

WHITING PETROLEUM CORP
Form 10-Q
October 29, 2015
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, 2015

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, 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, 2015: 204,142,725 shares.

TABLE OF CONTENTS	
<u>Glossary of Certain Definitions</u>	1
<u>PART I – FINANCIAL INFORMATION</u>	
<u>Item</u>	
<u>1.Consolidated Financial Statements (Unaudited)</u>	4
<u>Consolidated Balance Sheets as of September 30, 2015 and December 31, 2014</u>	4
<u>Consolidated Statements of Income for the Three and Nine Months Ended September 30, 2015 and 2014</u>	5
<u>Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2015 and 2014</u>	6
<u>Consolidated Statements of Equity for the Nine Months Ended September 30, 2015 and 2014</u>	7
<u>Notes to Consolidated Financial Statements</u>	8
<u>Item</u>	
<u>2.Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	24
<u>Item</u>	
<u>3.Quantitative and Qualitative Disclosures about Market Risk</u>	40
<u>Item</u>	
<u>4.Controls and Procedures</u>	42
<u>PART II – OTHER INFORMATION</u>	
<u>Item</u>	
<u>1.Legal Proceedings</u>	43
<u>Item</u>	
<u>1.Risk Factors</u>	43
<u>Item</u>	
<u>6.Exhibits</u>	43

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:

“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 or CO₂.

“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.

“CO₂” Carbon dioxide.

“CO₂ flood” A tertiary recovery method in which CO₂ is injected into a reservoir to enhance hydrocarbon recovery.

“completion” The installation of permanent equipment for the production of crude oil or natural gas, or in the case of a dry hole, the reporting of abandonment to the appropriate agency.

“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, 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.

“EOR” Enhanced oil recovery.

“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. Generally, an exploratory well is any well that is not a development well, an extension well, a service well or a stratigraphic test well.

“extension well” A well drilled to extend the limits of a known reservoir.

“FASB” Financial Accounting Standards Board.

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

“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.

1

Table of Contents

“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.

“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 or CO₂.

“MMBbl” One million Bbl.

“MMBOE” One million BOE.

“MMBtu” One million British Thermal Units.

“MMcf” One million cubic feet, used in reference to natural gas or CO₂.

“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 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 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:

2

Table of Contents

- 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.

“proved undeveloped reserves” or “PUDs” Proved reserves that are expected to be recovered from new wells on undrilled acreage, or from existing wells where a relatively major expenditure is required for recompletion. Reserves on undrilled acreage shall be limited to those directly offsetting development spacing areas that are reasonably certain of production when drilled, unless evidence using reliable technology exists that establishes reasonable certainty of economic producibility at greater distances. Undrilled locations can be classified as having undeveloped reserves only if a development plan has been adopted indicating that they are scheduled to be drilled within five years, unless specific circumstances justify a longer time. Under no circumstances shall estimates of proved undeveloped reserves be attributable to any acreage for which an application of fluid injection or other improved recovery technique is contemplated, unless such techniques have been proved effective by actual projects in the same reservoir or an analogous reservoir, or by other evidence using reliable technology establishing reasonable certainty.

“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.

“recompletion” An operation whereby a completion in one zone is abandoned in order to attempt a completion in a different zone within the existing wellbore.

“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.

“royalty interest” An interest in an oil or natural gas property entitling the owner to shares of the crude oil or natural gas production free of costs of exploration, development and production operations.

“SEC” The United States Securities and Exchange Commission.

“service well” A service well is a well drilled or completed for the purpose of supporting production in an existing field. Wells in this class are drilled for the following specific purposes: gas injection (natural gas, propane, butane, CO2 or flue gas), water injection, steam injection, air injection, salt-water disposal, water supply for injection, observation or injection for in-situ combustion.

“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. Consolidated Financial Statements

WHITING PETROLEUM CORPORATION

CONSOLIDATED BALANCE SHEETS (unaudited)

(in thousands, except share and per share data)

	September 30, 2015	December 31, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 37,731	\$ 78,100
Accounts receivable trade, net	354,488	543,172
Derivative assets	125,988	135,577
Prepaid expenses and other	39,967	86,150
Total current assets	558,174	842,999
Property and equipment:		
Oil and gas properties, successful efforts method	13,795,901	14,949,702
Other property and equipment	164,278	276,582
Total property and equipment	13,960,179	15,226,284
Less accumulated depreciation, depletion and amortization	(3,013,548)	(3,083,572)
Total property and equipment, net	10,946,631	12,142,712
Goodwill	-	875,676
Debt issuance costs	76,244	53,274
Other long-term assets	91,111	104,843
TOTAL ASSETS	\$ 11,672,160	\$ 14,019,504
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable trade	\$ 124,805	\$ 62,664
Accrued capital expenditures	125,893	429,970
Revenues and royalties payable	178,208	254,018
Production Participation Plan liability	-	113,391
Accrued liabilities and other	142,316	169,193
Taxes payable	63,390	63,822
Accrued interest	73,925	67,913
Deferred income taxes	55,398	47,545

Edgar Filing: WHITING PETROLEUM CORP - Form 10-Q

Total current liabilities	763,935	1,208,516
Long-term debt	5,254,646	5,628,782
Deferred income taxes	586,578	1,230,630
Asset retirement obligations	137,051	167,741
Deferred gain on sale	52,133	60,305
Other long-term liabilities	27,799	20,486
Total liabilities	6,822,142	8,316,460
Commitments and contingencies		
Equity:		
Common stock, \$0.001 par value, 300,000,000 shares authorized; 206,455,594 issued and 204,142,725 outstanding as of September 30, 2015 and 168,346,020 issued and 166,889,152 outstanding as of December 31, 2014	206	168
Additional paid-in capital	4,652,571	3,385,094
Retained earnings	189,219	2,309,712
Total Whiting shareholders' equity	4,841,996	5,694,974
Noncontrolling interest	8,022	8,070
Total equity	4,850,018	5,703,044
TOTAL LIABILITIES AND EQUITY	\$ 11,672,160	\$ 14,019,504

See notes to consolidated financial statements.

Table of Contents

WHITING PETROLEUM CORPORATION

CONSOLIDATED STATEMENTS OF INCOME (unaudited)

(in thousands, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
REVENUES AND OTHER INCOME:				
Oil, NGL and natural gas sales	\$ 504,155	\$ 805,054	\$ 1,674,530	\$ 2,352,064
Gain (loss) on sale of properties	(359)	(50)	(61,937)	12,305
Amortization of deferred gain on sale	3,666	7,689	13,240	22,906
Interest income and other	579	438	1,449	1,727
Total revenues and other income	508,041	813,131	1,627,282	2,389,002
COSTS AND EXPENSES:				
Lease operating expenses	125,575	124,075	435,315	357,222
Production taxes	44,303	69,106	145,410	197,993
Depreciation, depletion and amortization	316,147	285,658	922,077	789,432
Exploration and impairment	1,690,679	29,925	1,829,160	103,544
Goodwill impairment	869,713	-	869,713	-
General and administrative	44,821	37,070	133,788	104,959
Interest expense	84,551	39,632	247,984	120,821
Loss on early extinguishment of debt	-	-	5,634	-
Commodity derivative (gain) loss, net	(207,783)	(23,783)	(115,215)	26,828
Total costs and expenses	2,968,006	561,683	4,473,866	1,700,799
INCOME (LOSS) BEFORE INCOME TAXES	(2,459,965)	251,448	(2,846,584)	688,203
INCOME TAX EXPENSE (BENEFIT):				
Current	(422)	(660)	(357)	7,695
Deferred	(594,425)	94,147	(725,686)	262,070
Total income tax expense (benefit)	(594,847)	93,487	(726,043)	269,765
NET INCOME (LOSS)	(1,865,118)	157,961	(2,120,541)	418,438
Net loss attributable to noncontrolling interests	10	14	48	50
NET INCOME (LOSS) AVAILABLE TO COMMON SHAREHOLDERS				
	\$ (1,865,108)	\$ 157,975	\$ (2,120,493)	\$ 418,488
EARNINGS (LOSS) PER COMMON SHARE:				
Basic	\$ (9.14)	\$ 1.33	\$ (11.01)	\$ 3.52
Diluted	\$ (9.14)	\$ 1.32	\$ (11.01)	\$ 3.48
WEIGHTED AVERAGE SHARES OUTSTANDING:				

Edgar Filing: WHITING PETROLEUM CORP - Form 10-Q

Basic	204,143	119,024	192,549	118,972
Diluted	204,143	120,066	192,549	120,109

See notes to consolidated financial statements.

5

Table of Contents

WHITING PETROLEUM CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

(in thousands)

	Nine Months Ended September 30,	
	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	\$ (2,120,541)	\$ 418,438
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation, depletion and amortization	922,077	789,432
Deferred income tax expense (benefit)	(725,686)	262,070
Amortization of debt issuance costs, debt discount and debt premium	33,058	9,343
Stock-based compensation	20,786	17,077
Amortization of deferred gain on sale	(13,240)	(22,906)
(Gain) loss on sale of properties	61,937	(12,305)
Undeveloped leasehold and oil and gas property impairments	1,721,160	53,972
Goodwill impairment	869,713	-
Exploratory dry hole costs	867	3,972
Loss on early extinguishment of debt	5,634	-
Non-cash portion of derivative losses	31,831	19,661
Other, net	(4,914)	(7,973)
Changes in current assets and liabilities:		
Accounts receivable trade, net	188,341	(112,358)
Prepaid expenses and other	45,787	2,944
Accounts payable trade and accrued liabilities	(59,181)	(99,581)
Revenues and royalties payable	(75,810)	6,086
Taxes payable	(563)	21,434
Net cash provided by operating activities	901,256	1,349,306
CASH FLOWS FROM INVESTING ACTIVITIES:		
Drilling and development capital expenditures	(2,146,681)	(2,046,338)
Acquisition of oil and gas properties	(25,018)	(58,104)
Other property and equipment	(7,123)	(58,907)
Proceeds from sale of oil and gas properties	338,507	83,500
Net cash used in investing activities	(1,840,315)	(2,079,849)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Issuance of common stock	1,111,148	-
Issuance of 1.25% Convertible Senior Notes due 2020	1,250,000	-
Issuance of 6.25% Senior Notes due 2023	750,000	-
Partial redemption of 8.125% Senior Notes due 2019	(2,475)	-
Redemption of 5.5% Senior Notes due 2021	(353,500)	-

Edgar Filing: WHITING PETROLEUM CORP - Form 10-Q

Redemption of 5.5% Senior Notes due 2022	(404,000)	-
Borrowings under credit agreement	2,450,000	350,000
Repayments of borrowings under credit agreement	(3,850,000)	(250,000)
Repayment of tax sharing liability	-	(26,373)
Debt and equity issuance costs	(54,420)	(4,508)
Restricted stock used for tax withholdings	(1,111)	(11,340)
Proceeds from stock options exercised	3,048	1,357
Net cash provided by financing activities	898,690	59,136
NET CHANGE IN CASH AND CASH EQUIVALENTS	(40,369)	(671,407)
CASH AND CASH EQUIVALENTS:		
Beginning of period	78,100	699,460
End of period	\$ 37,731	\$ 28,053
NONCASH INVESTING ACTIVITIES:		
Accrued capital expenditures related to property additions	\$ 125,893	\$ 226,337

See notes to consolidated financial statements.

Table of Contents

WHITING PETROLEUM CORPORATION

CONSOLIDATED STATEMENTS OF EQUITY (unaudited)

(in thousands)

	Common Shares	Stock Amount	Additional Paid-in Capital	Retained Earnings	Total Whiting Shareholders' Equity	Noncontrolling Interest	Total Equity
BALANCES-January 1, 2014	120,102	\$ 120	\$ 1,583,542	\$ 2,244,905	\$ 3,828,567	\$ 8,132	\$ 3,836,699
Net income (loss)	-	-	-	418,488	418,488	(50)	418,438
Exercise of stock options	84	-	1,357	-	1,357	-	1,357
Restricted stock issued	908	1	(1)	-	-	-	-
Restricted stock forfeited	(384)	-	-	-	-	-	-
Restricted stock used for tax withholdings	(191)	-	(11,340)	-	(11,340)	-	(11,340)
Stock-based compensation	-	-	17,077	-	17,077	-	17,077
BALANCES-September 30, 2014	120,519	\$ 121	\$ 1,590,635	\$ 2,663,393	\$ 4,254,149	\$ 8,082	\$ 4,262,231
BALANCES-January 1, 2015	168,346	\$ 168	\$ 3,385,094	\$ 2,309,712	\$ 5,694,974	\$ 8,070	\$ 5,703,044
Net loss	-	-	-	(2,120,493)	(2,120,493)	(48)	(2,120,541)
Issuance of common stock	37,000	37	1,100,000	-	1,100,037	-	1,100,037
Equity component of Convertible Senior Notes, net	-	-	144,755	-	144,755	-	144,755
Exercise of stock options	149	-	3,048	-	3,048	-	3,048
Restricted stock issued	1,216	1	(1)	-	-	-	-
Restricted stock forfeited	(217)	-	-	-	-	-	-
Restricted stock used for tax withholdings	(38)	-	(1,111)	-	(1,111)	-	(1,111)
Stock-based compensation	-	-	20,786	-	20,786	-	20,786
BALANCES-September 30, 2015	206,456	\$ 206	\$ 4,652,571	\$ 189,219	\$ 4,841,996	\$ 8,022	\$ 4,850,018

See notes to consolidated financial statements.

7

Table of Contents

WHITING PETROLEUM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

1. BASIS OF PRESENTATION

Description of Operations—Whiting Petroleum Corporation, a Delaware corporation, is an independent oil and gas company engaged in the exploration, development, acquisition and production of crude oil, NGLs and natural gas primarily in the Rocky Mountains and Permian Basin 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 consolidated subsidiaries, Whiting Oil and Gas Corporation (“Whiting Oil and Gas”), Whiting US Holding Company, Whiting Canadian Holding Company ULC (formerly Kodiak Oil & Gas Corp., “Kodiak”), Whiting Resources Corporation (formerly Kodiak Oil & Gas (USA) Inc.) and Whiting Programs, Inc.

Consolidated Financial Statements—The unaudited consolidated financial statements include the accounts of Whiting Petroleum Corporation, its consolidated subsidiaries and Whiting’s pro rata share of the accounts of Whiting USA Trust I (“Trust I”) pursuant to Whiting’s 15.8% ownership interest in Trust I. On January 28, 2015, the net profits interest that Whiting conveyed to Trust I terminated as a result of 9.11 MMBOE (which amount is equivalent to 8.20 MMBOE attributable to the 90% net profits interest) having been produced and sold from the underlying properties. Upon termination, the net profits interest in the underlying properties reverted back to Whiting. Investments in entities which give Whiting significant influence, but not control, over the investee are accounted for using the equity method. Under the equity method, investments are stated at cost plus the Company’s equity in undistributed earnings and losses. All intercompany balances and transactions have been eliminated upon consolidation. These financial statements have been prepared in accordance with GAAP and the SEC rules and regulations for interim financial reporting. In the opinion of management, the accompanying financial statements include all adjustments (consisting of normal recurring accruals and adjustments) necessary to present fairly, in all material respects, the Company’s interim results. However, operating results for the periods presented are not necessarily indicative of the results that may be expected for the full year. The consolidated financial statements and related notes included in this Quarterly Report on Form 10-Q should be read in conjunction with Whiting’s consolidated financial statements and related notes included in the Company’s 2014 Annual Report on Form 10-K. Except as disclosed herein, there have been no material changes to the information disclosed in the notes to the consolidated financial statements included in the Company’s 2014 Annual Report on Form 10 K.

Earnings Per Share—Basic earnings per common share is calculated by dividing net income available to common shareholders by the weighted average number of common shares outstanding during each period. Diluted earnings per common share is calculated by dividing adjusted net income available to common shareholders by the weighted average number of diluted common shares outstanding, which includes the effect of potentially dilutive securities. Potentially dilutive securities for the diluted earnings per share calculations consist of unvested restricted stock awards, outstanding stock options and contingently issuable shares of convertible debt, all using the treasury stock method. In the computation of diluted earnings per share, excess tax benefits that would be created upon the assumed vesting of unvested restricted shares or the assumed exercise of stock options (i.e. hypothetical excess tax benefits) are included in the assumed proceeds component of the treasury stock method to the extent that such excess tax benefits are more likely than not to be realized. In addition, to the extent the conversion value of the convertible

debt exceeds the aggregate principal amount of the notes, such conversion spread is included in the diluted earnings per share computation under the treasury stock method. When a loss from continuing operations exists, all potentially dilutive securities are anti-dilutive and are therefore excluded from the computation of diluted earnings per share.

2. OIL AND GAS PROPERTIES

Net capitalized costs related to the Company's oil and gas producing activities at September 30, 2015 and December 31, 2014 are as follows (in thousands):

	September 30, 2015	December 31, 2014
Proved leasehold costs	\$ 3,129,299	\$ 3,637,026
Unproved leasehold costs	776,502	1,232,040
Costs of completed wells and facilities	9,426,149	9,319,808
Wells and facilities in progress	463,951	760,828
Total oil and gas properties, successful efforts method	13,795,901	14,949,702
Accumulated depletion	(2,972,126)	(3,003,270)
Oil and gas properties, net	\$ 10,823,775	\$ 11,946,432

Table of Contents

3. ACQUISITIONS AND DIVESTITURES

2015 Acquisitions

There were no significant acquisitions during the nine months ended September 30, 2015.

2015 Divestitures

In June 2015, the Company completed the sale of its interests in certain non-core producing oil and gas wells, effective June 1, 2015, for a purchase price of \$150 million (subject to post-closing adjustments) and resulting in a pre-tax loss on sale of \$114 million. The properties included over 2,000 gross wells in 132 fields across 10 states.

In April 2015, the Company completed the sale of its interests in certain non-core producing oil and gas wells, effective May 1, 2015, for a purchase price of \$108 million (subject to post-closing adjustments) and resulting in a pre-tax gain on sale of \$31 million. The properties are located in 187 fields across 14 states, and predominately consist of assets that were previously included in the underlying properties of Whiting USA Trust I.

Also during the nine months ended September 30, 2015, the Company completed several immaterial divestiture transactions for the sale of its interests in certain non-core producing oil and gas wells and undeveloped acreage, for a total purchase price of \$78 million (subject to post-closing adjustments) and resulting in a pre-tax gain on sale of \$21 million. In addition, subsequent to quarter-end, the Company entered into an agreement to sell its interests in additional non-core producing oil and gas wells, effective October 1, 2015, for a purchase price of \$52 million (subject to post-closing adjustments).

2014 Acquisitions

On December 8, 2014, the Company completed the acquisition of Kodiak Oil & Gas Corp. (now known as Whiting Canadian Holding Company ULC, "Kodiak"), whereby Whiting acquired all of the outstanding common stock of Kodiak (the "Kodiak Acquisition"). Pursuant to the terms of the Kodiak Acquisition agreement, Kodiak shareholders received 0.177 of a share of Whiting common stock in exchange for each share of Kodiak common stock they owned. Total consideration for the Kodiak Acquisition was \$1.8 billion, consisting of 47,546,139 Whiting common shares issued at the market price of \$37.25 per share on the date of issuance plus the fair value of Kodiak's outstanding equity awards assumed by Whiting. The aggregate purchase price of the transaction was \$4.3 billion, which included the assumption of Kodiak's outstanding debt of \$2.5 billion as of December 8, 2014 and the net cash acquired of \$19 million.

Kodiak was an independent energy company focused on exploration and production of crude oil and natural gas reserves, primarily in the Williston Basin region of the United States. As a result of the Kodiak Acquisition, Whiting acquired approximately 327,000 gross (178,000 net) acres located primarily in North Dakota, including interests in 778 producing oil and gas wells and undeveloped acreage. Approximately 10,000 of the net acres acquired were located in Wyoming and Colorado.

The Kodiak Acquisition was accounted for using the acquisition method of accounting for business combinations. The allocation of the purchase price is based upon management's estimates and assumptions related to the fair value of assets acquired and liabilities assumed on the acquisition date using currently available

information. Transaction costs relating to the Kodiak Acquisition were expensed as incurred. The initial accounting for the Kodiak Acquisition is preliminary, and adjustments to provisional amounts (such as goodwill, certain accrued receivables and liabilities, and their related deferred taxes) or recognition of additional assets acquired or liabilities assumed, may occur as additional information is obtained about facts and circumstances that existed as of the acquisition date. Since the acquisition date, the Company has recorded adjustments to provisional amounts, and a corresponding decrease to goodwill, totaling \$6 million. These adjustments did not have a material impact on the Company's previously reported consolidated financial statements, and therefore the Company has not retrospectively adjusted those financial statements.

The consideration transferred, fair value of assets acquired and liabilities assumed, and the resulting goodwill as of the acquisition date are as follows (in thousands):

Consideration:	
Fair value of Whiting's common stock issued (1)	\$ 1,771,094
Fair value of Kodiak restricted stock units assumed by Whiting (2)	9,596
Fair value of Kodiak options assumed by Whiting	7,523
Total consideration	\$ 1,788,213

Table of Contents

Fair value of liabilities assumed:	
Accounts payable trade	\$ 18,390
Accrued capital expenditures	100,406
Revenues and royalties payable	57,423
Accrued liabilities and other	42,964
Taxes payable	12,807
Accrued interest	18,070
Current deferred tax liability	31,034
Long-term debt	2,500,875
Asset retirement obligations	8,646
Other long-term liabilities	15,735
Amount attributable to liabilities assumed	\$ 2,806,350

Fair value of assets acquired:	
Cash and cash equivalents	\$ 18,879
Accounts receivable trade, net	220,944
Derivative assets	85,718
Prepaid expenses and other	8,552
Oil and gas properties, successful efforts method:	
Proved properties	2,266,607
Unproved properties	1,000,396
Other property and equipment	11,347
Long-term deferred tax asset	106,758
Other long-term assets	5,649
Amount attributable to assets acquired	\$ 3,724,850
Goodwill	\$ 869,713

(1) 47,546,139 shares of Whiting common stock at \$37.25 per share (closing price as of December 5, 2014) based on Kodiak's 268,622,497 common shares outstanding at closing.

(2) 257,601 shares of Whiting common stock issued at \$37.25 per share (closing price as of December 5, 2014) based on Kodiak's 1,455,409 restricted stock units held by employees as of December 8, 2014.

Goodwill recognized as a result of the Kodiak Acquisition totaled \$870 million, none of which is deductible for income tax purposes. Goodwill was primarily attributable to the operational and financial synergies expected to be realized from the acquisition, including the employment of optimized completion techniques on Kodiak's undrilled acreage which improved hydrocarbon recovery, the realization of savings in drilling and well completion costs, the accelerated development of Kodiak's asset base, and the acquisition of experienced oil and gas technical personnel. During the third quarter of 2015, the Company determined that the goodwill recognized as a resu