

WHITING PETROLEUM CORP
Form 10-Q
October 29, 2010

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, 2010

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

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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	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>	Non-accelerated filer	<input type="checkbox"/>
Smaller reporting company	<input type="checkbox"/>				

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, 2010: 58,548,894 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.

“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/d” - One thousand BOE per day.

“Mcf” - One thousand cubic feet of natural gas.

“MMBbl” - One million barrels of oil or other liquid hydrocarbons.

“MMBOE” - One million BOE.

“MMBtu” - One million British Thermal Units.

“MMcf” - One million cubic feet of natural gas.

“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.

“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; to share in production, subject to all royalties, overriding royalties and other burdens; and to share in all costs of exploration, development, 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, 2010	December 31, 2009
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 3,211	\$ 11,960
Accounts receivable trade, net	182,355	152,082
Prepaid expenses and other	14,535	11,983
Total current assets	200,101	176,025
Property and equipment:		
Oil and gas properties, successful efforts method:		
Proved properties	5,392,276	4,870,688
Unproved properties	177,638	100,706
Other property and equipment	89,695	100,833
Total property and equipment	5,659,609	5,072,227
Less accumulated depreciation, depletion and amortization	(1,546,476)	(1,274,121)
Total property and equipment, net	4,113,133	3,798,106
Debt issuance costs	22,935	24,672
Other long-term assets	30,361	30,739
TOTAL ASSETS	\$ 4,366,530	\$ 4,029,542
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable trade	\$ 55,121	\$ 14,023
Accrued capital expenditures	73,682	29,998
Accrued liabilities and other	113,452	110,320
Revenues and royalties payable	75,548	46,327
Taxes payable	28,403	21,188
Derivative liabilities	33,432	49,551
Deferred income taxes	4,500	11,325
Total current liabilities	384,138	282,732
Long-term debt	700,000	779,585
Deferred income taxes	500,095	341,037
Derivative liabilities	91,250	137,621
Production Participation Plan liability	78,983	69,433
Asset retirement obligations	73,922	66,846
Deferred gain on sale	47,477	58,462
Other long-term liabilities	25,314	23,741
Total liabilities	1,901,179	1,759,457
Commitments and contingencies		
Stockholders' equity:		

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Preferred stock, \$0.001 par value, 5,000,000 shares authorized; 6.25% convertible perpetual preferred stock, 172,500 shares issued and outstanding as of September 30, 2010 and 3,450,000 shares issued and outstanding as of December 31, 2009, aggregate liquidation preference of \$17,250,000	-	3
Common stock, \$0.001 par value, 175,000,000 shares authorized; 58,986,415 issued and 58,548,894 outstanding as of September 30, 2010, 51,363,638 issued and 50,845,374 outstanding as of December 31, 2009	59	51
Additional paid-in capital	1,547,536	1,546,635
Accumulated other comprehensive income	8,014	20,413
Retained earnings	909,742	702,983
Total stockholders' equity	2,465,351	2,270,085
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 4,366,530	\$ 4,029,542

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,	
	2010	2009	2010	2009
REVENUES AND OTHER INCOME:				
Oil and natural gas sales	\$ 365,239	\$ 256,074	\$ 1,068,961	\$ 616,552
Gain on hedging activities	4,383	7,774	19,641	28,072
Amortization of deferred gain on sale	3,854	4,222	11,613	12,595
Gain on sale of properties	-	1,101	1,918	5,709
Interest income and other	258	156	498	396
Total revenues and other income	373,734	269,327	1,102,631	663,324
COSTS AND EXPENSES:				
Lease operating	69,001	58,807	197,586	177,343
Production taxes	26,193	18,792	77,341	43,225
Depreciation, depletion and amortization	97,704	101,273	289,836	301,622
Exploration and impairment	10,500	12,422	37,915	39,528
General and administrative	19,480	11,314	48,516	30,576
Interest expense	14,579	15,647	45,903	49,020
Loss on early extinguishment of debt	6,235	-	6,235	-
Change in Production Participation Plan liability	3,858	(678)	9,550	3,002
Commodity derivative (gain) loss, net	31,765	(10,391)	(46,654)	171,906
Total costs and expenses	279,315	207,186	666,228	816,222
INCOME (LOSS) BEFORE INCOME TAXES	94,419	62,141	436,403	(152,898)
INCOME TAX EXPENSE (BENEFIT):				
Current	(170)	(507)	6,468	(1,046)
Deferred	36,057	26,793	159,475	(50,785)
Total income tax expense (benefit)	35,887	26,286	165,943	(51,831)
NET INCOME (LOSS)	58,532	35,855	270,460	(101,067)
Preferred stock dividends	(52,920)	(4,911)	(63,701)	(4,911)
NET INCOME (LOSS) AVAILABLE TO COMMON	\$ 5,612	\$ 30,944	\$ 206,759	\$ (105,978)

SHAREHOLDERS

EARNINGS (LOSS) PER
COMMON SHARE:

Basic	\$ 0.12	\$ 0.59	\$ 4.04	\$ (2.15)
Diluted	\$ 0.12	\$ 0.59	\$ 4.00	\$ (2.15)

WEIGHTED AVERAGE
SHARES OUTSTANDING:

Basic	52,148	50,845	51,356	49,774
Diluted	52,453	51,174	52,096	49,774

See notes to consolidated
financial statements.

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

	Nine Months Ended September 30,	
	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	\$ 270,460	\$ (101,067)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion and amortization	289,836	301,622
Deferred income tax expense (benefit)	159,475	(50,785)
Amortization of debt issuance costs and debt discount	8,525	8,143
Stock-based compensation	6,585	4,047
Amortization of deferred gain on sale	(11,613)	(12,595)
Gain on sale of properties	(1,918)	(5,709)
Undeveloped leasehold and oil and gas property impairments	12,054	14,743
Exploratory dry hole costs	2,796	2,344
Loss on early extinguishment of debt	6,235	-
Change in Production Participation Plan liability	9,550	3,002
Unrealized (gain) loss on derivative contracts	(82,213)	145,650
Other non-current	(4,495)	646
Changes in current assets and liabilities:		
Accounts receivable trade	(30,273)	(2,317)
Prepaid expenses and other	(637)	30,062
Accounts payable trade and accrued liabilities	49,464	(49,380)
Revenues and royalties payable	29,221	884
Taxes payable	7,215	1,530
Net cash provided by operating activities	720,267	290,820
CASH FLOWS FROM INVESTING ACTIVITIES:		
Cash acquisition capital expenditures	(102,256)	(31,475)
Drilling and development capital expenditures	(473,697)	(403,571)
Proceeds from sale of oil and gas properties	7,875	80,308
Net cash used in investing activities	(568,078)	(354,738)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Issuance of 6.5% Senior Subordinated Notes due 2018	350,000	-
Redemption of 7.25% Senior Subordinated Notes due 2012	(150,000)	-
Redemption of 7.25% Senior Subordinated Notes due 2013	(223,988)	-
Issuance of 6.25% convertible perpetual preferred stock	-	334,112
Issuance of common stock	-	234,753
Premium on induced conversion of 6.25% convertible perpetual preferred stock	(47,529)	-
Preferred stock dividends paid	(16,172)	(4,911)
Long-term borrowings under credit agreement	850,000	310,000
Repayments of long-term borrowings under credit agreement	(910,000)	(780,000)
Debt issuance costs	(7,570)	(23,141)
Restricted stock used for tax withholdings	(5,679)	(659)

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Net cash (used in) provided by financing activities	(160,938)	70,154
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NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(8,749)	6,236
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CASH AND CASH EQUIVALENTS:

Beginning of period	11,960	9,624
End of period	\$ 3,211	\$ 15,860

NONCASH INVESTING ACTIVITIES:

Accrued capital expenditures during the period	\$ 73,682	\$ 23,372
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NONCASH FINANCING ACTIVITIES:

Issuance of common stock related to the induced conversion of preferred stock	\$ 317,406	\$ -
Preferred stock cancelled in connection with its induced conversion	\$ (317,406)	\$ -

See notes to consolidated financial statements.

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WHITING PETROLEUM CORPORATION
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
AND COMPREHENSIVE INCOME (Unaudited)
(In thousands)

	Preferred Stock	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total Stockholders' Equity	Comprehensive Income (Loss)		
	Shares	Amount	Shares	Amount	Capital	(Loss)	Earnings	Equity	(Loss)
BALANCES-January 1, 2009	-	\$-	42,582	\$43	\$971,310	\$17,271	\$820,167	\$1,808,791	
Net loss	-	-	-	-	-	-	(101,067)	(101,067)	\$(101,067)
Change in derivative fair values, net of taxes of \$7,799	-	-	-	-	-	13,348	-	13,348	13,348
Realized gain on settled derivative contracts, net of taxes of \$4,933	-	-	-	-	-	(8,517)	-	(8,517)	(8,517)
Ineffectiveness loss on hedging activities, net of taxes of \$8,355	-	-	-	-	-	14,300	-	14,300	14,300
OCI amortization on de-designated hedges, net of taxes of \$5,390	-	-	-	-	-	(9,232)	-	(9,232)	(9,232)
Total comprehensive income									\$(91,168)
Issuance of 6.25% convertible perpetual preferred stock	3,450	3	-	-	334,109	-	-	334,112	
Issuance of stock, secondary offering	-	-	8,450	8	234,745	-	-	234,753	
Restricted stock issued			364	-	-	-	-	-	
Restricted stock forfeited	-	-	(5)	-	-	-	-	-	
Restricted stock used for tax withholdings	-	-	(27)	-	(659)	-	-	(659)	
Tax effect from restricted stock vesting	-	-	-	-	(515)	-	-	(515)	
Stock-based compensation	-	-	-	-	4,047	-	-	4,047	
Preferred dividends paid	-	-	-	-	-	-	(4,911)	(4,911)	
BALANCES-September 30, 2009	3,450	\$3	51,364	\$51	\$1,543,037	\$27,170	\$714,189	\$2,284,450	
BALANCES-January 1, 2010	3,450	\$3	51,364	\$51	\$1,546,635	\$20,413	\$702,983	\$2,270,085	
Net income	-	-	-	-	-	-	270,460	270,460	\$270,460

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OCI amortization on de-designated hedges, net of taxes of \$7,242	-	-	-	-	-	(12,399)	-	(12,399)	(12,399)
Total comprehensive income									\$258,061
Induced conversion of convertible perpetual preferred stock	(3,277)	(3)	7,549	8	(5)	-	(47,529)	(47,529)
Restricted stock issued	-	-	162	-	-	-	-	-	-
Restricted stock forfeited	-	-	(11)	-	-	-	-	-
Restricted stock used for tax withholdings	-	-	(78)	-	(5,679)	-	(5,679)
Stock-based compensation	-	-	-	-	6,585	-	-	-	6,585
Preferred dividends paid	-	-	-	-	-	-	(16,172)	(16,172)
BALANCES-September 30, 2010	173	\$-	58,986	\$59					