

WHITING PETROLEUM CORP
Form 10-Q
July 27, 2017
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, 2017

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, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer", "accelerated filer", "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 14, 2017: 362,793,720 shares.

TABLE OF CONTENTS	
<u>Glossary of Certain Definitions</u>	1
<u>PART I – FINANCIAL INFORMATION</u>	
<u>Item</u>	
<u>1Condensed Consolidated Financial Statements (Unaudited)</u>	4
<u>Condensed Consolidated Balance Sheets as of June 30, 2017 and December 31, 2016</u>	4
<u>Condensed Consolidated Statements of Operations for the Three and Six Months Ended June 30, 2017 and 2016</u>	5
<u>Condensed Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2017 and 2016</u>	6
<u>Condensed Consolidated Statements of Equity for the Six Months Ended June 30, 2017 and 2016</u>	8
<u>Notes to Condensed Consolidated Financial Statements</u>	9
<u>Item</u>	
<u>2Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	24
<u>Item</u>	
<u>3Quantitative and Qualitative Disclosures about Market Risk</u>	39
<u>Item</u>	
<u>4Controls and Procedures</u>	40
<u>PART II – OTHER INFORMATION</u>	
<u>Item</u>	
<u>1Legal Proceedings</u>	41
<u>Item</u>	
<u>1Risk Factors</u>	41
<u>Item</u>	
<u>6Exhibits</u>	41

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:

“ASC” Accounting Standards Codification.

“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.

“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.

“Btu” or “British thermal unit” The quantity of heat required to raise the temperature of one pound of water one degree Fahrenheit.

“CO₂” Carbon dioxide.

“completion” The process of preparing an oil and gas wellbore for production through the installation of permanent production equipment, as well as perforation and fracture stimulation to optimize production.

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

“deterministic method” The method of estimating reserves or resources using a single value for each parameter (from the geoscience, engineering or economic data) in the reserves calculation.

“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 price, and the wellhead price received.

“dry hole” A well found to be incapable of producing either oil or gas in sufficient quantities to justify completion as an oil or gas well.

“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.

“FASB” Financial Accounting Standards Board.

“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 “gross 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.

Table of Contents

“LIBOR” London interbank offered rate.

“MBbl” One thousand barrels of oil, NGLs 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.

“MMBbl” One million Bbl.

“MMBOE” One million BOE.

“MMBtu” One million British Thermal Units, used in reference to natural gas.

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

“MMcf/d” One MMcf per day.

“net acres” or “net wells” The sum of the fractional working interests owned in gross acres or wells, as the case may be.

“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 legally require plugging of abandoned wells.

“prospect” A property on which indications of oil or gas have been identified based on available seismic and geological information.

“proved developed reserves” Proved reserves that can be expected to be recovered through existing wells with existing equipment and operating methods or in which the cost of the required equipment is relatively minor compared to the cost of a new well.

“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

Table of Contents

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.

“reasonable certainty” If deterministic methods are used, reasonable certainty means a high degree of confidence that the quantities will be recovered. If probabilistic methods are used, there should be at least a 90 percent probability that the quantities actually recovered will equal or exceed the estimate. A high degree of confidence exists if the quantity is much more likely to be achieved than not, and, as changes due to increased availability of geoscience (geological, geophysical and geochemical) engineering, and economic data are made to estimated ultimate recovery with time, reasonably certain estimated ultimate recovery is much more likely to increase or remain constant than to decrease.

“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.

“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 to 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. Condensed Consolidated Financial Statements

WHITING PETROLEUM CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS (unaudited)

(in thousands, except share and per share data)

	June 30, 2017	December 31, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 23,243	\$ 55,975
Restricted cash	-	17,250
Accounts receivable trade, net	210,204	173,919
Derivative assets	26,964	-
Prepaid expenses and other	30,727	26,312
Assets held for sale	-	349,146
Total current assets	291,138	622,602
Property and equipment:		
Oil and gas properties, successful efforts method	13,604,214	13,230,851
Other property and equipment	136,782	134,638
Total property and equipment	13,740,996	13,365,489
Less accumulated depreciation, depletion and amortization	(4,699,342)	(4,222,071)
Total property and equipment, net	9,041,654	9,143,418
Other long-term assets	72,627	110,122
TOTAL ASSETS	\$ 9,405,419	\$ 9,876,142
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable trade	\$ 70,541	\$ 32,126
Revenues and royalties payable	130,495	147,226
Accrued capital expenditures	95,499	56,830
Accrued interest	40,726	44,749
Accrued lease operating expenses	45,606	45,015
Accrued liabilities and other	24,863	63,538
Taxes payable	20,447	39,547
Derivative liabilities	23,616	17,628

Edgar Filing: WHITING PETROLEUM CORP - Form 10-Q

Accrued employee compensation and benefits	16,940	31,134
Liabilities related to assets held for sale	-	538
Total current liabilities	468,733	478,331
Long-term debt	3,274,807	3,535,303
Deferred income taxes	401,191	475,689
Asset retirement obligations	171,419	168,504
Other long-term liabilities	93,162	69,123
Total liabilities	4,409,312	4,726,950
Commitments and contingencies		
Equity:		
Common stock, \$0.001 par value, 600,000,000 shares authorized; 368,133,400 issued and 362,793,720 outstanding as of June 30, 2017 and 367,174,542 issued and 362,013,928 outstanding as of December 31, 2016	368	367
Additional paid-in capital	6,397,469	6,389,435
Accumulated deficit	(1,401,730)	(1,248,572)
Total Whiting shareholders' equity	4,996,107	5,141,230
Noncontrolling interest	-	7,962
Total equity	4,996,107	5,149,192
TOTAL LIABILITIES AND EQUITY	\$ 9,405,419	\$ 9,876,142

The accompanying notes are an integral part of these condensed consolidated financial statements.

Table of Contents

WHITING PETROLEUM CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (unaudited)

(in thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
OPERATING REVENUES				
Oil, NGL and natural gas sales	\$ 311,515	\$ 337,036	\$ 682,832	\$ 626,733
OPERATING EXPENSES				
Lease operating expenses	86,269	105,172	176,662	219,548
Production taxes	27,066	26,826	59,122	52,753
Depreciation, depletion and amortization	220,035	304,016	460,442	616,308
Exploration and impairment	25,295	25,781	46,136	61,272
General and administrative	31,943	33,523		