Oasis Petroleum Inc.
Form 10-Q
November 08, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2016
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: 1-34776

Oasis Petroleum Inc.
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	80-0554627 (I.R.S. Employer Identification No.)
1001 Fannin Street, Suite 1500 Houston, Texas (Address of principal executive offices)	77002 (Zip Code)

(281) 404-9500
(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 ý 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 ý 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.

Large accelerated filer ý	Accelerated filer ¨
Non-accelerated filer o (Do not check if a smaller reporting company)	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 ý
Number of shares of the registrant’s common stock outstanding at November 2, 2016: 236,365,219 shares.

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PART I — FINANCIAL INFORMATION
Item 1. — Financial Statements (Unaudited)
Oasis Petroleum Inc.
Condensed Consolidated Balance Sheet
(Unaudited)

	September 30, 2016	December 31, 2015
	(In thousands, except share data)	
ASSETS		
Current assets		
Cash and cash equivalents	$ 13,776	$ 9,730
Accounts receivable — oil and gas revenues	103,128	96,495
Accounts receivable — joint interest and other	77,903	100,914
Inventory	8,513	11,072
Prepaid expenses	6,093	7,328
Derivative instruments	9,142	139,697
Other current assets	4,290	50
Total current assets	222,845	365,286
Property, plant and equipment		
Oil and gas properties (successful efforts method)	6,438,782	6,284,401
Other property and equipment	580,171	443,265
Less: accumulated depreciation, depletion, amortization and impairment	(1,866,280)	(1,509,424)
Total property, plant and equipment, net	5,152,673	5,218,242
Assets held for sale	—	26,728
Derivative instruments	194	15,776
Other assets	22,549	23,343
Total assets	$ 5,398,261	$ 5,649,375
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$ 7,929	$ 9,983
Revenues and production taxes payable	141,991	132,356
Accrued liabilities	98,926	167,669
Accrued interest payable	19,798	49,413
Derivative instruments	17,308	—
Advances from joint interest partners	5,191	4,647
Other current liabilities	—	6,500
Total current liabilities	291,143	370,568
Long-term debt	2,125,573	2,302,584
Deferred income taxes	546,202	608,155
Asset retirement obligations	37,092	35,338
Liabilities held for sale	—	10,228
Derivative instruments	7,755	—
Other liabilities	2,992	3,160
Total liabilities	3,010,757	3,330,033
Commitments and contingencies (Note 15)		
Stockholders' equity		
Common stock, $0.01 par value: 450,000,000 and 300,000,000 shares authorized at September 30, 2016 and December 31, 2015, respectively; 182,038,164 shares issued and 181,186,070 shares outstanding at September 30, 2016 and 139,583,990 shares	1,779	1,376

issued and 139,076,064 shares outstanding at December 31, 2015		
Treasury stock, at cost: 852,094 and 507,926 shares at September 30, 2016 and December 31, 2015, respectively	(15,895)	(13,620)
Additional paid-in capital	1,755,427	1,497,065
Retained earnings	646,193	834,521
Total stockholders' equity	2,387,504	2,319,342
Total liabilities and stockholders' equity	$ 5,398,261	$ 5,649,375

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

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Oasis Petroleum Inc.
Condensed Consolidated Statement of Operations
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
	(In thousands, except per share data)			
Revenues				
Oil and gas revenues	$158,183	$175,270	$434,835	$563,239
Well services and midstream revenues	19,128	21,965	51,839	44,429
Total revenues	177,311	197,235	486,674	607,668
Operating expenses				
Lease operating expenses	35,696	35,670	98,283	112,556
Well services and midstream operating expenses	8,165	10,023	21,429	19,370
Marketing, transportation and gathering expenses	8,856	8,465	23,899	23,313
Production taxes	14,638	16,676	39,758	53,915
Depreciation, depletion and amortization	111,948	123,734	356,885	361,430
Exploration expenses	489	327	1,192	2,252
Rig termination	—	—	—	3,895
Impairment	382	80	3,967	24,917
General and administrative expenses	22,845	22,358	69,087	67,190
Total operating expenses	203,019	217,333	614,500	668,838
Gain (loss) on sale of properties	6	172	(1,305)	172
Operating loss	(25,702)	(19,926)	(129,131)	(60,998)
Other income (expense)				
Net gain (loss) on derivative instruments	20,847	103,637	(55,624)	111,285
Interest expense, net of capitalized interest	(31,726)	(36,513)	(105,444)	(112,702)
Gain (loss) on extinguishment of debt	(13,793)	—	4,865	—
Other income (expense)	(259)	249	188	370
Total other income (expense)	(24,931)	67,373	(156,015)	(1,047)
Income (loss) before income taxes	(50,633)	47,447	(285,146)	(62,045)
Income tax benefit (expense)	16,691	(20,392)	96,818	17,829
Net income (loss)	$(33,942)	$27,055	$(188,328)	$(44,216)
Earnings (loss) per share:				
Basic (Note 13)	$(0.19)	$0.20	$(1.09)	$(0.35)
Diluted (Note 13)	(0.19)	0.20	(1.09)	(0.35)
Weighted average shares outstanding:				
Basic (Note 13)	177,120	137,014	172,360	127,827
Diluted (Note 13)	177,120	137,014	172,360	127,827

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

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Oasis Petroleum Inc.
Condensed Consolidated Statement of Changes in Stockholders' Equity
(Unaudited)

	Common Stock		Treasury Stock		Additional Paid-in Capital	Retained Earnings	Total Stockholders' Equity
	Shares	Amount	Shares	Amount			
	(In thousands)						
Balance at December 31, 2015	139,076	$ 1,376	508	$ (13,620)	$ 1,497,065	$ 834,521	$ 2,319,342
Issuance of common stock	39,100	391	—	—	182,400	—	182,791
Stock-based compensation	3,354		—	—	20,109	—	20,109
Vesting of restricted shares	—	12	—	—	(12)	—	—
Equity component of senior unsecured convertible notes, net	—	—	—	—	55,865	—	55,865
Treasury stock – tax withholdings	(344)	—	344	(2,275)	—	—	(2,275)
Net loss	—	—	—	—	—	(188,328)	(188,328)
Balance at September 30, 2016	181,186	$ 1,779	852	$ (15,895)	$ 1,755,427	$ 646,193	$ 2,387,504

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

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Oasis Petroleum Inc.
Condensed Consolidated Statement of Cash Flows
(Unaudited)

	Nine Months Ended September 30, 2016	2015
	(In thousands)	
Cash flows from operating activities:		
Net loss	$(188,328)	$(44,216)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation, depletion and amortization	356,885	361,430
Gain on extinguishment of debt	(4,865)	—
(Gain) loss on sale of properties	1,305	(172)
Impairment	3,967	24,917
Deferred income taxes	(96,818)	(17,829)
Derivative instruments	55,624	(111,285)
Stock-based compensation expenses	18,761	19,629
Deferred financing costs amortization and other	10,174	7,468
Working capital and other changes:		
Change in accounts receivable	11,349	108,309
Change in inventory	2,559	8,425
Change in prepaid expenses	1,168	638
Change in other current assets	(240)	5,529
Change in other assets	(148)	—
Change in accounts payable, interest payable and accrued liabilities	(41,991)	(84,133)
Change in other current liabilities	(6,000)	1,655
Change in other liabilities	17	(28)
Net cash provided by operating activities	123,419	280,337
Cash flows from investing activities:		
Capital expenditures	(340,314)	(740,633)
Proceeds from sale of properties	12,333	78
Costs related to sale of properties	(310)	—
Derivative settlements	115,576	291,436
Advances from joint interest partners	544	(1,239)
Net cash used in investing activities	(212,171)	(450,358)
Cash flows from financing activities:		
Proceeds from revolving credit facility	835,000	618,000
Principal payments on revolving credit facility	(778,000)	(938,000)
Repurchase of senior unsecured notes	(435,907)	—
Proceeds from issuance of senior unsecured convertible notes	300,000	—
Deferred financing costs	(8,811)	(3,587)
Proceeds from sale of common stock	182,791	462,833
Purchases of treasury stock	(2,275)	(2,771)
Net cash provided by financing activities	92,798	136,475
Increase (decrease) in cash and cash equivalents	4,046	(33,546)
Cash and cash equivalents:		
Beginning of period	9,730	45,811
End of period	$13,776	$12,265
Supplemental non-cash transactions:		

Change in accrued capital expenditures	$(49,177)	$(233,913)
Change in asset retirement obligations	(8,083)	3,405

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

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OASIS PETROLEUM INC.
Notes to Condensed Consolidated Financial Statements (Unaudited)
1. Organization and Operations of the Company
Oasis Petroleum Inc. (together with its consolidated subsidiaries, “Oasis” or the “Company”) was originally formed in 2007 and was incorporated pursuant to the laws of the State of Delaware in 2010. The Company is an independent exploration and production company focused on the acquisition and development of unconventional oil and natural gas resources in the North Dakota and Montana regions of the Williston Basin. Oasis Petroleum North America LLC (“OPNA”) conducts the Company’s exploration and production activities and owns its proved and unproved oil and natural gas properties. The Company also operates a well services business through Oasis Well Services LLC (“OWS”) and a midstream services business through Oasis Midstream Services LLC (“OMS”), both of which are separate reportable business segments that are complementary to its primary development and production activities.
2. Summary of Significant Accounting Policies
Basis of Presentation
The accompanying condensed consolidated financial statements of the Company include the accounts of Oasis and its wholly-owned subsidiaries. All significant intercompany transactions have been eliminated in consolidation. The accompanying condensed consolidated financial statements of the Company have not been audited by the Company’s independent registered public accounting firm, except that the Condensed Consolidated Balance Sheet at December 31, 2015 is derived from audited financial statements. In the opinion of management, all adjustments, consisting of normal recurring adjustments necessary for the fair statement, have been included. Management has made certain estimates and assumptions that affect reported amounts in the condensed consolidated financial statements and disclosures of contingencies. Actual results may differ from those estimates. The results for interim periods are not necessarily indicative of annual results.
These interim financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”) regarding interim financial reporting. Certain disclosures have been condensed or omitted from these financial statements. Accordingly, they do not include all of the information and notes required by accounting principles generally accepted in the United States of America (“GAAP”) for complete consolidated financial statements and should be read in conjunction with the Company’s audited consolidated financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2015 (“2015 Annual Report”).
Risks and Uncertainties
As an oil and natural gas producer, the Company’s revenue, profitability and future growth are substantially dependent upon the prevailing and future prices for oil and natural gas, which are dependent upon numerous factors beyond its control such as economic, political and regulatory developments and competition from other energy sources. The energy markets have historically been very volatile, and there can be no assurance that oil and natural gas prices will not be subject to wide fluctuations in the future. Oil and natural gas prices have declined significantly since mid-2014. As a result of sustained lower commodity prices, the Company decreased its 2016 capital expenditures, excluding acquisitions, as compared to 2015 and continues to concentrate its drilling activities in certain areas that are the most economic in the Williston Basin. An extended period of low prices for oil and, to a lesser extent, natural gas could have a material adverse effect on the Company’s financial position, results of operations, cash flows and quantities of oil and natural gas reserves that may be economically produced.
Significant Accounting Policies
There have been no material changes to the Company’s critical accounting policies and estimates from those disclosed in the 2015 Annual Report.
Recent Accounting Pronouncements
Revenue recognition. In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers (“ASU 2014-09”). The objective of ASU 2014-09 is greater consistency and comparability across industries by using a five-step model to recognize revenue from customer contracts. ASU 2014-09 also contains some new disclosure requirements under GAAP. In August 2015, the FASB issued Accounting Standards Update No. 2015-14, Deferral of the Effective Date (“ASU 2015-14”). ASU

2015-14 defers the effective date of the new revenue standard by one year, making it effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. In 2016, the FASB issued additional accounting standards updates to clarify the implementation guidance of ASU 2014-09. The Company is currently evaluating the effect that adopting this guidance will have on its financial position, cash flows and results of operations.

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Going concern. In August 2014, the FASB issued Accounting Standards Update No. 2014-15, Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern ("ASU 2014-15"). ASU 2014-15 codifies in GAAP management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. ASU 2014-15 is effective for the annual reporting period ending after December 15, 2016 and for annual periods and interim periods thereafter. The adoption of this guidance will not impact the Company's financial position, cash flows or results of operations but could result in additional disclosures.

Inventory. In July 2015, the FASB issued Accounting Standards Update No. 2015-11, Simplifying the Measurement of Inventory ("ASU 2015-11"). ASU 2015-11 changes the inventory measurement principle from lower of cost or market to lower of cost and net realizable value for entities using the first-in, first-out or average cost methods. ASU 2015-11 is effective for fiscal years beginning after December 15, 2016, including interim periods within those years. The Company does not expect the adoption of this guidance to have a material impact on its financial position, cash flows or results of operations.

Financial instruments. In January 2016, the FASB issued Accounting Standards Update No. 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities ("ASU 2016-01"), which requires that most equity instruments be measured at fair value with subsequent changes in fair value recognized in net income. ASU 2016-01 also impacts financial liabilities under the fair value option and the presentation and disclosure requirements for financial instruments. ASU 2016-01 does not apply to equity method investments or investments in consolidated subsidiaries. ASU 2016-01 is effective for fiscal years beginning after December 15, 2017, including interim periods within those years. The Company is currently evaluating the effect that adopting this guidance will have on its financial position, cash flows and results of operations.

Leases. In February 2016, the FASB issued Accounting Standards Update No. 2016-02, Leases ("ASU 2016-02"), which requires a lessee to recognize lease payment obligations and a corresponding right-of-use asset to be measured at fair value on the balance sheet. ASU 2016-02 also requires certain qualitative and quantitative disclosures about the amount, timing and uncertainty of cash flows arising from leases. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, including interim periods within those years. The Company is currently evaluating the effect that adopting this guidance will have on its financial position, cash flows and results of operations.

Embedded derivatives. In March 2016, the FASB issued Accounting Standards Update No. 2016-06, Contingent Put and Call Options in Debt Instruments ("ASU 2016-06"), which clarifies what steps are required when assessing whether the economic characteristics and risks of call (put) options are clearly and closely related to the economic characteristics and risks of their debt hosts, which is one of the criteria for bifurcating an embedded derivative. ASU 2016-06 is effective for fiscal years beginning after December 15, 2016, including interim periods within those years. The Company does not expect the adoption of this guidance to have a material impact on its financial position, cash flows or results of operations.

Stock-based compensation. In March 2016, the FASB issued Accounting Standards Update No. 2016-09, Improvements to Employee Share-Based Payment Accounting ("ASU 2016-09"), which updates several aspects of the accounting for share-based payment transactions, including recognition of excess tax benefits and deficiencies, the classification of those excess tax benefits on the statement of cash flows, an accounting policy election for forfeitures, the amount an employer can withhold to cover income taxes and still qualify for equity classification and the classification of those taxes paid on the statement of cash flows. ASU 2016-09 is effective for fiscal years beginning after December 15, 2016, including interim periods within those years. The Company will record a cumulative-effect adjustment to equity at the beginning of 2017 when the guidance is adopted and does not expect the adoption of this guidance to have a material impact on its cash flows or results of operations.

Statement of cash flows. In August 2016, the FASB issued Accounting Standards Update No. 2016-15, Statement of Cash Flows ("ASU 2016-15"), which is intended to reduce diversity in practice in how certain transactions are classified in the statement of cash flows. ASU 2016-15 is effective for fiscal years beginning after December 15, 2017, including interim periods within those years. The adoption of this guidance will not impact the Company's financial position or results of operations but could result in presentation changes on the statement of cash flows.

3. Inventory

Crude oil inventory includes oil in tank and linefill. Equipment and materials consist primarily of proppant, chemicals, tubular goods, well equipment to be used in future drilling or repair operations and well fracturing equipment. Inventory is stated at the lower of cost or market value with cost determined on an average cost method. Inventory consists of the following:

	September 30, 2016	December 31, 2015
	(In thousands)	
Crude oil inventory	$5,344	$ 6,152
Equipment and materials	3,169	4,920
Total inventory	$8,513	$ 11,072

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4. Fair Value Measurements

In accordance with the FASB's authoritative guidance on fair value measurements, the Company's financial assets and liabilities are measured at fair value on a recurring basis. The Company recognizes its non-financial assets and liabilities, such as asset retirement obligations ("ARO") and proved oil and natural gas properties upon impairment, at fair value on a non-recurring basis.

As defined in the authoritative guidance, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). To estimate fair value, the Company utilizes market data or assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated or generally unobservable.

The authoritative guidance establishes a fair value hierarchy that prioritizes the inputs used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities ("Level 1" measurements) and the lowest priority to unobservable inputs ("Level 3" measurements). The three levels of the fair value hierarchy are as follows:

Level 1 — Unadjusted quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions for the asset or liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 — Pricing inputs, other than unadjusted quoted prices in active markets included in Level 1, are either directly or indirectly observable as of the reporting date. Level 2 includes those financial instruments that are valued using models or other valuation methodologies. These models are primarily industry-standard models that consider various assumptions, including quoted forward prices for commodities, time value, volatility factors and current market and contractual prices for the underlying instruments, as well as other relevant economic measures. Substantially all of these assumptions are observable in the marketplace throughout the full term of the instrument and can be derived from observable data or are supported by observable levels at which transactions are executed in the marketplace.

Level 3 — Pricing inputs are generally less observable from objective sources, requiring internally developed valuation methodologies that result in management's best estimate of fair value.

Financial Assets and Liabilities

Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Company's assessment of the significance of a particular input requires judgment and may affect the valuation of fair value assets and liabilities and their placement within the fair value hierarchy levels.

The following tables set forth by level within the fair value hierarchy the Company's financial assets and liabilities that were accounted for at fair value on a recurring basis:

	Fair value at September 30, 2016			
	Level 1	Level 2	Level 3	Total
	(In thousands)			
Assets:				
Money market funds	$54	$—	$ —	$54
Commodity derivative instruments (see Note 5)	—	9,336	—	9,336
Total assets	$54	$9,336	$ —	$9,390
Liabilities:				
Commodity derivative instruments (see Note 5)	$—	$25,063	$ —	$25,063
Total liabilities	$—	$25,063	$ —	$25,063

	Fair value at December 31, 2015			
	Level 1	Level 2	Level 3	Total
	(In thousands)			
Assets:				

Money market funds	$742	$—	$ —	$742
Commodity derivative instruments (see Note 5)	—	155,473	—	155,473
Total assets	$742	$155,473	$ —	$156,215

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The Level 1 instruments presented in the tables above consist of money market funds included in cash and cash equivalents on the Company's Condensed Consolidated Balance Sheet at September 30, 2016 and December 31, 2015. The Company's money market funds represent cash equivalents backed by the assets of high-quality major banks and financial institutions. The Company identifies the money market funds as Level 1 instruments because the money market funds have daily liquidity, quoted prices for the underlying investments can be obtained, and there are active markets for the underlying investments.

The Level 2 instruments presented in the tables above consist of commodity derivative instruments, which include oil and natural gas swaps and collars. The fair values of the Company's commodity derivative instruments are based upon a third-party preparer's calculation using mark-to-market valuation reports provided by the Company's counterparties for monthly settlement purposes to determine the valuation of its derivative instruments. The Company has the third-party preparer evaluate other readily available market prices for its derivative contracts, as there is an active market for these contracts. The third-party preparer performs its independent valuation using a moment matching method similar to Turnbull-Wakeman for Asian options. The significant inputs used are crude oil prices, volatility, skew, discount rate and the contract terms of the derivative instruments. However, the Company does not have access to the specific proprietary valuation models or inputs used by its counterparties or third-party preparer. The Company compares the third-party preparer's valuation to counterparty valuation statements, investigating any significant differences, and analyzes monthly valuation changes in relation to movements in crude oil and natural gas forward price curves. The determination of the fair value for derivative instruments also incorporates a credit adjustment for non-performance risk, as required by GAAP. The Company calculates the credit adjustment for derivatives in a net asset position using current credit default swap values for each counterparty. The credit adjustment for derivatives in a net liability position is based on the Company's market credit spread. Based on these calculations, the Company recorded an adjustment to reduce the fair value of its net derivative liability by $1.2 million at September 30, 2016 and an adjustment to reduce the fair value of its net derivative asset by $0.3 million at December 31, 2015.

There were no transfers between fair value levels during the nine months ended September 30, 2016 and 2015.

Fair Value of Other Financial Instruments

The Company's financial instruments, including certain cash and cash equivalents, accounts receivable and accounts payable, are carried at cost, which approximates fair value due to the short-term maturity of these instruments. At September 30, 2016, the Company's cash equivalents were all Level 1 assets.

The carrying amount of the Company's long-term debt reported in the Condensed Consolidated Balance Sheet at September 30, 2016 was $2,125.6 million, which included $2,053.0 million of senior unsecured notes, reductions for the unamortized debt discount related to the equity component of the senior unsecured convertible notes and the unamortized deferred financing costs on the senior unsecured notes of $92.9 million and $29.5 million, respectively, and $195.0 million of borrowings under the revolving credit facility (see Note 8 – Long-Term Debt). The fair value of the Company's senior unsecured notes, which are publicly traded and therefore categorized as Level 1 liabilities, was $2,018.0 million at September 30, 2016.

The Company determined the fair value of the liability component of the senior unsecured convertible notes as of their issuance dates by estimating the fair value of a similar debt instrument without the conversion feature (see Note 8 – Long-Term Debt). The significant inputs used were the market credit spread on the Company's senior unsecured notes with similar maturity dates, the risk-free interest rate and the terms of the senior unsecured convertible notes, which are directly observable in the marketplace, representing Level 2 inputs.

Non-Financial Assets and Liabilities

Asset retirement obligations. The carrying amount of ARO in the Company's Condensed Consolidated Balance Sheet at September 30, 2016 was $37.8 million (see Note 9 – Asset Retirement Obligations). The Company determines its ARO by calculating the present value of estimated cash flows related to the liability. Estimating the future ARO requires management to make estimates and judgments regarding the timing and existence of a liability, as well as what constitutes adequate restoration when considering current regulatory requirements. Inherent in the fair value calculation are numerous assumptions and judgments, including the ultimate costs, inflation factors, credit adjusted discount rates, timing of settlement and changes in the legal, regulatory, environmental and political environments.

These assumptions represent Level 3 inputs. To the extent future revisions to these assumptions impact the fair value of the existing ARO liability, a corresponding adjustment is made to the related asset.
Impairment. The Company reviews its proved oil and natural gas properties for impairment whenever events and circumstances indicate that a decline in the recoverability of their carrying value may have occurred. The Company estimates the expected undiscounted future cash flows of its proved oil and natural gas properties and then compares such undiscounted future cash flows to the carrying amount of the proved oil and natural gas properties to determine if the carrying amount is

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recoverable. If the carrying amount exceeds the estimated undiscounted future cash flows, the Company will adjust the carrying amount of the proved oil and natural gas properties to the fair value. The factors used to determine fair value are subject to management's judgment and expertise and include, but are not limited to, recent sales prices of comparable properties, the present value of future cash flows, net of estimated operating and development costs, using estimates of proved reserves, future commodity pricing, future production estimates, anticipated capital expenditures and various discount rates commensurate with the risk and current market conditions associated with realizing the expected cash flows projected. These assumptions represent Level 3 inputs.

On April 1, 2016, the Company sold certain proved oil and natural gas properties and other midstream properties (see Note 7 – Divestiture). For the nine months ended September 30, 2016, the Company recorded an impairment charge of $3.6 million, of which $2.4 million was included in its midstream services segment and $1.2 million was included in its exploration and production segment, to adjust the current carrying value of these assets, net of the associated ARO liabilities, to their estimated fair value. For the year ended December 31, 2015, the Company recorded an impairment charge of $9.4 million to adjust its net assets held for sale to their estimated fair value in its exploration and production segment. The fair value was determined based on the expected sales price, less costs to sell. No other impairment charges on proved oil and natural gas properties were recorded for the nine months ended September 30, 2016. No impairment charges on proved oil and natural gas properties were recorded for the three months ended September 30, 2016 and the three and nine months ended September 30, 2015.

In addition, as a result of expiring leases and periodic assessments of unproved properties, the Company recorded non-cash impairment charges on its unproved oil and natural gas properties of $0.4 million for both the three and nine months ended September 30, 2016, respectively, and $0.1 million and $24.9 million for the three and nine months ended September 30, 2015, respectively. The impairment charges included $0.2 million for both the three and nine months ended September 30, 2016 and $16.4 million for the nine months ended September 30, 2015 related to acreage expiring in future periods because there were no current plans to drill or extend the leases prior to their expiration. For the three months ended September 30, 2015, the Company did not record similar impairment charges for unexpired leases.

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5. Derivative Instruments

The Company utilizes derivative financial instruments to manage risks related to changes in oil and natural gas prices. The Company's crude oil and natural gas contracts will settle monthly based on the average NYMEX West Texas Intermediate crude oil index price ("WTI") and the average NYMEX Henry Hub natural gas index price ("Henry Hub"), respectively. At September 30, 2016, the Company utilized swaps and two-way and three-way costless collar options to reduce the volatility of oil and natural gas prices on a significant portion of its future expected oil and natural gas production. A swap is a sold call and a purchased put established at the same price (both ceiling and floor). A two-way collar is a combination of options: a sold call and a purchased put. The purchased put establishes a minimum price (floor) and the sold call establishes a maximum price (ceiling) the Company will receive for the volumes under contract. A three-way collar is a combination of options: a sold call, a purchased put and a sold put. The purchased put establishes a minimum price (floor), unless the market price falls below the sold put (sub-floor), at which point the minimum price would be the NYMEX index price plus the difference between the purchased put and the sold put strike price. The sold call establishes a maximum price (ceiling) the Company will receive for the volumes under contract.

All derivative instruments are recorded on the Company's Condensed Consolidated Balance Sheet as either assets or liabilities measured at fair value (see Note 4 – Fair Value Measurements). The Company has not designated any derivative instruments as hedges for accounting purposes and does not enter into such instruments for speculative trading purposes. If a derivative does not qualify as a hedge or is not designated as a hedge, the changes in fair value are recognized in the other income (expense) section of the Company's Condensed Consolidated Statement of Operations as a net gain or loss on derivative instruments. The Company's cash flow is only impacted when the actual settlements under the derivative contracts result in making a payment to or receiving a payment from the counterparty. These cash settlements represent the cumulative gains and losses on the Company's derivative instruments and do not include a recovery of costs that were paid to acquire or modify the derivative instruments that were settled. Cash settlements are reflected as investing activities in the Company's Condensed Consolidated Statement of Cash Flows.

At September 30, 2016, the Company had the following outstanding commodity derivative instruments:

Commodity	Settlement Period	Derivative Instrument	Volumes		Weighted Average Prices				Fair Value Asset (Liability)
					Swap	Sub-Floor	Floor	Ceiling	
									(In thousands)
Crude oil	2016	Swaps	2,973,000	Bbl	$49.18				$ 4,765
Crude oil	2017	Swaps	5,059,000	Bbl	$48.04				(14,742)
Crude oil	2017	Two-way collar	1,002,000	Bbl			$41.67	$50.58	(4,092)
Crude oil	2017	Three-way collar	1,670,000	Bbl		$ 30.00	$45.00	$60.11	241
Crude oil	2018	Swaps	522,000	Bbl	$50.07				(1,349)
Crude oil	2018	Two-way collar	93,000	Bbl			$41.67	$50.58	(471)
Crude oil	2018	Three-way collar	155,000	Bbl		$ 30.00	$45.00	$60.11	(122)
Natural gas	2017	Swaps	1,336,000	MMbtu	$3.12				52
Natural gas	2018	Swaps	124,000	MMbtu	$3.12				(9)
									$ (15,727)

The following table summarizes the location and fair value of all outstanding commodity derivative instruments recorded in the Company's Condensed Consolidated Balance Sheet:

Type	Balance Sheet Location	Fair Value Asset (Liability)	
		September 30, 2016	December 31, 2015
		(In thousands)	
Commodity contracts	Derivative instruments — current assets	$9,142	$139,697
Commodity contracts	Derivative instruments — non-current assets	194	15,776
Commodity contracts	Derivative instruments — current liabilities	(17,308)	—

Commodity contracts	Derivative instruments — non-current liabilities	(7,755)	—
Total derivative instruments		$(15,727)	$155,473

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The following table summarizes the location and amounts of gains and losses from the Company's commodity derivative instruments recorded in the Company's Condensed Consolidated Statement of Operations for the periods presented:

Statement of Operations Location	Three Months Ended September 30, 2016	Three Months Ended September 30, 2015	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2015
	(In thousands)			
Net gain (loss) on derivative instruments	$20,847	$103,637	$(55,624)	$111,285

In accordance with the FASB's authoritative guidance on disclosures about offsetting assets and liabilities, the Company is required to disclose both gross and net information about instruments and transactions eligible for offset in the statement of financial position as well as instruments and transactions subject to an agreement similar to a master netting agreement. The Company's derivative instruments are presented as assets and liabilities on a net basis by counterparty, as all counterparty contracts provide for net settlement. No margin or collateral balances are deposited with counterparties, and as such, gross amounts are offset to determine the net amounts presented in the Company's Condensed Consolidated Balance Sheet.

The following tables summarize gross and net information about the Company's commodity derivative instruments:

Offsetting of Derivative Assets	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Balance Sheet	Net Amounts of Assets Presented in the Balance Sheet
	(In thousands)		
At September 30, 2016	$ 23,713	$ (14,377)	$ 9,336
At December 31, 2015	155,473	—	155,473

Offsetting of Derivative Liabilities	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Balance Sheet	Net Amounts of Liabilities Presented in the Balance Sheet
	(In thousands)		
At September 30, 2016	$ 39,440	$ (14,377)	$ 25,063
At December 31, 2015	—	—	—

6. Property, Plant and Equipment

The following table sets forth the Company's property, plant and equipment:

	September 30, 2016	December 31, 2015
	(In thousands)	
Proved oil and gas properties[(1)]	$5,813,928	$5,655,759
Less: accumulated depreciation, depletion, amortization and impairment	(1,764,979)	(1,428,427)
Proved oil and gas properties, net	4,048,949	4,227,332
Unproved oil and gas properties	624,854	628,642
Other property and equipment	580,171	443,265
Less: accumulated depreciation	(101,301)	(80,997)
Other property and equipment, net	478,870	362,268
Total property, plant and equipment, net	$5,152,673	$5,218,242

(1) Included in the Company's proved oil and gas properties are estimates of future asset retirement costs of $31.5 million and $30.7 million at September 30, 2016 and December 31, 2015, respectively.

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7. Divestiture

On April 1, 2016, the Company completed the sale of certain legacy wells that have been producing from conventional reservoirs such as the Madison, Red River and other formations in the Williston Basin other than the Bakken or Three Forks formations for cash proceeds of $12.3 million, which includes customary post close adjustments, and a $4.0 million 10% secured promissory note due within one year. These sold assets primarily consisted of oil and gas properties in the Company's exploration and production segment and included certain other property and equipment in the Company's midstream segment. For the three and nine months ended September 30, 2016, customary post close adjustments were included in the loss on sale of properties on the Company's Condensed Consolidated Statement of Operations.

For the nine months ended September 30, 2016 and the year ended December 31, 2015, the Company recorded impairment charges of $3.6 million and $9.4 million, respectively, which were included in impairment on the Company's Condensed Consolidated Statement of Operations, to adjust the carrying value of these assets to their estimated fair value, determined based on the expected sales price, less costs to sell. There were no similar charges recorded during the three months ended September 30, 2016 and three and nine months ended September 30, 2015.

8. Long-Term Debt

The Company's long-term debt consists of the following:

	September 30, 2016	December 31, 2015
	(In thousands)	
Senior secured revolving line of credit	$195,000	$138,000
Senior unsecured notes		
7.25% senior unsecured notes due February 1, 2019	54,275	400,000
6.5% senior unsecured notes due November 1, 2021	395,501	400,000
6.875% senior unsecured notes due March 15, 2022	937,080	1,000,000
6.875% senior unsecured notes due January 15, 2023	366,094	400,000
2.625% senior unsecured convertible notes due September 15, 2023	300,000	—
Total principal of senior unsecured notes	2,052,950	2,200,000
Less: unamortized deferred financing costs on senior unsecured notes	(29,500)	(35,416)
Less: unamortized debt discount on senior unsecured convertible notes	(92,877)	—
Total long-term debt	$2,125,573	$2,302,584

Senior secured revolving line of credit. The Company has a senior secured revolving line of credit (the "Credit Facility") of $2,500.0 million as of September 30, 2016, which has a maturity date of April 13, 2020. The Credit Facility is restricted to a borrowing base, which is reserve-based and subject to semi-annual redeterminations on April 1 and October 1 of each year. On February 23, 2016, the lenders under the Credit Facility completed their regular semi-annual redetermination of the borrowing base scheduled for April 1, 2016, resulting in a decrease in the borrowing base and aggregate elected commitment from $1,525.0 million to $1,150.0 million.

As of September 30, 2016, the Company had $195.0 million of LIBOR loans and $12.3 million of outstanding letters of credit issued under the Credit Facility, resulting in an unused borrowing base committed capacity of $942.7 million. The weighted average interest rate on borrowings outstanding under the Credit Facility was 2.0% and 1.9% as of September 30, 2016 and December 31, 2015, respectively. On a quarterly basis, the Company also pays a 0.375% (as of September 30, 2016) annualized commitment fee on the average amount of borrowing base capacity not utilized during the quarter and fees calculated on the average amount of letter of credit balances outstanding during the quarter.

The Company was in compliance with the financial covenants of the Credit Facility as of September 30, 2016.

Senior unsecured notes. At September 30, 2016, the Company had $1,753.0 million principal amount of senior unsecured notes outstanding with maturities ranging from February 2019 to January 2023 and coupons ranging from 6.50% to 7.25% (the "Senior Notes"). Prior to certain dates, the Company has the option to redeem some or all of the Senior Notes for cash at certain redemption prices equal to a certain percentage of their principal amount plus an applicable make-whole premium and accrued and unpaid interest to the redemption date. The 7.25% senior unsecured notes due February 2019 (the “2019 Notes”) are currently redeemable for cash at a redemption price equal to 101.813% of their principal amount plus accrued and unpaid interest to the redemption date, which redemption price declines to par on February 1, 2017. The Company estimates that the fair value of these redemption options is immaterial at September 30, 2016 and December 31, 2015.

Repurchases of senior unsecured notes. On September 28, 2016, the Company completed its tender offers to repurchase certain outstanding Senior Notes (the “Tender Offers”). As a result of the Tender Offers, the Company repurchased an aggregate principal amount of $362.4 million of its outstanding Senior Notes, consisting of $344.7 million principal amount of its 2019 Notes, $2.2 million principal amount of its 6.5% senior unsecured notes due November 2021 (the “2021 Notes”), $3.4 million principal amount of its 6.875% senior unsecured notes due March 2022 (the “2022 Notes”) and $12.1 million principal amount of its 6.875% senior unsecured notes due January 2023 (the “2023 Notes”), for an aggregate cost of $371.4 million, including accrued interest and fees.

In addition to the Tender Offers, the Company repurchased an aggregate principal amount of $84.6 million of its outstanding Senior Notes, consisting of $1.0 million principal amount of its 2019 Notes, $2.3 million principal amount of its 2021 Notes, $59.5 million principal amount of its 2022 Notes and $21.8 million principal amount of its 2023 Notes, for an aggregate cost of $64.5 million, including accrued interest and fees, during the nine months ended September 30, 2016.

For the three and nine months ended September 30, 2016, the Company recognized a pre-tax loss of $13.8 million and a pre-tax gain of $4.9 million, respectively, related to these repurchases, including the Tender Offers, which were net of unamortized deferred financing costs write-offs of $5.3 million and $6.3 million, respectively, and are reflected in gain (loss) on extinguishment of debt in the Company’s Condensed Consolidated Statement of Operations.

Senior unsecured convertible notes. In September 2016, the Company issued $300.0 million of 2.625% senior unsecured convertible notes due September 2023 (the “Senior Convertible Notes”), which resulted in aggregate net proceeds to the Company of $291.9 million, after deducting underwriting discounts and commissions and estimated offering expenses. The Company used the proceeds from the Senior Convertible Notes to fund the repurchase of certain outstanding Senior Notes through the Tender Offers. The Senior Convertible Notes will mature on September 15, 2023 unless earlier converted in accordance with their terms.

The Company has the option to settle conversions of these notes with cash, shares of common stock or a combination of cash and common stock at its election. The Company’s intent is to settle the principal amount of the Senior Convertible Notes in cash upon conversion. Prior to March 15, 2023, the Senior Convertible Notes will be convertible only under the following circumstances: (i) during any calendar quarter commencing after the calendar quarter ending on September 30, 2016 (and only during such calendar quarter), if the last reported sale price of the Company’s common stock for at least 20 trading days (whether or not consecutive) during the period of 30 consecutive trading days ending on the last trading day of the immediately preceding calendar quarter is greater than or equal to 130% of the conversion price on each applicable trading day; (ii) during the five business day period after any five consecutive trading day period (the “measurement period”) in which the trading price per $1,000 principal amount of the Senior Convertible Notes for each trading day of the measurement period is less than 98% of the product of the last reported sale price of the Company’s common stock and the conversion rate on each such trading day; or (iii) upon the occurrence of specified corporate events, including certain distributions or a fundamental change. On or after March 15, 2023, the Senior Convertible Notes will be convertible at any time until the second scheduled trading day immediately preceding their September 15, 2023 maturity date. The Senior Convertible Notes will be convertible at an initial conversion rate of 76.3650 shares of the Company’s common stock per $1,000 principal amount of the Senior Convertible Notes, which is equivalent to an initial conversion price of approximately $13.10. The conversion rate will be subject to adjustment in some events but will not be adjusted for any accrued and unpaid interest. In addition, following certain corporate events that occur prior to the maturity date or a notice of redemption, the Company will increase the conversion rate for a holder who elects to convert its Senior Convertible Notes in connection with such corporate event or redemption in certain circumstances. As of September 30, 2016, none of the contingent conditions allowing holders of the Senior Convertible Notes to convert these notes had been met.

Upon issuance, the Company separately accounted for the liability and equity components of the Senior Convertible Notes in accordance with Accounting Standards Codification 470-20. The liability component was recorded at the estimated fair value of a similar debt instrument without the conversion feature. The difference between the principal amount of the Senior Convertible Notes and the estimated fair value of the liability component was recorded as a debt discount and will be amortized to interest expense over the term of the notes using the effective interest method, with an effective interest rate of 8.97% per annum. The fair value of the Senior Convertible Notes as of the issuance date

was estimated at $206.8 million, resulting in a debt discount at inception of $93.2 million. The equity component, representing the value of the conversion option, was computed by deducting the fair value of the liability component from the initial proceeds of the Senior Convertible Notes issuance. This equity component was recorded, net of deferred taxes and issuance costs, in additional paid-in capital and will not be remeasured as long as it continues to meet the conditions for equity classification.
Transaction costs related to the Senior Convertible Notes issuance were allocated to the liability and equity components based on their relative fair values. Issuance costs attributable to the liability component of $5.4 million were recorded in deferred financing costs within long-term debt on the Company’s Condensed Consolidated Balance Sheet and are being amortized to interest expense over the term of the Senior Convertible Notes using the effective interest method. Issuance costs attributable to the equity component of $2.4 million were recorded as a charge to additional paid-in capital.

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Interest on the Senior Notes and the Senior Convertible Notes (collectively, the “Notes”) is payable semi-annually in arrears. The Notes are guaranteed on a senior unsecured basis by the Company, along with its material subsidiaries (the “Guarantors”), which are 100% owned by the Company. These guarantees are full and unconditional and joint and several among the Guarantors, subject to certain customary release provisions. The indentures governing the Notes contain customary events of default as well as covenants that place restrictions on the Company and certain of its subsidiaries.

Deferred financing costs. At September 30, 2016, the Company had $35.0 million of deferred financing costs related to the Notes and the Credit Facility. Deferred financing costs of $29.5 million related to the Notes are included in long-term debt on the Company’s Condensed Consolidated Balance Sheet at September 30, 2016, and are being amortized over the respective terms of the Notes. Deferred financing costs of $5.5 million related to the Credit Facility are included in other assets on the Company’s Condensed Consolidated Balance Sheet at September 30, 2016, and are being amortized over the term of the Credit Facility. Amortization of deferred financing costs recorded was $2.1 million and $6.2 million for the three and nine months ended September 30, 2016, respectively, and $1.6 million and $5.0 million for the three and nine months ended September 30, 2015, respectively. These costs are included in interest expense on the Company’s Condensed Consolidated Statement of Operations. For the nine months ended September 30, 2016 and 2015, the Company’s interest expense also included $1.8 million and $0.5 million, respectively, for unamortized deferred financing costs related to the Credit Facility, which were written off in proportion to the decreases in the borrowing base. No deferred financing costs related to the Credit Facility were written off during the three months ended September 30, 2016 and 2015. Aforementioned, the gain (loss) on extinguishment of debt in the Company’s Condensed Consolidated Statement of Operations included unamortized deferred financing costs write-offs of $5.3 million and $6.3 million related to the repurchased Notes for the three and nine months ended September 30, 2016, respectively. No deferred financing costs related to the Notes were written off during the three and nine months ended September 30, 2015.

9. Asset Retirement Obligations

The following table reflects the changes in the Company’s ARO during the nine months ended September 30, 2016:

	(In thousands)
Balance at December 31, 2015	$ 35,812
Liabilities incurred during period	465
Liabilities settled during period[1]	(444)
Accretion expense during period[2]	1,425
Revisions to estimates	571
Balance at September 30, 2016	$ 37,829

(1) Liabilities settled during the nine months ended September 30, 2016 included ARO related to the sold properties (see Note 7 – Divestiture).

(2) Included in depreciation, depletion and amortization on the Company’s Condensed Consolidated Statement of Operations.

At September 30, 2016, the current portion of the total ARO balance was approximately $0.7 million and was included in accrued liabilities on the Company’s Condensed Consolidated Balance Sheet.

10. Income Taxes

The Company’s effective tax rate for the three and nine months ended September 30, 2016 was 33.0% and 34.0%, respectively. The Company’s effective tax rate for the three and nine months ended September 30, 2015 was 43.0% and 28.7%, respectively. The effective tax rates for the three and nine months ended September 30, 2016 and the nine months ended September 30, 2015 were lower than the combined federal statutory rate and the statutory rates for the states in which the Company conducts business due to the impact of permanent differences on pre-tax loss for these periods, while the effective tax rate for three months ended September 30, 2015 was higher than the combined federal statutory rate and the statutory rates for the states in which the Company conducts business due to the impact of permanent differences on pre-tax income for the period. The permanent differences were primarily between amounts expensed for book purposes versus the amounts deductible for income tax purposes related to stock-based compensation vesting during the three and nine months ended September 30, 2016 and 2015.

While the Company is in an overall deferred tax liability position, the Company had deferred tax assets for its federal and state tax net operating losses and other tax carryforwards recorded in deferred income taxes at September 30, 2016. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. During the nine months ended September 30, 2016, the Company recorded a valuation allowance of $0.8 million and $0.6 million for Montana net operating losses and for federal charitable contribution carryovers, respectively, based on management's assessment that it is more likely than not that these net deferred tax assets will not be realized prior to their expiration due to their short carryover periods, current economic conditions and expectations for the future. Management determined that a valuation allowance was not required for its U.S. federal tax net operating loss carryforwards as they are expected to be fully utilized before their expiration. However, the amount of deferred tax assets considered realizable could be reduced in the future if subjective positive evidence becomes limited by objective negative evidence. Management's estimates of future taxable income are significantly affected by changes in commodity prices, the timing and amount of future production and future operating and capital costs.

At September 30, 2016, the Company did not have any uncertain tax positions requiring adjustments to its tax liability.

11. Common Stock

On February 2, 2016, the Company completed a public offering of 39,100,000 shares of its common stock (including 5,100,000 shares issued pursuant to the underwriters' option to purchase additional common stock) at an offering price of $4.685 per share. Net proceeds from the offering were $182.8 million, after deducting underwriting discounts and commissions and offering expenses, of which $0.4 million is included in common stock and $182.4 million is included in additional paid-in capital on the Company's Condensed Consolidated Balance Sheet at September 30, 2016. The Company used the net proceeds for general corporate purposes. The offering was made pursuant to an effective shelf registration statement on Form S-3 filed with the SEC on July 15, 2014.

12. Stock-Based Compensation

Restricted stock awards. The Company has granted restricted stock awards to employees and directors under its Amended and Restated 2010 Long Term Incentive Plan, the majority of which vest over a three-year period. The fair value of restricted stock grants is based on the closing sales price of the Company's common stock on the date of grant. Compensation expense is recognized ratably over the requisite service period. For the nine months ended September 30, 2016, the Company assumed annual forfeiture rates by employee group ranging from 0% to 20.0% based on the Company's forfeiture history for this type of award.

During the nine months ended September 30, 2016, employees and non-employee directors of the Company were granted restricted stock awards equal to 3,393,900 shares of common stock with a $5.61 weighted average grant date per share value. Stock-based compensation expense recorded for restricted stock awards for the three and nine months ended September 30, 2016 was $4.8 million and $15.5 million, respectively, and $5.0 million and $16.8 million for the three and nine months ended September 30, 2015, respectively. Stock-based compensation expense is included in general and administrative expenses on the Company's Condensed Consolidated Statement of Operations.

Performance share units. The Company has granted performance share units ("PSUs") to officers of the Company under its Amended and Restated 2010 Long Term Incentive Plan. The PSUs are awards of restricted stock units, and each PSU that is earned represents the right to receive one share of the Company's common stock. For the nine months ended September 30, 2016, the Company assumed annual forfeiture rates by employee group ranging from 3.3% to 4.6% based on the Company's forfeiture history for the officer employee groups receiving PSUs.

During the nine months ended September 30, 2016, officers of the Company were granted 910,000 PSUs with a $3.00 weighted average grant date per share value. Stock-based compensation expense recorded for PSUs for the three and nine months ended September 30, 2016 was $1.0 million and $3.2 million, respectively, and $1.0 million and $2.9 million for the three and nine months ended September 30, 2015, respectively. Stock-based compensation expense is included in general and administrative expenses on the Company's Condensed Consolidated Statement of Operations.

The Company accounted for these PSUs as equity awards pursuant to the FASB's authoritative guidance for share-based payments. The number of PSUs to be earned is subject to a market condition, which is based on a comparison of the total shareholder return ("TSR") achieved with respect to shares of the Company's common stock against the TSR achieved by a defined peer group at the end of the performance periods. Depending on the Company's TSR performance relative to the defined peer group, award recipients will earn between 0% and 200% of the initial PSUs granted. The grant date fair value for each grant of PSUs is recognized on a straight-line basis over a four-year total performance period. All compensation expense related to the PSUs will be recognized if the requisite performance period is fulfilled, even if the market condition is not achieved.

The aggregate grant date fair value of the market-based awards was determined using a Monte Carlo simulation model, which results in an expected percentage of PSUs earned. The Monte Carlo simulation model uses assumptions regarding random projections and must be repeated numerous times to achieve a probabilistic assessment. The key valuation assumptions

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for the Monte Carlo model are the forecast period, initial value, risk-free interest rate, volatility and correlation coefficients. The risk-free interest rate is the U.S. Treasury bond rate on the date of grant that corresponds to the total performance period. The initial value is the average of the volume weighted average prices for the 30 trading days prior to the start of the performance cycle for the Company and each of its peers. Volatility is the standard deviation of the average percentage change in stock price over a historical period for the Company and each of its peers. The correlation coefficients are measures of the strength of the linear relationship between and amongst the Company and its peers estimated based on historical stock price data.

The following assumptions were used for the Monte Carlo model to determine the grant date fair value and associated stock-based compensation expense of the PSUs granted during the nine months ended September 30, 2016:

Forecast period (years)	4.00	
Risk-free interest rate	1.25	%
Oasis stock price volatility	59.38	%

For the PSUs granted during the nine months ended September 30, 2016, the Monte Carlo simulation model resulted in approximately 69% of PSUs expected to be earned.

13. Earnings (Loss) Per Share

Basic earnings (loss) per share is computed by dividing the earnings (loss) attributable to common stockholders by the weighted average number of shares outstanding for the periods presented. The calculation of diluted earnings (loss) per share includes the impact of potentially dilutive non-vested restricted shares and PSUs outstanding during the periods presented, unless their effect is anti-dilutive. There are no adjustments made to the earnings (loss) attributable to common stockholders in the calculation of diluted earnings (loss) per share.

The following is a calculation of the basic and diluted weighted average shares outstanding for the three and nine months ended September 30, 2016 and 2015:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
	(In thousands)			
Basic weighted average common shares outstanding	177,120	137,014	172,360	127,827
Dilution effect of stock awards at end of period	—	—	—	—
Diluted weighted average common shares outstanding	177,120	137,014	172,360	127,827

During the three and nine months ended September 30, 2016 and the nine months ended September 30, 2015, the Company incurred a net loss and therefore the diluted loss per share calculation for those periods excludes the anti-dilutive effect of 5,139,848, 4,935,353 and 2,939,368 unvested stock awards, respectively. In addition, the diluted earnings per share calculation for the three months ended September 30, 2015 excludes the dilutive effect of 2,787,054 unvested stock awards that were anti-dilutive under the treasury stock method.

The Company has the option to settle conversions of its Senior Convertible Notes with cash, shares of common stock or a combination of cash and common stock at its election (see Note 8 – Long-Term Debt). The Company's intent is to settle the principal amount of the Senior Convertible Notes in cash upon conversion. As a result, only the amount by which the conversion value exceeds the aggregate principal amount of the notes (conversion spread) is considered in the diluted earnings per share computation under the treasury stock method. As of September 30, 2016, the conversion value did not exceed the principal amount of the notes, and accordingly, there was no impact to diluted earnings per share for the three and nine months ended September 30, 2016.

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14. Business Segment Information

The Company’s exploration and production segment is engaged in the acquisition and development of oil and natural gas properties. Revenues for the exploration and production segment are derived from the sale of oil and natural gas production. The Company’s well services business segment (OWS) performs services for the Company’s oil and natural gas wells operated by OPNA. Revenues for the well services segment are derived from providing well services, product sales and equipment rentals. The Company’s midstream services business segment (OMS) performs salt water gathering and disposal and other midstream services for the Company’s oil and natural gas wells operated by OPNA. Revenues for the midstream segment are primarily derived from salt water pipeline transport, salt water disposal, fresh water sales and natural gas gathering. The revenues and expenses related to work performed by OWS and OMS for OPNA’s working interests are eliminated in consolidation, and only the revenues and expenses related to non-affiliated working interest owners are included in the Company’s Condensed Consolidated Statement of Operations. These segments represent the Company’s three operating units, each offering different products and services. The Company’s corporate activities have been allocated to the supported business segments accordingly.

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Management evaluates the performance of the Company’s business segments based on operating income, which is defined as segment operating revenues less operating expenses, including depreciation, depletion and amortization. The following table summarizes financial information for the Company’s three business segments for the periods presented:

	Exploration and Production	Well Services	Midstream Services	Eliminations	Consolidated
	(In thousands)				
Three months ended September 30, 2016:					
Revenues from non-affiliates	$158,183	$ 10,641	$ 8,487	$ —	$ 177,311
Inter-segment revenues	—	11,818	20,790	(32,608)	—
Total revenues	158,183	22,459	29,277	(32,608)	177,311
Operating income (loss)	(41,857)	1,572	16,525	(1,942)	(25,702)
Other income (expense)	(24,476)	5	(460)	—	(24,931)
Income (loss) before income taxes	$(66,333)	$ 1,577	$ 16,065	$ (1,942)	$ (50,633)
Three months ended September 30, 2015:					
Revenues from non-affiliates	$175,270	$ 15,381	$ 6,584	$ —	$ 197,235
Inter-segment revenues	—	33,554	23,228	(56,782)	—
Total revenues					