Oasis Petroleum Inc.
Form 10-Q
August 07, 2018
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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 June 30, 2018
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, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ý	Accelerated filer ¨
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company ¨
	Emerging growth company ¨

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

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

Number of shares of the registrant’s common stock outstanding at July 31, 2018: 317,995,747 shares.

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

	June 30, 2018	December 31, 2017
	(In thousands, except share data)	
ASSETS		
Current assets		
Cash and cash equivalents	$ 17,072	$ 16,720
Accounts receivable, net	378,080	363,580
Inventory	23,222	19,367
Prepaid expenses	5,874	7,631
Derivative instruments	—	344
Intangible assets, net	625	—
Other current assets	82	193
Total current assets	424,955	407,835
Property, plant and equipment		
Oil and gas properties (successful efforts method)	8,424,834	7,838,955
Other property and equipment	1,024,104	868,746
Less: accumulated depreciation, depletion, amortization and impairment	(2,691,697)	(2,534,215)
Total property, plant and equipment, net	6,757,241	6,173,486
Assets held for sale, net	250,118	—
Derivative instruments	25	9
Long-term inventory	12,505	12,200
Other assets	20,491	21,600
Total assets	$ 7,465,335	$ 6,615,130
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$ 29,988	$ 13,370
Revenues and production taxes payable	246,215	213,995
Accrued liabilities	320,508	236,480
Accrued interest payable	36,971	38,963
Derivative instruments	194,810	115,716
Advances from joint interest partners	3,983	4,916
Other current liabilities	40	40
Total current liabilities	832,515	623,480
Long-term debt	2,757,481	2,097,606
Deferred income taxes	205,628	305,921
Asset retirement obligations	49,743	48,511
Liabilities held for sale	4,181	—
Derivative instruments	35,007	19,851
Other liabilities	6,529	6,182
Total liabilities	3,891,084	3,101,551
Commitments and contingencies (Note 17)		
Stockholders' equity		
	3,154	2,668

Common stock, $0.01 par value: 450,000,000 shares authorized; 320,010,534 shares issued and 317,985,056 shares outstanding at June 30, 2018 and 270,627,014 shares issued and 269,295,466 shares outstanding at December 31, 2017		
Treasury stock, at cost: 2,025,478 and 1,331,548 shares at June 30, 2018 and December 31, 2017, respectively	(28,243)	(22,179)
Additional paid-in capital	3,062,861	2,677,217
Retained earnings	398,371	717,985
Oasis share of stockholders' equity	3,436,143	3,375,691
Non-controlling interests	138,108	137,888
Total stockholders' equity	3,574,251	3,513,579
Total liabilities and stockholders' equity	$ 7,465,335	$ 6,615,130

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
	(In thousands, except per share data)			
Revenues				
Oil and gas revenues	$395,921	$218,633	$759,592	$455,885
Purchased oil and gas sales	57,578	8,091	75,615	35,722
Midstream revenues	29,342	15,566	57,264	30,172
Well services revenues	18,496	11,801	30,082	17,428
Total revenues	501,337	254,091	922,553	539,207
Operating expenses				
Lease operating expenses	44,141	44,665	88,922	88,537
Midstream operating expenses	7,688	3,263	15,673	6,590
Well services operating expenses	13,560	9,010	20,947	13,570
Marketing, transportation and gathering expenses	22,833	12,039	43,846	22,990
Purchased oil and gas expenses	57,165	7,980	75,163	35,982
Production taxes	34,026	18,971	65,026	39,270
Depreciation, depletion and amortization	153,570	125,291	302,835	251,957
Exploration expenses	617	1,667	1,386	3,156
Impairment	384,135	3,200	384,228	5,882
General and administrative expenses	28,230	22,626	56,170	45,802
Total operating expenses	745,965	248,712	1,054,196	513,736
Gain on sale of properties	1,954	—	1,954	—
Operating income (loss)	(242,674)	5,379	(129,689)	25,471
Other income (expense)				
Net gain (loss) on derivative instruments	(120,285)	50,532	(191,401)	106,607
Interest expense, net of capitalized interest	(40,910)	(36,838)	(78,056)	(73,159)
Loss on extinguishment of debt	(13,651)	—	(13,651)	—
Other income (expense)	218	(166)	35	(150)
Total other income (expense)	(174,628)	13,528	(283,073)	33,298
Income (loss) before income taxes	(417,302)	18,907	(412,762)	58,769
Income tax benefit (expense)	101,001	(2,339)	100,173	(18,376)
Net income (loss) including non-controlling interests	(316,301)	16,568	(312,589)	40,393
Less: Net income attributable to non-controlling interests	3,903	—	7,025	—
Net income (loss) attributable to Oasis	$(320,204)	$16,568	$(319,614)	$40,393
Earnings (loss) attributable to Oasis per share:				
Basic (Note 15)	$(1.02)	$0.07	$(1.06)	$0.17
Diluted (Note 15)	(1.02)	0.07	(1.06)	0.17
Weighted average shares outstanding:				
Basic (Note 15)	313,072	233,283	301,652	233,176
Diluted (Note 15)	313,072	234,917	301,652	236,281

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)

	Attributable to Oasis							
	Common Stock		Treasury Stock		Additional Paid-in Capital	Retained Earnings	Non-controlling Interests	Total Stockholders' Equity
	Shares	Amount	Shares	Amount				
	(In thousands)							
Balance at December 31, 2017	269,295	$ 2,668	1,332	$ (22,179)	$ 2,677,217	$ 717,985	$ 137,888	$ 3,513,579
Permian Basin Acquisition issuance	46,000	460	—	—	370,760	—	—	371,220
Other (2017 issuance of common stock and Oasis Midstream common units)	—	—	—	—	38	—	(125)	(87)
Equity-based compensation	3,383	26	—	—	14,846	—	166	15,038
Distributions to non-controlling interest owners	—	—	—	—	—	—	(6,846)	(6,846)
Treasury stock - tax withholdings	(693)	—	693	(6,064)	—	—	—	(6,064)
Net income (loss)	—	—	—	—	—	(319,614)	7,025	(312,589)
Balance at June 30, 2018	317,985	$ 3,154	2,025	$ (28,243)	$ 3,062,861	$ 398,371	$ 138,108	$ 3,574,251

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

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

	Six Months Ended June 30, 2018	2017
	(In thousands)	
Cash flows from operating activities:		
Net income (loss) including non-controlling interests	$(312,589)	$40,393
Adjustments to reconcile net income (loss) including non-controlling interests to net cash provided by operating activities:		
Depreciation, depletion and amortization	302,835	251,957
Loss on extinguishment of debt	13,651	—
Gain on sale of properties	(1,954)	—
Impairment	384,228	5,882
Deferred income taxes	(100,293)	18,376
Derivative instruments	191,401	(106,607)
Equity-based compensation expenses	14,130	13,823
Deferred financing costs amortization and other	10,518	8,871
Working capital and other changes:		
Change in accounts receivable, net	(5,866)	(13,743)
Change in inventory	(4,721)	(1,007)
Change in prepaid expenses	573	(264)
Change in other current assets	111	280
Change in long-term inventory and other assets	(381)	(8,768)
Change in accounts payable, interest payable and accrued liabilities	40,849	11,158
Change in other current liabilities	—	(10,490)
Change in other liabilities	(476)	—
Net cash provided by operating activities	532,016	209,861
Cash flows from investing activities:		
Capital expenditures	(536,959)	(252,461)
Acquisitions	(524,255)	—
Proceeds from sale of properties	2,236	4,000
Derivative settlements	(96,823)	(8,899)
Advances from joint interest partners	(933)	(1,781)
Net cash used in investing activities	(1,156,734)	(259,141)
Cash flows from financing activities:		
Proceeds from Revolving Credit Facilities	1,933,000	484,000
Principal payments on Revolving Credit Facilities	(1,265,000)	(429,000)
Repurchase of senior unsecured notes	(423,143)	—
Proceeds from issuance of senior unsecured notes	400,000	—
Deferred financing costs	(6,790)	—
Purchases of treasury stock	(6,064)	(5,451)
Distributions to non-controlling interests	(6,846)	—
Other	(87)	(55)
Net cash provided by financing activities	625,070	49,494
Increase in cash and cash equivalents	352	214
Cash and cash equivalents:		

Beginning of period	16,720	11,226
End of period	$17,072	$11,440
Supplemental non-cash transactions:		
Change in accrued capital expenditures	$90,040	$19,017
Change in asset retirement obligations	5,407	1,759
Issuance of shares in connection with the Permian Basin Acquisition	371,220	—
Installment notes from acquisition	—	4,875

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

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 onshore, unconventional oil and natural gas resources in the United States. Oasis Petroleum North America LLC (“OPNA”) and Oasis Petroleum Permian LLC (“OP Permian”) conduct the Company’s exploration and production activities and own its proved and unproved oil and natural gas properties located in the North Dakota and Montana regions of the Williston Basin and the Texas regions of the Delaware Basin, respectively. The Company also operates a midstream services business through OMS Holdings LLC (“OMS”) and a well services business through Oasis Well Services LLC (“OWS”), both of which are separate reportable business segments that are complementary to its primary development and production activities. The midstream services business is conducted by Oasis Midstream Partners LP (“OMP” or “Oasis Midstream”), which completed an initial public offering in September 2017. The Company owns the general partner and a majority of the outstanding units of OMP.

2. Summary of Significant Accounting Policies

Basis of Presentation

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, 2017 is derived from audited financial statements. Certain reclassifications of prior year balances have been made to conform such amounts to current year classifications. These reclassifications have no impact on net income. In the opinion of management, all adjustments, consisting of normal recurring adjustments necessary for the fair statement of the Company’s financial position, 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, 2017 (“2017 Annual Report”).

Consolidation. The accompanying condensed consolidated financial statements of the Company include the accounts of Oasis, the accounts of wholly-owned subsidiaries, and the accounts of OMP, which is considered a variable interest entity (“VIE”) for which the Company is the primary beneficiary. All significant intercompany balances and transactions have been eliminated upon consolidation.

Consolidated VIE. The Company has determined that the partners with equity at risk in OMP lack the authority, through voting rights or similar rights, to direct the activities that most significantly impact OMP’s economic performance. Therefore, as the limited partners of OMP do not have substantive kick-out or substantive participating rights over OMP GP LLC (“OMP GP”), the general partner to OMP, OMP is a VIE. Through the Company’s ownership interest in OMP GP, the Company has the authority to direct the activities that most significantly affect economic performance and the right to receive benefits that could be potentially significant to OMP. Therefore, the Company is considered the primary beneficiary and consolidates OMP and records a non-controlling interest for the interest owned by the public as of June 30, 2018.

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. A substantial or extended decline in 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 2017 Annual Report, other than as noted below.

Revenue recognition. In the first quarter of 2018, the Company adopted 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 was applied on a modified retrospective basis. The adoption of ASU 2014-09 did not result in a material impact to the Company's financial position, cash flows or results of operations. Enhanced disclosures in accordance with ASU 2014-09 have been provided in Note 3 – Revenue Recognition.

Financial instruments. In the first quarter of 2018, the Company adopted 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 was applied on a prospective basis and prior periods were not retrospectively adjusted. There was no material impact as a result of adoption as of June 30, 2018.

Statement of cash flows. In the first quarter of 2018, the Company adopted 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 was applied on a prospective basis and prior periods were not retrospectively adjusted. There was no material impact as a result of adoption as of June 30, 2018.

Income taxes. In the first quarter of 2018, the Company adopted Accounting Standards Update No. 2016-16, Intra-Entity Transfers of Assets Other Than Inventory ("ASU 2016-16"), to improve the accounting for the income tax consequences of intra-entity transfers of assets other than inventory. ASU 2016-16 was applied on a prospective basis and prior periods were not retrospectively adjusted. There was no material impact as a result of adoption as of June 30, 2018.

Business combinations. In the first quarter of 2018, the Company adopted Accounting Standards Update No. 2017-01, Clarifying the Definition of a Business ("ASU 2017-01"), which provides guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. ASU 2017-01 requires entities to use a screen test to determine when an integrated set of assets and activities is not a business or if the integrated set of assets and activities needs to be further evaluated against the framework. ASU 2017-01 was applied on a prospective basis and prior periods were not retrospectively adjusted. There was no material impact as a result of adoption as of June 30, 2018.

Equity-based compensation. In the first quarter of 2018, the Company adopted Accounting Standards Update No. 2017-09, Scope of Modification Accounting ("ASU 2017-09"), which provides guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting. ASU 2017-09 was applied on a prospective basis and prior periods were not retrospectively adjusted. There was no material impact as a result of adoption as of June 30, 2018.

Recent Accounting Pronouncements

Leases. In February 2016, the Financial Accounting Standards Board ("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. This standard does not apply to leases to explore for or use minerals, oil or natural gas resources, including the right to explore for those natural resources. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, including interim periods within those years. In January 2018, the FASB issued Accounting Standards Update No. 2018-01, Land easement practical expedient for transition to Topic 842, which provides an optional transition practical expedient to not evaluate under Topic 842 existing or expired land easements that were not previously accounting for as leases under Topic 840, Leases. The Company plans to elect this practical expedient and is currently evaluating the effect that adopting the new lease guidance will have on its financial position, cash flows or results of operations.

Income taxes. In March 2018, the FASB issued Accounting Standards Update No. 2018-05, Income Taxes (Topic 740) - Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118 (“ASU 2018-05”). The standard amends Accounting Standards Codification 740, Income Taxes (“ASC 740”) to provide guidance on accounting for the tax effects of the Tax Cuts and Jobs Act (the “Tax Act”) pursuant to Staff Accounting Bulletin No. 118, Income Tax Accounting Implications of the Tax Cuts and Jobs Act ("SAB 118"). The Company is currently evaluating the effect of the new tax guidance, but does not expect it to have a material impact on its financial position, cash flows or results of operations. See Note 13 – Income Taxes.

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3. Revenue Recognition

In May 2014, the FASB issued a new accounting standard related to revenue recognition, ASC 606 - Revenue from Contracts with Customers ("ASC 606"). This standard was effective in first quarter 2018 and the Company adopted the new standard using the modified retrospective method. The Company applied ASC 606 to all new contracts entered into after January 1, 2018 and all existing contracts for which all (or substantially all) of the revenue has not been recognized under legacy revenue guidance as of December 31, 2017. ASC 606 supersedes previous revenue recognition requirements in ASC 605 and includes a five-step revenue recognition model to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services.

In accordance with the adoption of ASC 606, management evaluated its contracts with customers to apply the five-step revenue recognition model. The adoption of ASC 606 did not result in a material impact to the Company's financial position, cash flows or results of operations.

The unit of account in ASC 606 is a performance obligation, which is a promise in a contract to transfer to a customer either a distinct good or service (or bundle of goods or services) or a series of distinct goods or services provided over a period of time. ASC 606 requires that a contract's transaction price, which is the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer, is to be allocated to each performance obligation in the contract based on relative standalone selling prices and recognized as revenue when (point in time) or as (over time) the performance obligation is satisfied.

Exploration and production revenues

Our exploration and production revenues are derived from contracts for oil, natural gas and natural gas liquids ("NGL") sales, as described below. Generally, for the majority of these contracts: (i) each unit (barrel ("bbl"), mcf, gallon, etc.) of commodity product is a separate performance obligation, as our promise is to sell multiple distinct units of commodity product at a point in time; (ii) the transaction price principally consists of variable consideration, which amount is determinable each month end based on our right to invoice at month end for the value of commodity product sold to the customer that month; and (iii) the transaction price is allocated to each performance obligation based on the commodity product's standalone selling price and recognized as revenue upon delivery of the commodity product, which is the point in time when the customer obtains control of the commodity product and our performance obligation is satisfied. The sales of oil, natural gas and NGLs as presented on the Company's Condensed Consolidated Statements of Operations represent the Company's share of revenues net of royalties and excluding revenue interests owned by others. When selling oil, natural gas and NGLs on behalf of royalty owners or working interest owners, the Company is acting as an agent and thus reports the revenue on a net basis. To the extent actual volumes and prices of oil and natural gas sales are unavailable for a given reporting period because of timing or information not received from third parties, the expected sales volumes and prices for those properties are estimated and recorded. The Company's contracts with customers typically require payments for oil, natural gas and NGL sales within 30 days following the calendar month of delivery.

Oil sales. The Company sells a substantial majority of its oil through bulk sales at delivery points on crude oil gathering systems or directly at the wellhead to a variety of customers under short-term contracts that include a specified quantity of crude oil to be delivered and sold to the customer at a specified delivery point. The customer pays a market-based transaction price, which incorporates differentials that include, but are not limited to, transportation costs and adjustments for product quality.

Natural gas sales. The Company's natural gas sales consist of unprocessed gas sales and residue gas sales. Unprocessed gas is sold at delivery points at or near the wellhead under percentage of proceeds contracts, in which the customer pays a transaction price based on its sale of the bifurcated NGLs and residue gas, less any associated fees. Revenue is recorded on a net basis, with processing fees deducted within revenue rather than as a separate expense line item, as title and control transfer at the delivery point. Residue gas is sold from the tailgate of the Company's gas processing plant located in Wild Basin or transported and sold at other downstream sales points, and the customer pays a transaction price based on a market indexed per-unit rate for the quantities sold.

Purchased oil and gas sales. The Company purchases and sells crude oil and natural gas at various delivery points to a variety of customers under short-term contracts that include specified quantities of crude oil and natural gas to be sold and delivered to the customer at a specified delivery point. The Company purchases and sells crude oil and natural gas to different counterparties at market-based prices. Market-based pricing is based on the price index applicable for the location of the sale. The Company accounts for these transactions on a gross basis.

NGL sales. NGLs are sold from the Company's gas processing plant complex located in Wild Basin or trucked and sold at other downstream locations, and the customer pays a transaction price based on a market indexed per-unit rate for the quantities sold.

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Prior period performance obligations. For sales of oil, purchased oil, natural gas, purchased gas and NGLs, the Company records revenue in the month production is delivered to the purchaser. However, settlement statements and payment may not be received for 30 to 90 days after the date production is delivered, and as a result, the Company is required to estimate the amount of production that was delivered to the purchaser and the price that will be received for the sale of the product. The Company records the differences between estimates and the actual amounts received for product sales once payment is received from the purchaser. Such differences have historically not been significant. The Company uses knowledge of its properties, its properties' historical performance, spot market prices and other factors as the basis for these estimates. For the three and six months ended June 30, 2018, revenue recognized related to performance obligations satisfied in prior reporting periods was not material.

Revenues associated with contracts with customers for oil, natural gas and NGL sales were as follows for the three and six months ended June 30, 2018 and 2017:

Exploration and Production Revenues

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
	(In thousands)			
Oil revenues	$361,254	$194,005	$684,640	$402,599
Purchased oil sales	53,707	7,905	71,695	35,536
Natural gas revenues	23,059	15,119	50,021	34,652
Purchased gas sales	496	186	545	186
NGL revenues	11,608	9,509	24,931	18,634
Total exploration and production revenues	$450,124	$226,724	$831,832	$491,607

Midstream revenues

Crude oil and natural gas revenues. The Company is party to certain contracts for gas gathering, compression, processing and gas lift services, as well as crude oil gathering, stabilization, blending, storage and transportation. Under these customer contracts, the Company provides daily integrated midstream services on a stand ready basis over a period of time, which represents a single performance obligation since the customer simultaneously receives and consumes the benefits of these services on a daily basis. Satisfaction of the Company’s performance obligation is measured as each day of service is completed, which directly corresponds with its right to consideration from the customer. Revenues associated with these contracts are recognized based upon the transaction price at month-end under the right to invoice practical expedient. Payments from customers are generally received by the Company within one month after the month in which services are provided.

Purchased oil sales. The Company purchases and sells crude oil at various delivery points on crude oil gathering systems to a variety of customers under short-term contracts that include a specified quantity of crude oil to be sold and delivered to the customer at a specified delivery point. The Company purchases and sells the crude oil to different counterparties at market-based prices. Market-based pricing is based on the price index applicable for the location of the sale. The Company accounts for these transactions on a gross basis.

Water revenues. The Company is also party to certain contracts with customers for water services, which includes produced and flowback water gathering and disposal services and freshwater distribution services. Under its customer contracts for produced and flowback water gathering and disposal services, the Company provides daily integrated midstream services on a stand ready basis over a period of time, which represents a single performance obligation since the customer simultaneously receives and consumes the benefits of these services on a daily basis. Satisfaction of the Company’s performance obligation is measured as each day of service is completed, which directly corresponds with its right to consideration from the customer. Revenues associated with these contracts are recognized based upon the transaction price at month-end under the right to invoice practical expedient. Payments from customers are generally received by the Company within one month after the month in which services are provided.

Under its customer contracts for freshwater distribution services, the Company supplies and distributes freshwater to its customers for hydraulic fracturing and production optimization. Management has determined these contracts contain multiple distinct performance obligations since each freshwater barrel is not dependent nor highly interrelated with other barrels. Revenue associated with freshwater distribution services is recognized at a point-in-time based upon the transaction price when title, control and risk of loss transfers to the customer, which occurs at the delivery point. Payments are due from customers 30 days after receipt of invoice.

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Revenues associated with contracts with customers for midstream services were as follows for the three and six months ended June 30, 2018 and 2017:

Midstream Revenues[1]

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
	(In thousands)			
Crude oil and natural gas revenues	$17,907	$3,187	$35,936	$11,739
Purchased oil sales	3,375	—	3,375	—
Water revenues	11,435	12,379	21,328	18,433
Total midstream revenues	$32,717	$15,566	$60,639	$30,172

(1) Represents midstream revenues excluding all intercompany revenues for work performed by the midstream services business segment for Oasis's working interests that are eliminated in consolidation and are therefore not included in midstream services revenues.

Well services revenues

Hydraulic fracturing service revenues. Hydraulic fracturing revenue is recognized upon the completion of each hydraulic fracturing of a well. These services are composed of various components, such as personnel, equipment and hydraulic fracturing materials, but management determined that each component is not distinct, as it cannot be used on its own or together with a resource readily available to the customer. Revenue is recognized when the performance obligations of hydraulic fracturing a well in its totality are completed; generally, this is over a period of time due to all work being performed for a customer occurring on the customer's property, where the customer has control over the work in process as it is being performed. In addition, the Company's assets being used to perform the obligations have no alternative use at the time of performance and the Company has the right to payment for performance to date. Payments from customers are generally received by the Company within one month after the month in which services are provided. In addition, revenue from product sales to third parties is generated when OPNA requests that third-party hydraulic fracturing companies hydraulic fracture OPNA's wells. Although the labor is provided by the third-party hydraulic fracturing company, the materials (e.g., sand, chemicals, etc.) used in the hydraulic fracturing of the wells are provided by OWS. The third-party hydraulic fracturing company or OPNA pays OWS for the materials delivered to the wells. Revenue is recognized once the performance obligations to transfer hydraulic fracturing materials are completed.

Equipment rental revenues. Equipment rental revenue is generated when OPNA or a third-party hydraulic fracturing company rents equipment from OWS. This equipment is used in the preparation stage of hydraulic fracturing services or after the hydraulic fracturing services have been completed. Equipment rental revenues are calculated based on the equipment's daily rental rate and the number of days that the equipment was rented by the customer. OWS's performance obligation is satisfied when the entire rental period is completed. Equipment rental revenues are recognized over a period of time due to the customer simultaneously receiving and consuming the benefits of the rental equipment provided by OWS on a daily basis. Satisfaction of the Company's performance obligation is measured as each day of rental period is completed, which directly corresponds with its right to consideration from the customer. Revenues associated with these contracts are recognized at the time of invoicing for the entire rental period under the right to invoice practical expedient. Payments from customers are generally received by the Company within one month after the month in which services are provided.

Revenues associated with contracts with customers for hydraulic fracturing services and equipment rental sales were as follows for the three and six months ended June 30, 2018 and 2017:

Well Services Revenues[1]

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017

	(In thousands)			
Hydraulic fracturing service revenues	$17,390	$11,057	$27,816	$16,213
Equipment rental revenues	1,106	744	2,266	1,215
Total well services revenues	$18,496	$11,801	$30,082	$17,428

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(1) Represents well services revenues excluding all intercompany revenues for work performed by the well services business segment for Oasis's working interests that are eliminated in consolidation and are therefore not included in well services revenues.

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Contract balances

Under the Company's customer contracts, invoicing occurs once the Company's performance obligations have been satisfied, at which point payment is unconditional. Accordingly, the Company's contracts do not give rise to contract assets or liabilities under ASC 606.

Performance obligations

The majority of the Company’s sales are short-term in nature with a contract term of one year or less. For those contracts, the Company utilized the practical expedient in ASC 606-10-50-14 that exempts the Company from disclosure of the transaction price allocated to remaining performance obligations if the performance obligation is part of a contract that has an original expected duration of one year or less.

For the Company’s product sales that have a contract term greater than one year, the Company utilized the practical expedient in ASC 606-10-50-14(A) which states the Company is not required to disclose the transaction price allocated to remaining performance obligations if the variable consideration is allocated entirely to a wholly unsatisfied performance obligation. Under these sales contracts, each unit of product generally represents a separate performance obligation; therefore future volumes are wholly unsatisfied and disclosure of the transaction price allocated to remaining performance obligations is not required. Under the midstream services contracts, each unit of service represents a separate performance obligation and therefore performance obligations in respect of future services are wholly unsatisfied.

4. Inventory

Crude oil inventory includes oil in tanks. 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. Crude oil inventory and equipment and materials are included in inventory on the Company’s Condensed Consolidated Balance Sheets.

The minimum volume of product in a pipeline system that enables the system to operate is known as linefill and is generally not available to be withdrawn from the pipeline system until the expiration of the transportation contract. The Company owns oil linefill in third-party pipelines, which is included in long-term inventory on the Company’s Condensed Consolidated Balance Sheets.

Inventory, including long-term inventory, is stated at the lower of cost and net realizable value with cost determined on an average cost method. The Company assesses the carrying value of inventory and uses estimates and judgment when making any adjustments necessary to reduce the carrying value to net realizable value. Among the uncertainties that impact the Company’s estimates are the applicable quality and location differentials to include in the Company’s net realizable value analysis. Additionally, the Company estimates the upcoming liquidation timing of the inventory. Changes in assumptions made as to the timing of a sale can materially impact net realizable value.

Total inventory consists of the following:

	June 30, 2018	December 31, 2017
	(In thousands)	
Inventory		
Crude oil inventory	$7,000	$ 10,427
Equipment and materials	16,222	8,940
Total inventory	$23,222	$ 19,367
Long-term inventory		
Linefill in third-party pipelines	$12,505	$ 12,200
Long-term inventory	$12,505	$ 12,200
Total	$35,727	$ 31,567

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5. Accounts Receivable, Net

The following table sets forth the Company's accounts receivable, net:

	June 30, 2018	December 31, 2017
	(In thousands)	
Accounts receivable, net		
Trade accounts	$250,740	$ 233,660
Joint interest accounts	79,304	73,588
Other accounts	48,982	57,905
Total	379,026	365,153
Allowance for doubtful accounts	(946)	(1,573)
Total accounts receivable, net	$378,080	$ 363,580

6. 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's financial instruments, including certain cash and cash equivalents, accounts receivable, accounts payable and other payables, are carried at cost, which approximates their respective fair market values due to their short-term maturities. 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.

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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 June 30, 2018			
	Level 1	Level 2	Level 3	Total
	(In thousands)			
Assets:				
Money market funds	$143	$—	$ —	$143
Commodity derivative instruments (see Note 7)	—	25	—	25
Total assets	$143	$25	$ —	$168
Liabilities:				
Commodity derivative instruments (see Note 7)	$—	$229,817	$ —	$229,817
Total liabilities	$—	$229,817	$ —	$229,817

	Fair value at December 31, 2017			
	Level 1	Level 2	Level 3	Total
	(In thousands)			
Assets:				