

CONTINENTAL RESOURCES INC

Form 10-Q

May 08, 2009

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended March 31, 2009

or

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

For the transition period from            to

Commission File Number: 001-32886

**CONTINENTAL RESOURCES, INC.**

(Exact name of registrant as specified in its charter)

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<b>Oklahoma</b> (State or other jurisdiction of incorporation or organization)	<b>73-0767549</b> (I.R.S. Employer Identification No.)
<b>302 N. Independence, Suite 1500, Enid, Oklahoma</b> (Address of principal executive offices)	<b>73701</b> (Zip Code)
<b>Registrant's telephone number, including area code: (580) 233-8955</b>	

**Former name, former address and former fiscal year, if changed since last report: Not applicable**

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  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

Large accelerated filer <input checked="" type="checkbox"/>	Accelerated filer <input type="checkbox"/>
Non-accelerated filer <input type="checkbox"/>	Smaller reporting company <input type="checkbox"/>

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

169,604,384 shares of our \$0.01 par value common stock were outstanding on April 30, 2009.

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Signature

When we refer to us, we, ours, Company, or Continental we are describing Continental Resources, Inc. and / or our subsidiary.

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### **Glossary of Oil and Natural Gas Terms**

The terms defined in this section are used throughout this report:

*Bbl.* One stock tank barrel, of 42 U.S. gallons liquid volume, used herein in reference to crude oil, condensate or natural gas liquids.

*Bcf.* One billion cubic feet of natural gas.

*Boe.* *Barrels of oil equivalent, with six thousand cubic feet of natural gas being equivalent to one barrel of oil.*

*Completion.* The process of treating a drilled well followed by the installation of permanent equipment for the production of natural gas or oil, or in the case of a dry hole, the reporting of abandonment to the appropriate agency.

*DD&A.* Depreciation, depletion, amortization and accretion.

*Developed acreage.* The number of acres that are allocated or assignable to productive wells or wells capable of production.

*Dry hole.* A well found to be incapable of producing hydrocarbons in sufficient quantities such that proceeds from the sale of such production exceed production expenses and taxes.

*Enhanced recovery.* The recovery of oil and natural gas through the injection of liquids or gases into the reservoir, supplementing its natural energy. Enhanced recovery methods are often applied when production slows due to depletion of the natural pressure.

*Field.* An area consisting of a single reservoir or multiple reservoirs all grouped on, or related to, the same individual geological structural feature or stratigraphic condition. The field name refers to the surface area, although it may refer to both the surface and the underground productive formations.

*Formation.* A layer of rock which has distinct characteristics that differs from nearby rock.

*Horizontal drilling.* A drilling technique used in certain formations where a well is drilled vertically to a certain depth and then drilled at a right angle within a specified interval.

*MBbl.* One thousand barrels of crude oil, condensate or natural gas liquids.

*Mcf.* One thousand cubic feet of natural gas.

*MBoe.* One thousand Boe.

*MMBoe.* One million Boe.

*MMBtu.* One million British thermal units.

*MMcf.* One million cubic feet of natural gas.

*NYMEX.* The New York Mercantile Exchange.

*Proved reserves.* The estimated quantities of oil, natural gas and natural gas liquids which geological and engineering data demonstrate with reasonable certainty to be commercially recoverable in future years from known reservoirs under existing economic and operating conditions.

*Proved undeveloped reserves ( PUD ).* Proved reserves that are expected to be recovered from new wells on undrilled acreage or from existing wells where a relatively major expenditure is required for recompletion.

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*Unit.* The joining of all or substantially all interests in a reservoir or field, rather than a single tract, to provide for development and operation without regard to separate property interests. Also, the area covered by a unitization agreement.

**Table of Contents****PART I. Financial Information****ITEM 1. Financial Statements****Continental Resources, Inc. and Subsidiary****Condensed Consolidated Balance Sheets**

	<b>March 31, 2009 (Unaudited)</b>	<b>December 31, 2008</b>
<b>(In thousands, except par values and share data)</b>		
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 5,315	\$ 5,229
Receivables:		
Oil and natural gas sales	73,506	63,659
Affiliated parties	8,093	14,914
Joint interest and other, net	93,340	150,506
Inventories	38,668	22,210
Deferred and prepaid taxes	16,958	18,810
Prepaid expenses and other	2,521	2,367
<b>Total current assets</b>	<b>238,401</b>	<b>277,695</b>
Net property and equipment, based on successful efforts method of accounting	1,993,291	1,935,143
Debt issuance costs, net	3,635	3,041
<b>Total assets</b>	<b>\$ 2,235,327</b>	<b>\$ 2,215,879</b>
<b>Liabilities and shareholders equity</b>		
Current liabilities:		
Accounts payable trade	\$ 188,400	\$ 260,188
Accounts payable trade to affiliated parties	23,199	25,730
Accrued liabilities and other	24,677	34,769
Revenues and royalties payable	52,375	78,160
Current portion of asset retirement obligation	2,585	4,747
<b>Total current liabilities</b>	<b>291,236</b>	<b>403,594</b>
Long-term debt	544,000	376,400
Other noncurrent liabilities:		
Deferred tax liability	429,493	445,752
Asset retirement obligation, net of current portion	42,915	39,883
Other noncurrent liabilities	2,931	1,542
<b>Total other noncurrent liabilities</b>	<b>475,339</b>	<b>487,177</b>
Commitments and contingencies (Note 7)		
Shareholders equity:		
Preferred stock, \$0.01 par value: 25,000,000 shares authorized; no shares issued and outstanding		
Common stock, \$0.01 par value; 500,000,000 shares authorized, 169,599,222 shares issued and outstanding at March 31, 2009; 169,558,129 shares issued and outstanding at December 31, 2008	1,696	1,696

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Additional paid-in-capital	422,711	420,054
Retained earnings	500,345	526,958
<b>Total shareholders' equity</b>	<b>924,752</b>	<b>948,708</b>
Total liabilities and shareholders' equity	\$ 2,235,327	\$ 2,215,879

*The accompanying notes are an integral part of these condensed consolidated financial statements.*

**Table of Contents****Continental Resources, Inc. and Subsidiary****Unaudited Condensed Consolidated Statements of Operations**

	<b>Three Months Ended March 31,</b>	
	<b>2009</b>	<b>2008</b>
	<b>(In thousands, except per share data)</b>	
<b>Revenues:</b>		
Oil and natural gas sales	\$ 85,817	\$ 208,699
Oil and natural gas sales to affiliates	6,751	16,726
Loss on mark-to-market derivative instruments		(4,608)
Oil and natural gas service operations	4,040	6,834
<b>Total revenues</b>	<b>96,608</b>	<b>227,651</b>
<b>Operating costs and expenses:</b>		
Production expenses	17,274	18,950
Production expense to affiliates	5,152	4,123
Production tax and other	6,822	12,775
Exploration expense	7,119	5,262
Oil and natural gas service operations	2,403	4,230
Depreciation, depletion, amortization and accretion	50,697	28,646
Property impairments	35,425	4,520
General and administrative	10,284	7,531
Gain on sale of assets	(136)	(79)
<b>Total operating costs and expenses</b>	<b>135,040</b>	<b>85,958</b>
Income (loss) from operations	(38,432)	141,693
Other income (expense):		
Interest expense	(4,587)	(3,411)
Other	147	299
	(4,440)	(3,112)
Income (loss) before income taxes	(42,872)	138,581
Provision (benefit) for income taxes	(16,259)	50,610
<b>Net income (loss)</b>	<b>\$ (26,613)</b>	<b>\$ 87,971</b>
Basic net income (loss) per share	\$ (0.16)	\$ 0.52
Diluted net income (loss) per share	\$ (0.16)	\$ 0.52

*The accompanying notes are an integral part of these condensed consolidated financial statements.*



**Table of Contents****Continental Resources, Inc. and Subsidiary****Condensed Consolidated Statements of Shareholders Equity**

	Shares outstanding	Common stock	Additional paid-in capital	Retained earnings	Total shareholders equity
	(in thousands, except share data)				
Balance, January 1, 2008	168,864,015	\$ 1,689	\$ 415,435	\$ 206,008	\$ 623,132
Net income				320,950	320,950
Stock-based compensation			9,927		9,927
Stock options:					
Exercised	436,327	4	1,438		1,442
Repurchased and canceled	(82,922)	(1)	(4,017)		(4,018)
Restricted stock:					
Issued	461,120	5			5
Repurchased and canceled	(91,568)	(1)	(2,729)		(2,730)
Forfeited	(28,843)				
Balance, December 31, 2008	169,558,129	\$ 1,696	\$ 420,054	\$ 526,958	\$ 948,708
Net loss (unaudited)				(26,613)	(26,613)
Stock-based compensation (unaudited)			2,717		2,717
Stock options:					
Exercised (unaudited)	7,000		5		5
Restricted stock:					
Issued (unaudited)	47,028				
Repurchased and canceled (unaudited)	(2,935)		(65)		(65)
Forfeited (unaudited)	(10,000)				
Balance, March 31, 2009 (unaudited)	169,599,222	\$ 1,696	\$ 422,711	\$ 500,345	\$ 924,752

*The accompanying notes are an integral part of these condensed consolidated financial statements.*

**Table of Contents****Continental Resources, Inc. and Subsidiary****Unaudited Consolidated Statements of Cash Flows**

	<b>Three months ended March 31,</b>	
	<b>2009</b>	<b>2008</b>
	<b>(In thousands)</b>	
<b>Cash flows from operating activities:</b>		
Net income (loss)	\$ (26,613)	\$ 87,971
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation, depletion, amortization and accretion	54,257	28,568
Property impairments	35,425	4,520
Change in derivative fair value		(18,192)
Equity compensation	2,717	1,368
Provision (benefit) for deferred income taxes	(16,259)	40,453
Dry hole costs	4,763	327
Others, net	344	(95)
<b>Changes in assets and liabilities:</b>		
Accounts receivable	54,140	(32,337)
Inventories	(16,458)	(936)
Prepaid expenses and other	1,884	(486)