WHITING PETROLEUM CORP
Form 10-Q
October 29, 2009

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, 2009

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 £ 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, 2009: 50,845,106 shares.

TABLE OF CONTENTS

Table of Contents

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” - One thousand BOE.

“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.

“MMcf/d” - One MMcf of natural gas 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; 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.

Table of Contents

PART I – FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

WHITING PETROLEUM CORPORATION
CONSOLIDATED BALANCE SHEETS (Unaudited)
(In thousands)

ASSETS	September 30, 2009	December 31, 2008
CURRENT ASSETS:		
Cash and cash equivalents	$15,860	$9,624
Accounts receivable trade, net	127,063	123,386
Derivative assets	7,803	46,780
Prepaid expenses and other	7,222	37,284
Total current assets	157,948	217,074
PROPERTY AND EQUIPMENT:		
Oil and gas properties, successful efforts method:		
Proved properties	4,708,604	4,423,197
Unproved properties	99,135	106,436
Other property and equipment	112,920	91,099
Total property and equipment	4,920,659	4,620,732
Less accumulated depreciation, depletion and amortization	(1,178,667)	(886,065)
Total property and equipment, net	3,741,992	3,734,667
DEBT ISSUANCE COSTS	27,186	10,779
DERIVATIVE ASSETS	12,778	38,104
OTHER LONG-TERM ASSETS	23,585	28,457
TOTAL	$3,963,489	$4,029,081

See notes to consolidated financial statements. (Continued)

Table of Contents

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

LIABILITIES AND STOCKHOLDERS' EQUITY

	September 30, 2009	December 31, 2008
CURRENT LIABILITIES:		
Accounts payable	$18,326	$64,610
Accrued capital expenditures	23,372	84,960
Accrued liabilities	61,858	45,359
Accrued interest	20,285	9,673
Oil and gas sales payable	35,990	35,106
Accrued employee compensation and benefits	15,461	41,911
Production taxes payable	21,568	20,038
Deferred gain on sale	13,195	14,650
Derivative liabilities	25,050	17,354
Deferred income taxes	10,305	15,395
Tax sharing liability	2,112	2,112
Total current liabilities	247,522	351,168
NON-CURRENT LIABILITIES:		
Long-term debt	769,604	1,239,751
Deferred income taxes	351,409	390,902
Deferred gain on sale	62,181	73,216
Production Participation Plan liability	69,168	66,166
Asset retirement obligations	67,176	47,892
Derivative liabilities	86,197	28,131
Tax sharing liability	22,802	21,575
Other long-term liabilities	2,980	1,489
Total non-current liabilities	1,431,517	1,869,122
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY:		
Preferred stock, $0.001 par value, 5,000,000 shares authorized; 6.25% convertible perpetual preferred stock, 3,450,000 and 0 shares issued and outstanding as of September 30, 2009 and December 31, 2008, respectively, aggregate liquidation preference of $345,000,000	3	-
Common stock, $0.001 par value, 75,000,000 shares authorized; 51,363,728 issued and 50,845,106 outstanding as of September 30, 2009, 42,582,100 issued and 42,323,336 outstanding as of December 31, 2008	51	43
Additional paid-in capital	1,543,037	971,310
Accumulated other comprehensive income	27,170	17,271
Retained earnings	714,189	820,167
Total stockholders' equity	2,284,450	1,808,791
	$3,963,489	$4,029,081

TOTAL

See notes to consolidated financial statements. (Concluded)

Table of Contents

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

	Three Months Ended September 30, 2009	Three Months Ended September 30, 2008	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
REVENUES AND OTHER INCOME:				
Oil and natural gas sales	$ 256,074	$ 425,392	$ 616,552	$ 1,102,658
Gain (loss) on hedging activities	7,774	(41,879)	28,072	(112,902)
Amortization of deferred gain on sale	4,222	4,720	12,595	7,677
Gain on sale of properties	1,101	-	5,709	-
Interest income and other	156	201	396	825
Total revenues and other income	269,327	388,434	663,324	998,258
COSTS AND EXPENSES:				
Lease operating	58,807	64,690	177,343	177,866
Production taxes	18,792	28,245	43,225	71,988
Depreciation, depletion and amortization	101,273	74,233	301,622	179,555
Exploration and impairment	12,422	10,939	39,528	30,566
General and administrative	11,314	17,281	30,576	51,903
Interest expense	15,647	17,543	49,020	48,760
Change in Production Participation Plan liability	(678)	9,117	3,002	26,964
Commodity derivative (gain) loss, net	(10,391)	(10,561)	171,906	7,064
Total costs and expenses	207,186	211,487	816,222	594,666
INCOME (LOSS) BEFORE INCOME TAXES	62,141	176,947	(152,898)	403,592
INCOME TAX EXPENSE (BENEFIT):				
Current	(507)	481	(1,046)	1,353
Deferred	26,793	64,049	(50,785)	147,060
Total income tax expense (benefit)	26,286	64,530	(51,831)	148,413
NET INCOME (LOSS)	35,855	112,417	(101,067)	255,179
Preferred stock dividends declared	(4,911)	-	(4,911)	-
	$ 30,944	$ 112,417	$ (105,978)	$ 255,179

NET INCOME (LOSS) AVAILABLE TO COMMON SHAREHOLDERS											
NET INCOME (LOSS) PER COMMON SHARE, BASIC	$	0.59		$	2.66		$	(2.15	)	$	6.03
NET INCOME (LOSS) PER COMMON SHARE, DILUTED	$	0.59		$	2.65		$	(2.15	)	$	6.01

See notes to consolidated financial statements.

4

Table of Contents

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

	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$(101,067)	$255,179
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion and amortization	301,622	179,555
Deferred income tax (benefit) expense	(50,785)	147,060
Amortization of debt issuance costs and debt discount	6,916	3,618
Accretion of tax sharing liability	1,227	934
Stock-based compensation	4,047	4,917
Amortization of deferred gain on sale	(12,595)	(7,677)
Gain on sale of properties	(5,709)	-
Undeveloped leasehold and oil and gas property impairments	14,743	9,016
Change in Production Participation Plan liability	3,002	26,964
Unrealized loss on derivative contracts	145,650	7,021
Other non-current	646	(14,744)
Changes in current assets and liabilities:		
Accounts receivable trade	(2,317)	(77,398)
Prepaid expenses and other	30,062	(17,836)
Accounts payable and accrued liabilities	(33,544)	26,683
Accrued interest	10,612	9,982
Other current liabilities	(24,693)	58,178
Net cash provided by operating activities	287,817	611,452
CASH FLOWS FROM INVESTING ACTIVITIES:		
Cash acquisition capital expenditures	(31,475)	(413,219)
Drilling and development capital expenditures	(401,227)	(638,400)
Proceeds from sale of oil and gas properties	80,308	1,445
Proceeds from sale of marketable securities	-	764
Net proceeds from sale of 11,677,500 units in Whiting USA Trust I	-	193,824
Net cash used in investing activities	(352,394)	(855,586)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Issuance of 6.25% convertible perpetual preferred stock	334,112	-
Issuance of common stock	234,753	-
Preferred stock dividends paid	(4,911)	-
Long-term borrowings under credit agreement	310,000	925,000
Repayments of long-term borrowings under credit agreement	(780,000)	(675,000)
Debt issuance costs	(23,141)	-
Net cash provided by financing activities	70,813	250,000
NET CHANGE IN CASH AND CASH EQUIVALENTS	6,236	5,866
CASH AND CASH EQUIVALENTS:		
Beginning of period	9,624	14,778
End of period	$15,860	$20,644

See notes to consolidated financial statements. (Continued)

Table of Contents

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

	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
SUPPLEMENTAL CASH FLOW DISCLOSURES:		
Cash paid (refunded) for income taxes	$(2,484)	$1,175
Cash paid for interest	$30,265	$34,227
NONCASH INVESTING ACTIVITIES:		
Accrued capital expenditures during the period	$23,372	$82,840

See notes to consolidated financial statements. (Concluded)

Table of Contents

WHITING PETROLEUM CORPORATION

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

	Preferred Stock Shares	Preferred Stock Amount	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total Stockholders' Equity	Comprehensive Income (Loss)
BALANCES-January 1, 2008	-	$ -	42,480	$42	$968,876	$(46,116)	$568,024	$1,490,826	
Net income	-	-	-	-	-	-	255,179	255,179	$255,179
Change in derivative fair values, net of taxes of $23,878	-	-	-	-	-	(41,274)	-	(41,274)	(41,274)
Realized loss on settled derivative contracts, net of taxes of $41,379	-	-	-	-	-	71,523	-	71,523	71,523
Total comprehensive income									$285,428
Restricted stock issued	-	-	139	1	-	-	-	1	
Restricted stock forfeited	-	-	(4)	-	-	-	-	-	
Restricted stock used for tax withholdings	-	-	(30)	-	(1,743)	-	-	(1,743)	
Stock-based compensation	-	-	-	-	4,917	-	-	4,917	
BALANCES-September 30, 2008	-	$ -	42,585	$43	$972,050	$(15,867)	$823,203	$1,779,429	
BALANCES-December 31, 2008	-	$ -	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 derivatives, 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 loss									$(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

See notes to consolidated financial statements.

Table of Contents

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. Whiting’s 2008 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 has been no material change to the information disclosed in the notes to the consolidated financial statements included in Whiting’s 2008 Annual Report on Form 10-K. Operating results for the periods presented are not necessarily indicative of the results that may be expected for the full year.

Earnings Per Share—Basic net income per common share is calculated by dividing adjusted net income available to common shareholders by the weighted average number of common shares outstanding during each period. Diluted net income per common share is calculated by dividing adjusted net income 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, and convertible perpetual preferred stock using the if-converted method. 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 accordingly.

Subsequent Events—The Company has evaluated subsequent events through October 29, 2009 and has no material subsequent events to report.

2. ACQUISITIONS AND DIVESTITURES

2009 Acquisitions

There were no significant acquisitions during the first nine months of 2009.

Table of Contents

2009 Participation Agreement

On June 4, 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. Estimated proved reserves of 2.8 MMBOE, as of June 1, 2009, were sold by the Company as a result of this divestiture.

2008 Acquisition

Flat Rock Natural Gas Field—On May 30, 2008, Whiting acquired interests in 31 producing gas wells, development acreage and gas gathering and processing facilities on 22,000 gross (11,500 net) acres in the Flat Rock field in Uintah County, Utah for an aggregate acquisition price of $365.0 million.

This acquisition was recorded using the purchase method of accounting. The table below summarizes the allocation of the $359.4 million adjusted purchase price, based on the acquisition date fair value of the assets acquired and the liabilities assumed (in thousands).

	Flat Rock
Purchase price	$359,380
Allocation of purchase price:	
Proved properties	$251,895
Unproved properties	79,498
Gas gathering and processing facilities	35,736
Liabilities assumed	(7,749)
Total	$359,380

Acquisition Pro Forma—In the Company's consolidated statements of income for the year ended December 31, 2008, Flat Rock's results of operations are included with the Company's results beginning May 31, 2008. The following table, however, reflects the unaudited pro forma results of operations for the nine months ended September 30, 2008, as though the Flat Rock acquisition had occurred on the first day of that period. The pro forma information below includes numerous assumptions and is not necessarily indicative of what historical results would have been or what future results of operations will be.

Table of Contents

	Whiting (As reported)	Pro Forma	
		Flat Rock	Consolidated
Nine months ended September 30, 2008:			
Total revenues	$998,258	$17,761	$1,016,019
Net income	$255,179	$1,144	$256,323
Net income per common share – basic	$6.03	$0.03	$6.06
Net income per common share – diluted	$6.01	$0.03	$6.04

2008 Divestiture

Whiting USA Trust I—On April 30, 2008, the Company completed an initial public offering of units of beneficial interest in Whiting USA Trust I (the "Trust"), selling 11,677,500 Trust units at $20.00 per Trust unit, providing net proceeds of $193.8 million after underwriters' fees, offering expenses, and post-close adjustments. The Company used the net proceeds to repay a portion of the debt outstanding under its credit agreement. The net proceeds from the sale of Trust units to the public resulted in a deferred gain on sale of $100.1 million. Immediately prior to the closing of the offering, Whiting conveyed a term net profits interest in certain of its oil and gas properties to the Trust in exchange for 13,863,889 Trust units. The Company has retained 15.8%, or 2,186,389 Trust units, of the total Trust units issued and outstanding.

The net profits interest entitles the Trust to receive 90% of the net proceeds from the sale of oil and natural gas production from the underlying properties. The net profits interest will terminate at the time when 9.11 MMBOE have been produced and sold from the underlying properties. This is the equivalent of 8.2 MMBOE in respect of the Trust's right to receive 90% of the net proceeds from such production pursuant to the net profits interest, and these reserve quantities are projected to be produced by December 31, 2021, based on the reserve report for the underlying properties as of December 31, 2008.

3. LONG-TERM DEBT

Long-term debt consisted of the following at September 30, 2009 and December 31, 2008 (in thousands):

	September 30, 2009	December 31, 2008
Credit Agreement	$ 150,000	$ 620,000
7% Senior Subordinated Notes due 2014	250,000	250,000
7.25% Senior Subordinated Notes due 2013, net of unamortized debt discount of $1,243 and $1,541, respectively	218,757	218,459
7.25% Senior Subordinated Notes due 2012, net of unamortized debt discount of $299 and $397, respectively	150,847	151,292
Total debt	$ 769,604	$ 1,239,751

Credit Agreement—As of September 30, 2009, 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 has a borrowing base of $1.1 billion with $947.2 million of available borrowing capacity, which is net of $150.0 million in borrowings and $2.8 million in letters of credit outstanding. The credit agreement provides for interest only payments until April 2012, when the agreement expires and all outstanding borrowings are due.

Table of Contents

The borrowing base under the credit agreement is determined at the discretion of the lenders, based on the collateral value of the proved reserves that have been mortgaged to the 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. Whiting Oil and Gas may, throughout the term of the credit agreement, borrow, repay and reborrow 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 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, 2009, $47.2 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. The Company also incurs commitment fees of 0.50% 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, 2009, the weighted average interest rate on the outstanding principal balance 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 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. The credit agreement requires the Company, as of the last day of any quarter, (i) to not exceed a total debt to EBITDAX ratio (as defined in the credit agreement) for the last four quarters 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 EBITDAX ratio (as defined in the credit agreement) for the last four quarters of 2.75 to 1.0 for quarters ending prior to and on December 31, 2009 and 2.5 to 1.0 for quarters ending March 31, 2010 and thereafter. Except for limited exceptions, which include the payment of dividends on the Company's 6.25% convertible perpetual preferred stock, the credit agreement restricts its ability to make any dividends 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, 2009.

Table of Contents

The obligations of Whiting Oil and Gas under the 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. Whiting Petroleum Corporation has 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 2014. The estimated fair value of these notes was $245.6 million as of September 30, 2009, based on quoted market prices for these same debt securities.

In April 2005, the Company issued $220.0 million of 7.25% Senior Subordinated Notes due 2013. These notes were issued at 98.507% of par, and the associated discount of $3.3 million is being amortized to interest expense over the term of these notes, yielding an effective interest rate of 7.4%. The estimated fair value of these notes was $217.8 million as of September 30, 2009, based on quoted market prices for these same debt securities.

In May 2004, the Company issued $150.0 million of 7.25% Senior Subordinated Notes due 2012. These notes were issued at 99.26% of par, and the associated discount of $1.1 million is being amortized to interest expense over the term of these notes, yielding an effective interest rate of 7.3%. The estimated fair value of these notes was $149.3 million as of September 30, 2009, 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 notes are fully, unconditionally, jointly and severally guaranteed by all of the Company's wholly-owned operating subsidiaries, Whiting Oil and Gas and Whiting Programs, Inc. (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 ("SEC"). Whiting Petroleum Corporation has no assets or operations independent of this debt and its investments in guarantor subsidiaries.

Interest Rate Swap—In August 2004, the Company entered into an interest rate swap contract to hedge the fair value of $75.0 million of its 7.25% Senior Subordinated Notes due 2012. The interest rate swap was a fixed for floating swap in that the Company received the fixed rate of 7.25% and paid the floating rate. In March 2009, the counterparty exercised its option to cancel the swap contract effective May 1, 2009, resulting in a cancellation fee of $1.4 million paid to the Company.

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 determines 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, 2009 and December 31, 2008 were $10.2 million and $6.5 million, respectively, and were recorded in accrued liabilities. The following table provides a reconciliation of the Company's asset retirement obligations for the nine months ended September 30, 2009 (in thousands):

Asset retirement obligation, January 1, 2009	$54,348	
Additional liability incurred	499	
Revisions in estimated cash flows	20,751	
Accretion expense	5,383	
Obligations on sold properties	(93	)

Liabilities settled	(3,497)
Asset retirement obligation, September 30, 2009	$77,391

12

Table of Contents

5. DERIVATIVE FINANCIAL INSTRUMENTS

The Company is exposed to certain risks relating to its ongoing business operations. The risks managed by using derivative instruments are commodity price risk and interest rate risk.

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 our capital programs and to manage price risks and 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 Trust hedges, entered into to hedge forecasted crude oil and natural gas production revenues, as of October 1, 2009.

	Whiting Petroleum Corporation			
	Contracted Volumes		NYMEX Price Collar Ranges	
Period	Crude Oil (Bbl)	Natural Gas (Mcf)	Crude Oil (per Bbl)	Natural Gas (per Mcf)
Oct – Dec 2009	1,467,570	134,622	$61.39 - $76.28	$7.00 - $14.85
Jan – Dec 2010	5,046,289	495,390	$62.34 - $83.00	$6.50 - $15.06
Jan – Dec 2011	4,435,039	436,510	$58.01 - $89.37	$6.50 - $14.62
Jan – Dec 2012	4,065,091	384,002	$57.70 - $91.02	$6.50 - $14.27
Jan – Nov 2013	3,090,000	-	$55.30 - $85.68	n/a
Total	18,103,989	1,450,524		

Derivatives conveyed to Whiting USA Trust I—In connection with the Company's conveyance on April 30, 2008 of a term net profits interest to the Trust and related sale of 11,677,500 Trust units to the public (as further explained in the note on Acquisitions and Divestitures), 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.

Table of Contents

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		NYMEX Price Collar Ranges	
Period	Crude Oil (Bbl)	Natural Gas (Mcf)	Crude Oil (per Bbl)	Natural Gas (per Mcf)
Oct – Dec 2009	33,570	134,622	$76.00 - $135.72	$7.00 - $14.85
Jan – Dec 2010	126,289	495,390	$76.00 - $134.98	$6.50 - $15.06
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	379,989	1,450,524		

The 75.8% portion of Trust derivative contracts for 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			
	Contracted Volumes		NYMEX Price Collar Ranges	
Period	Crude Oil (Bbl)	Natural Gas (Mcf)	Crude Oil (per Bbl)	Natural Gas (per Mcf)
Oct – Dec 2009	105,150	421,668	$76.00 - $135.72	$7.00 - $14.85
Jan – Dec 2010	395,567	1,551,678	$76.00 - $134.98	$6.50 - $15.06
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	1,190,217	4,543,380		

Discontinuance of cash flow hedge accounting—Prior to April 1, 2009, the Company designated a portion of its commodity derivative contracts as cash flow hedges, whose unrealized fair value gains and losses were recorded to other comprehensive income, while the Company's remaining commodity derivative contracts were not designated as hedges, with gains and losses from changes in fair value recognized immediately in earnings. Effective April 1, 2009, however, the Company elected to de-designate all of its commodity derivative contracts that had been previously designated as cash flow hedges as of March 31, 2009 and has elected to discontinue hedge accounting prospectively. As a result, subsequent to March 31, 2009 the Company recognizes all gains and losses from prospective changes in commodity derivative fair values immediately in earnings rather than deferring any such amounts in accumulated other comprehensive income.

At March 31, 2009, accumulated other comprehensive income consisted of $59.8 million ($36.5 million net of tax) of unrealized gains, representing the mark-to-market value of the Company's open commodity contracts designated as cash flow hedges as of that balance sheet date, less any ineffectiveness recognized. As a result of discontinuing hedge accounting on April 1, 2009, such mark-to-market values at March 31, 2009 are frozen in accumulated other comprehensive income as of the de-designation date and reclassified into earnings as the original hedged transactions affect income. During the three months ended September 30, 2009, $7.8 million ($4.8 million net of tax) of derivative gains relating to de-designated commodity hedges were reclassified from accumulated other comprehensive income into earnings. During the nine months ended September 30, 2009, $14.6 million ($9.2 million net of tax) of derivative gains relating to de-designated commodity hedges were reclassified from accumulated other comprehensive income into earnings. As of September 30, 2009, accumulated other comprehensive income amounted to $43.0 million ($27.2 million net of tax), which consisted entirely of unrealized deferred gains on commodity derivative contracts that had been previously designated as cash flow hedges. The Company expects to reclassify into earnings from accumulated other comprehensive income net after-tax gains of $19.2 million related to de-designated commodity hedges during the next twelve months.

Table of Contents

Interest rate derivative contract—In August 2004, the Company entered into an interest rate swap agreement to manage its exposure to interest rate risk on a portion of its fixed-rate borrowings. The interest rate swap effectively modified the Company's exposure to interest rate risk by converting the fixed rate on $75.0 million of the Company's Senior Subordinated Notes due 2012 to a floating rate. This agreement involved the receipt of fixed rate amounts in exchange for floating rate interest payments over the life of the agreement without an exchange of the underlying notional amount. The interest rate swap was designated as a fair value hedge. In March 2009, the counterparty exercised its option to cancel the swap contract effective May 1, 2009, resulting in a cancellation fee of $1.4 million paid to the Company.

SFAS 161—Effective January 1, 2009, the Company adopted Financial Accounting Standard Board ("FASB") Statement No. 161, Disclosure about Derivative Instruments and Hedging Activities – an amendment to FASB Statement No. 133 ("SFAS 161"), as codified in FASB ASC topic 815, Derivatives and Hedges ("FASB ASC 815"). SFAS 161 expands interim and annual disclosures about derivative and hedging activities that are intended to better convey the purpose of derivative use and the risks managed. The adoption of SFAS 161 did not have an impact on the Company's consolidated financial statements, other than additional disclosures which are set forth below.

All derivative instruments are recorded on the consolidated balance sheet at fair value. The following tables summarize the location and fair value amounts of all derivative instruments in the consolidated balance sheets (in thousands).

		Fair Value	
Designated as ASC 815 Hedges	Balance Sheet Classification	September 30, 2009	December 31, 2008
Derivative assets			
Commodity contracts	Current derivative assets	$ -	$ 30,198
Commodity contracts	Non-current derivative assets	-	13,163
Interest rate swap contract	Other long-term assets	-	1,690
Total derivative assets		$ -	$ 45,051
Derivative liabilities			
Commodity contracts	Current derivative liabilities	$ -	$ 4,784
Commodity contracts	Non-current derivative liabilities	-	9,224
Total derivative liabilities		$ -	$ 14,008
Not Designated as ASC 815 Hedges			
Derivative assets			
Commodity contracts	Current derivative assets	$ 7,803	$ 16,582
Commodity contracts	Non-current derivative assets	12,778	24,941
Total derivative assets		20,581	41,523
Derivative liabilities			
Commodity contracts	Current derivative liabilities	$ 25,050	$ 12,570

Commodity contracts	Non-current derivative liabilities		86,197		18,907
Total derivative liabilities		$	111,247	$	31,477

15

Table of Contents

Commodity derivative contracts—The following tables summarize the effects of commodity derivatives instruments on the consolidated statements of income for the three and nine months ended September 30, 2009 and 2008 (in thousands).

ASC 815 Cash Flow Hedging Relationships	Location of Gain (Loss) Not Recognized in Income	Gain (Loss) Recognized in OCI (Effective Portion) Nine Months Ended September 30, 2009	2008
Commodity contracts	Other comprehensive income	$ 21,147	$ (65,152)
		Three Months Ended September 30, 2009	2008
Commodity contracts	Other comprehensive income	$ -	$ 61,120

ASC 815 Cash Flow Hedging Relationships	Income Statement Classification	Gain (Loss) Reclassified from AOCI into Income (Effective Portion) Nine Months Ended September 30, 2009