WHITING PETROLEUM CORP
Form 10-Q
April 26, 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 March 31, 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 April 15, 2013: 117,830,572 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)

	March 31, 2013		December 31, 2012	
ASSETS				
Current assets:				
Cash and cash equivalents	$	8,182	$	44,800
Accounts receivable trade, net		331,796		318,265
Prepaid expenses and other		26,706		21,347
Total current assets		366,684		384,412
Property and equipment:				
Oil and gas properties, successful efforts method:				
Proved properties		9,405,888		8,849,515
Unproved properties		340,855		362,483
Other property and equipment		171,685		141,738
Total property and equipment		9,918,428		9,353,736
Less accumulated depreciation, depletion and amortization		(2,788,299)		(2,590,203)
Total property and equipment, net		7,130,129		6,763,533
Debt issuance costs		26,828		28,748
Other long-term assets		118,737		95,726
TOTAL ASSETS	$	7,642,378	$	7,272,419
LIABILITIES AND EQUITY				
Current liabilities:				
Current portion of long-term debt	$	250,000	$	-
Accounts payable trade		107,891		131,370
Accrued capital expenditures		109,312		110,663
Accrued liabilities and other		143,791		180,622
Revenues and royalties payable		140,229		149,692
Taxes payable		39,182		33,283
Derivative liabilities		18,766		21,955
Deferred income taxes		10,438		9,394
Total current liabilities		819,609		636,979
Long-term debt		1,850,000		1,800,000
Deferred income taxes		1,113,812		1,063,681
Derivative liabilities		967		1,678
Production Participation Plan liability		98,890		94,483
Asset retirement obligations		89,676		86,179
Deferred gain on sale		103,355		110,395
Other long-term liabilities		25,461		25,852
Total liabilities		4,101,770		3,819,247
Commitments and contingencies				

Equity:						
Preferred stock, $0.001 par value, 5,000,000 shares authorized; 6.25% convertible perpetual preferred stock, 172,129 shares issued and outstanding as of March 31, 2013 and 172,391 shares issued and outstanding as of December 31, 2012, aggregate liquidation preference of $17,212,900 at March 31, 2013		-			-	
Common stock, $0.001 par value, 300,000,000 shares authorized; 119,389,608 issued and 117,830,572 outstanding as of March 31, 2013, 118,582,477 issued and 117,631,451 outstanding as of December 31, 2012		119			119	
Additional paid-in capital		1,568,045			1,566,717	
Accumulated other comprehensive loss		(1,103	)		(1,236	)
Retained earnings		1,965,382			1,879,388	
Total Whiting shareholders’ equity		3,532,443			3,444,988	
Noncontrolling interest		8,165			8,184	
Total equity		3,540,608			3,453,172	
TOTAL LIABILITIES AND EQUITY	$	7,642,378		$	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 March 31, 2013	2012
REVENUES AND OTHER INCOME:		
Oil, NGL and natural gas sales	$ 605,114	$ 558,697
Gain (loss) on hedging activities	(211)	1,127
Amortization of deferred gain on sale	7,976	3,753
Interest income and other	492	129
Total revenues and other income	613,371	563,706
COSTS AND EXPENSES:		
Lease operating	99,878	94,790
Production taxes	51,271	44,611
Depreciation, depletion and amortization	201,159	156,120
Exploration and impairment	37,280	27,578
General and administrative	28,885	34,368
Interest expense	21,470	18,456
Change in Production Participation Plan liability	4,407	935
Commodity derivative loss, net	31,257	29,403
Total costs and expenses	475,607	406,261
INCOME BEFORE INCOME TAXES	137,764	157,445
INCOME TAX EXPENSE:		
Current	422	1,426
Deferred	51,098	57,573
Total income tax expense	51,520	58,999
NET INCOME	86,244	98,446
Net loss attributable to noncontrolling interest	19	24
NET INCOME AVAILABLE TO SHAREHOLDERS	86,263	98,470
Preferred stock dividends	(269)	(269)
NET INCOME AVAILABLE TO COMMON SHAREHOLDERS	$ 85,994	$ 98,201
EARNINGS PER COMMON SHARE:		
Basic	$ 0.73	$ 0.84
Diluted	$ 0.72	$ 0.83
WEIGHTED AVERAGE SHARES OUTSTANDING:		
Basic	117,788	117,517
Diluted	119,263	118,896

See notes to consolidated financial statements.

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

	Three Months Ended March 31, 2013	2012
NET INCOME	$ 86,244	$ 98,446
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX:		
OCI amortization on de-designated hedges(1)(2)	133	(712)
Total other comprehensive income (loss), net of tax	133	(712)
COMPREHENSIVE INCOME	86,377	97,734
Comprehensive loss attributable to noncontrolling interest	19	24
COMPREHENSIVE INCOME ATTRIBUTABLE TO WHITING	$ 86,396	$ 97,758

(1) Presented net of income tax expense of $78 and income tax benefit of $415 for the three months ended March 31, 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)

	Three Months Ended March 31, 2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 86,244	$ 98,446
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion and amortization	201,159	156,120
Deferred income tax expense	51,098	57,573
Amortization of debt issuance costs and debt discount	2,435	2,340
Stock-based compensation	6,728	4,243
Amortization of deferred gain on sale	(7,976)	(3,753)
Undeveloped leasehold and oil and gas property impairments	18,414	17,834
Exploratory dry hole costs	-	251
Change in Production Participation Plan liability	4,407	935
Unrealized loss on derivative contracts	26,164	14,546
Other, net	(6,200)	(5,853)
Changes in current assets and liabilities:		
Accounts receivable trade	(13,531)	(31,348)
Prepaid expenses and other	(8,379)	(5,431)
Accounts payable trade and accrued liabilities	(59,385)	26,498
Revenues and royalties payable	(9,463)	15,673
Taxes payable	5,899	4,918
Net cash provided by operating activities	297,614	352,992
CASH FLOWS FROM INVESTING ACTIVITIES:		
Cash acquisition capital expenditures	(44,585)	(46,738)
Drilling and development capital expenditures	(536,690)	(492,810)
Proceeds from sale of oil and gas properties	-	2,922
Net proceeds from sale of 18,400,000 units in Whiting USA Trust II	-	323,574
Issuance of note receivable	(2,316)	-
Cash paid for investing derivatives	(44,900)	-
Net cash used in investing activities	(628,491)	(213,052)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Preferred stock dividends paid	(269)	(269)
Long-term borrowings under credit agreement	650,000	520,000
Repayments of long-term borrowings under credit agreement	(350,000)	(660,000)
Debt issuance costs	(72)	-
Restricted stock used for tax withholdings	(5,400)	(5,657)
Net cash provided by (used in) financing activities	294,259	(145,926)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(36,618)	(5,986)
CASH AND CASH EQUIVALENTS:		
Beginning of period	44,800	15,811

End of period	$ 8,182	$ 9,825
NONCASH INVESTING ACTIVITIES:		
Accrued capital expenditures	$ 109,312	$ 121,969

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 (Loss)	Retained	Total Whiting Shareholders'	Noncontrolling	Total
	Shares	Amount	Shares	Amount	Capital		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	-	-	-	-	-	-	98,470	98,470	(24)	98,446
Other comprehensive income (loss)	-	-	-	-	-	(712)	-	(712)	-	(712)
Restricted stock issued	-	-	569	1	(1)	-	-	-	-	-
Restricted stock forfeited	-	-	(3)	-	-	-	-	-	-	-
Restricted stock used for tax withholdings	-	-	(106)	-	(5,657)	-	-	(5,657)	-	(5,657)
Stock-based compensation	-	-	-	-	4,243	-	-	4,243	-	4,243
Preferred dividends paid	-	-	-	-	-	-	(269)	(269)	-	(269)
BALANCES-March 31, 2012	172	$-	118,565	$119	$1,552,808	$(472)	$1,564,477	$3,116,932	$8,250	$3,125,182
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	-	-	-	-	-	-	86,263	86,263	(19)	86,244
Other comprehensive income	-	-	-	-	-	133	-	133	-	133
Conversion of preferred stock to common	-	-	1	-	-	-	-	-	-	-
Restricted stock issued	-	-	920	-	-	-	-	-	-	-
Restricted stock forfeited	-	-	(2)	-	-	-	-	-	-	-
Restricted stock used for tax withholdings	-	-	(111)	-	(5,400)	-	-	(5,400)	-	(5,400)
Stock-based compensation	-	-	-	-	6,728	-	-	6,728	-	6,728
Preferred dividends paid	-	-	-	-	-	-	(269)	(269)	-	(269)
BALANCES-March 31, 2013	172	$-	119,390	$119	$1,568,045	$(1,103)	$1,965,382	$3,532,443	$8,165	$3,540,608

See notes to consolidated financial statements.

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, Mid-Continent, Michigan and Gulf Coast 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 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 and Divestitures

There were no significant acquisitions or divestitures during the three months ended March 31, 2013.

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.

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 March 31, 2013 and December 31, 2012 (in thousands):

	March 31, 2013	December 31, 2012
Credit agreement	$ 1,500,000	$ 1,200,000
7% Senior Subordinated Notes due 2014	250,000	250,000
6.5% Senior Subordinated Notes due 2018	350,000	350,000
Total debt	$ 2,100,000	$ 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. As of March 31, 2013, this credit facility had a borrowing base of $2.5 billion, of which $2.0 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 from $2.0 billion to $2.5 billion if certain conditions are satisfied, including the consent of lenders participating in the increase. As of March 31, 2013, the Company had $497.6 million of available borrowing capacity, which is net of $1,500.0 million in borrowings and $2.4 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.

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 March 31, 2013, $47.6 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. At March 31, 2013, the weighted average interest rate on the outstanding principal balance under the credit agreement was 2.2%. 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, which include the payment of dividends on the Company's 6.25% convertible perpetual preferred stock, 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 March 31, 2013, total restricted net assets were $3,621.1 million, and the amount of retained earnings free from restrictions was $20.4 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 March 31, 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 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 $260.0 million as of March 31, 2013, based on quoted market prices for these debt securities, and such fair value is therefore designated as Level 1 within the valuation hierarchy.

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 $374.5 million as of March 31, 2013, based on quoted market prices for these debt securities, and such fair value is therefore designated as Level 1 within the valuation hierarchy.

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 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 both March 31, 2013 and December 31, 2012 were $11.6 million and were 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 three months ended March 31, 2013 (in thousands):

Asset retirement obligation at January 1, 2013	$97,818
Additional liability incurred	3,292
Revisions in estimated cash flows	-
Accretion expense	3,253
Obligations on sold properties	(2)
Liabilities settled	(3,112)
Asset retirement obligation at March 31, 2013	$101,249

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.

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Whiting Derivatives. The table below details the Company's costless collar and swap derivatives, including its proportionate share of Trust II derivatives, entered into to hedge forecasted crude oil production revenues, as of April 1, 2013.

		Whiting Petroleum Corporation	
Derivative Instrument	Period	Contracted Crude Oil Volumes (Bbl)	Weighted Average NYMEX Price for Crude Oil (per Bbl)
Collars	Apr – Dec 2013	2,260,020	$ 48.21 - $ 90.35
	Jan – Dec 2014	49,290	$ 80.00 - $ 22.50
Three-way collars(1)	Apr – Dec 2013	9,360,000	$ 71.25 - $85.63 - $113.95
Swaps	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	17,579,710	

(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.

During the first quarter of 2013, Whiting entered into the crude oil swap contracts listed above for the purpose of achieving more predictable cash flows and managing returns on certain oil and gas properties that the Company is considering for potential monetization. Accordingly, the acquisition of these swap contracts have been reflected as an investing activity in the statement of cash flows. 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.

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	Apr – Dec 2013	40,020	$80.00 - $122.50
	Jan – Dec 2014	49,290	$80.00 - $122.50
	Total	89,310	

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:

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		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	Apr – Dec 2013	360,180	$80.00 - $122.50
	Jan – Dec 2014	443,610	$80.00 - $122.50
	Total	803,790	

Embedded Commodity Derivative Contracts—In May 2011, Whiting entered into a long-term contract to purchase CO2 from 2015 through 2029 for use in its EOR 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 March 31, 2013, the estimated fair value of the embedded derivative in this CO2 purchase contract was an asset of $26.7 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.

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 months ended March 31, 2013 and 2012 (in thousands):

ASC 815 Cash Flow		Gain (Loss) Reclassified from AOCI into Income (Effective Portion) (1) Three Months Ended March 31,	
Hedging Relationships	Income Statement Classification	2013	2012
Commodity contracts	Gain (loss) on hedging activities	$ (211)	$ 1,127

(1) Effective April 1, 2009, the Company elected to de-designate all of its commodity derivative contracts that had been previously designated as cash flow hedges and elected to discontinue hedge accounting prospectively. As a result, such mark-to-market values at March 31, 2009 were frozen in AOCI as of the de-designation date and are being reclassified into earnings as the original hedged transactions affect income.

Not Designated as		(Gain) Loss Recognized in Income Three Months Ended March 31,	
ASC 815 Hedges	Income Statement Classification	2013	2012
Commodity contracts		$ 34,260	$ 23,837

	Commodity derivative loss, net						
Embedded commodity contracts	Commodity derivative loss, net		(3,003	)		5,566	
Total		$	31,257		$	29,403	

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Offsetting of Derivative Assets and Liabilities. With each individual derivative counterparty, the Company typically has numerous hedge positions that span a several-month time period and that typically result in both fair value asset and liability positions held with that counterparty, which positions are all offset to a single fair value asset or liability amount at the end of each reporting period. The Company nets its derivative instrument fair value amounts executed with the same counterparty pursuant to ISDA master agreements, which provide for net settlement over the term of the contract and in the event of default or termination of the contract. The following tables summarize the location and fair value amounts of all derivative instruments in the consolidated balance sheets, as well as the gross recognized derivative assets, liabilities and amounts offset in the consolidated balance sheets (in thousands):

		March 31, 2013(1)		
Not Designated as ASC 815 Hedges	Balance Sheet Classification	Gross Recognized Assets/Liabilities	Gross Amounts Offset	Net Recognized Fair Value Assets/Liabilities
Derivative assets:				
Commodity contracts	Prepaid expenses and other	$ 15,006	$ (8,554)	$ 6,452
Commodity contracts	Other long-term assets	17,503	(574)	16,929
Embedded commodity contracts	Other long-term assets	26,861	(143)	26,718
Total derivative assets		$ 59,370	$ (9,271)	$ 50,099
Derivative liabilities:				
Commodity contracts	Current derivative liabilities	$ 27,320	$ (8,554)	$ 18,766
Commodity contracts	Non-current derivative liabilities	1,541	(574)	967
Embedded commodity contracts	Non-current derivative liabilities	143	(143)	-
Total derivative liabilities		$ 29,004	$ (9,271)	$ 19,733

		December 31, 2012(1)		
Not Designated as ASC 815 Hedges	Balance Sheet Classification	Gross Recognized Assets/Liabilities	Gross Amounts Offset	Net Recognized Fair Value Assets/Liabilities
Derivative assets:				
Commodity contracts	Prepaid expenses and other	$ 40,909	$ (31,437)	$ 9,472
Commodity contracts	Other long-term assets	4,053	(2,189)	1,864
Embedded commodity contracts	Other long-term assets	24,038	(323)	23,715
Total derivative assets		$ 69,000	$ (33,949)	$ 35,051
Derivative liabilities:				
Commodity contracts	Current derivative liabilities	$ 53,392	$ (31,437)	$ 21,955
Commodity contracts	Non-current derivative liabilities	3,867	(2,189)	1,678

Embedded commodity contracts	Non-current derivative liabilities	323	(323)	-
Total derivative liabilities		$ 57,582	$ (33,949)	$ 23,633

(1) Because counterparties to the Company's derivative contracts are lenders under Whiting Oil and Gas' credit agreement, which eliminates its need to post or receive collateral associated with its derivative positions, columns for cash collateral pledged or received have not been presented in the tables above.

Contingent Features in Derivative Instruments. None of the Company's derivative instruments contain credit-risk-related contingent features. Counterparties to the Company's derivative contracts are high credit-quality financial institutions that are lenders under Whiting's credit agreement. At the time Whiting enters into derivative contracts, the Company uses only credit agreement participants to hedge with, since these institutions are secured equally with the holders of Whiting's bank debt, which eliminates the potential need to post collateral when Whiting is in a derivative liability position. As a result, the Company is not required to post letters of credit or corporate guarantees for its derivative counterparties in order to secure contract performance obligations.

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6. FAIR VALUE MEASUREMENTS

The Company follows FASB ASC Topic 820, Fair Value Measurement and Disclosure, which establishes a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy categorizes assets and liabilities measured at fair value into one of three different levels depending on the observability of the inputs employed in the measurement. The three levels are defined as follows:

- Level 1: Quoted Prices in Active Markets for Identical Assets – inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

- Level 2: Significant Other Observable Inputs – inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

- Level 3: Significant Unobservable Inputs – inputs to the valuation methodology are unobservable and significant to the fair value measurement.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability. The Company reflects transfers between the three levels at the beginning of the reporting period in which the availability of observable inputs no longer justifies classification in the original level.

The following tables present information about the Company's financial assets and liabilities measured at fair value on a recurring basis as of March 31, 2013 and December 31, 2012, and indicate the fair value hierarchy of the valuation techniques utilized by the Company to determine such fair values (in thousands):

	Level 1	Level 2	Level 3	Total Fair Value March 31, 2013
Financial Assets				
Commodity derivatives – current	$ -	$ 6,452	$ -	$ 6,452
Commodity derivatives – non-current	-	16,929	-	16,929
Embedded commodity derivatives – non-current	-	-	26,718	26,718
Total financial assets	$ -	$ 23,381	$ 26,718	$ 50,099
Financial Liabilities				
Commodity derivatives – current	$ -	$ 18,766	$ -	$ 18,766
Commodity derivatives – non-current	-	967	-	967
Total financial liabilities	$ -	$ 19,733	$ -	$ 19,733

	Level 1	Level 2	Level 3	Total Fair Value December 31, 2012
Financial Assets				
	$ -	$ 9,472	$ -	$ 9,472

Commodity derivatives – current								
Commodity derivatives – non-current		-		1,864		-		1,864
Embedded commodity derivatives – non-current		-		-		23,715		23,715
Total financial assets	$	-	$	11,336	$	23,715	$	35,051
Financial Liabilities								
Commodity derivatives – current	$	-	$	21,955	$	-	$	21,955
Commodity derivatives – non-current		-		1,678		-		1,678
Total financial liabilities	$	-	$	23,633	$	-	$	23,633

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The following methods and assumptions were used to estimate the fair values of the assets and liabilities in the tables above:

Commodity Derivatives. Commodity derivative instruments consist of costless collars and swap contracts for crude oil. The Company's costless collars and swaps are valued based on an income approach. Both the option and swap models consider various assumptions, such as quoted forward prices for commodities, time value and volatility factors. These assumptions are observable in the marketplace throughout the full term of the contract, can be derived from observable data or are supported by observable levels at which transactions are executed in the marketplace, and are therefore designated as Level 2 within the valuation hierarchy. The discount rates used in the fair values of these instruments include a measure of either the Company's or the counterparty's nonperformance risk, as appropriate. The Company utilizes counterparties' valuations to assess the reasonableness of its own valuations.

Embedded Commodity Derivatives. The embedded commodity derivative relates to a long-term CO2 purchase contract, which has a price adjustment clause that is linked to changes in NYMEX crude oil prices. Whiting has determined that the portion of this contract linked to NYMEX oil prices is not clearly and closely related to its corresponding host contract, and the Company has therefore bifurcated this embedded pricing feature from the host contract and reflected it at fair value in its consolidated financial statements. This embedded commodity derivative is valued based on an income approach. The option model used in the valuation considers various assumptions, including quoted forward prices for commodities, LIBOR discount rates and either the Company's or the counterparty's nonperformance risk, as appropriate.

The assumptions used in the CO2 contract valuation include inputs that are both observable in the marketplace as well as unobservable during the term of the contract. With respect to forward prices for NYMEX crude oil where there is a lack of price transparency in certain future periods, such unobservable oil price inputs are significant to the CO2 contract valuation methodology, and the contract's fair value is therefore designated as Level 3 within the valuation hierarchy.

Level 3 Fair Value Measurements. A third-party valuation specialist is utilized on a quarterly basis to determine the fair value of the embedded commodity derivative instrument designated as Level 3. The Company reviews these valuations (including the related model inputs and assumptions) and analyzes changes in fair value measurements between periods. The Company corroborates such inputs, calculations and fair value changes using various methodologies, and Whiting reviews unobservable inputs for reasonableness utilizing relevant information from other published sources.

The following table presents a reconciliation of changes in the fair value of financial assets (liabilities) designated as Level 3 in the valuation hierarchy for the three months ended March 31, 2013 and 2012 (in thousands):

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	Three Months Ended March 31, 2013	Three Months Ended March 31, 2012
Fair value asset, beginning of period	$23,715	$12,980
Unrealized gains (losses) on embedded commodity derivative contracts included in earnings(1)	3,003	(4,114)
Transfers into (out of) Level 3	-	-
Fair value asset, end of period	$26,718	$8,866

(1) Included in commodity derivative loss, net in the consolidated statements of income.

Quantitative Information About Level 3 Fair Value Measurements. The significant unobservable inputs used in the fair value measurement of the Company's embedded commodity derivative contract designated as Level 3 are as follows:

	Fair Value at March 31, 2013 (in thousands)	Valuation Technique	Unobservable Input	Range (per Bbl)
Embedded commodity derivative	$ 26,718	Option model	Future prices of NYMEX crude oil after October 31, 2020	$85.40 - $111.85

Sensitivity to Changes in Significant Unobservable Inputs. As presented in the table above, the significant unobservable inputs used in the fair value measurement of Whiting's embedded commodity derivative within its CO2 purchase contract are the future prices of NYMEX crude oil from November 2020 to December 2029. Significant increases (decreases) in these unobservable inputs in isolation would result in a significantly lower (higher) fair value asset measurement.

Nonrecurring Fair Value Measurements. The Company applies the provisions of the fair value measurement standard to its nonrecurring, non-financial measurements, including proved oil and gas property impairments. The Company did not recognize any impairment write-downs with respect to its proved oil and gas properties during the 2013 or 2012 reporting periods presented.

7. DEFERRED COMPENSATION

Production Participation Plan—The Company has a Production Participation Plan (the "Plan") in which all employees participate. On an annual basis, interests in oil and gas properties acquired, developed or sold during the year are allocated to the Plan as determined annually by the Compensation Committee of the Company's Board of Directors. Once allocated, the interests (not legally conveyed) are fixed. Interest allocations prior to 1995 consisted of 2%-3% overriding royalty interests. Interest allocations since 1995 have been 2%-5% of oil and gas sales less lease operating expenses and production taxes.

Payments of 100% of the year's Plan interests to employees and the vested percentages of former employees in the year's Plan interests are made annually in cash after year-end. Accrued compensation expense under the Plan for the three months ended March 31, 2013 and 2012 amounted to $10.3 million and $18.9 million, respectively, charged to general and administrative expense and $1.0 million and $2.0 million, respectively, charged to exploration expense.

Employees vest in the Plan ratably at 20% per year over a five-year period. Pursuant to the terms of the Plan, (i) employees who terminate their employment with the Company are entitled to receive their vested allocation of future Plan year payments on an annual basis; (ii) employees will become fully vested at age 62, regardless of when their interests would otherwise vest; and (iii) any forfeitures inure to the benefit of the Company.

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The Company uses average historical prices to estimate the vested long-term Production Participation Plan liability. At March 31, 2013, the Company used three-year average historical NYMEX prices of $91.00 for crude oil and $3.72 for natural gas to estimate this liability. If the Company were to terminate the Plan or upon a change in control of the Company (as defined in the Plan), all employees fully vest and the Company would distribute to each Plan participant an amount, based upon the valuation method set forth in the Plan, in a lump sum payment twelve months after the date of termination or within one month after a change in control event. Based on current strip prices at March 31, 2013, if the Company elected to terminate the Plan or if a change of control event occurred, it is estimated that the fully vested lump sum cash payment to employees would approximate $147.8 million. This amount includes $16.2 million attributable to proved undeveloped oil and gas properties and $11.3 million relating to the short-term portion of the Plan liability, which has been accrued as a current payable to be paid in January 2014. The ultimate sharing contribution for proved undeveloped oil and gas properties will be awarded in the year of Plan termination or change of control. However, the Company has no intention to terminate the Plan.

The following table presents changes in the Plan’s estimated long-term liability (in thousands):

Long-term Production Participation Plan liability at January 1, 2013	$94,483
Change in liability for accretion, vesting, changes in estimates and new Plan year activity	15,756
Accrued compensation expense reflected as a current liability	(11,349)
Long-term Production Participation Plan liability at March 31, 2013	$98,890

8. SHAREHOLDERS’ EQUITY AND NONCONTROLLING INTEREST

6.25% Convertible Perpetual Preferred Stock—In June 2009, the Company completed a public offering of 6.25% convertible perpetual preferred stock (“preferred stock”), selling 3,450,000 shares at a price of $100.00 per share. As of March 31, 2013, however, only 172,129 shares of preferred stock remained outstanding.

Each holder of the preferred stock is entitled to an annual dividend of $6.25 per share to be paid quarterly in cash, common stock or a combination thereof on March 15, June 15, September 15 and December 15, when and if such dividend has been declared by Whiting’s board of directors. Each share of preferred stock has a liquidation preference of $100.00 per share plus accumulated and unpaid dividends and is convertible, at a holder’s option, into shares of Whiting’s common stock based on a conversion price of $21.70815, subject to adjustment upon the occurrence of certain events. The preferred stock is not redeemable by the Company. At any time on or after June 15, 2013, the Company may cause all outstanding shares of this preferred stock to be converted into shares of common stock if the closing price of our common stock equals or exceeds 120% of the then-prevailing conversion price for at least 20 trading days in a period of 30 consecutive trading days. The holders of preferred stock have no voting rights unless dividends payable on the preferred stock are in arrears for six or more quarterly periods.

Equity Incentive Plan—The Company maintains the Whiting Petroleum Corporation 2003 Equity Incentive Plan (the “2003 Equity Plan”), pursuant to which 2,978,323 shares of the Company’s common stock have been reserved for issuance. No employee or officer participant may be granted options for more than 600,000 shares of common stock, stock appreciation rights relating to more than 600,000 shares of common stock, or more than 300,000 shares of restricted stock during any calendar year. As of March 31, 2013, 372,146 shares of common stock remained available for grant under the 2003 Equity Plan. At the Company’s 2013 Annual Meeting scheduled for May 7, 2013, shareholders will vote on whether to approve the Whiting Petroleum Corporation 2013 Equity Incentive Plan (the “2013 Equity Plan”), which, if approved, will replace the 2003 Equity Plan and will include the authority to issue 5,300,000 shares of the Company’s common stock. Upon shareholder approval of the 2013 Equity Plan, the 2003 Equity Plan will terminate and no new awards will be granted under the plan.

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For the three months ended March 31, 2013 and 2012, total stock compensation expense recognized for restricted share awards and stock options was $6.7 million and $4.2 million, respectively.

Restricted Shares. Restricted stock awards for executive officers and employees generally vest ratably over a three-year service period, while awards to directors generally vest ratably over a one or three-year service period. The Company uses historical data and projections to estimate expected employee behaviors related to restricted stock forfeitures. The expected forfeitures are then included as part of the grant date estimate of compensation cost. For service-based restricted stock awards, the grant date fair value is determined based on the closing bid price of the Company's common stock on the grant date.

In January 2013 and 2012, 751,872 shares and 444,501 shares, respectively, of restricted stock, subject to certain market-based vesting criteria in addition to the standard three-year service condition, were granted to executive officers under the 2003 Equity Plan. Vesting each year is subject to the condition that Whiting's stock price increases by a greater percentage, or decreases by a lesser percentage, than the average percentage increase or decrease, respectively, of the stock prices of a peer group of companies. The market-based conditions must be met in order for the stock awards to vest, and it is therefore possible that no shares could vest in one or more of the three-year vesting periods. However, the Company recognizes compensation expense for awards subject to market conditions regardless of whether it becomes probable that these conditions will be achieved or not, and compensation expense is not reversed if vesting does not actually occur.

For these awards subject to market conditions, the grant date fair value was estimated using a Monte Carlo valuation model. The Monte Carlo model is based on random projections of stock price paths and must be repeated numerous times to achieve a probabilistic assessment. Expected volatility was calculated based on the historical volatility of Whiting's common stock, and the risk-free interest rate is based on U.S. Treasury yield curve rates with maturities consistent with the three-year vesting period. The key assumptions used in valuing the market-based restricted shares were as follows:

	2013	2012
Number of simulations	65,000	65,000
Expected volatility	43.1%	51.9%
Risk-free rate	0.41%	0.35%
Dividend yield	-	-

The grant date fair value of the market-based restricted stock as determined by the Monte Carlo valuation model was $23.01 per share and $29.45 per share in January 2013 and 2012, respectively.

The following table shows a summary of the Company's nonvested restricted stock as of March 31, 2013, as well as activity during the three months then ended:

	Number of Shares	Weighted Average Grant Date Fair Value
Restricted stock awards nonvested, January 1, 2013	951,026	$ 37.02