

WHITING PETROLEUM CORP
Form 10-Q
October 30, 2014
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10 Q

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

For the quarterly period ended September 30, 2014

or

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

For the transition period from _____ to _____

Commission file number: 001 31899

WHITING PETROLEUM CORPORATION
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction
of incorporation or organization)

20 0098515
(I.R.S. Employer
Identification No.)

80290 2300

Edgar Filing: WHITING PETROLEUM CORP - Form 10-Q

1700 Broadway, Suite 2300
Denver, Colorado
(Address of principal executive offices) (Zip code)

(303) 837 1661
(Registrant's 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 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 (§232.405 of this chapter) during the preceding 12 months (or for 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 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 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

Number of shares of the registrant's common stock outstanding at October 15, 2014: 119,060,513 shares.

TABLE OF CONTENTS	
<u>Glossary of Certain Definitions</u>	1
<u>PART I – FINANCIAL INFORMATION</u>	
<u>Item</u>	
<u>1.Consolidated Financial Statements (Unaudited)</u>	4
<u>Consolidated Balance Sheets as of September 30, 2014 and December 31, 2013</u>	4
<u>Consolidated Statements of Income for the Three and Nine Months Ended September 30, 2014 and 2013</u>	5
<u>Consolidated Statements of Comprehensive Income for the Three and Nine Months Ended September 30, 2014 and 2013</u>	6
<u>Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2014 and 2013</u>	7
<u>Consolidated Statements of Equity for the Nine Months Ended September 30, 2014 and 2013</u>	8
<u>Notes to Consolidated Financial Statements</u>	9
<u>Item</u>	
<u>2.Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	22
<u>Item</u>	
<u>3.Quantitative and Qualitative Disclosures About Market Risk</u>	37
<u>Item</u>	
<u>4.Controls and Procedures</u>	39
<u>PART II – OTHER INFORMATION</u>	
<u>Item</u>	
<u>1.Legal Proceedings</u>	40
<u>Item</u>	
<u>1.Risk Factors</u>	40
<u>Item</u>	
<u>6.Exhibits</u>	42

Table of Contents

Glossary of Certain Definitions

Unless the context otherwise requires, the terms “we,” “us,” “our” or “ours” when used in this Quarterly Report on Form 10-Q refer to Whiting Petroleum Corporation, together with its consolidated subsidiaries. When the context requires, we refer to these entities separately.

We have included below the definitions for certain terms used in this report:

“Bbl” One stock tank barrel, or 42 U.S. gallons liquid volume, used in this report in reference to oil, NGLs and other liquid hydrocarbons.

“Bcf” One billion cubic feet, used in reference to natural gas or CO₂.

“BOE” One stock tank barrel of oil equivalent, computed on an approximate energy equivalent basis that one Bbl of crude oil equals six Mcf of natural gas and one Bbl of crude oil equals one Bbl of natural gas liquids.

“CO₂” Carbon dioxide.

“CO₂ flood” A tertiary recovery method in which CO₂ is injected into a reservoir to enhance hydrocarbon recovery.

“completion” The installation of permanent equipment for the production of crude oil or natural gas, or in the case of a dry hole, the reporting of abandonment to the appropriate agency.

“costless collar” An options position where the proceeds from the sale of a call option at its inception fund the purchase of a put option at its inception.

“development well” A well drilled within the proved area of an oil or natural gas reservoir to the depth of a stratigraphic horizon known to be productive.

“differential” The difference between a benchmark price of oil and natural gas, such as the NYMEX crude oil spot, and the wellhead price received.

“EOR” Enhanced oil recovery.

“exploratory well” A well drilled to find a new field or to find a new reservoir in a field previously found to be productive of oil or natural gas in another reservoir. Generally, an exploratory well is any well that is not a development well, an extension well, a service well or a stratigraphic test well.

“FASB” Financial Accounting Standards Board.

“FASB ASC” The Financial Accounting Standards Board Accounting Standards Codification.

“field” An area consisting of a single reservoir or multiple reservoirs all grouped on or related to the same individual geological structural feature and/or stratigraphic condition. There may be two or more reservoirs in a field that are separated vertically by intervening impervious strata, or laterally by local geologic barriers, or both. Reservoirs that are associated by being in overlapping or adjacent fields may be treated as a single or common operational field. The geological terms “structural feature” and “stratigraphic condition” are intended to identify localized geological features as

opposed to the broader terms of basins, trends, provinces, plays, areas of interest, etc.

“GAAP” Generally accepted accounting principles in the United States of America.

“gross acres or wells” The total acres or wells, as the case may be, in which a working interest is owned.

“ISDA” International Swaps and Derivatives Association, Inc.

“lease operating expense” or “LOE” The expenses of lifting oil or gas from a producing formation to the surface, constituting part of the current operating expenses of a working interest, and also including labor, superintendence, supplies, repairs, short-lived assets, maintenance, allocated overhead costs and other expenses incidental to production, but not including lease acquisition or drilling or completion expenses.

“LIBOR” London interbank offered rate.

1

Table of Contents

“MBbl” One thousand barrels of oil or other liquid hydrocarbons.

“MBbl/d” One MBbl per day.

“MBOE” One thousand BOE.

“MBOE/d” One MBOE per day.

“Mcf” One thousand cubic feet, used in reference to natural gas or CO₂.

“MMBbl” One million Bbl.

“MMBOE” One million BOE.

“MMBtu” One million British Thermal Units.

“MMcf” One million cubic feet, used in reference to natural gas or CO₂.

“MMcf/d” One MMcf per day.

“net production” The total production attributable to our fractional working interest owned.

“NGL” Natural gas liquid.

“NYMEX” The New York Mercantile Exchange.

“plug-and-perf technology” A horizontal well completion technique in which hydraulic fractures are performed in multiple stages, with each stage utilizing a bridge plug to divert fracture stimulation fluids through the casing perforations into the formation within that stage.

“plugging and abandonment” Refers to the sealing off of fluids in the strata penetrated by a well so that the fluids from one stratum will not escape into another or to the surface. Regulations of most states require plugging of abandoned wells.

“proved reserves” Those reserves which, by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be economically producible—from a given date forward, from known reservoirs and under existing economic conditions, operating methods and government regulations—prior to the time at which contracts providing the right to operate expire, unless evidence indicates that renewal is reasonably certain, regardless of whether deterministic or probabilistic methods are used for the estimation. The project to extract the hydrocarbons must have commenced, or the operator must be reasonably certain that it will commence the project, within a reasonable time.

The area of the reservoir considered as proved includes all of the following:

- a. The area identified by drilling and limited by fluid contacts, if any, and
- b. Adjacent undrilled portions of the reservoir that can, with reasonable certainty, be judged to be continuous with it and to contain economically producible oil or gas on the basis of available geoscience and engineering data.

Reserves that can be produced economically through application of improved recovery techniques (including, but not limited to, fluid injection) are included in the proved classification when both of the following occur:

- a. Successful testing by a pilot project in an area of the reservoir with properties no more favorable than in the reservoir as a whole, the operation of an installed program in the reservoir or an analogous reservoir, or other evidence using reliable technology establishes the reasonable certainty of the engineering analysis on which the project or program was based, and
- b. The project has been approved for development by all necessary parties and entities, including governmental entities.

Existing economic conditions include prices and costs at which economic producibility from a reservoir is to be determined. The price shall be the average price during the 12-month period before the ending date of the period covered by the report, determined as an unweighted arithmetic average of the first-day-of-the-month price for each month within such period, unless prices are defined by contractual arrangements, excluding escalations based upon future conditions.

Table of Contents

“proved undeveloped reserves” Proved reserves that are expected to be recovered from new wells on undrilled acreage, or from existing wells where a relatively major expenditure is required for recompletion. Reserves on undrilled acreage shall be limited to those directly offsetting development spacing areas that are reasonably certain of production when drilled, unless evidence using reliable technology exists that establishes reasonable certainty of economic producibility at greater distances. Undrilled locations can be classified as having undeveloped reserves only if a development plan has been adopted indicating that they are scheduled to be drilled within five years, unless specific circumstances justify a longer time. Under no circumstances shall estimates for proved undeveloped reserves be attributable to any acreage for which an application of fluid injection or other improved recovery technique is contemplated, unless such techniques have been proved effective by actual projects in the same reservoir or an analogous reservoir, or by other evidence using reliable technology establishing reasonable certainty.

“reserves” Estimated remaining quantities of oil and gas and related substances anticipated to be economically producible, as of a given date, by application of development projects to known accumulations. In addition, there must exist, or there must be a reasonable expectation that there will exist, the legal right to produce or a revenue interest in the production, installed means of delivering oil and gas or related substances to market, and all permits and financing required to implement the project.

“reservoir” A porous and permeable underground formation containing a natural accumulation of producible crude oil and/or natural gas that is confined by impermeable rock or water barriers and is individual and separate from other reservoirs.

“royalty” The amount or fee paid to the owner of mineral rights, expressed as a percentage or fraction of gross income from crude oil or natural gas produced and sold, unencumbered by expenses relating to the drilling, completing or operating of the affected well.

“royalty interest” An interest in an oil or natural gas property entitling the owner to shares of the crude oil or natural gas production free of costs of exploration, development and production operations.

“SEC” The United States Securities and Exchange Commission.

“working interest” The interest in a crude oil and natural gas property (normally a leasehold interest) that gives the owner the right to drill, produce and conduct operations on the property and a share of production, subject to all royalties, overriding royalties and other burdens and to all costs of exploration, development and operations and all risks in connection therewith.

“workover” Operations on a producing well to restore or increase production.

Table of Contents

PART I – FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

WHITING PETROLEUM CORPORATION

CONSOLIDATED BALANCE SHEETS (unaudited)

(in thousands, except share and per share data)

	September 30, 2014	December 31, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 28,053	\$ 699,460
Accounts receivable trade, net	453,535	341,177
Prepaid expenses and other	30,410	28,981
Total current assets	511,998	1,069,618
Property and equipment:		
Oil and gas properties, successful efforts method	12,164,446	10,065,150
Other property and equipment	257,296	206,385
Total property and equipment	12,421,742	10,271,535
Less accumulated depreciation, depletion and amortization	(3,431,815)	(2,676,490)
Total property and equipment, net	8,989,927	7,595,045
Debt issuance costs	45,987	48,530
Other long-term assets	69,498	120,277
TOTAL ASSETS	\$ 9,617,410	\$ 8,833,470
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable trade	\$ 77,218	\$ 107,692
Accrued capital expenditures	226,337	158,739
Revenues and royalties payable	204,644	198,558
Current portion of Production Participation Plan liability	113,391	73,263
Accrued liabilities and other	109,172	144,328
Taxes payable	71,486	50,052
Accrued interest	18,708	44,405
Deferred income taxes	11,105	648
Total current liabilities	832,061	777,685
Long-term debt	2,753,347	2,653,834

Edgar Filing: WHITING PETROLEUM CORP - Form 10-Q

Deferred income taxes	1,529,814	1,278,030
Production Participation Plan liability	-	87,503
Asset retirement obligations	170,961	116,442
Deferred gain on sale	64,670	79,065
Other long-term liabilities	4,326	4,212
Total liabilities	5,355,179	4,996,771
Commitments and contingencies		
Equity:		
Common stock, \$0.001 par value, 300,000,000 shares authorized; 120,518,899 issued and 119,060,513 outstanding as of September 30, 2014 and 120,101,555 issued and 118,657,245 outstanding as of December 31, 2013	121	120
Additional paid-in capital	1,590,635	1,583,542
Retained earnings	2,663,393	2,244,905
Total Whiting shareholders' equity	4,254,149	3,828,567
Noncontrolling interest	8,082	8,132
Total equity	4,262,231	3,836,699
TOTAL LIABILITIES AND EQUITY	\$ 9,617,410	\$ 8,833,470

See notes to consolidated financial statements.

Table of Contents

WHITING PETROLEUM CORPORATION

CONSOLIDATED STATEMENTS OF INCOME (unaudited)

(in thousands, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
REVENUES AND OTHER INCOME:				
Oil, NGL and natural gas sales	\$ 805,054	\$ 706,543	\$ 2,352,064	\$ 1,963,525
Loss on hedging activities	-	(665)	-	(1,313)
Amortization of deferred gain on sale	7,689	7,750	22,906	23,680
Gain (loss) on sale of properties	(50)	116,274	12,305	119,706
Interest income and other	438	1,083	1,727	2,327
Total revenues and other income	813,131	830,985	2,389,002	2,107,925
COSTS AND EXPENSES:				
Lease operating	124,075	109,106	357,222	314,064
Production taxes	69,106	61,143	197,993	166,228
Depreciation, depletion and amortization	285,658	219,530	789,432	644,135
Exploration and impairment	29,925	47,092	103,544	127,765
General and administrative	37,070	50,368	104,959	108,466
Interest expense	39,632	24,988	120,821	69,579
Change in Production Participation Plan liability	-	(10,798)	-	1,332
Commodity derivative (gain) loss, net	(23,783)	24,269	26,828	25,334
Total costs and expenses	561,683	525,698	1,700,799	1,456,903
INCOME BEFORE INCOME TAXES	251,448	305,287	688,203	651,022
INCOME TAX EXPENSE (BENEFIT):				
Current	(660)	7,220	7,695	5,131
Deferred	94,147	93,976	262,070	220,612
Income tax expense	93,487	101,196	269,765	225,743
NET INCOME	157,961	204,091	418,438	425,279
Net loss attributable to noncontrolling interests	14	10	50	41
NET INCOME AVAILABLE TO SHAREHOLDERS	157,975	204,101	418,488	425,320
Preferred stock dividends	-	-	-	(538)
NET INCOME AVAILABLE TO COMMON SHAREHOLDERS	\$ 157,975	\$ 204,101	\$ 418,488	\$ 424,782
EARNINGS PER COMMON SHARE:				
Basic	\$ 1.33	\$ 1.72	\$ 3.52	\$ 3.60

Edgar Filing: WHITING PETROLEUM CORP - Form 10-Q

Diluted	\$ 1.32	\$ 1.71	\$ 3.48	\$ 3.56
WEIGHTED AVERAGE SHARES OUTSTANDING:				
Basic	119,024	118,654	118,972	118,127
Diluted	120,066	119,507	120,109	119,511

See notes to consolidated financial statements.

5

Table of Contents

WHITING PETROLEUM CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (unaudited)

(in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
NET INCOME	\$ 157,961	\$ 204,091	\$ 418,438	\$ 425,279
OTHER COMPREHENSIVE INCOME, NET OF TAX:				
OCI amortization on de-designated hedges (1) (2)	-	420	-	830
Total other comprehensive income, net of tax	-	420	-	830
COMPREHENSIVE INCOME	157,961	204,511	418,438	426,109
Comprehensive loss attributable to noncontrolling interest	14	10	50	41
COMPREHENSIVE INCOME ATTRIBUTABLE TO WHITING	\$ 157,975	\$ 204,521	\$ 418,488	\$ 426,150

- (1) Presented net of income tax expense of \$245 and \$483 for the three and nine months ended September 30, 2013, respectively.
- (2) These OCI amortization amounts on de-designated hedges are reclassified from accumulated other comprehensive income ("AOCI") to loss on hedging activities in the consolidated statements of income.

See notes to consolidated financial statements.

Table of Contents

WHITING PETROLEUM CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

(in thousands)

	Nine Months Ended September 30,	
	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 418,438	\$ 425,279
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion and amortization	789,432	644,135
Deferred income tax expense	262,070	220,612
Amortization of debt issuance costs and debt premium	9,343	7,800
Stock-based compensation	17,077	16,830
Amortization of deferred gain on sale	(22,906)	(23,680)
Gain on sale of properties	(12,305)	(119,706)
Undeveloped leasehold and oil and gas property impairments	53,972	56,130
Exploratory dry hole costs	3,972	21,150
Change in Production Participation Plan liability	-	1,332
Non-cash portion of derivative losses	19,661	740
Other, net	(7,973)	(8,109)
Changes in current assets and liabilities:		
Accounts receivable trade, net	(112,358)	(43,247)
Prepaid expense and other	2,944	(1,442)
Accounts payable trade and accrued liabilities	(99,581)	(17,956)
Revenues and royalties payable	6,086	45,807
Taxes payable	21,434	28,452
Net cash provided by operating activities	1,349,306	1,254,127
CASH FLOWS FROM INVESTING ACTIVITIES:		
Drilling and development capital expenditures	(2,046,338)	(1,669,979)
Acquisition of oil and gas properties	(58,104)	(393,997)
Other property and equipment	(58,907)	(44,332)
Proceeds from sale of oil and gas properties	83,500	819,612
Issuance of note receivable	-	(10,530)
Cash paid for investing derivatives	-	(44,900)
Cash settlements received on investing derivatives	-	2,371
Net cash used in investing activities	(2,079,849)	(1,341,755)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Issuance of 5% Senior Notes due 2019	-	1,100,000

Edgar Filing: WHITING PETROLEUM CORP - Form 10-Q

Issuance of 5.75% Senior Notes due 2021	-	1,204,000
Borrowings under credit agreement	350,000	1,860,000
Repayments of borrowings under credit agreement	(250,000)	(3,060,000)
Debt issuance costs	(4,508)	(29,541)
Proceeds from stock options exercised	1,357	-
Restricted stock used for tax withholdings	(11,340)	(5,514)
Repayment of tax sharing liability	(26,373)	-
Preferred stock dividends paid	-	(538)
Net cash provided by financing activities	59,136	1,068,407
NET CHANGE IN CASH AND CASH EQUIVALENTS	(671,407)	980,779
CASH AND CASH EQUIVALENTS:		
Beginning of period	699,460	44,800
End of period	\$ 28,053	\$ 1,025,579
NONCASH INVESTING ACTIVITIES:		
Accrued capital expenditures	\$ 226,337	\$ 158,813

See notes to consolidated financial statements.

Table of Contents

WHITING PETROLEUM CORPORATION

CONSOLIDATED STATEMENTS OF EQUITY (unaudited)

(in thousands)

	Preferred Stock	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total Whiting Shareholders' Equity	Noncontrol Interest	Total Equity		
	Shares	Amount	Shares	Amount						
BALANCES-January 1, 2013	172	\$ -	118,582	\$ 119	\$ 1,566,717	\$ (1,236)	\$ 1,879,388	\$ 3,444,988	\$ 8,184	\$ 3,453,172
Net income (loss)	-	-	-	-	-	-	425,320	425,320	(41)	425,279
Other comprehensive income	-	-	-	-	-	830	-	830	-	830
Conversion of preferred stock to common	(172)	-	794	1	-	-	-	1	-	1
Restricted stock issued	-	-	941	-	-	-	-	-	-	-
Restricted stock forfeited	-	-	(96)	-	-	-	-	-	-	-
Restricted stock used for tax withholdings	-	-	(114)	-	(5,514)	-	-	-	-	-