EQUITY OIL CO
Form 10-Q
November 05, 2001

FORM 10Q
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

(Mark One)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the quarterly period ended September 30, 2001

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: 0-610

EQUITY OIL COMPANY
(Exact name of registrant as specified in its charter)

COLORADO	87-0129795
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

Suite 806, #10 West Third South, Salt Lake City, Utah 84101
(Address of principal executive offices)
(Zip Code)

(801) 521-3515
Registrant's telephone number, including area code

(Former name, former address and former fiscal year, if changed since last report)

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 X No

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY
PROCEEDINGS DURING THE PRECEDING FIVE YEARS:

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

Yes No

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 12,688,061

ITEM I: Financial Statements

EQUITY OIL COMPANY
Statements of Operations
For the Nine Months Ended September 30, 2001 and 2000
(Unaudited)

	2001	2000
REVENUES		
Oil and gas sales	$17,247,604	$16,818,425
Interest income	127,180	130,887
Other	182,765	1,295,153
	17,557,549	18,244,465
EXPENSES		
Operating costs	5,583,541	5,032,304
Depreciation, depletion and amortization	2,850,000	3,000,000
Impairment of proved oil and gas properties	69,545	-
Equity loss in Symskaya Exploration, Inc.	105,414	101,890
3-D seismic	200,005	590,769
Exploration	1,436,842	1,523,754
General and administrative	1,889,517	1,467,340
Interest	353,872	885,183
	12,488,736	12,601,240
Income before income taxes	5,068,813	5,643,225
Provision for income taxes	1,814,805	2,067,666
NET INCOME	$ 3,254,008	$3,575,559
Net income per share		
Basic	$.26	$.28
Diluted	$.25	$.28
Weighted average shares outstanding		
Basic	12,678,711	12,643,440
Diluted	12,980,699	12,932,233

The accompanying notes are an integral part of these statements.

EQUITY OIL COMPANY
Statements of Operations
For the Three Months Ended September 30, 2001 and 2000
(Unaudited)

	2001	2000
REVENUES		
Oil and gas sales	$3,797,827	$6,027,006
Interest income	27,656	55,236
Other	9,916	142,284
	3,835,399	6,224,526
EXPENSES		
Operating costs	1,847,134	1,747,786
Depreciation, depletion and amortization	930,000	1,000,000
Impairment of proved oil and gas properties	69,545	-
Equity loss in Symskaya Exploration, Inc.	53,243	18,931
3D seismic	175,181	59,976
Exploration	600,607	734,810
General and administrative	514,593	495,783
Interest	71,150	270,616
	4,261,453	4,327,902
Income (loss) before income taxes	(426,054)	1,896,624
Provision for (benefit from) income taxes	(300,519)	682,597
NET INCOME (LOSS)	$ (125,535)	$1,214,027
Net income (loss) per common share:		
Basic	$ (0.01)	$ 0.10
Diluted	$ (0.01)	$ 0.09

Weighted average shares outstanding:

Basic	12,688,061	12,643,440
Diluted	12,901,672	12,860,825

The accompanying notes are an integral part of these statements.

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EQUITY OIL COMPANY
Balance Sheet
as of September 30, 2001 and December 31, 2000
(Unaudited)

ASSETS	September 30, 2001	December 31, 2000
Current assets:		
Cash and cash equivalents	$ 2,355,714	$ 2,190,548
Accounts and advances receivable	3,415,551	5,471,937
Income taxes receivable	303,361	107,490
Deferred income taxes	120,846	79,896
Other current assets	55,973	58,667
	6,251,445	7,908,538
Property and equipment	109,914,458	106,031,805
Less accumulated depreciation, depletion and amortization	69,356,006	66,509,569
	40,558,452	39,522,236
Other assets	307,582	366,937
	307,582	366,937
TOTAL ASSETS	$47,117,479	$47,797,711
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 2,091,671	$ 2,303,102
Accrued liabilities	165,039	189,912

Federal, state and foreign income taxes payable	43,716	632,435
	2,300,426	3,125,449
Revolving credit facility	5,500,000	8,500,000
Deferred income taxes	3,431,011	3,588,575
	8,931,011	12,088,575
Stockholders' equity:		
Common stock	12,851,661	12,819,212
Paid in capital	3,735,763	3,719,865
Less cost of treasury stock	(528,302)	(528,302)
Retained earnings	19,826,920	16,572,912
	35,886,042	32,583,687
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$47,117,479	$47,797,711

The accompanying notes are an integral part of these statements.

EQUITY OIL COMPANY
Statement of Cash Flows
For the Nine Months Ended September 30, 2001 and 2000
(Unaudited)

	2001	2000
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 3,254,008	$ 3,575,559
Adjustments:		
Depreciation, depletion and amortization	2,850,000	3,000,000
Impairment of proved oil and gas properties	69,545	-
Loss (gain) on property dispositions	1,078	(499,965)
Equity loss in Symskaya Exploration, Inc.	105,414	101,890
Change in other assets	59,355	72,786
Change in deferred income taxes	(198,514)	1,920,001
Increase (decrease) from changes in:		
Accounts and advances receivable	2,056,386	(583,897)
Other current assets	2,694	192,560
Accounts payable and accrued liabilities	(236,304)	440,368

Income taxes receivable/payable	(749,346)	(102,269)
Net cash provided by operating activities	7,214,316	8,117,033
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of properties	-	513,298
Advances to Symskaya Exploration	(105,414)	(101,890)
Capital expenditures	(3,956,839)	(1,823,362)
Net cash used in investing activities	(4,062,253)	(1,411,954)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payment of loan fees	-	(26,136)
Stock option proceeds	13,103	3,189
Payments on credit facility	(3,000,000)	(5,500,000)
Net cash used in financing activities	(2,986,897)	(5,522,947)
NET INCREASE IN CASH	165,166	1,182,132
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	2,190,548	1,006,602
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 2,355,714	$ 2,188,734

The accompanying notes are an integral part of these statements.

NOTES TO FINANCIAL STATEMENTS

Note 1. Interim Financial Statements

The accompanying financial statements of Equity Oil Company ("Equity" or "the Company") are unaudited. In the opinion of the Company's management, the financial statements reflect the adjustments, all of which are of a normal and recurring nature, necessary to present fairly the financial position of the Company as of September 30, 2001, and the results of its operations for the three and nine month periods ended September 30, 2001 and 2000, and its cash flows for the nine month periods ended September 30, 2001 and 2000.

The financial statements and the accompanying notes to financial statements have been prepared according to rules and regulations of the Securities and

Exchange Commission. Accordingly, certain notes and other information have been condensed or omitted from the interim financial statements presented in this Quarterly Report on Form 10-Q. These financial statements should be read in conjunction with the Company's 2000 Annual Report on Form 10-K, and the Company's Form 10-Q for the first and second quarters of 2001.

The results for the three and nine month periods ended September 30, 2001 are not necessarily indicative of future results.

Note 2. Net Income (Loss) Per Share

Basic net income (loss) per share is computed using the weighted average number of common shares outstanding during the period. Diluted net income (loss) per share is computed using the weighted average number of common and, if dilutive, potential common equivalent shares outstanding during the period. Potential common equivalent shares consist of the incremental common shares issuable upon the exercise of stock options (using the treasury stock method).

Options to purchase approximately 1,649,000 shares of common stock at prices of $1.06 to $5.125 per share were outstanding at September 30, 2001, of which, 246,060 and 301,988 of these options were included in the computation of diluted earnings per share for the third quarter and first nine months of 2001, respectively. Options to purchase approximately 1,589,000 shares of common stock at prices of $1.06 to $5.50 per share were outstanding at September 30, 2000, of which, 536,500 were included in the computation of diluted net income per share for the third quarter and first nine months of 2000.

PART I

ITEM 2

Management's Discussion and Analysis of Financial Condition and Results of Operation

RESULTS OF OPERATIONS

Financial Results

Lower oil and gas prices and increased exploration activities during the third quarter of 2001 negatively impacted earnings for the quarter. For the quarter ended September 30, 2001, Equity recorded a net loss of $125,535, or $(.01) per basic share, compared to net income of $1,214,027, or $.10 per basic share, in the third quarter of 2000. Revenues in the 2001 third quarter were $3,835,399, down 38% from revenues of $6,224,526 in the 2000 third quarter. Cash flow from operating activities in the third quarter of 2001 of $1,569,575 was

52% lower than the third quarter 2000 operating cash flow of $3,262,879.

Net income for the first nine months of 2001 was $3,254,008, or $.26 per basic share, compared to net income of $3,575,559, or $.28 per basic share reported in the first nine months of 2000. Total revenues of $17,557,549 were 4% lower than total revenues of $18,244,465 recorded in the first nine months of 2000. Cash flow from operating activities in the first nine months of 2001 of $7,214,316 was 12% lower than 2000 nine months cash flow of $8,177,033.

Operating Activities

The Company participated in a successful development well in the Beaver Creek Field during the quarter. The Westport #24-15T recorded an initial pumping potential of 95 BOPD, 25 MCFD and 350 BWPD. Equity maintains a 32.5% working interest in the #24-15T. An exploratory dry hole was drilled on the Company's operated Merlin survey in the Sacramento Basin during the quarter.

The Company anticipates receipt of a drilling permit for the Equity #33-14 Beaver Creek in November. The #33-14 is the first exploration well to be drilled on the Beaver Creek proprietary 3-D seismic project in the Williston Basin of North Dakota. Currently, Equity's working interest in the #33-14 Beaver Creek is 100%. The Company anticipated drilling two exploratory wells in Beaver Creek during 2001; however, the drilling permit for the Equity #32-4 Beaver Creek will not be issued this year. The exploration effort in this area is being expanded with the data acquisition phase of an approximate 15 square mile extension of the original Beaver Creek survey.

The Company participated in a exploratory dry hole during October at its Raven Ridge prospect in the Uintah Basin of Northeastern Utah.

During November 2001, Equity plans to commence its four well development drilling program in the Sage Creek and Torchlight Fields in its Bighorn Basin core area of operation. Drilling objectives in Sage Creek include an extension of the principal producing reservoir and an infill development well. A proprietary four square mile 3-D seismic survey, completed earlier this year, identified field extension development drilling opportunities in the Torchlight Field. Assuming issuance of one remaining drilling permit, two wells are planned at Torchlight. Equity's operated working interest in the Bighorn Basin development program varies between 56% and 100%.

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A six well infill development drilling program is underway in the Company's principal Canadian asset, the Cessford Field, in Southern Alberta. The 2001 drilling program is a continuation of the successful 2000 drilling campaign. The five 2000 infill wells are currently producing approximately 40% of the field's oil production of 380 BOPD and 60% of the total casing head gas production of 800 MCFD. Equity's working interest in Cessford is 50%.

The three well development drilling program in the Siberia Ridge Field of Southwestern Wyoming may be initiated during the fourth quarter, however, the operator, Anadarko Petroleum, has currently been unable to secure drilling permits from the Federal Bureau of Land Management. It is likely that some portion of this drilling program will be deferred until 2002.

CAPITAL RESOURCES AND LIQUIDITY

Cash and cash equivalents totaled $2,355,714 as of September 30, 2001, an increase of 8% since year-end 2000. Working capital at September 30, 2001 decreased 17% at $3,951,019, compared to $4,783,089 at December 31, 2000. The Company's ratio of current assets to current liabilities improved to 2.72 to 1 at September 30, 2001, compared to 2.53 to 1 at December 31, 2000.

Cash balances and working capital remained strong despite the fact that the Company has reduced its outstanding debt by $3.0 million during 2001 to $5.5 million at September 30, 2001.

The Company's commitment under its credit facility is subject to a redetermination as of May 1 and November 1 of each year, with estimated future oil and gas prices used in the evaluation determined by the Company's lender. The Company's current commitment under its credit facility is $17 million. Accordingly, as of September 30, 2001, the Company had $11.5 million of availability under its facility. The Company is in compliance with all of its facility covenants.

Investment in property and equipment for the first nine months of 2001 totaled $4,034,421, a 121% increase from the amount recorded during the corresponding nine months of 2000. High cash flows have enabled the Company to actively pursue its 2001 drilling and workover programs.

The Company believes that existing cash balances, cash flow from operating activities, and funds available under the Company's credit facility will provide adequate resources to meet its capital and exploration spending objectives for 2001.

COMPARISON OF THIRD QUARTER 2001 WITH THIRD QUARTER 2000

Lower oil and gas prices, coupled with decreased oil and gas production, resulted in a 37% decrease in oil and gas sales for the third quarter of 2001. Total revenues for the period were $3,835,399, compared to $6,224,526 during the same period of 2000.

The average oil price received in the third quarter was $22.68 per barrel, down 20% from $28.34 per barrel in the third quarter of 2000. Gas prices were down more drastically, averaging $1.59 per Mcf in the third quarter of 2001 compared to $3.84 per Mcf in 2000. Oil production decreased 8% to 151,000 barrels in 2001 compared to 165,000 barrels during the same period of 2000. Gas production in the 2001 quarter decreased to 357,000 Mcf compared to 370,000 Mcf in the comparable period last year. The reduction in oil and gas production is attributable to a normal production decline as properties mature.

Total expenses in 2001 decreased 5% over 2000 third quarter levels. The decrease is attributable to lower exploration costs in 2001 and lower interest expense. Operating costs rose 6% from 2000 levels, primarily as a result of costs associated with abandoning nonproducing wells and higher workover expenses.

Lower exploration costs are associated with the Company's delay in obtaining necessary drilling permits and oilfield services which have led to less drilling events this year as compared to the prior year. General and administrative expenses increased 4% from 2000 third quarter levels due to higher compensation, and employee relocation costs associated with the hiring of a new vice president of corporate development.

Lower interest costs in 2001 reflect the lower amount of debt outstanding under the Company's credit facility and lower interest rates.

COMPARISON OF FIRST NINE MONTHS OF 2001 WITH FIRST NINE MONTHS OF 2000

Higher gas prices offset lower oil prices and declines in oil and gas production to produce a modest 3% increase in oil and gas sales for the first nine months of 2001. Oil and gas revenues for the period were $17,247,604, compared to $16,818,425 during the first nine months of 2000. Total revenues for the first nine months in 2001 of $17,557,549 decreased 4% from $18,244,465 received during the same period in 2000.

Average oil prices received by the Company in the first nine months of 2001, were $24.24 per barrel, compared to $26.10, net of hedging costs of $835,562 during the same period of 2000. Average gas prices received during the first nine months of 2001 were $5.25 per Mcf, which compared to $3.07 per Mcf during the same period of 2000. Through the first nine months of 2001, oil production of 472,000 barrels was down from 2000 production of 505,000 barrels. Natural gas production decreased from 1,200,000 Mcf in 2000 to 1,100,000 Mcf in 2001. These production declines are attributable to normal declines as the properties mature.

Included in the 2000 nine month revenues is $505,000 in non- recurring property sales recognized in the first quarter of the year. There was no corresponding amount received in 2001. The Company also recognized gains on the sale of securities in 2000 and no such sales in 2001.

Higher operating costs, and administrative costs were offset by lower 3-D seismic expense, exploration and interest costs. Overall expenses were 2% lower in 2001 than in the same period of 2000. Operating costs rose 11% from 2000 levels, as the Company continues its well workover programs and to incur costs associated with abandonment of nonproducing wells.

Expenses in the first nine months of 2001 include costs associated with a new Company operated 3-D seismic survey in North Dakota. The Company participated in two such surveys during the first nine months of 2000.

Exploration costs decreased as the Company's 2001 drilling program has been delayed by the regulatory permitting process and difficulty in obtaining oilfield services. Through the first nine months of 2001, the Company incurred $311,000 in dry hole costs compared to $455,000 incurred during the same period of 2000.

General and administrative expenses increased 28% from 2000 levels. The increase was due to higher compensation, fees paid to an employment search firm associated with hiring a new vice president of corporate development, employee relocation and shareholder expenses.

Lower interest costs in 2001 reflect the lower amount of debt outstanding under the Company's credit facility and lower interest rates.

OTHER ITEMS

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS 133, as amended, establishes methods of accounting for derivative financial instruments and hedging activities related to those instruments as well as other hedging activities. The Company adopted SFAS No. 133 on January 1, 2001, and the adoption of this pronouncement did not have a material impact on the Company's financial position and results of operations.

The Company has reviewed all other recently issued, but not yet adopted, accounting standards in order to determine their effects, if any, on the results of operations or financial position of the Company. Based on that review, the Company believes that none of these pronouncements will have a significant effect on current or future earnings or operations.

FORWARD LOOKING STATEMENTS

The preceding discussion and analysis should be read in conjunction with the consolidated financial statements, including the notes thereto, appearing in the Company's annual report on Form 10-K. Except for the historical information contained herein, the matters discussed in this report contain forward-looking statements within the meaning of Section 27a of the Securities Act of 1933, as amended, and Section 21e of the Securities Exchange Act of 1934, as amended, that are based on management's beliefs and assumptions, current expectations, estimates, and projections. Statements that are not historical facts, including without limitation statements which are preceded by, followed by or include the words "believes", "anticipates", "plans", "expects", "may", "should" or similar expressions are forward-looking statements. Many of the factors that will determine the Company's future results are beyond the ability of the Company to control or predict. These statements are subject to risks and uncertainties and, therefore, actual results may differ materially. All subsequent written and oral forward- looking statements attributable to the Company, or persons acting on its behalf, are expressly qualified in their entirety by these cautionary statements. The Company disclaims any obligation to update any forward-looking statements whether as a result of new information, future events or otherwise.

Important factors that may effect future results include, but are not limited to: drilling success, the availability of equipment and contract services, environmental risks and impediments, geologic hazards, the risk of a significant natural disaster, the inability of the Company to insure against certain risks, fluctuations in commodity prices, the inherent limitations in the ability to estimate oil and gas reserves, changing government regulations, as well as general market conditions, competition and pricing, and other risks detailed from time to time in the Company's SEC reports, copies of which are available upon request from the Company's investor relations department.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

The answers to items listed under Item 3 are inapplicable or negative.

PART II

OTHER INFORMATION

The answers to items listed under Part II are inapplicable or negative.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

EQUITY OIL COMPANY
(Registrant)

DATE: November 5, 2001 By /s/ Paul M. Dougan
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Paul M. Dougan
President

DATE: November 5, 2001 By /s/Russell V. Florence
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Russell V. Florence
Treasurer
Principal Accounting Officer

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