WHITING PETROLEUM CORP
Form 10-Q
November 03, 2011

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, 2011

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 filerT 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, 2011: 117,380,843 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” The Financial Accounting Standards Board.

“FASB ASC” The FASB 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” One thousand BOE.

“MBOE/d” One MBOE per day.

“Mcf” One thousand cubic feet of natural gas.

“MMBbl” One million Bbl.

“MMBOE” One million BOE.

“MMBtu” One million British Thermal Units.

“MMcf” One million cubic feet of natural gas.

“MMcf/d” One MMcf per day.

“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 and a share of production, subject to all royalties, overriding royalties and other burdens and to all costs of exploration, development and operations and all risks in connection therewith.

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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, 2011	December 31, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	$ 6,088	$ 18,952
Accounts receivable trade, net	230,942	199,713
Prepaid expenses and other	31,540	14,878
Total current assets	268,570	233,543
Property and equipment:		
Oil and gas properties, successful efforts method:		
Proved properties	6,724,836	5,661,619
Unproved properties	362,963	226,336
Other property and equipment	144,158	98,092
Total property and equipment	7,231,957	5,986,047
Less accumulated depreciation, depletion and amortization	(1,961,365)	(1,630,824)
Total property and equipment, net	5,270,592	4,355,223
Debt issuance costs	31,782	34,226
Other long-term assets	76,562	25,785
TOTAL ASSETS	$ 5,647,506	$ 4,648,777
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable trade	$ 30,389	$ 35,016
Accrued capital expenditures	112,526	84,789
Accrued liabilities and other	133,752	153,062
Revenues and royalties payable	104,185	82,124
Taxes payable	34,139	30,291
Derivative liabilities	20,682	69,375
Deferred income taxes	2,713	4,548
Total current liabilities	438,386	459,205
Long-term debt	1,200,000	800,000
Deferred income taxes	786,932	539,071
Derivative liabilities	31,424	95,256
Production Participation Plan liability	84,584	81,524
Asset retirement obligations	82,842	76,994
Deferred gain on sale	32,618	41,460
Other long-term liabilities	26,669	23,952
Total liabilities	2,683,455	2,117,462
Commitments and contingencies		
Equity:		
	-	-

Preferred stock, $0.001 par value, 5,000,000 shares authorized; 6.25% convertible perpetual preferred stock, 172,400 shares issued and outstanding as of September 30, 2011 and 172,500 shares issued and outstanding as of December 31, 2010, aggregate liquidation preference of $17,240,000 at September 30, 2011				
Common stock, $0.001 par value, 300,000,000 shares authorized; 118,109,058 issued and 117,380,843 outstanding as of September 30, 2011, 117,967,876 issued and 117,098,506 outstanding as of December 31, 2010 (1)		118		59
Additional paid-in capital		1,550,800		1,549,822
Accumulated other comprehensive income		1,144		5,768
Retained earnings		1,403,656		975,666
Total Whiting shareholders' equity		2,955,718		2,531,315
Noncontrolling interest		8,333		-
Total equity		2,964,051		2,531,315
TOTAL LIABILITIES AND EQUITY	$	5,647,506	$	4,648,777

(1) All common share amounts (except par value and par value per share amounts) have been retroactively restated as of December 31, 2010 to reflect the Company's two-for-one stock split in February 2011, as described in Note 8 to these consolidated financial statements.

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, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
REVENUES AND OTHER INCOME:				
Oil and natural gas sales	$ 468,573	$ 365,239	$ 1,368,121	$ 1,068,961
Gain on hedging activities	1,871	4,383	7,326	19,641
Amortization of deferred gain on sale	3,518	3,854	10,455	11,613
Gain on sale of properties	13,505	-	14,732	1,918
Interest income and other	90	258	351	498
Total revenues and other income	487,557	373,734	1,400,985	1,102,631
COSTS AND EXPENSES:				
Lease operating	77,630	69,001	222,937	197,586
Production taxes	34,510	26,193	100,412	77,341
Depreciation, depletion and amortization	122,890	97,704	340,868	289,836
Exploration and impairment	18,918	10,500	61,326	37,915
General and administrative	23,144	19,480	62,470	48,516
Interest expense	16,130	14,579	45,867	45,903
Loss on early extinguishment of debt	-	6,235	-	6,235
Change in Production Participation Plan liability	853	3,858	3,060	9,550
Commodity derivative (gain) loss, net	(138,892)	31,765	(118,071)	(46,654)
Total costs and expenses	155,183	279,315	718,869	666,228
INCOME BEFORE INCOME TAXES	332,374	94,419	682,116	436,403
INCOME TAX EXPENSE (BENEFIT):				
Current	975	(170)	4,590	6,468
Deferred	125,164	36,057	248,728	159,475
Total income tax expense (benefit)	126,139	35,887	253,318	165,943
NET INCOME	206,235	58,532	428,798	270,460
Preferred stock dividends	(269)	(52,920)	(808)	(63,701)
NET INCOME AVAILABLE TO COMMON	$ 205,966	$ 5,612	$ 427,990	$ 206,759

SHAREHOLDERS				
EARNINGS PER COMMON SHARE(1):				
Basic	$ 1.75	$ 0.06	$ 3.65	$ 2.02
Diluted	$ 1.74	$ 0.06	$ 3.62	$ 2.00
WEIGHTED AVERAGE SHARES OUTSTANDING(1) :				
Basic	117,381	104,296	117,333	102,712
Diluted	118,539	104,907	118,572	104,192

(1) All share and per share amounts have been retroactively restated for the 2010 periods to reflect the Company's two-for-one stock split in February 2011, as described in Note 8 to these consolidated financial statements.

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, 2011	Nine Months Ended September 30, 2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 428,798	$ 270,460
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion and amortization	340,868	289,836
Deferred income tax expense	248,728	159,475
Amortization of debt issuance costs and debt discount	6,357	8,525
Stock-based compensation	10,086	6,585
Amortization of deferred gain on sale	(10,455)	(11,613)
Gain on sale of properties	(14,732)	(1,918)
Undeveloped leasehold and oil and gas property impairments	24,920	12,054
Exploratory dry hole costs	4,714	2,796
Loss on early extinguishment of debt	-	6,235
Change in Production Participation Plan liability	3,060	9,550
Unrealized (gain) loss on derivative contracts	(151,047)	(82,213)
Other non-current	(8,285)	(4,495)
Changes in current assets and liabilities:		
Accounts receivable trade	(31,229)	(30,273)
Prepaid expenses and other	61	(637)
Accounts payable trade and accrued liabilities	(13,999)	49,464
Revenues and royalties payable	22,061	29,221
Taxes payable	3,848	7,215
Net cash provided by operating activities	863,754	720,267
CASH FLOWS FROM INVESTING ACTIVITIES:		
Cash acquisition capital expenditures	(233,521)	(102,256)
Drilling and development capital expenditures	(1,077,605)	(473,697)
Proceeds from sale of oil and gas properties	69,246	7,875
Issuance of note receivable	(25,000)	-
Net cash used in investing activities	(1,266,880)	(568,078)
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)
Premium on induced conversion of 6.25% convertible perpetual preferred stock	-	(47,529)
Contributions from noncontrolling interest	2,500	-
Preferred stock dividends paid	(808)	(16,172)
Long-term borrowings under credit agreement	1,380,000	850,000
Repayments of long-term borrowings under credit agreement	(980,000)	(910,000)
Debt issuance costs	(2,381)	(7,570)

Restricted stock used for tax withholdings	(9,049)	(5,679)
Net cash provided by (used in) financing activities	390,262	(160,938)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(12,864)	(8,749)
CASH AND CASH EQUIVALENTS:		
Beginning of period	18,952	11,960
End of period	$ 6,088	$ 3,211

See notes to consolidated financial statements. (Continued)

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

	Nine Months Ended September 30,	
	2011	2010
NONCASH INVESTING ACTIVITIES:		
Accrued capital expenditures	$ 112,526	$ 73,682
NONCASH FINANCING ACTIVITIES:		
Contributions from noncontrolling interest	$ 5,833	$ -
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. (Concluded)

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

	Preferred Stock Shares	Preferred Stock Amount	Common Stock(1) Shares	Common Stock(1) Amount	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total Whiting Shareholders' Equity	Noncontrolling Interest	Total Equity	Comp Incon (Loss
LANCES-January 1, 0	3,450	$3	102,728	$51	$1,546,635	$20,413	$702,983	$2,270,085	$-	$2,270,085	
income	-	-	-	-	-	-	270,460	270,460	-	270,460	$270,4
I amortization on designated hedges, of taxes of $7,242	-	-	-	-	-	(12,399)	-	(12,399)	-	(12,399)	(12,3
al comprehensive ome											$258,0
uced conversion of vertible perpetual ferred stock	(3,277)	(3)	15,098	8	(5)	-	(47,529)	(47,529)	-	(47,529)	
tricted stock issued	-	-	325	-	-	-	-	-	-	-	
tricted stock eited	-	-	(22)	-	-	-	-	-	-	-	
tricted stock used ax withholdings	-	-	(156)	-	(5,679)	-	-	(5,679)	-	(5,679)	
ck-based npensation	-	-	-	-	6,585	-	-	6,585	-	6,585	
ferred dividends paid	-	-	-	-	-	-	(16,172)	(16,172)	-	(16,172)	
LANCES-September 2010	173	$-	117,973	$59	$1,547,536	$8,014	$909,742	$2,465,351	$-	$2,465,351	
LANCES-January 1, 1	173	$-	117,968	$59	$1,549,822	$5,768	$975,666	$2,531,315	$-	$2,531,315	
income	-	-	-	-	-	-	428,798	428,798	-	428,798	$428,7
I amortization on designated hedges, of taxes of $2,702	-	-	-	-	-	(4,624)	-	(4,624)	-	(4,624)	(4,62
al comprehensive ome											$424,1
version of preferred k to common	(1)	-	1	-	-	-	-	-	-	-	
o-for-one stock split	-	-	-	59	(59)	-	-	-	-	-	
tributions from controlling interest	-	-	-	-	-	-	-	-	8,333	8,333	
tricted stock issued	-	-	304	-	-	-	-	-	-	-	
tricted stock eited	-	-	(16)	-	-	-	-	-	-	-	

tricted stock used tax withholdings	-	-	(148)	-	(9,049)	-	-	(9,049)	-	(9,049)
ck-based pensation	-	-	-	-	10,086	-	-	10,086	-	10,086
ferred dividends paid	-	-	-	-	-	-	(808)	(808)	-	(808)
LANCES-September 2011	172	$-	118,109	$118	$1,550,800	$1,144	$1,403,656	$2,955,718	$8,333	$2,964,051

(1) All common share amounts (except par values) have been retroactively restated for all periods presented to reflect the Company’s two-for-one stock split in February 2011, as described in Note 8 to these consolidated financial statements.

See notes to consolidated financial statements.

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 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 2010 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 2010 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.

2. ACQUISITIONS AND DIVESTITURES

2011 Acquisitions

On July 28, 2011, the Company completed the acquisition of approximately 23,400 net acres and one well in the Missouri Breaks prospect in Richland County, Montana for an unadjusted purchase price of $46.9 million. Disclosures of pro forma revenues and net income for this acquisition are not material and have not been presented accordingly.

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On March 18, 2011, Whiting and an unrelated third party formed Sustainable Water Resources, LLC (“SWR”) to develop a water project in the state of Colorado. The Company contributed $25.0 million for a 75% interest in SWR, and the 25% noncontrolling interest in SWR was ascribed a fair value of $8.3 million, which consisted of $2.5 million in cash contributions, as well as $5.8 million in intangible and fixed assets contributed to the joint venture. There were no significant results of operations attributable to the noncontrolling interest since its inception through the period ended September 30, 2011.

On February 15, 2011, the Company completed the acquisition of 6,000 net undeveloped acres and additional working interests in the Pronghorn field in Billings and Stark Counties, North Dakota, for an aggregate purchase price of $40.0 million.

2011 Divestitures

On September 29, 2011, Whiting sold its interest in several non-core oil and gas producing properties located in the Karnes, Live Oak and DeWitt counties of Texas for total cash proceeds of $64.8 million, resulting in a pre-tax gain on sale of $12.3 million. Whiting used the net proceeds from the property sale to repay a portion of the debt outstanding under its credit agreement.

2010 Acquisitions

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 purchase price was $19.2 million; substantially all of which was allocated to the oil and gas properties and acreage acquired. Disclosures of pro forma revenues and net income for this acquisition are not material and have not been presented accordingly.

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.

2010 Divestitures

There were no significant divestitures during the year ended December 31, 2010.

3. LONG-TERM DEBT

Long-term debt consisted of the following at September 30, 2011 and December 31, 2010 (in thousands):

	September 30, 2011	December 31, 2010
Credit agreement	$ 600,000	$ 200,000
6.5% Senior Subordinated Notes due 2018	350,000	350,000
7% Senior Subordinated Notes due 2014	250,000	250,000
Total debt	$ 1,200,000	$ 800,000

Credit Agreement—Whiting Oil and Gas Corporation (“Whiting Oil and Gas”), the Company’s wholly-owned subsidiary, has a credit agreement with a syndicate of banks. As of September 30, 2011, this credit facility had a borrowing base of $1.1 billion with $498.6 million of available borrowing capacity, which is net of $600.0 million in borrowings and $1.4 million in letters of credit outstanding. The credit agreement provides for interest only payments until April

2016, when the agreement expires and all outstanding borrowings are due. In October 2011, Whiting Oil and Gas entered into an amendment to its existing credit agreement that increased the borrowing base under the facility from $1.1 billion to $1.5 billion.

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The borrowing base under the credit agreement is determined at the discretion of the lenders, based on the collateral value of the Company's proved reserves that have been mortgaged to its lenders, and is 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 reduce the amount of the borrowing base. A portion of the revolving credit facility in an aggregate amount not to exceed $50.0 million may be 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, 2011, $48.6 million was available for additional letters of credit under the agreement.

Interest accrues 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. Additionally, the Company also incurs commitment fees as set forth in the table below on the unused portion of the lesser of the aggregate commitments of the lenders or the borrowing base, and are included as a component of interest expense. At September 30, 2011, the weighted average interest rate on the outstanding principal balance under the credit agreement was 2.4%.

Ratio of Outstanding Borrowings to Borrowing Base	Applicable Margin for Base Rate Loans	Applicable Margin for Eurodollar Loans	Commitment Fee
Less than 0.25 to 1.0	0.50%	1.50%	0.375%
Greater than or equal to 0.25 to 1.0 but less than 0.50 to 1.0	0.75%	1.75%	0.375%
Greater than or equal to 0.50 to 1.0 but less than 0.75 to 1.0	1.00%	2.00%	0.50%
Greater than or equal to 0.75 to 1.0 but less than 0.90 to 1.0	1.25%	2.25%	0.50%
Greater than or equal to 0.90 to 1.0	1.50%	2.50%	0.50%

The credit agreement contains restrictive covenants that may limit 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. Except for limited exceptions, which include the payment of dividends on the Company's 6.25% convertible perpetual preferred stock, the credit agreement also restricts our ability to make any dividend payments or distributions on its common stock. These restrictions apply to all of the net assets of the subsidiaries. The credit agreement requires 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 4.25 to 1.0 for quarters ending prior to and on December 31, 2012 and 4.0 to 1.0 for quarters ending March 31, 2013 and thereafter and (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. The Company was in compliance with its covenants under the credit agreement as of September 30, 2011.

The obligations of Whiting Oil and Gas under the amended credit agreement are secured by a first lien on substantially all of Whiting Oil and Gas' properties included in the borrowing base for the credit agreement. The Company has guaranteed the obligations of Whiting Oil and Gas under the credit agreement and has 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 $266.3 million as of September 30, 2011, based on quoted market prices for these same debt securities.

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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 $349.6 million as of September 30, 2011, based on quoted market prices for these same debt securities.

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, 2011 and December 31, 2010 were $4.4 million and $6.1 million, respectively, and are included in accrued liabilities and other. Revisions to the liability could occur due to changes in estimated abandonment costs or well economic lives, or if federal or state regulators enact new requirements regarding the abandonment of wells. The following table provides a reconciliation of the Company's asset retirement obligations for the nine months ended September 30, 2011 (in thousands):

Asset retirement obligation at January 1, 2011	$83,083
Additional liability incurred	1,711
Revisions in estimated cash flows	419
Accretion expense	5,949
Obligations on sold properties	(790)
Liabilities settled	(3,147)
Asset retirement obligation at September 30, 2011	$87,225

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.

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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 thereby 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 21, 2011.

Whiting Petroleum Corporation

	Contracted Volumes		Weighted Average NYMEX Price Collar Ranges	
Period	Crude Oil (Bbl)	Natural Gas (Mcf)	Crude Oil (per Bbl)	Natural Gas (per Mcf)
Oct – Dec 2011	2,712,764	103,663	\$61.00 - \$ 98.31	\$7.00 - \$14.25
Jan – Dec 2012	9,105,091	384,002	\$61.93 - \$105.48	\$6.50 - \$14.27
Jan – Nov 2013	3,090,000	-	\$47.64 - \$ 89.90	n/a
Total	14,907,855	487,665		

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

	Contracted Volumes		Weighted Average NYMEX Price Collar Ranges	
Period	Crude Oil	Natural Gas	Crude Oil	Natural Gas

	(Bbl)	(Mcf)	(per Bbl)	(per Mcf)
Oct – Dec 2011	27,764	103,663	$74.00 - $140.75	$7.00 - $14.25
Jan – Dec 2012	105,091	384,002	$74.00 - $141.72	$6.50 - $14.27
Total	132,855	487,665		