

WHITING PETROLEUM CORP
Form 10-Q
April 27, 2007

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 **March 31, 2007**

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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

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Large accelerated filer T
filer F

Accelerated
Non-accelerated filer F

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No T

Number of shares of the registrant's common stock outstanding at April 16, 2007: 37,053,071 shares.

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WHITING PETROLEUM CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)
(In thousands)

	March 31, 2007	December 31, 2006
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 8,188	\$ 10,372
Accounts receivable trade, net	90,194	97,831
Deferred income taxes	5,208	3,025
Prepaid expenses and other	13,544	10,484
Total current assets	117,134	121,712
PROPERTY AND EQUIPMENT:		
Oil and gas properties, successful efforts method:		
Proved properties	2,952,031	2,828,282
Unproved properties	60,696	55,297
Other property and equipment	43,647	44,902
Total property and equipment	3,056,374	2,928,481
Less accumulated depreciation, depletion and amortization	(535,682)	(495,820)
Total property and equipment, net	2,520,692	2,432,661
DEBT ISSUANCE COSTS	18,233	19,352
OTHER LONG-TERM ASSETS	12,726	11,678
TOTAL	\$ 2,668,785	\$ 2,585,403

See notes to condensed consolidated financial statements.

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

	March 31, 2007	December 31, 2006
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$ 31,797	\$ 21,077
Accrued liabilities	53,319	58,504
Accrued interest	20,687	9,124
Oil and gas sales payable	17,634	19,064
Accrued employee compensation and benefits	4,159	17,800
Production taxes payable	6,088	9,820
Current portion of tax sharing liability	3,565	3,565
Current portion of derivative liability	10,071	4,088
Total current liabilities	147,320	143,042
NON-CURRENT LIABILITIES:		
Long-term debt	1,055,975	995,396
Asset retirement obligations	39,735	36,982
Production Participation Plan liability	27,535	25,443
Tax sharing liability	23,987	23,607
Deferred income taxes	169,942	165,031
Long-term derivative liability	7,175	5,248
Other long-term liabilities	4,211	3,984
Total non-current liabilities	1,328,560	1,255,691
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY:		
Common stock, \$0.001 par value; 75,000,000 shares authorized, 37,053,071 and 36,947,681 shares issued and outstanding as of March 31, 2007 and December 31, 2006, respectively	37	37
Additional paid-in capital	754,977	754,788
Accumulated other comprehensive loss	(10,199)	(5,902)
Retained earnings	448,090	437,747
Total stockholders' equity	1,192,905	1,186,670
TOTAL	\$ 2,668,785	\$ 2,585,403

See notes to condensed consolidated financial statements.

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

	Three Months Ended March 31,	
	2007	2006
REVENUES AND OTHER INCOME:		
Oil and natural gas sales	\$ 159,714	\$ 189,865
Loss on oil and natural gas hedging activities	-	(9,524)
Interest income and other	209	289
Total revenues and other income	159,923	180,630
COSTS AND EXPENSES:		
Lease operating	49,057	44,398
Production taxes	9,612	11,935
Depreciation, depletion and amortization	44,571	35,300
Exploration and impairment	9,176	7,042
General and administrative	8,285	9,611
Change in Production Participation Plan liability	2,092	2,074
Interest expense	19,497	16,973
Unrealized derivative loss	1,114	-
Total costs and expenses	143,404	127,333
INCOME BEFORE INCOME TAXES	16,519	53,297
INCOME TAX EXPENSE:		
Current	626	2,031
Deferred	5,227	18,276
Total income tax expense	5,853	20,307
NET INCOME	\$ 10,666	\$ 32,990
NET INCOME PER COMMON SHARE, BASIC AND DILUTED	\$ 0.29	\$ 0.90
WEIGHTED AVERAGE SHARES OUTSTANDING, BASIC	36,771	36,726
WEIGHTED AVERAGE SHARES OUTSTANDING, DILUTED	36,861	36,743

See notes to condensed consolidated financial statements.

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

	Three Months Ended March 31,	
	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 10,666	\$ 32,990
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion and amortization	44,571	35,300
Deferred income taxes	5,227	18,276
Amortization of debt issuance costs and debt discount	1,276	1,323
Accretion of tax sharing liability	380	525
Stock-based compensation	1,119	779
Unproved leasehold impairments	2,316	140
Change in Production Participation Plan liability	2,092	2,074
Unrealized derivative loss	1,114	-
Other non-current	(1,558)	(2,053)
Changes in current assets and liabilities:		
Accounts receivable trade	7,637	8,866
Prepaid expenses and other	(3,060)	(4,655)
Accounts payable and accrued liabilities	(953)	20,872
Accrued interest	11,563	7,772
Other current liabilities	(20,029)	(10,921)
Net cash provided by operating activities	62,361	111,288
CASH FLOWS FROM INVESTING ACTIVITIES:		
Cash acquisition capital expenditures	(16,718)	(15,773)
Drilling and development capital expenditures	(109,402)	(118,788)
Proceeds from sale of oil and gas properties	1,281	-
Net cash used in investing activities	(124,839)	(134,561)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Long-term borrowings under credit agreement	100,000	30,000
Repayments of long-term borrowings under credit agreement	(40,000)	(10,000)
Tax effect from restricted stock vesting	294	260
Net cash provided by financing activities	60,294	20,260
NET CHANGE IN CASH AND CASH EQUIVALENTS	(2,184)	(3,013)
CASH AND CASH EQUIVALENTS:		
Beginning of period	10,372	10,382
End of period	\$ 8,188	\$ 7,369
SUPPLEMENTAL CASH FLOW DISCLOSURES:		
Cash (refunded) paid for income taxes	\$ (73)	\$ 185
Cash paid for interest	\$ 6,741	\$ 7,353
NONCASH INVESTING ACTIVITIES:		
(Increase) decrease in accrued capital expenditures	\$ (6,427)	\$ 405

See notes to condensed consolidated financial statements.

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

	Common Stock		Accumulated Other Comprehensive Income			Total Stockholders' Equity		Comprehensive Income
	Shares	Amount	Additional Paid-in Capital	Income (Loss)	Deferred Compensation	Retained Earnings	Equity	Income
BALANCES—January 1, 2006	36,842	\$ 37	\$ 753,093	\$ (34,620)	\$ (2,031)	\$ 281,383	\$ 997,862	
Net income	-	-	-	-	-	156,364	156,364	156,364
Change in derivative fair values, net of taxes	-	-	-	24,140	-	-	24,140	24,140
Realized loss on settled derivative contracts, net of related taxes	-	-	-	4,578	-	-	4,578	4,578
Restricted stock issued	126	-	-	-	-	-	-	-
Restricted stock forfeited	(10)	-	-	-	-	-	-	-
Restricted stock used for tax withholdings	(10)	-	(440)	-	-	-	(440)	-
Tax effect from restricted stock vesting	-	-	288	-	-	-	288	-
Adoption of SFAS 123R	-	-	(2,122)	-	2,031	-	(91)	-
Stock-based compensation	-	-	3,969	-	-	-	3,969	-
BALANCES—December 31, 2006	36,948	37	754,788	(5,902)	-	437,747	1,186,670	\$ 185,082
Net income	-	-	-	-	-	10,666	10,666	10,666
Change in derivative fair values, net of taxes	-	-	-	(5,001)	-	-	(5,001)	(5,001)
Unrealized derivative loss, net of related taxes	-	-	-	704	-	-	704	704
Restricted stock issued	142	-	-	-	-	-	-	-
Restricted stock forfeited	(10)	-	-	-	-	-	-	-
Restricted stock used for tax withholdings	(27)	-	(1,224)	-	-	-	(1,224)	-
Tax effect from restricted stock vesting	-	-	294	-	-	-	294	-
Stock-based compensation	-	-	1,119	-	-	-	1,119	-
Adoption of FIN 48	-	-	-	-	-	(323)	(323)	-
BALANCES—March 31, 2007	37,053	\$ 37	\$ 754,977	\$ (10,199)	\$ -	\$ 448,090	\$ 1,192,905	\$ 6,369

See notes to condensed consolidated financial statements.

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**WHITING PETROLEUM CORPORATION
NOTES TO CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS (Unaudited)**

1. BASIS OF PRESENTATION

Description of Operations—Whiting Petroleum Corporation, a Delaware corporation, is an independent oil and gas company that acquires, exploits, develops and explores for crude oil, natural gas and natural gas liquids primarily in the Permian Basin, Rocky Mountains, Mid-Continent, Gulf Coast and Michigan regions of the United States. Unless otherwise specified or the context otherwise requires, all references in these notes to “Whiting” or the “Company” are to Whiting Petroleum Corporation and its subsidiaries.

Consolidated Financial Statements—The unaudited condensed consolidated financial statements include the accounts of Whiting Petroleum Corporation and its subsidiaries, all of which are wholly owned. The financial statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial reporting. All significant intercompany balances and transactions have been eliminated in consolidation. In the opinion of management, all material adjustments considered necessary for a fair presentation of the Company’s interim results have been reflected. Whiting’s 2006 Annual Report on Form 10-K includes certain definitions and a summary of significant accounting policies and should be read in conjunction with this Form 10-Q. Except as disclosed herein, there has been no material change to the information disclosed in the notes to consolidated financial statements included in Whiting’s 2006 Annual Report on Form 10-K.

Earnings Per Share—Basic net income per common share of stock is calculated by dividing net income by the weighted average number of common shares outstanding during each period. Diluted net income per common share of stock is calculated by dividing net income by the weighted average number of common shares and other dilutive securities outstanding. The only securities considered dilutive are the Company’s unvested restricted stock awards. The dilutive effect of these securities was immaterial to the calculation.

Reclassifications— Certain prior period balances were reclassified to conform to the current year presentation, and such reclassifications had no impact on net income or stockholders’ equity previously reported.

Change in Accounting Principle— In June 2006, the Financial Accounting Standards Board (“FASB”) issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, an interpretation of Statement of Financial Accounting Standards No. 109, *Accounting for Income Taxes* (“FIN 48”). The interpretation creates a single model to address accounting for uncertainty in tax positions. Specifically, the pronouncement prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition of certain tax positions.

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The Company adopted the provisions of FIN 48 on January 1, 2007. As a result of the implementation of FIN 48, the Company recognized a \$0.3 million increase in the liability for unrecognized tax benefits, which was accounted for as a reduction to the January 1, 2007 balance of retained earnings and a corresponding increase in other long-term liabilities. As of the adoption date and after the impact of recognizing the increase in liability noted above, the Company's unrecognized tax benefits totaled \$0.4 million, and there were no additions or reductions to the Company's unrecognized tax benefits during the three months ended March 31, 2007. Included in the balance at January 1, 2007, are \$0.1 million of tax positions, the allowance of which would positively affect the annual effective income tax rate. It is reasonably possible that unrecognized tax benefits in the amount of \$0.3 million relating to gas imbalances will decrease within the next 12 months, as Whiting is in the process of applying for a change in the method of accounting to a method prescribed by the Internal Revenue Service ("IRS").

The Company files income tax returns in the U.S. Federal jurisdiction, in various states, and two foreign jurisdictions. The following is a listing of tax years that remain subject to examination by major jurisdiction:

U.S. Federal	11/23/2003 – 12/31/2006
U.S. states	11/23/2003 – 12/31/2006
Canada	01/01/2002 – 12/31/2006
Province of Alberta	01/01/2002 – 12/31/2006

Prior to November 23, 2003, Whiting was owned 100% by Alliant Energy Corporation ("Alliant Energy"). Alliant Energy is presently under audit by the IRS for the years 1999 through 2003. Based on discussions with Alliant Energy, the Company believes that there are no issues that would require adjustment to Whiting's tax liability for the periods 1999 to 2001. Information is not yet available for the 2002 to 2003 periods.

The Company's policy is to recognize potential interest and penalties accrued related to unrecognized tax benefits within income tax expense. For the quarter ended March 31, 2007, the Company did not recognize any interest or penalties in the condensed consolidated statements of income, nor did the Company have any interest or penalties accrued in its condensed consolidated balance sheet at March 31, 2007 relating to unrecognized tax benefits.