

WHITING PETROLEUM CORP
Form 10-Q
July 27, 2012

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 June 30, 2012

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.)

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

80290-2300
(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

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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 July 16, 2012: 117,631,451 shares.

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GLOSSARY OF CERTAIN DEFINITIONS

Unless the context otherwise requires, the terms “we,” “us,” “our” or “ours” when used in this report 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 and other liquid hydrocarbons.

“Bcf” One billion cubic feet of natural gas.

“BOE” One stock tank barrel equivalent of oil, calculated by converting natural gas volumes to equivalent oil barrels at a ratio of six Mcf to one Bbl of oil.

“EBITDAX” Earnings before interest, income taxes, depreciation, depletion, amortization and exploration expense.

“FASB” Financial Accounting Standards Board.

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

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

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

“MBOE” One thousand BOE.

“MBOE/d” One MBOE per day.

“Mcf” One thousand cubic feet of natural gas.

“MMBbl” One million Bbl.

“MMBOE” One million BOE.

“MMBtu” One million British Thermal Units.

“MMcf” One million cubic feet of natural gas.

“MMcf/d” One MMcf per day.

“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 many 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.

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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.

“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.

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PART I – FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

WHITING PETROLEUM CORPORATION
CONSOLIDATED BALANCE SHEETS (Unaudited)
(In thousands, except share and per share data)

	June 30, 2012	December 31, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 6,807	\$ 15,811
Accounts receivable trade, net	293,672	262,515
Prepaid expenses and other	23,220	20,377
Total current assets	323,699	298,703
Property and equipment:		
Oil and gas properties, successful efforts method:		
Proved properties	7,765,534	7,221,550
Unproved properties	382,495	354,774
Other property and equipment	155,482	150,933
Total property and equipment	8,303,511	7,727,257
Less accumulated depreciation, depletion and amortization	(2,238,740)	(2,088,517)
Total property and equipment, net	6,064,771	5,638,740
Debt issuance costs	29,735	33,306
Other long-term assets	92,379	74,860
TOTAL ASSETS	\$ 6,510,584	\$ 6,045,609
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable trade	\$ 102,004	\$ 56,673
Accrued capital expenditures	109,635	142,827
Accrued liabilities and other	146,012	157,214
Revenues and royalties payable	116,410	103,894
Taxes payable	35,099	31,195
Derivative liabilities	23,364	73,647
Deferred income taxes	11,140	1,584
Total current liabilities	543,664	567,034
Long-term debt	1,420,000	1,380,000
Deferred income taxes	960,284	823,643
Derivative liabilities	17,085	47,763
Production Participation Plan liability	80,641	80,659
Asset retirement obligations	55,184	61,984
Deferred gain on sale	126,932	29,619
Other long-term liabilities	26,973	25,776
Total liabilities	3,230,763	3,016,478
Commitments and contingencies		
Equity:		

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Preferred stock, \$0.001 par value, 5,000,000 shares authorized; 6.25% convertible perpetual preferred stock, 172,391 shares issued and outstanding as of June 30, 2012 and December 31, 2011, aggregate liquidation preference of \$17,239,100 at June 30, 2012	-	-
Common stock, \$0.001 par value, 300,000,000 shares authorized; 118,584,788 issued and 117,631,451 outstanding as of June 30, 2012, 118,105,279 issued and 117,380,884 outstanding as of December 31, 2011	119	118
Additional paid-in capital	1,557,345	1,554,223
Accumulated other comprehensive income (loss)	(951)	240
Retained earnings	1,715,089	1,466,276
Total Whiting shareholders' equity	3,271,602	3,020,857
Noncontrolling interest	8,219	8,274
Total equity	3,279,821	3,029,131
TOTAL LIABILITIES AND EQUITY	\$ 6,510,584	\$ 6,045,609

See notes to consolidated financial statements.

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WHITING PETROLEUM CORPORATION
CONSOLIDATED STATEMENTS OF INCOME (Unaudited)
(In thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
REVENUES AND OTHER INCOME:				
Oil and natural gas sales	\$ 492,756	\$ 473,865	\$ 1,051,453	\$ 899,548
Gain on hedging activities	759	2,391	1,886	5,454
Amortization of deferred gain on sale	8,892	3,570	12,645	6,937
Gain (loss) on sale of properties	(362)	1,227	(362)	1,227
Interest income and other	129	153	258	261
Total revenues and other income	502,174	481,206	1,065,880	913,427
COSTS AND EXPENSES:				
Lease operating	89,504	73,785	184,294	145,307
Production taxes	40,763	34,258	85,374	65,902
Depreciation, depletion and amortization	160,589	110,250	316,709	217,978
Exploration and impairment	27,902	20,171	55,480	42,408
General and administrative	25,209	20,913	59,577	39,326
Interest expense	17,905	15,279	36,361	29,737
Change in Production Participation Plan liability	(953)	2,650	(18)	2,207
Commodity derivative (gain) loss, net	(100,025)	(113,618)	(70,622)	20,820
Total costs and expenses	260,894	163,688	667,155	563,685
INCOME BEFORE INCOME TAXES	241,280	317,518	398,725	349,742
INCOME TAX EXPENSE:				
Current	1,109	1,565	2,535	3,615
Deferred	89,320	112,804	146,893	123,564
Total income tax expense	90,429	114,369	149,428	127,179
NET INCOME	150,851	203,149	249,297	222,563
Net loss attributable to noncontrolling interest	31	-	55	-
NET INCOME AVAILABLE TO SHAREHOLDERS	150,882	203,149	249,352	222,563
Preferred stock dividends	(270)	(269)	(539)	(539)
	\$ 150,612	\$ 202,880	\$ 248,813	\$ 222,024

NET INCOME AVAILABLE
TO COMMON
SHAREHOLDERS

EARNINGS PER COMMON
SHARE:

Basic	\$ 1.28	\$ 1.73	\$ 2.12	\$ 1.89
Diluted	\$ 1.27	\$ 1.71	\$ 2.10	\$ 1.87

WEIGHTED AVERAGE
SHARES OUTSTANDING:

Basic	117,622	117,373	117,569	117,308
Diluted	118,853	118,659	118,889	118,707

See notes to consolidated
financial statements.

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WHITING PETROLEUM CORPORATION
 CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)
 (In thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
NET INCOME	\$ 150,851	\$ 203,149	\$ 249,297	\$ 222,563
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX:				
OCI amortization on de-designated hedges(1)	(479)	(1,509)	(1,191)	(3,443)
Total other comprehensive loss, net of tax	(479)	(1,509)	(1,191)	(3,443)
COMPREHENSIVE INCOME	150,372	201,640	248,106	219,120
Comprehensive loss attributable to noncontrolling interest	31	-	55	-
COMPREHENSIVE INCOME ATTRIBUTABLE TO WHITING	\$ 150,403	\$ 201,640	\$ 248,161	\$ 219,120

(1) Presented net of income tax expense of \$280 and \$882 for the three months ended June 30, 2012 and 2011, respectively, and \$695 and \$2,011 for the six months ended June 30, 2012 and 2011, respectively.

See notes to consolidated financial statements.

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WHITING PETROLEUM CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)
(In thousands)

	Six Months Ended June 30,	
	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 249,297	\$ 222,563
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion and amortization	316,709	217,978
Deferred income tax expense	146,893	123,564
Amortization of debt issuance costs and debt discount	4,691	4,241
Stock-based compensation	8,818	6,627
Amortization of deferred gain on sale	(12,645)	(6,937)
(Gain) loss on sale of properties	362	(1,227)
Undeveloped leasehold and oil and gas property impairments	32,226	15,442
Exploratory dry hole costs	255	4,297
Change in Production Participation Plan liability	(18)	2,207
Unrealized gain on derivative contracts	(93,370)	(8,570)
Other non-current	(13,248)	(4,955)
Changes in current assets and liabilities:		
Accounts receivable trade	(31,157)	(12,224)
Prepaid expenses and other	(1,624)	(5,862)
Accounts payable trade and accrued liabilities	11,576	11,860
Revenues and royalties payable	12,516	18,311
Taxes payable	3,904	903
Net cash provided by operating activities	635,185	588,218
CASH FLOWS FROM INVESTING ACTIVITIES:		
Cash acquisition capital expenditures	(89,858)	(163,341)
Drilling and development capital expenditures	(979,522)	(660,006)
Proceeds from sale of oil and gas properties	68,423	1,734
Issuance of note receivable	-	(25,000)
Net proceeds from sale of 18,400,000 units in Whiting USA Trust II	323,022	-
Net cash used in investing activities	(677,935)	(846,613)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Contributions from noncontrolling interest	-	2,500
Preferred stock dividends paid	(539)	(539)
Long-term borrowings under credit agreement	1,150,000	910,000
Repayments of long-term borrowings under credit agreement	(1,110,000)	(650,000)
Debt issuance costs	(20)	(2,381)
Restricted stock used for tax withholdings	(5,695)	(9,048)
Net cash provided by (used in) financing activities	33,746	250,532
NET CHANGE IN CASH AND CASH EQUIVALENTS	(9,004)	(7,863)

CASH AND CASH EQUIVALENTS:

Beginning of period	15,811	18,952
End of period	\$ 6,807	\$ 11,089

See notes to consolidated financial statements.

(Continued)

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WHITING PETROLEUM CORPORATION
 CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)
 (In thousands)

	2012	Six Months Ended June 30,	2011
NONCASH INVESTING ACTIVITIES:			
Accrued capital expenditures	\$ 109,635		\$ 96,005
NONCASH FINANCING ACTIVITIES:			
Contributions from noncontrolling interest	\$ -		\$ 5,833
See notes to consolidated financial statements.			(Concluded)

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WHITING PETROLEUM CORPORATION
CONSOLIDATED STATEMENTS OF EQUITY (Unaudited)
(In thousands)

	Preferred Stock Shares	Preferred Stock Amount	Common Stock Shares	Common Stock Amount	Additional Paid- in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total Whiting Shareholders' Equity	Noncontrolling Interest	Total Equity
BALANCES-January 1, 2011	173	\$-	117,968	\$59	\$1,549,822	\$5,768	\$975,666	\$2,531,315	\$-	\$2,531,315
Net income	-	-	-	-	-	-	222,563	222,563	-	222,563
Other comprehensive income	-	-	-	-	-	(3,443)	-	(3,443)	-	(3,443)
Conversion of preferred stock to common	(1)	-	1	-	-	-	-	-	-	-
Two-for-one stock split	-	-	-	59	(59)	-	-	-	-	-
Contributions from noncontrolling interest	-	-	-	-	-	-	-	-	8,333	8,333
Restricted stock issued	-	-	304	-	-	-	-	-	-	-
Restricted stock forfeited	-	-	(12)	-	-	-	-	-	-	-
Restricted stock used for tax withholdings	-	-	(148)	-	(9,048)	-	-	(9,048)	-	(9,048)
Stock-based compensation	-	-	-	-	6,627	-	-	6,627	-	6,627
Preferred dividends paid	-	-	-	-	-	-	(539)	(539)	-	(539)
BALANCES-June 30, 2011	172	\$-	118,113	\$118	\$1,547,342	\$2,325	\$1,197,690	\$2,747,475	\$8,333	\$2,755,808
BALANCES-January 1, 2012	172	\$-	118,105	\$118	\$1,554,223	\$240	\$1,466,276	\$3,020,857	\$8,274	\$3,029,131
Net income	-	-	-	-	-	-	249,352	249,352	(55)	249,297
Other comprehensive income	-	-	-	-	-	(1,191)	-	(1,191)	-	(1,191)
Restricted stock issued	-	-	592	1	(1)	-	-	-	-	-
Restricted stock forfeited	-	-	(6)	-	-	-	-	-	-	-
Restricted stock used for tax withholdings	-	-	(106)	-	(5,695)	-	-	-	-	-