

GULFPORT ENERGY CORP
Form 10QSB
May 15, 2006
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-QSB

x **QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2006

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 small business issuer specified in its charter)

Delaware
(State or other jurisdiction of
Incorporation or organization)

14313 North May Avenue, Suite 100

Oklahoma City, Oklahoma 73134

(405) 848-8807

73-1521290
(IRS Employer)

Identification Number)

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(Address, including zip code, and telephone number, including area code, of registrant's principal executive office)

Check whether the issuer (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 No

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

As of May 12, 2006, 32,972,706 shares of common stock were outstanding.

Transitional Small Business Disclosure Format (check one): Yes No

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GULFPORT ENERGY CORPORATION

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Item 1. Financial Statements

March 31, 2006 and 2005

Forming a part of Form 10-QSB Quarterly Report to the
Securities and Exchange Commission

Table of Contents**GULFPORT ENERGY CORPORATION****BALANCE SHEET**

	March 31,
	2006
	(Unaudited)
Assets	
Current assets:	
Cash and cash equivalents	\$ 1,844,000
Accounts receivable	2,916,000
Insurance settlement receivables	6,613,000
Accounts receivable - related party	3,930,000
Prepaid expenses and other current assets	326,000
Total current assets	15,629,000
Property and equipment:	
Oil and natural gas properties, full-cost accounting	184,063,000
Other property and equipment	6,298,000
Accumulated depletion, depreciation, amortization	(88,156,000)
Property and equipment, net	102,205,000
Other assets	8,369,000
Total assets	\$ 126,203,000
Liabilities and Stockholders Equity	
Current liabilities:	
Accounts payable and accrued liabilities	\$ 13,271,000
Short-term derivative instruments	1,759,000
Asset retirement obligation - current	480,000
Current maturities of long-term debt	115,000
Total current liabilities	15,625,000
Asset retirement obligation - long-term	8,198,000
Long-term debt, net of current maturities	17,312,000
Total liabilities	41,135,000
Commitments and contingencies (Note 8)	
Preferred stock, \$.01 par value; 5,000,000 authorized at March 31, 2006, 30,000 authorized as redeemable 12% cumulative preferred stock, Series A; 0 issued and outstanding at March 31, 2006	
Stockholders equity:	
Common stock - \$.01 par value, 55,000,000 authorized, 32,182,706 issued and outstanding at March 31, 2006	322,000
Paid-in capital	119,363,000
Accumulated other comprehensive income	(1,499,000)
Accumulated deficit	(33,118,000)
Total stockholders equity	85,068,000

Total liabilities and stockholders' equity

\$ 126,203,000

See accompanying notes to financial statements.

Table of Contents**GULFPORT ENERGY CORPORATION****STATEMENTS OF INCOME****(Unaudited)**

	Three Months Ended March 31,	
	2006	2005
Revenues:		
Gas sales	\$ 543,000	\$ 441,000
Oil and condensate sales	3,907,000	6,366,000
Other income	6,000	60,000
	4,456,000	6,867,000
Costs and expenses:		
Lease operating expenses	1,352,000	2,065,000
Production taxes	565,000	805,000
Depreciation, depletion, and amortization	993,000	1,300,000
General and administrative	1,002,000	384,000
Accretion expense	149,000	117,000
	4,061,000	4,671,000
INCOME FROM OPERATIONS:	395,000	2,196,000
OTHER (INCOME) EXPENSE:		
Interest expense	270,000	58,000
Interest expense - preferred stock		272,000
Business interruption insurance recoveries	(2,655,000)	
Interest income	(48,000)	(64,000)
	(2,433,000)	266,000
INCOME BEFORE INCOME TAXES	2,828,000	1,930,000
INCOME TAX EXPENSE:		
NET INCOME	\$ 2,828,000	\$ 1,930,000
NET INCOME PER COMMON SHARE:		
Basic	\$ 0.09	\$ 0.08
Diluted	\$ 0.08	\$ 0.07

See accompanying notes to financial statements.

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GULFPORT ENERGY CORPORATION
STATEMENT OF STOCKHOLDERS EQUITY

(Unaudited)

	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income	Accumulated Deficit	Total Stockholders Equity
	Shares	Amount				
Balance at December 31, 2005	32,168,203	\$ 322,000	\$ 119,192,000	\$ 759,000	\$ (35,946,000)	\$ 84,327,000
Net income					2,828,000	2,828,000
Other Comprehensive Income						
Unrealized loss on hedges				(2,380,000)		(2,380,000)
Deferred gain on settled contracts				77,000		77,000
Loss on hedging ineffectiveness				45,000		45,000
Total Comprehensive Income						570,000
Issuance of Stock Options			166,000			166,000
Issuance of Common Stock through exercise of warrants	12,171					
Issuance of Common Stock through exercise of options	2,332		5,000			5,000
Balance at March 31, 2006	32,182,706	\$ 322,000	\$ 119,363,000	\$ (1,499,000)	\$ (33,118,000)	\$ 85,068,000

See accompanying notes to financial statements.

Table of Contents**GULFPORT ENERGY CORPORATION****STATEMENTS OF CASH FLOWS****(Unaudited)**

	For the Three Months	
	Ended March 31,	
	2006	2005
Cash flows from operating activities:		
Net income	\$ 2,828,000	\$ 1,930,000
Adjustments to reconcile net income to net cash provided by operating activities:		
Accretion of discount - Asset Retirement Obligation	149,000	117,000
Interest expense - preferred stock		272,000
Depletion, depreciation and amortization	993,000	1,300,000
Stock-based compensation expense	166,000	
Unrealized loss on hedge ineffectiveness	45,000	
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable	(1,940,000)	1,107,000
(Increase) in business interruption insurance settlement receivable	(68,000)	
(Increase) in accounts receivable - related party	(560,000)	(698,000)
Decrease in prepaid expenses	156,000	112,000
Increase (decrease) in accounts payable and accrued liabilities	816,000	(285,000)
Increase in deferred hedge gains	77,000	
Settlement of asset retirement obligation	(234,000)	(404,000)
Net cash provided by operating activities	2,428,000	3,451,000
Cash flows from investing activities:		
(Additions) to cash held in escrow	(26,000)	(6,000)
(Additions) to other property, plant and equipment	(142,000)	(55,000)
(Additions) to oil and gas properties	(9,369,000)	(5,800,000)
Proceeds from sale of oil and gas properties		70,000
Investment in Tatex Thailand II, LLC	(398,000)	(2,400,000)
Net cash used in investing activities	(9,935,000)	(8,191,000)
Cash flows from financing activities:		
Principal payments on borrowings	(273,000)	(50,000)
Borrowings on note payable	7,500,000	
Redemption of Series A, Preferred Stock		(14,133,000)
Proceeds from issuance of common stock and exercise of stock options	5,000	23,207,000
Net cash provided by financing activities	7,232,000	9,024,000
Net increase (decrease) in cash and cash equivalents	(275,000)	4,284,000
Cash and cash equivalents at beginning of period	2,119,000	7,542,000
Cash and cash equivalents at end of period	\$ 1,844,000	\$ 11,826,000
Supplemental disclosure of cash flow information:		
Interest payments	\$ 270,000	\$ 58,000

Supplemental disclosure of non-cash, investing and financing transactions:

Payment of Series A Preferred Stock dividends through issuance of Series A Preferred Stock	\$		\$	272,000
Asset retirement obligation capitalized	\$	154,000	\$	32,000

See accompanying notes to financial statements.

Table of Contents**GULFPORT ENERGY CORPORATION****NOTES TO FINANCIAL STATEMENTS****(Unaudited)**

These 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 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-KSB. Results for the three-month period ended March 31, 2006 are not necessarily indicative of the results expected for the full year.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES*Accounting for Stock-Based Compensation*

Effective January 1, 2006, the Company adopted Statement of Financial Accounting Standard No. 123(R), *Share-Based Payment* (SFAS No. 123(R)), using the modified prospective transition method. SFAS No. 123(R) requires share-based payments to employees, including grants of employee stock options, to be recognized as equity or liabilities at the fair value on the date of grant and to be expensed over the applicable vesting period. Under the modified prospective transition method, share-based awards granted or modified on or after January 1, 2006, are recognized as compensation expense over the applicable vesting period. Also, any previously granted awards that are not fully vested as of January 1, 2006 are recognized as compensation expense over the remaining vesting period. No retroactive or cumulative effect adjustments were required upon the Company s adoption of SFAS No. 123(R).

Prior to adopting SFAS No. 123(R), the Company accounted for its fixed-plan employee stock options using the intrinsic-value based method prescribed by Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* (APB No. 25) and related interpretations. This method required compensation expense to be recorded on the date of grant only if the current market price of the underlying stock exceeded the exercise price.

If the Company had elected the fair value provisions of SFAS No. 123(R) and recognized compensation expense over the vesting period based on the fair value of the stock options granted as of their grant date, the Company s 2005 net income and net income per share would have differed from the amounts actually reported as shown in the following table.

	Three Months Ended	
	March 31, 2005	
Net income available to common stockholders, as reported	\$	1,930,000
Stock-based employee compensation expense		295,000
Net income available to common stockholders, pro forma	\$	1,635,000
Net income per share available to common stockholders:		
As reported:		
Basic	\$	0.08
Diluted	\$	0.07
Pro forma:		
Basic		