

WHITING PETROLEUM CORP  
Form 10-Q  
October 25, 2012

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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, 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 October 15, 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.

“NGL” Natural gas liquid.

“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)

	September 30, 2012	December 31, 2011
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 26,075	\$ 15,811
Accounts receivable trade, net	345,352	262,515
Prepaid expenses and other	21,075	20,377
Total current assets	392,502	298,703
Property and equipment:		
Oil and gas properties, successful efforts method:		
Proved properties	8,317,199	7,221,550
Unproved properties	366,255	354,774
Other property and equipment	152,786	150,933
Total property and equipment	8,836,240	7,727,257
Less accumulated depreciation, depletion and amortization	(2,416,815 )	(2,088,517 )
Total property and equipment, net	6,419,425	5,638,740
Debt issuance costs	27,945	33,306
Other long-term assets	89,578	74,860
<b>TOTAL ASSETS</b>	<b>\$ 6,929,450</b>	<b>\$ 6,045,609</b>
<b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Accounts payable trade	\$ 141,326	\$ 56,673
Accrued capital expenditures	112,137	142,827
Accrued liabilities and other	175,104	157,214
Revenues and royalties payable	137,162	103,894
Taxes payable	42,380	31,195
Derivative liabilities	33,499	73,647
Deferred income taxes	10,967	1,584
Total current liabilities	652,575	567,034
Long-term debt	1,600,000	1,380,000
Deferred income taxes	1,012,286	823,643
Derivative liabilities	7,931	47,763
Production Participation Plan liability	86,858	80,659
Asset retirement obligations	57,183	61,984
Deferred gain on sale	117,946	29,619
Other long-term liabilities	27,577	25,776
Total liabilities	3,562,356	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 September 30, 2012 and December 31, 2011, aggregate liquidation preference of \$17,239,100 at September 30, 2012	-	-
Common stock, \$0.001 par value, 300,000,000 shares authorized; 118,584,188 issued and 117,631,451 outstanding as of September 30, 2012, 118,105,279 issued and 117,380,884 outstanding as of December 31, 2011	119	118
Additional paid-in capital	1,562,025	1,554,223
Accumulated other comprehensive income (loss)	(1,202 )	240
Retained earnings	1,797,954	1,466,276
Total Whiting shareholders' equity	3,358,896	3,020,857
Noncontrolling interest	8,198	8,274
Total equity	3,367,094	3,029,131
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>\$ 6,929,450</b>	<b>\$ 6,045,609</b>

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 September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
<b>REVENUES AND OTHER INCOME:</b>				
Oil and natural gas sales	\$ 521,195	\$ 468,573	\$ 1,572,648	\$ 1,368,121
Gain on hedging activities	398	1,871	2,285	7,326
Amortization of deferred gain on sale	8,636	3,518	21,281	10,455
Gain (loss) on sale of properties	99	13,505	(263 )	14,732
Interest income and other	154	90	412	351
Total revenues and other income	530,482	487,557	1,596,363	1,400,985
<b>COSTS AND EXPENSES:</b>				
Lease operating	93,859	77,630	278,153	222,937
Production taxes	43,519	34,510	128,893	100,412
Depreciation, depletion and amortization	179,587	122,890	496,296	340,868
Exploration and impairment	23,882	18,918	79,362	61,326
General and administrative	25,034	23,144	84,611	62,470
Interest expense	18,734	16,130	55,095	45,867
Change in Production Participation Plan liability	6,217	853	6,199	3,060
Commodity derivative (gain) loss, net	6,421	(138,892 )	(64,200 )	(118,071 )
Total costs and expenses	397,253	155,183	1,064,409	718,869
<b>INCOME BEFORE INCOME TAXES</b>	<b>133,229</b>	<b>332,374</b>	<b>531,954</b>	<b>682,116</b>
<b>INCOME TAX EXPENSE (BENEFIT):</b>				
Current	(1,859 )	975	676	4,590
Deferred	51,975	125,164	198,868	248,728
Total income tax expense	50,116	126,139	199,544	253,318
<b>NET INCOME</b>	<b>83,113</b>	<b>206,235</b>	<b>332,410</b>	<b>428,798</b>
Net loss attributable to noncontrolling interest	21	-	76	-
<b>NET INCOME AVAILABLE TO SHAREHOLDERS</b>	<b>83,134</b>	<b>206,235</b>	<b>332,486</b>	<b>428,798</b>
Preferred stock dividends	(269 )	(269 )	(808 )	(808 )

NET INCOME AVAILABLE  
TO COMMON

SHAREHOLDERS	\$ 82,865	\$ 205,966	\$ 331,678	\$ 427,990
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EARNINGS PER COMMON  
SHARE:

Basic	\$ 0.70	\$ 1.75	\$ 2.82	\$ 3.65
Diluted	\$ 0.70	\$ 1.74	\$ 2.79	\$ 3.62

WEIGHTED AVERAGE  
SHARES OUTSTANDING:

Basic	117,631	117,381	117,590	117,333
Diluted	118,924	118,539	118,968	118,572

See notes to consolidated  
financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
NET INCOME	\$ 83,113	\$ 206,235	\$ 332,410	\$ 428,798
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX:				
OCI amortization on de-designated hedges(1)	(251 )	(1,181 )	(1,442 )	(4,624 )
Total other comprehensive loss, net of tax	(251 )	(1,181 )	(1,442 )	(4,624 )
COMPREHENSIVE INCOME	82,862	205,054	330,968	424,174
Comprehensive loss attributable to noncontrolling interest	21	-	76	-
COMPREHENSIVE INCOME ATTRIBUTABLE TO WHITING	\$ 82,883	\$ 205,054	\$ 331,044	\$ 424,174

(1) Presented net of income tax expense of \$147 and \$690 for the three months ended September 30, 2012 and 2011, respectively, and \$843 and \$2,702 for the nine months ended September 30, 2012 and 2011, respectively.

See notes to  
consolidated  
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WHITING PETROLEUM CORPORATION  
CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)  
(In thousands)

	Nine Months Ended September 30,	
	2012	2011
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 332,410	\$ 428,798
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion and amortization	496,296	340,868
Deferred income tax expense	198,868	248,728
Amortization of debt issuance costs and debt discount	7,051	6,357
Stock-based compensation	13,498	10,086
Amortization of deferred gain on sale	(21,281 )	(10,455 )
(Gain) loss on sale of properties	263	(14,732 )
Undeveloped leasehold and oil and gas property impairments	45,770	24,920
Exploratory dry hole costs	2,140	4,714
Change in Production Participation Plan liability	6,199	3,060
Unrealized gain on derivative contracts	(91,763 )	(151,047 )
Other, net	(14,311 )	(8,285 )
Changes in current assets and liabilities:		
Accounts receivable trade	(82,837 )	(31,229 )
Prepaid expenses and other	664	61
Accounts payable trade and accrued liabilities	80,525	(13,999 )
Revenues and royalties payable	33,268	22,061
Taxes payable	11,185	3,848
Net cash provided by operating activities	1,017,945	863,754
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Cash acquisition capital expenditures	(102,978 )	(233,521 )
Drilling and development capital expenditures	(1,509,582 )	(1,077,605 )
Proceeds from sale of oil and gas properties	69,190	69,246
Issuance of note receivable	-	(25,000 )
Net proceeds from sale of 18,400,000 units in Whiting USA Trust II	322,212	-
Net cash used in investing activities	(1,221,158 )	(1,266,880 )
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Contributions from noncontrolling interest	-	2,500
Preferred stock dividends paid	(808 )	(808 )
Long-term borrowings under credit agreement	1,750,000	1,380,000
Repayments of long-term borrowings under credit agreement	(1,530,000 )	(980,000 )
Debt issuance costs	(20 )	(2,381 )
Restricted stock used for tax withholdings	(5,695 )	(9,049 )
Net cash provided by financing activities	213,477	390,262
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>10,264</b>	<b>(12,864 )</b>

CASH AND CASH EQUIVALENTS:

Beginning of period	15,811	18,952
End of period	\$ 26,075	\$ 6,088

See notes to consolidated financial statements.

(Continued)

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

	Nine Months Ended September 30,	
	2012	2011
<b>NONCASH INVESTING ACTIVITIES:</b>		
Accrued capital expenditures	\$ 112,137	\$ 112,526
<b>NONCASH FINANCING ACTIVITIES:</b>		
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	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total Whiting Shareholders' Equity	Noncontrolling Interest	Total Equity		
	Shares	Amount	Shares	Amount	Capital	(Loss)	Earnings	Equity	Interest	Equity
BALANCES-January 1, 2011										