WHITING PETROLEUM CORP
Form 10-Q
October 29, 2010

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2010

or

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _______________ to _______________

Commission file number: 001-31899
WHITING PETROLEUM CORPORATION
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	20-0098515 (I.R.S. Employer Identification No.)
1700 Broadway, Suite 2300 Denver, Colorado (Address of principal executive offices)	80290-2300 (Zip code)

(303) 837-1661
(Registrant’s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes T 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 T No £

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer T Accelerated filer £ Non-accelerated filer £
Smaller reporting company £

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

Number of shares of the registrant's common stock outstanding at October 15, 2010: 58,548,894 shares.

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GLOSSARY OF CERTAIN DEFINITIONS

Unless the context otherwise requires, the terms “we,” “us,” “our” or “ours” when used in this report refer to Whiting Petroleum Corporation, together with its consolidated subsidiaries. When the context requires, we refer to these entities separately.

We have included below the definitions for certain terms used in this report:

“Bbl” - One stock tank barrel, or 42 U.S. gallons liquid volume, used in this report in reference to oil and other liquid hydrocarbons.

“Bcf” - One billion cubic feet of natural gas.

“BOE” - One stock tank barrel equivalent of oil, calculated by converting natural gas volumes to equivalent oil barrels at a ratio of six Mcf to one Bbl of oil.

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

“GAAP” - Generally accepted accounting principles in the United States of America.

“MBbl” - One thousand barrels of oil or other liquid hydrocarbons.

“MBOE/d” - One thousand BOE per day.

“Mcf” - One thousand cubic feet of natural gas.

“MMBbl” - One million barrels of oil or other liquid hydrocarbons.

“MMBOE” - One million BOE.

“MMBtu” - One million British Thermal Units.

“MMcf” - One million cubic feet of natural gas.

“plugging and abandonment” - Refers to the sealing off of fluids in the strata penetrated by a well so that the fluids from one stratum will not escape into another or to the surface. Regulations of many states require plugging of abandoned wells.

“working interest” - The interest in a crude oil and natural gas property (normally a leasehold interest) that gives the owner the right to drill, produce and conduct operations on the property; to share in production, subject to all royalties, overriding royalties and other burdens; and to share in all costs of exploration, development, operations and all risks in connection therewith.

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PART I – FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

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

	September 30, 2010	December 31, 2009
ASSETS		
Current assets:		
Cash and cash equivalents	$ 3,211	$ 11,960
Accounts receivable trade, net	182,355	152,082
Prepaid expenses and other	14,535	11,983
Total current assets	200,101	176,025
Property and equipment:		
Oil and gas properties, successful efforts method:		
Proved properties	5,392,276	4,870,688
Unproved properties	177,638	100,706
Other property and equipment	89,695	100,833
Total property and equipment	5,659,609	5,072,227
Less accumulated depreciation, depletion and amortization	(1,546,476)	(1,274,121)
Total property and equipment, net	4,113,133	3,798,106
Debt issuance costs	22,935	24,672
Other long-term assets	30,361	30,739
TOTAL ASSETS	$ 4,366,530	$ 4,029,542
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable trade	$ 55,121	$ 14,023
Accrued capital expenditures	73,682	29,998
Accrued liabilities and other	113,452	110,320
Revenues and royalties payable	75,548	46,327
Taxes payable	28,403	21,188
Derivative liabilities	33,432	49,551
Deferred income taxes	4,500	11,325
Total current liabilities	384,138	282,732
Long-term debt	700,000	779,585
Deferred income taxes	500,095	341,037
Derivative liabilities	91,250	137,621
Production Participation Plan liability	78,983	69,433
Asset retirement obligations	73,922	66,846
Deferred gain on sale	47,477	58,462
Other long-term liabilities	25,314	23,741
Total liabilities	1,901,179	1,759,457
Commitments and contingencies		
Stockholders' equity:		

Preferred stock, $0.001 par value, 5,000,000 shares authorized; 6.25% convertible perpetual preferred stock, 172,500 shares issued and outstanding as of September 30, 2010 and 3,450,000 shares issued and outstanding as of December 31, 2009, aggregate liquidation preference of $17,250,000		-		3
Common stock, $0.001 par value, 175,000,000 shares authorized; 58,986,415 issued and 58,548,894 outstanding as of September 30, 2010, 51,363,638 issued and 50,845,374 outstanding as of December 31, 2009		59		51
Additional paid-in capital		1,547,536		1,546,635
Accumulated other comprehensive income		8,014		20,413
Retained earnings		909,742		702,983
Total stockholders’ equity		2,465,351		2,270,085
TOTAL LIABILITIES AND STOCKHOLDERS’ EQUITY	$	4,366,530	$	4,029,542

See notes to consolidated financial statements.

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

	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
REVENUES AND OTHER INCOME:				
Oil and natural gas sales	$ 365,239	$ 256,074	$ 1,068,961	$ 616,552
Gain on hedging activities	4,383	7,774	19,641	28,072
Amortization of deferred gain on sale	3,854	4,222	11,613	12,595
Gain on sale of properties	-	1,101	1,918	5,709
Interest income and other	258	156	498	396
Total revenues and other income	373,734	269,327	1,102,631	663,324
COSTS AND EXPENSES:				
Lease operating	69,001	58,807	197,586	177,343
Production taxes	26,193	18,792	77,341	43,225
Depreciation, depletion and amortization	97,704	101,273	289,836	301,622
Exploration and impairment	10,500	12,422	37,915	39,528
General and administrative	19,480	11,314	48,516	30,576
Interest expense	14,579	15,647	45,903	49,020
Loss on early extinguishment of debt	6,235	-	6,235	-
Change in Production Participation Plan liability	3,858	(678)	9,550	3,002
Commodity derivative (gain) loss, net	31,765	(10,391)	(46,654)	171,906
Total costs and expenses	279,315	207,186	666,228	816,222
INCOME (LOSS) BEFORE INCOME TAXES	94,419	62,141	436,403	(152,898)
INCOME TAX EXPENSE (BENEFIT):				
Current	(170)	(507)	6,468	(1,046)
Deferred	36,057	26,793	159,475	(50,785)
Total income tax expense (benefit)	35,887	26,286	165,943	(51,831)
NET INCOME (LOSS)	58,532	35,855	270,460	(101,067)
Preferred stock dividends	(52,920)	(4,911)	(63,701)	(4,911)
NET INCOME (LOSS) AVAILABLE TO COMMON	$ 5,612	$ 30,944	$ 206,759	$ (105,978)

SHAREHOLDERS									
EARNINGS (LOSS) PER COMMON SHARE:									
Basic	$	0.12	$	0.59	$	4.04	$	(2.15	)
Diluted	$	0.12	$	0.59	$	4.00	$	(2.15	)
WEIGHTED AVERAGE SHARES OUTSTANDING:									
Basic		52,148		50,845		51,356		49,774	
Diluted		52,453		51,174		52,096		49,774	

See notes to consolidated financial statements.

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

	Nine Months Ended September 30, 2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$ 270,460	$ (101,067)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion and amortization	289,836	301,622
Deferred income tax expense (benefit)	159,475	(50,785)
Amortization of debt issuance costs and debt discount	8,525	8,143
Stock-based compensation	6,585	4,047
Amortization of deferred gain on sale	(11,613)	(12,595)
Gain on sale of properties	(1,918)	(5,709)
Undeveloped leasehold and oil and gas property impairments	12,054	14,743
Exploratory dry hole costs	2,796	2,344
Loss on early extinguishment of debt	6,235	-
Change in Production Participation Plan liability	9,550	3,002
Unrealized (gain) loss on derivative contracts	(82,213)	145,650
Other non-current	(4,495)	646
Changes in current assets and liabilities:		
Accounts receivable trade	(30,273)	(2,317)
Prepaid expenses and other	(637)	30,062
Accounts payable trade and accrued liabilities	49,464	(49,380)
Revenues and royalties payable	29,221	884
Taxes payable	7,215	1,530
Net cash provided by operating activities	720,267	290,820
CASH FLOWS FROM INVESTING ACTIVITIES:		
Cash acquisition capital expenditures	(102,256)	(31,475)
Drilling and development capital expenditures	(473,697)	(403,571)
Proceeds from sale of oil and gas properties	7,875	80,308
Net cash used in investing activities	(568,078)	(354,738)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Issuance of 6.5% Senior Subordinated Notes due 2018	350,000	-
Redemption of 7.25% Senior Subordinated Notes due 2012	(150,000)	-
Redemption of 7.25% Senior Subordinated Notes due 2013	(223,988)	-
Issuance of 6.25% convertible perpetual preferred stock	-	334,112
Issuance of common stock	-	234,753
Premium on induced conversion of 6.25% convertible perpetual preferred stock	(47,529)	-
Preferred stock dividends paid	(16,172)	(4,911)
Long-term borrowings under credit agreement	850,000	310,000
Repayments of long-term borrowings under credit agreement	(910,000)	(780,000)
Debt issuance costs	(7,570)	(23,141)
Restricted stock used for tax withholdings	(5,679)	(659)

Net cash (used in) provided by financing activities		(160,938	)		70,154	
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		(8,749	)		6,236	
CASH AND CASH EQUIVALENTS:						
Beginning of period		11,960			9,624	
End of period	$	3,211		$	15,860	
NONCASH INVESTING ACTIVITIES:						
Accrued capital expenditures during the period	$	73,682		$	23,372	
NONCASH FINANCING ACTIVITIES:						
Issuance of common stock related to the induced conversion of preferred stock	$	317,406		$	-	
Preferred stock cancelled in connection with its induced conversion	$	(317,406	)	$	-	

See notes to consolidated financial statements.

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

	Preferred Stock		Common Stock		Additional Paid-in	Accumulated Other Comprehensive Income	Retained	Total Stockholders'	Comprehensive Income
	Shares	Amount	Shares	Amount	Capital	(Loss)	Earnings	Equity	(Loss)
BALANCES-January 1, 2009	-	$-	42,582	$43	$971,310	$17,271	$820,167	$1,808,791	
Net loss	-	-	-	-	-	-	(101,067)	(101,067)	$(101,067)
Change in derivative fair values, net of taxes of $7,799	-	-	-	-	-	13,348	-	13,348	13,348
Realized gain on settled derivative contracts, net of taxes of $4,933	-	-	-	-	-	(8,517)	-	(8,517)	(8,517)
Ineffectiveness loss on hedging activities, net of taxes of $8,355	-	-	-	-	-	14,300	-	14,300	14,300
OCI amortization on de-designated hedges, net of taxes of $5,390	-	-	-	-	-	(9,232)	-	(9,232)	(9,232)
Total comprehensive income									$(91,168)
Issuance of 6.25% convertible perpetual preferred stock	3,450	3	-	-	334,109	-	-	334,112	
Issuance of stock, secondary offering	-	-	8,450	8	234,745	-	-	234,753	
Restricted stock issued			364	-	-	-	-	-	
Restricted stock forfeited	-	-	(5)	-	-	-	-	-	
Restricted stock used for tax withholdings	-	-	(27)	-	(659)	-	-	(659)	
Tax effect from restricted stock vesting	-	-	-	-	(515)	-	-	(515)	
Stock-based compensation	-	-	-	-	4,047	-	-	4,047	
Preferred dividends paid	-	-	-	-	-	-	(4,911)	(4,911)	
BALANCES-September 30, 2009	3,450	$3	51,364	$51	$1,543,037	$27,170	$714,189	$2,284,450	
BALANCES-January 1, 2010	3,450	$3	51,364	$51	$1,546,635	$20,413	$702,983	$2,270,085	
Net income	-	-	-	-	-	-	270,460	270,460	$270,460

OCI amortization on de-designated hedges, net of taxes of $7,242	-	-	-	-	-	(12,399)	-	(12,399)	(12,399)
Total comprehensive income									$258,061
Induced conversion of convertible perpetual preferred stock	(3,277)	(3)	7,549	8	(5)	-	(47,529)	(47,529)	
Restricted stock issued	-	-	162	-	-	-	-	-	
Restricted stock forfeited	-	-	(11)	-	-	-	-	-	
Restricted stock used for tax withholdings	-	-	(78)	-	(5,679)	-	-	(5,679)	
Stock-based compensation	-	-	-	-	6,585	-	-	6,585	
Preferred dividends paid	-	-	-	-	-	-	(16,172)	(16,172)	
BALANCES-September 30, 2010	173	$-	58,986	$59	$1,547,536	$8,014	$909,742	$2,465,351	

See notes to consolidated financial statements.

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WHITING PETROLEUM CORPORATION
NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS (Unaudited)

1. BASIS OF PRESENTATION

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

Consolidated Financial Statements—The unaudited consolidated financial statements include the accounts of Whiting Petroleum Corporation, its consolidated subsidiaries, all of which are wholly-owned, and Whiting's pro rata share of the accounts of Whiting USA Trust I pursuant to Whiting's 15.8% ownership interest. Investments in entities which give Whiting significant influence, but not control, over the investee are accounted for using the equity method. Under the equity method, investments are stated at cost plus the Company's equity in undistributed earnings and losses. All intercompany balances and transactions have been eliminated upon consolidation. These financial statements have been prepared in accordance with GAAP for interim financial reporting. In the opinion of management, the accompanying financial statements include all adjustments (consisting of normal recurring accruals and adjustments) necessary to present fairly, in all material respects, the Company's interim results. However, operating results for the periods presented are not necessarily indicative of the results that may be expected for the full year. Whiting's 2009 Annual Report on Form 10-K includes certain definitions and a summary of significant accounting policies and should be read in conjunction with this Form 10-Q. Except as disclosed herein, there have been no material changes to the information disclosed in the notes to the consolidated financial statements included in Whiting's 2009 Annual Report on Form 10-K.

Earnings Per Share—Basic earnings per common share is calculated by dividing net income available to common shareholders by the weighted average number of common shares outstanding during each period. Diluted earnings per common share is calculated by dividing adjusted net income available to common shareholders by the weighted average number of diluted common shares outstanding, which includes the effect of potentially dilutive securities. Potentially dilutive securities for the diluted earnings per share calculations consist of unvested restricted stock awards and outstanding stock options using the treasury method, as well as convertible perpetual preferred stock using the if-converted method. In the computation of diluted earnings per share, excess tax benefits that would be created upon the assumed vesting of unvested restricted shares or the assumed exercise of stock options (i.e. hypothetical excess tax benefits) are included in the assumed proceeds component of the treasury share method to the extent that such excess tax benefits are more likely than not to be realized. When a loss from continuing operations exists, all potentially dilutive securities are anti-dilutive and are therefore excluded from the computation of diluted earnings per share.

Reclassifications—In accordance with Regulation S-X Article 10, the Company has condensed certain line items within the current period financial statements, and certain prior period balances were reclassified to conform to the current year presentation accordingly. Such reclassifications had no impact on net income, cash flows or stockholders' equity previously reported.

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2. ACQUISITIONS AND DIVESTITURES

2010 Activity

In September 2010, Whiting acquired operated interests in 19 producing oil and gas wells, undeveloped acreage, and gathering lines, all of which are located on approximately 20,400 gross (16,100 net) acres in Weld County, Colorado. The aggregate unadjusted purchase price was $19.2 million, and substantially all of it was allocated to the properties and acreage acquired.

In August 2010, Whiting acquired oil and gas leasehold interests covering approximately 112,000 gross (90,200 net) acres in the Montana portion of the Williston Basin for $26.0 million. The undeveloped acreage is located in Roosevelt and Sheridan counties.

There were no significant divestitures during the first nine months of 2010.

2009 Acquisitions

During 2009, Whiting acquired additional royalty and overriding royalty interests in the North Ward Estes field and various other fields in the Permian Basin in two separate transactions with private owners. Also included in these transactions were contractual rights, including an option to participate for an aggregate 10% working interest and right to back in after payout for an additional aggregate 15% working interest in the development of deeper pay zones on acreage under and adjoining the North Ward Estes field.

Whiting completed the first acquisition of additional royalty and overriding royalty interests in November 2009, with a purchase price of $38.7 million and an effective date of October 1, 2009. The Company completed the second acquisition of additional royalty and overriding royalty interests in December 2009, with a purchase price of $27.4 million and an effective date of November 1, 2009. Reserves attributable to royalty and overriding royalty interests are not burdened by operating expenses or any additional capital costs, including CO2 costs, which are paid by the working interest owners. These two acquisitions were funded primarily from net cash provided by operating activities. Substantially all of the purchase price was allocated to the properties acquired.

2009 Participation Agreement

In June 2009, Whiting entered into a participation agreement with a privately held independent oil company covering twenty-five 1,280-acre units and one 640-acre unit located primarily in the western portion of the Sanish field in Mountrail County, North Dakota. Under the terms of the agreement, the private company agreed to pay 65% of Whiting's net drilling and well completion costs to receive 50% of Whiting's working interest and net revenue interest in the first and second wells planned for each of the units. Pursuant to the agreement, Whiting will remain the operator for each unit.

At the closing of the agreement, the private company paid Whiting $107.3 million, representing $6.4 million for acreage costs, $65.8 million for 65% of Whiting's cost in 18 wells drilled or drilling and $35.1 million for a 50% interest in Whiting's Robinson Lake gas plant and oil and gas gathering system. Whiting used these proceeds to repay a portion of the debt outstanding under its credit agreement.

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3. LONG-TERM DEBT

Long-term debt consisted of the following at September 30, 2010 and December 31, 2009 (in thousands):

	September 30, 2010	December 31, 2009
Credit Agreement	$100,000	$160,000
6.5% Senior Subordinated Notes due 2018	350,000	-
7% Senior Subordinated Notes due 2014	250,000	250,000
7.25% Senior Subordinated Notes due 2013, net of unamortized debt discount of $1,147	-	218,853
7.25% Senior Subordinated Notes due 2012, net of unamortized debt discount of $268	-	150,732
Total debt	$700,000	$779,585

Credit Agreement—As of September 30, 2010, Whiting Oil and Gas Corporation (“Whiting Oil and Gas”), the Company’s wholly-owned subsidiary, had a credit agreement with a syndicate of banks, and this credit facility had a borrowing base of $1.1 billion with $999.6 million of available borrowing capacity, which was net of $100.0 million in borrowings and $0.4 million in letters of credit outstanding. The credit agreement provided for interest only payments until April 2012, when the agreement expired and all outstanding borrowings were due. In October 2010, Whiting Oil and Gas entered into a Fifth Amended and Restated Credit Agreement with its bank syndicate, which replaced the existing credit agreement. This amended credit agreement extended the principal repayment date from April 2012 to October 2015. Further information on the terms of the new credit agreement is discussed in the note on Subsequent Events. The following is a description of the credit agreement in place as of September 30, 2010.

The borrowing base under the credit agreement was determined at the discretion of the lenders, based on the collateral value of the proved reserves that had been mortgaged to the lenders, and was subject to regular redeterminations on May 1 and November 1 of each year, as well as special redeterminations described in the credit agreement, in each case which may have reduced the amount of the borrowing base. Whiting Oil and Gas could have, throughout the term of the credit agreement, borrowed, repaid and reborrowed up to the borrowing base in effect at any given time. A portion of the revolving credit agreement in an aggregate amount not to exceed $50.0 million could have been used to issue letters of credit for the account of Whiting Oil and Gas or other designated subsidiaries of the Company. As of September 30, 2010, $49.6 million was available for additional letters of credit under the agreement.

Interest accrued at the Company’s option at either (i) a base rate for a base rate loan plus the margin in the table below, where the base rate is defined as the greatest of the prime rate, the federal funds rate plus 0.50% or an adjusted LIBOR rate plus 1.00%, or (ii) an adjusted LIBOR rate for a Eurodollar loan plus the margin in the table below. The Company also incurred commitment fees of 0.50% on the unused portion of the lesser of the aggregate commitments of the lenders or the borrowing base, which were included as a component of interest expense. At September 30, 2010, the weighted average interest rate on the outstanding principal balance borrowed under the credit agreement was 2.3%.

Ratio of Outstanding Borrowings to Borrowing Base	Applicable Margin for Base Rate Loans	Applicable Margin for Eurodollar Loans
Less than 0.25 to 1.0	1.1250%	2.00%
Greater than or equal to 0.25 to 1.0 but less than 0.50 to 1.0	1.1375%	2.25%
Greater than or equal to 0.50 to 1.0 but less than 0.75 to 1.0	1.6250%	2.50%
Greater than or equal to 0.75 to 1.0 but less than 0.90 to 1.0	1.8750%	2.75%
Greater than or equal to 0.90 to 1.0	2.1250%	3.00%

The credit agreement contained restrictive covenants that may have limited the Company's ability to, among other things, incur additional indebtedness, sell assets, make loans to others, make investments, enter into mergers, enter into hedging contracts, incur liens and engage in certain other transactions without the prior consent of its lenders. The credit agreement required the Company, as of the last day of any quarter, (i) to not exceed a total debt to the last four quarters' EBITDAX ratio (as defined in the credit agreement) of 4.5 to 1.0 for quarters ending prior to and on September 30, 2010, 4.25 to 1.0 for quarters ending December 31, 2010 to June 30, 2011 and 4.0 to 1.0 for quarters ending September 30, 2011 and thereafter, (ii) to have a consolidated current assets to consolidated current liabilities ratio (as defined in the credit agreement and which includes an add back of the available borrowing capacity under the credit agreement) of not less than 1.0 to 1.0, and (iii) to not exceed a senior secured debt to the last four quarters' EBITDAX ratio (as defined in the credit agreement) of 2.5 to 1.0. Except for limited exceptions, which included the payment of dividends on the Company's 6.25% convertible perpetual preferred stock, the credit agreement restricted its ability to make any dividend payments or distributions on its common stock or principal payments on its senior notes. The Company was in compliance with its covenants under the credit agreement as of September 30, 2010.

The obligations of Whiting Oil and Gas under the credit agreement were secured by a first lien on substantially all of Whiting Oil and Gas' properties included in the borrowing base for the credit agreement. Whiting Petroleum Corporation had guaranteed the obligations of Whiting Oil and Gas under the credit agreement and pledged the stock of Whiting Oil and Gas as security for its guarantee.

Senior Subordinated Notes—In October 2005, the Company issued at par $250.0 million of 7% Senior Subordinated Notes due February 2014. The estimated fair value of these notes was $263.8 million as of September 30, 2010, based on quoted market prices for these same debt securities.

Redemption of 7.25% Senior Subordinated Notes Due 2012 and 2013—In September 2010, the Company paid $383.5 million to redeem all of its $150.0 million aggregate principal amount of 7.25% Senior Subordinated Notes due 2012 and all of its $220.0 million aggregate principal amount of 7.25% Senior Subordinated Notes due 2013, which consisted of a redemption price of 100.00% for the 2012 notes and 101.8125% for the 2013 notes and included the payment of accrued and unpaid interest on such notes. The Company financed the redemption of the 2012 and 2013 notes with borrowings under its credit agreement. As a result of the redemption, Whiting recognized a $6.2 million loss on early extinguishment of debt, which consisted of a cash charge of $4.0 million related to the redemption premium on the 2013 notes and a non-cash charge of $2.2 million related to the acceleration of debt discounts and unamortized debt issuance costs.

Issuance of 6.5% Senior Subordinated Notes Due 2018—In September 2010, the Company issued at par $350.0 million of 6.5% Senior Subordinated Notes due October 2018. The Company used the net proceeds from this issuance to repay a portion of the debt, which was borrowed to redeem its 2012 and 2013 notes, outstanding under its credit agreement. The estimated fair value of these notes was $357.4 million as of September 30, 2010, based on quoted market prices for these same debt securities.

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The notes are unsecured obligations of Whiting Petroleum Corporation and are subordinated to all of the Company's senior debt, which currently consists of Whiting Oil and Gas' credit agreement. The Company's obligations under the 2014 notes are fully, unconditionally, jointly and severally guaranteed by the Company's 100%-owned subsidiaries, Whiting Oil and Gas and Whiting Programs, Inc. (the "2014 Guarantors"). Additionally, the Company's obligations under the 2018 notes are fully, unconditionally, jointly and severally guaranteed by the Company's 100%-owned subsidiary, Whiting Oil and Gas (collectively with the 2014 Guarantors, the "Guarantors"). Any subsidiaries other than the Guarantors are minor subsidiaries as defined by Rule 3-10(h)(6) of Regulation S-X of the Securities and Exchange Commission. Whiting Petroleum Corporation has no assets or operations independent of this debt and its investments in guarantor subsidiaries.

4. ASSET RETIREMENT OBLIGATIONS

The Company's asset retirement obligations represent the estimated future costs associated with the plugging and abandonment of oil and gas wells, removal of equipment and facilities from leased acreage, and land restoration (including removal of certain onshore and offshore facilities in California) in accordance with applicable local, state and federal laws. The Company follows FASB ASC Topic 410, Asset Retirement and Environmental Obligations, to determine its asset retirement obligation amounts by calculating the present value of the estimated future cash outflows associated with its plug and abandonment obligations. The current portions at September 30, 2010 and December 31, 2009 were $5.7 million and $10.3 million, respectively, and are included in accrued liabilities and other. The following table provides a reconciliation of the Company's asset retirement obligations for the nine months ended September 30, 2010 (in thousands):

Asset retirement obligation, January 1, 2010	$77,186
Additional liability incurred	2,277
Revisions in estimated cash flows	1,331
Accretion expense	5,421
Obligations on sold properties	(2,942)
Liabilities settled	(3,611)
Asset retirement obligation, September 30, 2010	$79,662

5. DERIVATIVE FINANCIAL INSTRUMENTS

The Company is exposed to certain risks relating to its ongoing business operations, and Whiting uses derivative instruments to manage its commodity price risk. Whiting follows FASB ASC Topic 815, Derivatives and Hedging, to account for its derivative financial instruments.

Commodity derivative contracts—Historically, prices received for crude oil and natural gas production have been volatile because of seasonal weather patterns, supply and demand factors, worldwide political factors and general economic conditions. Whiting enters into derivative contracts, primarily costless collars, to achieve a more predictable cash flow by reducing its exposure to commodity price volatility. Commodity derivative contracts are also used to ensure adequate cash flow to fund the Company's capital programs and to manage returns on acquisitions and drilling programs. Costless collars are designed to establish floor and ceiling prices on anticipated future oil and gas production. While the use of these derivative instruments limits the downside risk of adverse price movements, they may also limit future revenues from favorable price movements. The Company does not enter into derivative contracts for speculative or trading purposes.

Whiting derivatives. The table below details the Company's costless collar derivatives, including its proportionate share of Whiting USA Trust I (the "Trust") derivatives, entered into to hedge forecasted crude oil and natural gas production revenues, as of October 15, 2010.

	Whiting Petroleum Corporation			
			Weighted Average	
	Contracted Volumes		NYMEX Price Collar Ranges	
Period	Crude Oil (Bbl)	Natural Gas (Mcf)	Crude Oil (per Bbl)	Natural Gas (per Mcf)
Oct – Dec 2010	2,415,437	118,336	$64.43 - $91.26	$7.00 - $14.20
Jan – Dec 2011	9,655,039	436,510	$60.40 - $96.90	$6.50 - $14.62
Jan – Dec 2012	4,065,091	384,002	$50.08 - $95.28	$6.50 - $14.27
Jan – Nov 2013	3,090,000	-	$47.64 - $89.90	n/a
Total	19,225,567	938,848		

Derivatives conveyed to Whiting USA Trust I. In connection with the Company's conveyance in April 2008 of a term net profits interest to the Trust and related sale of 11,677,500 Trust units to the public, the right to any future hedge payments made or received by Whiting on certain of its derivative contracts have been conveyed to the Trust, and therefore such payments will be included in the Trust's calculation of net proceeds. Under the terms of the aforementioned conveyance, Whiting retains 10% of the net proceeds from the underlying properties. Whiting's retention of 10% of these net proceeds, combined with its ownership of 2,186,389 Trust units, results in third-party public holders of Trust units receiving 75.8%, and Whiting retaining 24.2%, of the future economic results of commodity derivative contracts conveyed to the Trust. The relative ownership of the future economic results of such commodity derivatives is reflected in the tables below. No additional hedges are allowed to be placed on Trust assets.

The 24.2% portion of Trust derivatives that Whiting has retained the economic rights to (and which are also included in the table above) are as follows:

	Whiting Petroleum Corporation			
			Weighted Average	
	Contracted Volumes		NYMEX Price Collar Ranges	
Period	Crude Oil (Bbl)	Natural Gas (Mcf)	Crude Oil (per Bbl)	Natural Gas (per Mcf)
Oct – Dec 2010	30,437	118,336	$76.00 - $135.11	$7.00 - $14.20
Jan – Dec 2011	115,039	436,510	$74.00 - $140.15	$6.50 - $14.62
Jan – Dec 2012	105,091	384,002	$74.00 - $141.72	$6.50 - $14.27
Total	250,567	938,848		

The 75.8% portion of Trust derivative contracts of which Whiting has transferred the economic rights to third-party public holders of Trust units (and which have not been reflected in the above tables) are as follows:

	Third-party Public Holders of Trust Units			
			Weighted Average	
	Contracted Volumes		NYMEX Price Collar Ranges	
Period	Crude Oil (Bbl)	Natural Gas (Mcf)	Crude Oil (per Bbl)	Natural Gas (per Mcf)

Oct – Dec 2010	95,335	370,655	$76.00 - $135.11	$7.00 - $14.20
Jan – Dec 2011	360,329	1,367,249	$74.00 - $140.15	$6.50 - $14.62
Jan – Dec 2012	329,171	1,202,785	$74.00 - $141.72	$6.50 - $14.27
Total				