production from this acreage was approximately 2,412 BOE, or an average of 26 BOE per day, of which 90% was from oil and 10% was from NGLs. During January 2014, our average daily net production from our Bakken Formation acreage was approximately 93 BOE, of which 88% was from oil and 12% was from natural gas.

As of December 31, 2013, we owned approximately 7.2% of the outstanding common stock of Diamondback, a NASDAQ Global Select Market listed company to which we contributed our Permian Basin oil and gas interests in October 2012 immediately prior to the Diamondback IPO. See Notes 4 and 5 to our consolidated financial statements included elsewhere in this report for additional information regarding our investment in Diamondback.

We, through our wholly-owned subsidiary Grizzly Holdings Inc., own a 24.9% interest in Grizzly. As of December 31, 2013, Grizzly had approximately 830,000 net acres under lease in the Athabasca and Peace River oil sands regions of Alberta, Canada and had drilled an aggregate of 255 core holes and six water supply test wells on ten separate lease blocks and conducted a number of seismic programs. Grizzly has three oil sands projects in various stages of development. At Grizzly's 11,300 barrel per day steam-assisted gravity drainage, or SAGD, oil sand project at Algar Lake, steam generation commenced and was circulating through the plant and well pad facilities by year-end 2013 and reservoir steam injection commenced in January 2014, with first production expected by the end of the first quarter of 2014. In the first quarter of 2012, Grizzly acquired the May River property comprising approximately 47,000 acres. At May River, an initial 12,000 barrel per day development application was filed with the regulatory authorities in the fourth quarter of 2013, covering the eastern portion of the May River lease. A 29 well delineation drilling program was completed in the first quarter of 2013 over the development application area and a 2D seismic program covering approximately 80 kilometers is currently underway to more fully define the development area. At the Thickwood thermal project, activities have included the completion of a 22 well core hole drilling program and the acquisition of 31 kilometers of seismic data. A development application for a 12,000 barrel per day oil sands project at Thickwood was filed in the fourth quarter of 2012. Grizzly has also entered into a memorandum of understanding that outlines the rate structure for a ten year agreement with Canadian National Railway Company, or CN, to transport its bitumen to the U.S. Gulf Coast via CN's rail network. Grizzly expects that this arrangement will provide consistent access to Brent-based pricing from Grizzly's Algar Lake project. Grizzly is developing a rail loadout facility in Conklin, Alberta, which we refer to as the Windell Terminal, and a rail to barge off-load facility on the lower Mississippi River, which we refer to as the Paulina Terminal. Construction of the 15,000 barrel per day truck to rail transloading Windell Terminal proximate to its May River lease, is expected to be completed and ready for operation by the end of the first quarter of 2014. In the U.S. Gulf Coast, Grizzly has begun engineering design work of the 40,000 barrel per day rail/barge Paulina terminal project located on the lower Mississippi River and has filed development permits.

We own a 23.5% ownership interest in Tatex Thailand II, LLC, or Tatex II. Tatex II, a privately held entity, holds 85,122 of the 1,000,000 outstanding shares of APICO, LLC, or APICO, an international oil and gas exploration company. APICO has a reserve base located in Southeast Asia through its ownership of concessions covering approximately 243,000 acres which includes the Phu Horm Field.

We also own a 17.9% ownership interest in Tatex Thailand III, LLC, or Tatex III. Tatex III owns a concession covering approximately 245,000 acres in Southeast Asia. In 2009, Tatex III completed a 3-D seismic survey on this concession. The first well was drilled on our concession in 2010 and was temporarily abandoned pending further scientific evaluation. In March 2011, the second well was drilled to a depth of 15,026 feet and logged approximately 5,000 feet of apparent possible gas saturated column. Pressure buildup information confirmed that this wellbore lacked the permeability to deliver commercial quantities of gas. However, despite an apparently well-developed porosity system suggesting potential for a large amount of gas in place, testing of the well did not exhibit that there was sufficient permeability to produce in commercial quantities. In October 2013, Tatex III spud the TEW-K well, located to the south of the TEW-E well. The well tested gas at non-commercial rates. During drilling, the well flowed gas with rates as high as 20 MMcf per day of gas; however, no acceptable sustainable rate was established.

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In an effort to facilitate the development of our Utica Shale and other domestic acreage, we have invested in entities that can provide services that are required to support our operations. In the first quarter of 2013, we participated in the formation of Stingray Energy Services LLC, or Stingray Energy, with an initial ownership interest of 50%. Stingray Energy provides rental tools for land-based oil and natural gas drilling, completion and workover activities as well as the transfer of fresh water to wellsites. In 2012, we participated in the formation of Stingray Pressure Pumping LLC, or Stingray Pressure, Stingray Cementing LLC, or Stingray Cementing, and Stingray Logistics LLC, or Stingray Logistics, with an initial ownership interest in each entity of 50%. These entities provide well completion and other well services. In 2012, we also participated in the formation of Blackhawk Midstream LLC, or Blackhawk, and Timber Wolf Terminals, LLC, or Timber Wolf, with an initial ownership interest of 50% in each entity. Blackhawk coordinates gathering, compression, processing and marketing activities in connection with the development of our Utica Shale acreage and Timber Wolf will operate a crude/condensate terminal and a sand transloading facility in Ohio. Also in 2012, we acquired a 22.5% equity interest in Windsor Midstream LLC, or Midstream which owns a 28.4% equity interest in a gas processing plant in West Texas. In 2011 and 2012, we acquired an aggregate 40% equity interest in Bison Drilling and Field Services LLC, or Bison, which owns and operates drilling rigs and related equipment. Also in 2011, we acquired a 25% interest in Muskie Proppant LLC, or Muskie (formerly known as Muskie Holdings LLC), which is engaged in the processing and sale of hydraulic fracturing grade sand. See Note 5 to our consolidated financial statements included elsewhere in this report for additional information regarding these other investments.

As of December 31, 2013, we had 38.4 million barrels of oil equivalent, or MMBOE, of proved reserves with a present value of estimated future net revenues, discounted at 10%, or PV-10, of approximately $696.9 million and associated standardized measure of discounted future net cash flows of approximately $578.5 million, excluding reserves attributable to our interests in Diamondback, Grizzly, Tatex II and Tatex III. See "Item 2. Properties-Proved Oil and Natural Gas Reserves" for our definition of PV-10, a non-GAAP financial measure, and a reconciliation of our standardized measure of discounted future net cash flows to PV-10.

Recent Developments

On February 26, 2014, we entered into a binding letter of intent with Rhino Resources Partners LP, or Rhino, to acquire approximately 8,200 net acres in the Utica Shale of Eastern Ohio and approximately 1,000 BOEPD of production during January 2014 for a total purchase price of $185.0 million, subject to closing adjustments. These assets constitute all the rights, title and interest in leasehold and mineral interests covered by all oil and gas leases owned by Rhino in the Utica Shale in Eastern Ohio, together with all wells, production, data, equipment, contracts permits and privileges relating to the ownership of such properties. We are the operator of substantially all of this acreage. We plan to fund this acquisition from existing cash on hand. The acquisition is expected to close by the end of March 2014, however the transaction remains subject to completion of due diligence and other closing conditions, and there can be no assurance that the transaction will be completed.

Principal Oil and Natural Gas Properties

The following table presents certain information as of December 31, 2013 reflecting our net interest in our principal producing oil and natural gas properties in the Utica Shale in Eastern Ohio, along the Louisiana Gulf Coast, in the Niobrara Formation in Northwestern Colorado and in the Bakken Formation in Western North Dakota and Eastern Montana.

Field	NRI/WI (1)	Productive Wells (2)		Non-Productive Wells		Developed Acreage (3)		Proved Reserves			
								Gas	Oil	NGLs	Total
	Percentages	Gross	Net	Gross	Net	Gross	Net	MBOE	MBOE	MBOE	MBOE
Utica Shale (4)	51.61/63.9	38	24	1	1	10,627	8,694	23,983	2,696	5,674	32,353
West Cote Blanche Bay Field (5)	80.108/100	110	110	201	201	5,668	5,668	241	3,737	—	3,978
	80.309/100	47	47	86	86	3,931	3,931	142	1,170	—	1,312

E. Hackberry Field (6)			
W. Hackberry Field	83.333/100	4	4