

GULFPORT ENERGY CORP  
Form 10-Q  
August 07, 2014  
Table of Contents

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 June 30, 2014 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  
(State or Other Jurisdiction of  
Incorporation or Organization)  
14313 North May Avenue, Suite 100  
Oklahoma City, Oklahoma  
(Address of Principal Executive Offices)  
(405) 848-8807  
(Registrant Telephone Number, Including Area Code)

73-1521290  
(IRS Employer  
Identification Number)  
73134  
(Zip 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

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  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  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 definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

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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 August 1, 2014, 85,499,465 shares of the registrant's common stock were outstanding.

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Table of Contents

GULFPORT ENERGY CORPORATION  
TABLE OF CONTENTS

	Page
<u>PART I FINANCIAL INFORMATION</u>	
Item 1.	<u>Consolidated Financial Statements (unaudited):</u>
	<u>Consolidated Balance Sheets at June 30, 2014 and December 31, 2013</u> 2
	<u>Consolidated Statements of Operations for the Three and Six Months Ended June 30, 2014 and 2013</u> 3
	<u>Consolidated Statements of Comprehensive Income for the Three and Six Months Ended June 30, 2014 and 2013</u> 4
	<u>Consolidated Statements of Stockholders' Equity for the Six Months Ended June 30, 2014 and 2013</u> 5
	<u>Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2014 and 2013</u> 6
	<u>Notes to Consolidated Financial Statements</u> 7
Item 2.	<u>Management's Discussion and Analysis of Financial Conditions and Results of Operations</u> 31
Item 3.	<u>Quantitative and Qualitative Disclosures About Market Risk</u> 44
Item 4.	<u>Controls and Procedures</u> 45
<u>PART II OTHER INFORMATION</u>	
Item 1.	<u>Legal Proceedings</u> 46
Item 1A.	<u>Risk Factors</u> 46
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u> 46
Item 3.	<u>Defaults Upon Senior Securities</u> 46
Item 4.	<u>Mine Safety Disclosures</u> 46
Item 5.	<u>Other Information</u> 47
Item 6.	<u>Exhibits</u> 47
	<u>Signatures</u> 49



GULFPORT ENERGY CORPORATION  
CONSOLIDATED BALANCE SHEETS  
(Unaudited)

	June 30, 2014	December 31, 2013
	(In thousands, except share data)	
Assets		
Current assets:		
Cash and cash equivalents	\$75,293	\$458,956
Accounts receivable—oil and gas	107,455	58,824
Accounts receivable—related parties	127	2,617
Prepaid expenses and other current assets	3,575	2,581
Deferred tax asset	7,661	6,927
Short-term derivative instruments	—	324
Note receivable - related party	875	875
Total current assets	194,986	531,104
Property and equipment:		
Oil and natural gas properties, full-cost accounting, \$1,187,637 and \$950,590 excluded from amortization in 2014 and 2013, respectively	3,201,529	2,477,178
Other property and equipment	12,605	11,131
Accumulated depletion, depreciation, amortization and impairment	(897,553)	(784,717)
Property and equipment, net	2,316,581	1,703,592
Other assets:		
Equity investments (\$211,300 and \$178,708 attributable to fair value option in 2014 and 2013, respectively)	501,436	440,068
Derivative instruments	784	521
Other assets	17,985	17,851
Total other assets	520,205	458,440
Total assets	\$3,031,772	\$2,693,136
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$287,458	\$190,707
Asset retirement obligation—current	795	795
Short-term derivative instruments	24,532	12,280
Current maturities of long-term debt	163	159
Total current liabilities	312,948	203,941
Long-term derivative instrument	5,487	11,366
Asset retirement obligation—long-term	15,181	14,288
Deferred tax liability	170,559	114,275
Long-term debt, net of current maturities	339,098	299,028
Total liabilities	843,273	642,898
Commitments and contingencies (Note 8)		
Preferred stock, \$.01 par value; 5,000,000 authorized, 30,000 authorized as redeemable 12% cumulative preferred stock, Series A; 0 issued and outstanding	—	—
Stockholders' equity:		
Common stock - \$.01 par value, 200,000,000 authorized, 85,494,966 issued and outstanding in 2014 and 85,177,532 in 2013	854	851
Paid-in capital	1,821,368	1,813,058

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Accumulated other comprehensive loss	(10,243	) (9,781	)
Retained earnings	376,520	246,110	
Total stockholders' equity	2,188,499	2,050,238	
Total liabilities and stockholders' equity	\$3,031,772	\$2,693,136	
See accompanying notes to consolidated financial statements.			

2

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Table of Contents

GULFPORT ENERGY CORPORATION  
CONSOLIDATED STATEMENTS OF OPERATIONS  
(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
	(In thousands, except share data)			
<b>Revenues:</b>				
Oil and condensate sales	\$68,078	\$60,999	\$141,455	\$114,079
Gas sales	35,522	6,793	53,871	8,259
Natural gas liquid sales	10,897	2,404	37,033	2,728
Other income	239	238	406	368
	114,736	70,434	232,765	125,434
<b>Costs and expenses:</b>				
Lease operating expenses	12,680	5,878	24,309	11,050
Production taxes	6,601	6,440	13,558	13,310
Midstream processing and marketing	10,780	1,901	18,549	2,318
Depreciation, depletion and amortization	55,994	28,540	112,871	51,123
General and administrative	10,382	4,900	19,893	9,312
Accretion expense	189	174	377	349
(Gain) loss on sale of assets	—	145	(11)	572
	96,626	47,978	189,546	88,034
<b>INCOME FROM OPERATIONS</b>	<b>18,110</b>	<b>22,456</b>	<b>43,219</b>	<b>37,400</b>
<b>OTHER (INCOME) EXPENSE:</b>				
Interest expense	2,402	3,284	6,287	6,763
Interest income	(36)	(62)	(142)	(141)
Litigation settlement	6,000	—	24,000	—
Income from equity method investments	(69,569)	(50,108)	(198,044)	(111,318)
	(61,203)	(46,886)	(167,899)	(104,696)
<b>INCOME BEFORE INCOME TAXES</b>	<b>79,313</b>	<b>69,342</b>	<b>211,118</b>	<b>142,096</b>
<b>INCOME TAX EXPENSE</b>	<b>31,461</b>	<b>25,514</b>	<b>80,708</b>	<b>53,709</b>
<b>NET INCOME</b>	<b>\$47,852</b>	<b>\$43,828</b>	<b>\$130,410</b>	<b>\$88,387</b>
<b>NET INCOME PER COMMON SHARE:</b>				
Basic	\$0.56	\$0.57	\$1.53	\$1.18
Diluted	\$0.56	\$0.56	\$1.52	\$1.17
Weighted average common shares outstanding—Basic	85,448,678	77,428,605	85,354,566	75,142,113
Weighted average common shares outstanding—Diluted	85,805,896	77,906,787	85,766,679	75,599,608

See accompanying notes to consolidated financial statements.

Table of Contents

GULFPORT ENERGY CORPORATION  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
(Unaudited)

	Three months ended		Six months ended June	
	June 30,		30,	
	2014	2013	2014	2013
	(In thousands)			
Net income	\$47,852	\$43,828	\$130,410	\$88,387
Foreign currency translation adjustment	6,816	(6,113 )	(462 )	(9,680 )
Change in fair value of derivative instruments (1)	—	356	—	(1,074 )
Reclassification of settled contracts (2)	—	1,404	—	3,201
Other comprehensive income (loss)	6,816	(4,353 )	(462 )	(7,553 )
Comprehensive income	\$54,668	\$39,475	\$129,948	\$80,834

(1) Net of \$0.0 million and \$0.0 million in taxes for the three and six months ended June 30, 2014, respectively, and net of \$0.2 million and \$(0.7) million in taxes for the three and six months ended June 30, 2013, respectively.

(2) Net of \$0.0 million and \$0.0 million in taxes for the three and six months ended June 30, 2014, respectively, and net of \$0.9 million and \$2.0 million in taxes for the three and six months ended June 30, 2013, respectively.

See accompanying notes to consolidated financial statements.



Table of Contents

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

	Common Stock		Paid-in	Accumulated	Retained	Total
	Shares	Amount	Capital	Other Comprehensive Loss	Earnings	Stockholders' Equity
	(In thousands, except share data)					
Balance at January 1, 2014	85,177,532	\$851	\$1,813,058	\$ (9,781 )	\$246,110	\$2,050,238
Net income	—	—	—	—	130,410	130,410
Other Comprehensive Loss	—	—	—	(462 )	—	(462 )
Stock Compensation	—	—	7,665	—	—	7,665
Issuance of Restricted Stock	124,526	1	(1 )	—	—	—
Issuance of Common Stock through exercise of options	192,908	2	646	—	—	648
Balance at June 30, 2014	85,494,966	\$854	\$1,821,368	\$ (10,243 )	\$376,520	\$2,188,499
Balance at January 1, 2013	67,527,386	\$674	\$1,036,245	\$ (3,429 )	\$92,918	\$1,126,408
Net income	—	—	—	—	88,387	88,387
Other Comprehensive Loss	—	—	—	(7,553 )	—	(7,553 )
Stock Compensation	—	—	3,004	—	—	3,004
Issuance of Common Stock in public offerings, net of related expenses	9,812,500	99	357,541	—	—	357,640
Issuance of Restricted Stock	82,720	1	(1 )	—	—	—
Issuance of Common Stock through exercise of options	125,000	1	1,399	—	—	1,400
Balance at June 30, 2013	77,547,606	\$775	\$1,398,188	\$ (10,982 )	\$181,305	\$1,569,286

See accompanying notes to consolidated financial statements.

Table of Contents

GULFPORT ENERGY CORPORATION  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Unaudited)

	Six months ended June 30,	
	2014	2013
	(In thousands)	
Cash flows from operating activities:		
Net income	\$ 130,410	\$ 88,387
Adjustments to reconcile net income to net cash provided by operating activities:		
Accretion of discount—Asset Retirement Obligation	377	349
Depletion, depreciation and amortization	112,871	51,123
Stock-based compensation expense	4,599	1,803
Gain from equity investments	(113,257	) (111,113
Interest income - note receivable	(25	)
Unrealized loss (gain) on derivative instruments	6,433	(5,354
Deferred income tax expense	55,550	53,709
Amortization of loan commitment fees	637	505
Amortization of note discount and premium	158	145
Changes in operating assets and liabilities:		
Increase in accounts receivable	(48,631	) (5,183
Decrease (increase) in accounts receivable—related party	2,490	(1,975
Increase in prepaid expenses	(994	) (1,133
Increase in accounts payable and accrued liabilities	53,988	3,089
Settlement of asset retirement obligation	(3,097	) (807
Net cash provided by operating activities	201,509	73,545
Cash flows from investing activities:		
Deductions to cash held in escrow	8	8
Additions to other property and equipment	(1,759	) (355
Additions to oil and gas properties	(672,967	) (428,234
Proceeds from sale of investments	89,120	65,111
Contributions to equity method investments	(39,162	) (21,960
Distributions from equity method investments	—	901
Net cash used in investing activities	(624,760	) (384,529
Cash flows from financing activities:		
Principal payments on borrowings	(85	) (73
Borrowings on line of credit	40,000	—
Debt issuance costs and loan commitment fees	(975	) (686
Proceeds from issuance of common stock, net of offering costs and exercise of stock options	648	359,040
Net cash provided by financing activities	39,588	358,281
Net (decrease) increase in cash and cash equivalents	(383,663	) 47,297
Cash and cash equivalents at beginning of period	458,956	167,088
Cash and cash equivalents at end of period	\$ 75,293	\$ 214,385
Supplemental disclosure of cash flow information:		
Interest payments	\$ 11,738	\$ 12,594
Income tax payments	\$ 16,700	\$ 750
Supplemental disclosure of non-cash transactions:		
Capitalized stock based compensation	\$ 3,066	\$ 1,201

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Asset retirement obligation capitalized	\$3,613	\$1,194	
Interest capitalized	\$6,245	\$5,497	
Foreign currency translation loss on investment in Grizzly Oil Sands ULC	\$(462	) \$(9,680	)
See accompanying notes to consolidated financial statements.			

6

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Table of Contents

GULFPORT ENERGY CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

These consolidated financial statements have been prepared by Gulfport Energy Corporation (the "Company" or "Gulfport") without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC"), and reflect all adjustments which, in the opinion of management, are necessary for a fair presentation of the results for the interim periods, on a basis consistent with the annual audited consolidated financial statements. All such adjustments are of a normal recurring nature. Certain information, accounting policies, and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been omitted pursuant to such rules and regulations, although the Company believes that the disclosures are adequate to make the information presented not misleading. These consolidated financial statements should be read in conjunction with the consolidated financial statements and the summary of significant accounting policies and notes thereto included in the Company's most recent annual report on Form 10-K. Results for the three and six month periods ended June 30, 2014 are not necessarily indicative of the results expected for the full year.

1. ACQUISITIONS

On February 15, 2013, the Company completed an acquisition of approximately 22,000 net acres in the Utica Shale in Eastern Ohio. The purchase price was approximately \$220.0 million, subject to certain adjustments. At closing, approximately \$33.6 million of the purchase price was placed in escrow pending completion of title review after the closing. Gulfport funded this acquisition with a portion of the net proceeds from its common stock offering that closed on February 15, 2013. The Company received aggregate net proceeds of approximately \$325.8 million from this equity offering. All of the acreage included in these transactions was nonproducing at the time of the applicable transaction and the Company is the operator of all of this acreage, subject to existing development and operating agreements between the parties. These acquisitions excluded the seller's interest in 14 existing wells and 16 proposed future wells together with certain acreage surrounding these wells.

In February 2014, the Company agreed to acquire additional oil and natural gas properties consisting of approximately 8,000 net acres from Rhino Exploration LLC ("Rhino"), as well as its interest in all of the producing wells, in the Utica Shale of Eastern Ohio from Rhino, for a gross purchase price of approximately \$184.0 million (the "Rhino Acquisition"), of which the Company closed on approximately \$179.0 million (\$177.4 million net of purchase price adjustments) on March 20, 2014. The remainder of the acquisition remains pending. The Company recognized \$3.1 million of net revenues and \$0.4 million of lease operating expenses as a result of the Rhino Acquisition from the closing date of March 20, 2014 through June 30, 2014, which is included in the accompanying consolidated statements of operations.

The Rhino Acquisition qualified as a business combination for accounting purposes and, as such, the Company estimated the fair value of the acquired properties as of the March 20, 2014 acquisition date. The fair value of the assets and liabilities acquired was estimated using assumptions that represent Level 3 inputs. See "Note 10 - Fair Value Measurements" for additional discussion of the measurement inputs.

The Company estimated that the consideration paid in the Rhino Acquisition for these properties approximated the fair value that would be paid by a typical market participant. As a result, no goodwill or bargain purchase gain was recognized in conjunction with the purchase.

The following table summarizes the consideration paid in the Rhino Acquisition to acquire the properties and the fair value amounts of the assets acquired as of March 20, 2014. Both the consideration paid and the fair value assigned to the assets is preliminary and subject to adjustment upon final closing.



Table of Contents

	(in thousands)
Consideration paid	
Cash, net of purchase price adjustments	\$ 177,444
Fair value of identifiable assets acquired	
Oil and natural gas properties	
Proved	\$ 32,005
Unproved	6,263
Unevaluated	139,176
Fair value of net identifiable assets acquired	\$ 177,444

**2. PROPERTY AND EQUIPMENT**

The major categories of property and equipment and related accumulated depletion, depreciation, amortization and impairment as of June 30, 2014 and December 31, 2013 are as follows:

	June 30, 2014	December 31, 2013
	(In thousands)	
Oil and natural gas properties	\$ 3,201,529	\$ 2,477,178
Office furniture and fixtures	7,317	6,093
Building	4,876	4,626
Land	412	412
Total property and equipment	3,214,134	2,488,309
Accumulated depletion, depreciation, amortization and impairment	(897,553	) (784,717
Property and equipment, net	\$ 2,316,581	\$ 1,703,592

Included in oil and natural gas properties at June 30, 2014 is the cumulative capitalization of \$60.7 million in general and administrative costs incurred and capitalized to the full cost pool. General and administrative costs capitalized to the full cost pool represent management's estimate of costs incurred directly related to exploration and development activities such as geological and other administrative costs associated with overseeing the exploration and development activities. All general and administrative costs not directly associated with exploration and development activities were charged to expense as they were incurred. Capitalized general and administrative costs were approximately \$6.9 million and \$13.2 million for the three and six months ended June 30, 2014, respectively, and \$3.2 million and \$6.1 million for the three and six months ended June 30, 2013, respectively.

The following table summarizes the Company's non-producing properties excluded from amortization by area at June 30, 2014:

	June 30, 2014 (In thousands)
Colorado	\$ 5,933
Bakken	295
Southern Louisiana	636
Ohio	1,180,728
Other	45
	\$ 1,187,637

At December 31, 2013, approximately \$950.6 million of non-producing leasehold costs was not subject to amortization.

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



Table of Contents

A reconciliation of the Company's asset retirement obligation for the six months ended June 30, 2014 and 2013 is as follows:

	June 30, 2014	June 30, 2013
	(In thousands)	
Asset retirement obligation, beginning of period	\$ 15,083	\$ 13,275
Liabilities incurred	3,613	1,194
Liabilities settled	(3,097	) (807
Accretion expense	377	349
Asset retirement obligation as of end of period	15,976	14,011
Less current portion	795	780
Asset retirement obligation, long-term	\$ 15,181	\$ 13,231

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

Immediately upon completion of the Contribution, the Company owned a 35% equity interest in Diamondback, rather than leasehold interests in the Company's Permian Basin acreage. Upon completion of the Diamondback IPO in October 2012, Gulfport owned approximately 21.4% of Diamondback's outstanding common stock. As of June 30, 2014, Gulfport owned 2,379,500 shares representing approximately 4.7% of Diamondback's outstanding common stock. Following the Contribution, the Company has accounted for its interest in Diamondback as an equity investment. See Note 3, "Equity Investments - Diamondback Energy, Inc."



Table of Contents

## 3. EQUITY INVESTMENTS

Investments accounted for by the equity method consist of the following as of June 30, 2014 and December 31, 2013:

	Approximate Ownership %	Carrying Value		(Income) loss from equity method investments			
		June 30, 2014	December 31, 2013	Three months ended June 30, 2014		Six months ended June 30, 2014	
		(In thousands)					
Investment in Tatex Thailand II, LLC	23.5 %	\$—	\$—	\$—	\$(205 )	\$—	\$(205 )
Investment in Tatex Thailand III, LLC	17.9 %	12,238	10,774	121	75	170	93
Investment in Grizzly Oil Sands ULC	24.9999 %	203,351	191,473	2,228	731	4,229	1,263
Investment in Bison Drilling and Field Services LLC	40.0 %	25,777	12,318	(329 )	171	1,604	23
Investment in Muskie Proppant LLC	25.0 %	8,111	7,544	(101 )	375	433	816
Investment in Timber Wolf Terminals LLC	50.0 %	1,001	1,001	—	—	—	8
Investment in Windsor Midstream LLC	22.5 %	13,230	10,632	(35 )	(474 )	(203 )	(858 )
Investment in Stingray Pressure Pumping LLC	50.0 %	17,769	19,624	1,630	319	2,143	(384 )
Investment in Stingray Cementing LLC	50.0 %	2,842	3,291	106	47	201	69
Investment in Blackhawk Midstream LLC	50.0 %	—	—	—	83	(84,787 )	122
Investment in Stingray Logistics LLC	50.0 %	1,060	903	(238 )	28	(157 )	54
Investment in Diamondback Energy, Inc.	4.7 %	211,300	178,708	(72,945 )	(51,361 )	(121,712 )	(112,457 )
Investment in Stingray Energy Services LLC	50.0 %	4,757	3,800	(6 )	103	35	138
		\$501,436	\$440,068	\$(69,569 )	\$(50,108 )	\$(198,044 )	\$(111,318 )

The tables below summarize financial information for the Company's equity investments as of June 30, 2014 and December 31, 2013.

Summarized balance sheet information:

	June 30, 2014	December 31, 2013
	(In thousands)	
Current assets	\$222,766	\$146,075
Noncurrent assets	\$3,136,770	\$2,567,225
Current liabilities	\$310,689	\$233,726
Noncurrent liabilities	\$741,267	\$664,848

Summarized results of operations:



Table of Contents

	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
	(In thousands)			
Gross revenue	\$220,013	\$81,496	\$378,294	\$138,434
Net income (loss)	\$26,099	\$(5,119)	) \$207,604	\$15,508

Tatex Thailand II, LLC

The Company has an indirect ownership interest in Tatex Thailand II, LLC (“Tatex”). Tatex holds