WHITING PETROLEUM CORP
Form 10-Q
October 25, 2013

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, 2013

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, 2013: 118,654,184 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:

"3-D seismic" Geophysical data that depict the subsurface strata in three dimensions. 3-D seismic typically provides a more detailed and accurate interpretation of the subsurface strata than 2-D, or two-dimensional, seismic.

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

"Bcf" One billion cubic feet of natural gas.

"BOE" One stock tank barrel of oil equivalent, computed on an approximate energy equivalent basis that one Bbl of crude oil equals six Mcf of natural gas and one Bbl of crude oil equals one Bbl of natural gas liquids.

"CO2" Carbon dioxide.

"CO2 flood" A tertiary recovery method in which CO2 is injected into a reservoir to enhance hydrocarbon recovery.

"completion" The installation of permanent equipment for the production of crude oil or natural gas, or in the case of a dry hole, the reporting of abandonment to the appropriate agency.

"costless collar" An options position where the proceeds from the sale of a call option at its inception fund the purchase of a put option at its inception.

"FASB" Financial Accounting Standards Board.

"FASB ASC" The Financial Accounting Standards Board Accounting Standards Codification.

"field" An area consisting of a single reservoir or multiple reservoirs all grouped on or related to the same individual geological structural feature and/or stratigraphic condition. There may be two or more reservoirs in a field that are separated vertically by intervening impervious strata, or laterally by local geologic barriers, or both. Reservoirs that are associated by being in overlapping or adjacent fields may be treated as a single or common operational field. The geological terms "structural feature" and "stratigraphic condition" are intended to identify localized geological features as opposed to the broader terms of basins, trends, provinces, plays, areas of interest, etc.

"GAAP" Generally accepted accounting principles in the United States of America.

"ISDA" International Swaps and Derivatives Association, Inc.

"lease operating expense" or "LOE" The expenses of lifting oil or gas from a producing formation to the surface, constituting part of the current operating expenses of a working interest, and also including labor, superintendence, supplies, repairs, short-lived assets, maintenance, allocated overhead costs and other expenses incidental to production, but not including lease acquisition or drilling or completion expenses.

"LIBOR" London interbank offered rate.

"MBbl" One thousand barrels of oil or other liquid hydrocarbons.

"MBOE" One thousand BOE.

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"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.

"net production" The total production attributable to our fractional working interest owned.

"NGL" Natural gas liquid.

"NYMEX" The New York Mercantile Exchange.

"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.

"proved reserves" Those reserves which, by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be economically producible—from a given date forward, from known reservoirs and under existing economic conditions, operating methods and government regulations—prior to the time at which contracts providing the right to operate expire, unless evidence indicates that renewal is reasonably certain, regardless of whether deterministic or probabilistic methods are used for the estimation. The project to extract the hydrocarbons must have commenced, or the operator must be reasonably certain that it will commence the project, within a reasonable time.

The area of the reservoir considered as proved includes all of the following:

a. The area identified by drilling and limited by fluid contacts, if any, and

b. Adjacent undrilled portions of the reservoir that can, with reasonable certainty, be judged to be continuous with it and to contain economically producible oil or gas on the basis of available geoscience and engineering data.

Reserves that can be produced economically through application of improved recovery techniques (including, but not limited to, fluid injection) are included in the proved classification when both of the following occur:

a. Successful testing by a pilot project in an area of the reservoir with properties no more favorable than in the reservoir as a whole, the operation of an installed program in the reservoir or an analogous reservoir, or other evidence using reliable technology establishes the reasonable certainty of the engineering analysis on which the project or program was based, and

b. The project has been approved for development by all necessary parties and entities, including governmental entities.

Existing economic conditions include prices and costs at which economic producibility from a reservoir is to be determined. The price shall be the average price during the 12-month period before the ending date of the period covered by the report, determined as an unweighted arithmetic average of the first-day-of-the-month price for each month within such period, unless prices are defined by contractual arrangements, excluding escalations based upon future conditions.

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“reserves” Estimated remaining quantities of oil and gas and related substances anticipated to be economically producible, as of a given date, by application of development projects to known accumulations. In addition, there must exist, or there must be a reasonable expectation that there will exist, the legal right to produce or a revenue interest in the production, installed means of delivering oil and gas or related substances to market, and all permits and financing required to implement the project.

“reservoir” A porous and permeable underground formation containing a natural accumulation of producible crude oil and/or natural gas that is confined by impermeable rock or water barriers and is individual and separate from other reservoirs.

“SEC” The United States Securities and Exchange Commission.

“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.

“workover” Operations on a producing well to restore or increase production.

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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, 2013	December 31, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,025,579	$ 44,800
Accounts receivable trade, net	361,512	318,265
Prepaid expenses and other	13,723	21,347
Total current assets	1,400,814	384,412
Property and equipment:		
Oil and gas properties, successful efforts method:		
Proved properties	9,880,963	8,849,515
Unproved properties	415,748	362,483
Other property and equipment	176,516	141,738
Total property and equipment	10,473,227	9,353,736
Less accumulated depreciation, depletion and amortization	(2,907,055)	(2,590,203)
Total property and equipment, net	7,566,172	6,763,533
Debt issuance costs	51,830	28,748
Other long-term assets	108,157	95,726
TOTAL ASSETS	$ 9,126,973	$ 7,272,419
LIABILITIES AND EQUITY		
Current liabilities:		
Current portion of long-term debt	$ 250,000	$ -
Accounts payable trade	92,092	131,370
Accrued capital expenditures	158,813	110,663
Accrued liabilities and other	200,262	180,622
Revenues and royalties payable	195,377	149,692
Taxes payable	61,735	33,283
Derivative liabilities	20,164	21,955
Deferred income taxes	9,993	9,394
Total current liabilities	988,436	636,979
Long-term debt	2,653,991	1,800,000
Deferred income taxes	1,284,178	1,063,681
Derivative liabilities	499	1,678
Production Participation Plan liability	95,815	94,483
Asset retirement obligations	99,059	86,179
Deferred gain on sale	88,238	110,395
Other long-term liabilities	26,697	25,852
Total liabilities	5,236,913	3,819,247
Commitments and contingencies		

Equity:						
Preferred stock, $0.001 par value, 5,000,000 shares authorized; 6.25% convertible perpetual preferred stock, no shares authorized, issued or outstanding as of September 30, 2013 and 172,391 shares issued and outstanding as of December 31, 2012		-			-	
Common stock, $0.001 par value, 300,000,000 shares authorized; 120,106,602 issued and 118,654,184 outstanding as of September 30, 2013, 118,582,477 issued and 117,631,451 outstanding as of December 31, 2012		120			119	
Additional paid-in capital		1,578,033			1,566,717	
Accumulated other comprehensive loss		(406	)		(1,236	)
Retained earnings		2,304,170			1,879,388	
Total Whiting shareholders' equity		3,881,917			3,444,988	
Noncontrolling interest		8,143			8,184	
Total equity		3,890,060			3,453,172	
TOTAL LIABILITIES AND EQUITY	$	9,126,973		$	7,272,419	

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,		Nine Months Ended September 30,	
	2013	2012	2013	2012
REVENUES AND OTHER INCOME:				
Oil, NGL and natural gas sales	$ 706,543	$ 521,195	$ 1,963,525	$ 1,572,648
Gain (loss) on hedging activities	(665)	398	(1,313)	2,285
Amortization of deferred gain on sale	7,750	8,636	23,680	21,281
Gain (loss) on sale of properties	116,274	99	119,706	(263)
Interest income and other	1,083	154	2,327	412
Total revenues and other income	830,985	530,482	2,107,925	1,596,363
COSTS AND EXPENSES:				
Lease operating	109,106	93,859	314,064	278,153
Production taxes	61,143	43,519	166,228	128,893
Depreciation, depletion and amortization	219,530	179,587	644,135	496,296
Exploration and impairment	47,092	23,882	127,765	79,362
General and administrative	50,368	25,034	108,466	84,611
Interest expense	24,988	18,734	69,579	55,095
Change in Production Participation Plan liability	(10,798)	6,217	1,332	6,199
Commodity derivative (gain) loss, net	24,269	6,421	25,334	(64,200)
Total costs and expenses	525,698	397,253	1,456,903	1,064,409
INCOME BEFORE INCOME TAXES	305,287	133,229	651,022	531,954
INCOME TAX EXPENSE (BENEFIT):				
Current	7,220	(1,859)	5,131	676
Deferred	93,976	51,975	220,612	198,868
Total income tax expense	101,196	50,116	225,743	199,544
NET INCOME	204,091	83,113	425,279	332,410
Net loss attributable to noncontrolling interest	10	21	41	76
NET INCOME AVAILABLE TO SHAREHOLDERS	204,101	83,134	425,320	332,486

Preferred stock dividends	-	(269)	(538)	(808)
NET INCOME AVAILABLE TO COMMON SHAREHOLDERS	$ 204,101	$ 82,865	$ 424,782	$ 331,678
EARNINGS PER COMMON SHARE:				
Basic	$ 1.72	$ 0.70	$ 3.60	$ 2.82
Diluted	$ 1.71	$ 0.70	$ 3.56	$ 2.79
WEIGHTED AVERAGE SHARES OUTSTANDING:				
Basic	118,654	117,631	118,127	117,590
Diluted	119,507	118,924	119,511	118,968

See notes to consolidated financial statements.

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

	Three Months Ended September 30, 2013	Three Months Ended September 30, 2012	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012
NET INCOME	$ 204,091	$ 83,113	$ 425,279	$ 332,410
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX:				
OCI amortization on de-designated hedges(1)(2)	420	(251)	830	(1,442)
Total other comprehensive income (loss), net of tax	420	(251)	830	(1,442)
COMPREHENSIVE INCOME	204,511	82,862	426,109	330,968
Comprehensive loss attributable to noncontrolling interest	10	21	41	76
COMPREHENSIVE INCOME ATTRIBUTABLE TO WHITING	$ 204,521	$ 82,883	$ 426,150	$ 331,044

(1) Presented net of income tax expense of $245 and income tax benefit of $147 for the three months ended September 30, 2013 and 2012, respectively, and income tax expense of $483 and income tax benefit of $843 for the nine months ended September 30, 2013 and 2012, respectively.

(2) These gain (loss) amounts on de-designated hedges are reclassified from accumulated other comprehensive income (“AOCI”) to gain (loss) on hedging activities in the consolidated statements of income.

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, 2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 425,279	$ 332,410
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion and amortization	644,135	496,296
Deferred income tax expense	220,612	198,868
Amortization of debt issuance costs and debt premium	7,800	7,051
Stock-based compensation	16,830	13,498
Amortization of deferred gain on sale	(23,680)	(21,281)
(Gain) loss on sale of properties	(119,706)	263
Undeveloped leasehold and oil and gas property impairments	56,130	45,770
Exploratory dry hole costs	21,150	2,140
Change in Production Participation Plan liability	1,332	6,199
Non-cash portion of derivative (gains) losses	740	(91,763)
Other, net	(8,109)	(14,311)
Changes in current assets and liabilities:		
Accounts receivable trade	(43,247)	(82,837)
Prepaid expenses and other	(1,442)	664
Accounts payable trade and accrued liabilities	(17,956)	80,525
Revenues and royalties payable	45,807	33,268
Taxes payable	28,452	11,185
Net cash provided by operating activities	1,254,127	1,017,945
CASH FLOWS FROM INVESTING ACTIVITIES:		
Cash acquisition capital expenditures	(438,329)	(102,978)
Drilling and development capital expenditures	(1,669,979)	(1,509,582)
Proceeds from sale of oil and gas properties	819,612	69,190
Net proceeds from sale of 18,400,000 units in Whiting USA Trust II	-	322,212
Issuance of note receivable	(10,530)	-
Cash paid for investing derivatives	(44,900)	-
Cash settlements received on investing derivatives	2,371	-
Net cash used in investing activities	(1,341,755)	(1,221,158)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Issuance of 5% Senior Notes due 2019	1,100,000	-
Issuance of 5.75% Senior Notes due 2021	1,204,000	-

Preferred stock dividends paid		(538)		(808)
Long-term borrowings under credit agreement		1,860,000		1,750,000
Repayments of long-term borrowings under credit agreement		(3,060,000)		(1,530,000)
Debt issuance costs		(29,541)		(20)
Restricted stock used for tax withholdings		(5,514)		(5,695)
Net cash provided by financing activities		1,068,407		213,477
NET CHANGE IN CASH AND CASH EQUIVALENTS		980,779		10,264
CASH AND CASH EQUIVALENTS:				
Beginning of period		44,800		15,811
End of period	$	1,025,579	$	26,075
NONCASH INVESTING ACTIVITIES:				
Accrued capital expenditures	$	158,813	$	112,137

See notes to consolidated financial statements.

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

	Preferred Stock		Common Stock		Additional Paid-in	Accumulated Other Comprehensive Income	Retained	Total Whiting Shareholders'	Noncontrolling	Total
	Shares	Amount	Shares	Amount	Capital	(Loss)	Earnings	Equity	Interest	Equity
BALANCES-January 1, 2012	172	$-	118,105	$118	$1,554,223	$240	$1,466,276	$3,020,857	$8,274	$3,029,131
Net income (loss)	-	-	-	-	-	-	332,486	332,486	(76)	332,410
Other comprehensive income (loss)	-	-	-	-	-	(1,442)	-	(1,442)	-	(1,442)
Restricted stock issued	-	-	592	1	(1)	-	-	-	-	-
Restricted stock forfeited	-	-	(7)	-	-	-	-	-	-	-
Restricted stock used for tax withholdings	-	-	(106)	-	(5,695)	-	-	(5,695)	-	(5,695)
Stock-based compensation	-	-	-	-	13,498	-	-	13,498	-	13,498
Preferred dividends paid	-	-	-	-	-	-	(808)	(808)	-	(808)
BALANCES-September 30, 2012	172	$-	118,584	$119	$1,562,025	$(1,202)	$1,797,954	$3,358,896	$8,198	$3,367,094
BALANCES-January 1, 2013	172	$-	118,582	$119	$1,566,717	$(1,236)	$1,879,388	$3,444,988	$8,184	$3,453,172
Net income (loss)	-	-	-	-	-	-	425,320	425,320	(41)	425,279
Other comprehensive income (loss)	-	-	-	-	-	830	-	830	-	830
Conversion of preferred stock to common	(172)	-	794	1	-	-	-	1	-	1
Restricted stock issued	-	-	941	-	-	-	-	-	-	-
Restricted stock forfeited	-	-	(96)	-	-	-	-	-	-	-
Restricted stock used for tax withholdings	-	-	(114)	-	(5,514)	-	-	(5,514)	-	(5,514)
Stock-based compensation	-	-	-	-	16,830	-	-	16,830	-	16,830
Preferred dividends paid	-	-	-	-	-	-	(538)	(538)	-	(538)
BALANCES-September 30, 2013	-	$-	120,107	$120	$1,578,033	$(406)	$2,304,170	$3,881,917	$8,143	$3,890,060

See notes to consolidated financial statements.

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WHITING PETROLEUM CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION

Description of Operations—Whiting Petroleum Corporation, a Delaware corporation, is an independent oil and gas company that explores for, develops, acquires and produces crude oil, NGLs and natural gas primarily in the Rocky Mountains, Permian Basin, Michigan, Gulf Coast and Mid-Continent 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 (“Trust I”) pursuant to Whiting’s 15.8% ownership interest in Trust I. 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 2012 Annual Report on Form 10-K includes certain definitions and a summary of significant accounting policies and should be read in conjunction with this Quarterly Report on 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 2012 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

2013 Acquisitions

On September 20, 2013, the Company completed the acquisition of approximately 39,300 gross (17,300 net) acres, including interests in 121 producing oil and gas wells and undeveloped acreage, in the Williston Basin located in Williams and McKenzie counties of North Dakota and Roosevelt and Richland counties of Montana for an aggregate unadjusted purchase price of $260.0 million. Revenue and earnings from these properties since the September 20, 2013 acquisition date, which are included in the consolidated statements of income for the three and nine months ended September 30, 2013, are not material. Disclosures of pro forma revenues and net income for the acquisition of these wells are not material and have not been presented accordingly.

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The acquisition was recorded using the purchase method of accounting. The following table summarizes the preliminary allocation of the $261.3 million adjusted purchase price (which is still subject to post-closing adjustments) to the tangible assets acquired and liabilities assumed in this acquisition oil and gas properties. As the purchase price is further adjusted for post-close adjustments and as oil and gas property valuations are completed, the final purchase price allocation may result in a different allocation to the tangible assets from that which is presented in the table below (in thousands):

Purchase price	$261,313
Allocation of purchase price:	
Proved properties	$234,608
Unproved properties	27,335
Oil in tank inventory	692
Accounts receivable	578
Asset retirement obligations	(1,900)
Total	$261,313

2013 Divestitures

On July 15, 2013, the Company completed the sale of its interests in certain oil and gas producing properties located in its enhanced oil recovery projects in the Postle and Northeast Hardesty fields in Texas County, Oklahoma, including the related Dry Trail plant gathering and processing facility, oil delivery pipeline, its entire 60% interest in the Transpetco CO2 pipeline, crude oil swap contracts and certain other related assets and liabilities (collectively the "Postle Properties"), effective April 1, 2013, for a cash purchase price of $816.5 million after selling costs and post-closing adjustments, resulting in a pre-tax gain on sale of $116.4 million. The Company used the net proceeds from this sale to repay a portion of the debt outstanding under its credit agreement. The Postle Properties had estimated proved reserves of 45.1 MMBOE as of December 31, 2012, representing 11.9% of Whiting's proved reserves as of that date, and generated 8% (or 7.6 MBOE/d) of Whiting's June 2013 average daily net production.

Upon closing of the transaction, the following crude oil swaps and any of their related cash settlements as of that date were transferred to the buyer of the Postle Properties:

Period	Contracted Crude Oil Volumes (Bbl)	NYMEX Price for Crude Oil (per Bbl)
Apr – Dec 2013	1,677,500	$98.50
Jan – Dec 2014	2,007,500	$94.75
Jan – Dec 2015	1,825,000	$94.75
Jan – Mar 2016	400,400	$93.50
Total	5,910,400	

2012 Acquisitions

On March 22, 2012, the Company completed the acquisition of approximately 13,300 net undeveloped acres in the Missouri Breaks prospect in Richland County, Montana for $33.3 million.

2012 Divestitures

On May 18, 2012, the Company sold a 50% ownership interest in its Belfield gas processing plant, natural gas gathering system, oil gathering system and related facilities located in Stark County, North Dakota for total cash proceeds of $66.2 million. Whiting used the net proceeds from the sale to repay a portion of the debt outstanding under its credit agreement.

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On March 28, 2012, the Company completed an initial public offering of units of beneficial interest in Whiting USA Trust II ("Trust II"), selling 18,400,000 Trust II units at $20.00 per unit, which generated net proceeds of $322.3 million after underwriters' fees, offering expenses and post-close adjustments. The Company used the net offering proceeds to repay a portion of the debt outstanding under its credit agreement. The net proceeds from the sale of Trust II units to the public resulted in a deferred gain on sale of $128.2 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 Trust II in exchange for 100% of the trust's units issued, or 18,400,000 units.

The net profits interest entitles Trust II 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 on the later to occur of (1) December 31, 2021, or (2) the time when 11.79 MMBOE have been produced from the underlying properties and sold. This is the equivalent of 10.61 MMBOE in respect of Trust II's right to receive 90% of the net proceeds from such reserves pursuant to the net profits interest. The conveyance of the net profits interest to Trust II consisted entirely of proved reserves of 10.61 MMBOE as of the January 1, 2012 effective date, representing 3% of Whiting's proved reserves as of December 31, 2011 and 5% (or 4.5 MBOE/d) of its March 2012 average daily net production.

3. LONG-TERM DEBT

Long-term debt, including the current portion, consisted of the following at September 30, 2013 and December 31, 2012 (in thousands):

	September 30, 2013	December 31, 2012
Credit agreement	$ -	$ 1,200,000
7% Senior Subordinated Notes due 2014	250,000	250,000
6.5% Senior Subordinated Notes due 2018	350,000	350,000
5% Senior Notes due 2019	1,100,000	-
5.75% Senior Notes due 2021, including unamortized debt premium of $3,991	1,203,991	-
Total debt	$ 2,903,991	$ 1,800,000

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 that, as of September 30, 2013, had a borrowing base of $2.15 billion, of which $1.2 billion has been committed by lenders and is available for borrowing. The Company may increase the maximum aggregate amount of commitments under the credit agreement up to the $2.15 billion borrowing base if certain conditions are satisfied, including the consent of lenders participating in the increase. As of September 30, 2013, the Company had $1,197.0 million of available borrowing capacity, which is net of $3.0 million in letters of credit with no borrowings outstanding.

In July 2013, upon closing of the sale of the Postle Properties discussed in the Acquisitions and Divestitures footnote, the credit agreement borrowing base and aggregate commitments decreased from $2.5 billion to $2.15 billion. In September 2013, Whiting Oil and Gas entered into an amendment to its existing credit agreement to permit the issuance of up to $2.3 billion of senior notes without a reduction in the borrowing base, and upon completion of the first Senior Notes offering discussed below, it voluntarily reduced the aggregate commitments under the credit agreement from $2.15 billion to $1.2 billion.

The credit agreement provides for interest only payments until April 2016, when the agreement expires and all outstanding borrowings are due. 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, 2013, $47.0 million was available for additional letters of credit under the agreement.

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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 which are included as a component of interest expense. The Company's credit agreement has a recorded value that approximates its fair value since its variable interest rate is tied to current market rates.

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, the credit agreement also restricts the Company's ability to make any dividend payments or distributions on its common stock. These restrictions apply to all of the net assets of Whiting Oil and Gas. As of September 30, 2013, total restricted net assets were $4,143.5 million, and the amount of retained earnings free from restrictions was $22.0 million. 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 4.0 to 1.0 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, 2013.

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. 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 Notes and Senior Subordinated Notes—In October 2005, the Company issued at par $250.0 million of 7% Senior Subordinated Notes due February 2014 ("2014 Notes"). The estimated fair value of these notes was $255.0 million as of September 30, 2013, based on quoted market prices for these debt securities, and such fair value is therefore designated as Level 1 within the valuation hierarchy. On October 1, 2013, the trustee under the indenture governing Whiting's 2014 Notes provided notice to the holders of such notes that the Company elected to redeem all of the outstanding 2014 Notes on October 31, 2013. As a result of the redemption, Whiting will recognize an estimated $4.4 million loss on early extinguishment of debt during the fourth quarter of 2013, which will consist of a cash charge of $4.0 million related to the redemption premium on the 2014 Notes and a non-cash charge of $0.4 million related to the acceleration of unamortized debt issuance costs.

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In September 2010, the Company issued at par $350.0 million of 6.5% Senior Subordinated Notes due October 2018. The estimated fair value of these notes was $369.3 million as of September 30, 2013, based on quoted market prices for these debt securities, and such fair value is therefore designated as Level 1 within the valuation hierarchy.

Issuance of Senior Notes. In September 2013, the Company issued at par $1,100.0 million of 5% Senior Notes due March 2019 and $800.0 million of 5.75% Senior Notes due March 2021, and issued at 101% of par an additional $400.0 million of 5.75% Senior Notes due March 2021 (collectively, the “Senior Notes”). The Company used the net proceeds from these issuances to repay all of the debt outstanding under its credit agreement and to fund its $260.0 million acquisition of Williston Basin assets discussed in the Acquisitions and Divestitures footnote. Additionally, the Company intends to use the remaining net issuance proceeds to redeem on October 31, 2013 all $250.0 million of its 7% Senior Subordinated Notes due February 2014, as well as for general corporate purposes including capital expenditures. The estimated fair values of the 2019 notes and the 2021 notes were $1,100.0 million and $1,227.0 million, respectively, as of September 30, 2013, based on quoted market prices for these debt securities, and such fair values are therefore designated as Level 1 within the valuation hierarchy.

The Senior Notes are unsecured obligations of Whiting Petroleum Corporation and are subordinated to all of the Company’s secured indebtedness, which consists of Whiting Oil and Gas’ credit agreement. The 2014 Notes and the 6.5% Senior Subordinated Notes due 2018 (the “2018 Notes” and collectively with the 2014 Notes, the “Senior Subordinated Notes”) are also unsecured obligations of Whiting Petroleum Corporation and are subordinated to all of the Company’s senior debt, which currently consists of the Senior Notes and 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 and the Senior 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 SEC. 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 present value of 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, 2013 and December 31, 2012 were $11.7 million and $11.6 million, respectively, and are included in accrued liabilities and other. Revisions to the liability typically 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, 2013 (in thousands):

Asset retirement obligation at January 1, 2013	$97,818
Additional liability incurred	12,316
Revisions in estimated cash flows	3,515
Accretion expense	8,007
Obligations on sold properties	(3,555)
Liabilities settled	(7,312)
Asset retirement obligation at September 30, 2013	$110,789

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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 and swaps, 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 or gas production, while swaps are designed to establish a fixed price for anticipated future oil or 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 II derivatives, entered into to hedge forecasted crude oil production revenues, as of October 1, 2013.

		Whiting Petroleum Corporation	
Derivative Instrument	Period	Contracted Crude Oil Volumes (Bbl)	Weighted Average NYMEX Price for Crude Oil (per Bbl)
Collars	Oct – Dec 2013	493,020	$ 48.35 - $ 89.08
	Jan – Dec 2014	49,290	$ 80.00 - $122.50
Three-way collars(1)	Oct – Dec 2013	3,120,000	$71.25 - $85.63 - $113.95
	Jan – Dec 2014	14,400,000	$71.00 - $85.00 - $103.56
	Total	18,062,310	

(1) A three-way collar is a combination of options: a sold call, a purchased put and a sold put. The sold call establishes a maximum price (ceiling) Whiting will receive for the volumes under contract. The purchased put establishes a minimum price (floor), unless the market price falls below the sold put (sub-floor), at which point the minimum price would be NYMEX plus the difference between the purchased put and the sold put strike price.

In March 2013, Whiting entered into certain crude oil swap contracts in order to achieve more predictable cash flows and manage returns on certain oil and gas properties that the Company was considering for monetization. Accordingly, the acquisition of these swap contracts and cash receipts from settlements of these swap positions have been reflected as an investing activity in the statement of cash flows. On July 15, 2013, upon closing of the sale of the Postle Properties discussed in the Acquisitions and Divestitures footnote, these crude oil swaps were novated to the buyer. Cash settlements that do not relate to investing derivatives or that do not have a significant financing element are reflected as operating activities in the statement of cash flows.

Derivatives Conveyed to Whiting USA Trust II. In connection with the Company's conveyance in March 2012 of a term net profits interest to Trust II and related sale of 18,400,000 Trust II 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 Trust II, and therefore such payments will be included in Trust II's calculation of net proceeds. Under the terms of the aforementioned conveyance, Whiting retains 10% of the net proceeds from the underlying properties, which results in third-party public holders of Trust II units receiving 90%, and Whiting retaining 10%, of the future economic results of commodity derivative contracts conveyed to Trust II. 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 II assets.

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The 10% portion of Trust II derivatives that Whiting has retained the economic rights to (and which are also included in the first derivative table above) are as follows:

		Whiting Petroleum Corporation	
Derivative Instrument	Period	Contracted Crude Oil Volumes (Bbl)	NYMEX Price Collar Ranges for Crude Oil (per Bbl)
Collars	Oct – Dec 2013	13,020	\$80.00 - \$122.50
	Jan – Dec 2014	49,290	\$80.00 - \$122.50
	Total	62,310	

The 90% portion of Trust II derivative contracts of which Whiting has transferred the economic rights to third-party public holders of Trust II units (and which have not been reflected in the above tables) are as follows:

		Third-party Public Holders of Trust II Units	
Derivative Instrument	Period	Contracted Crude Oil Volumes (Bbl)	NYMEX Price Collar Ranges for Crude Oil (per Bbl)
Collars	Oct – Dec 2013	117,180	\$80.00 - \$122.50
	Jan – Dec 2014	443,610	\$80.00 - \$122.50
	Total	560,790	

Embedded Commodity Derivative Contract—In May 2011, Whiting entered into a long-term contract to purchase CO2 from 2015 through 2029 for use in its enhanced oil recovery project that is being carried out at its North Ward Estes field in Texas. This contract contains a price adjustment clause that is linked to changes in NYMEX crude oil prices. The Company has determined that the portion of this contract linked to NYMEX oil prices is not clearly and closely related to the host contract, and the Company has therefore bifurcated this embedded pricing feature from its host contract and reflected it at fair value in the consolidated financial statements. As of September 30, 2013, the estimated fair value of the embedded derivative in this CO2 purchase contract was an asset of $31.3 million.

Although CO2 is not a commodity that is actively traded on a public exchange, the market price for CO2 generally fluctuates in tandem with increases or decreases in crude oil prices. When Whiting enters into a long-term CO2 purchase contract where the price of CO2 is fixed and does not adjust with changes in oil prices, the Company is exposed to the risk of paying higher than the market rate for CO2 in a climate of declining oil and CO2 prices. This in turn could have a negative impact on the project economics of the Company’s CO2 flood at North Ward Estes. As a result, the Company reduces its exposure to this risk by entering into certain CO2 purchase contracts which have prices that fluctuate along with changes in crude oil prices.

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Derivative Instrument Reporting—All derivative instruments are recorded in the consolidated financial statements at fair value, other than derivative instruments that meet the "normal purchase normal sale" exclusion. 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, 2013 and 2012 (in thousands):

ASC 815 Cash Flow Hedging Relationships	Income Statement Classification	Gain (Loss) Reclassified from AOCI into Income (Effective Portion) (1) Nine Months Ended September 30,