CONTINENTAL RESOURCES INC
Form S-1/A
May 10, 2007

As filed with the Securities and Exchange Commission on May 10, 2007

Registration No. 333-132257

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Amendment No. 8

to

FORM S-1

REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

Continental Resources, Inc.

(Exact name of registrant as specified in charter)

Oklahoma	**1311**	**73-0767549**
(State or other jurisdiction of incorporation or organization)	**(Primary Standard Industrial Classification Code Number)**	**(I.R.S. Employer Identification Number)**

302 N. Independence

Enid, Oklahoma 73701

(580) 233-8955

(Address, including zip code, and telephone number, including area code, of registrant s principal executive offices)

Mark E. Monroe

President and Chief Operating Officer

302 N. Independence

Enid, Oklahoma 73701

(580) 233-8955

(Address, including zip code, and telephone number, including area code, of agent for service)

With a copy to:

David P. Oelman	**Joseph A. Hall**
Vinson & Elkins L.L.P.	**Davis Polk & Wardwell**
1001 Fannin, Suite 2300	**450 Lexington Avenue**
Houston, Texas 77002-6760	**New York, New York 10017**
(713) 758-2222	**(212) 450-4000**

Approximate date of commencement of proposed sale to the public: As soon as practicable on or after the effective date of this Registration Statement.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. ¨

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

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The information in this prospectus is not complete and may be changed. These securities may not be sold until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities nor does it seek an offer to buy these securities in any state where the offer or sale is not permitted.

Subject to completion, dated May 10, 2007

PROSPECTUS

29,500,000 Shares

Continental Resources, Inc.

Common Stock

This is our initial public offering of common stock. We are offering 8,850,000 shares of our common stock. The selling shareholder identified in this prospectus is offering 20,650,000 shares of our common stock. We will not receive any proceeds from the sale of the shares by the selling shareholder. The estimated initial public offering price is between $16.00 and $18.00 per share.

Prior to this offering, there has been no public market for our common stock. Our common stock has been approved for listing on the New York Stock Exchange, subject to official notice of issuance, under the symbol CLR.

Investing in our common stock involves a high degree of risk. See Risk Factors beginning on page 11.

	Per share	Total

Initial public offering price	$	$
Underwriting discount	$	$
Proceeds to Continental Resources, Inc.(1)	$	$
Proceeds to selling shareholder(1)	$	$

(1) Expenses, other than underwriting discounts related to the shares sold by the selling shareholder, associated with the offering will be paid by us.

The selling shareholder has granted the underwriters an option for a period of 30 days to purchase up to 4,425,000 additional shares of common stock to cover overallotments, if any. If such option is exercised in full, the total underwriting discount will be $ and the total proceeds to the selling shareholder will be $.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

The underwriters expect to deliver the shares of common stock to investors on , 2007.

JPMorgan **Merrill Lynch & Co.**

Citi

UBS Investment Bank

Deutsche Bank Securities

Raymond James

, 2007

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Cautionary Statement Regarding Forward-Looking Statements

This prospectus contains forward-looking statements that are subject to a number of risks and uncertainties, many of which are beyond our control. All statements, other than statements of historical fact included in this prospectus, regarding our strategy, future operations, financial position, estimated revenues and losses, projected costs, prospects, plans and objectives of management are forward-looking statements. When used in this prospectus, the words could, believe, anticipate, intend, estimate, expect, project and similar expressions are intended to id forward-looking statements, although not all forward-looking statements contain such identifying words.

Forward-looking statements may include statements about our:

- business strategy;
- reserves;
- technology;
- financial strategy;
- oil and natural gas realized prices;
- timing and amount of future production of oil and natural gas;
- the amount, nature and timing of capital expenditures;
- drilling of wells;
- competition and government regulations;
- marketing of oil and natural gas;
- exploitation or property acquisitions;
- costs of exploiting and developing our properties and conducting other operations;

- general economic conditions;

- uncertainty regarding our future operating results; and

- plans, objectives, expectations and intentions contained in this prospectus that are not historical.

All forward-looking statements speak only as of the date of this prospectus. You should not place undue reliance on these forward-looking statements. Although we believe that our plans, intentions and expectations reflected in or suggested by the forward-looking statements we make in this prospectus are reasonable, we can give no assurance that these plans, intentions or expectations will be achieved. We disclose important factors that could cause our actual results to differ materially from our expectations under Risk Factors and Management s Discussion and Analysis of Financial Condition and Results of Operations and elsewhere in this prospectus. These cautionary statements qualify all forward-looking statements attributable to us or persons acting on our behalf.

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Industry and Market Data

The market data and certain other statistical information used throughout this prospectus are based on independent industry publications, government publications or other published independent sources. Some data are also based on our good faith estimates. Although we believe these third-party sources are reliable, we have not independently verified the information and cannot guarantee its accuracy and completeness.

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Prospectus Summary

This summary highlights information contained elsewhere in this prospectus. You should read this entire prospectus carefully, including Risk Factors and our historical consolidated financial statements and the notes to those historical consolidated financial statements included elsewhere in this prospectus. Unless the context otherwise requires, references in this prospectus to Continental Resources, we, us, our, ours or company refer to Continental Resources, Inc. and its subsidiary.

We have provided definitions for the oil and natural gas terms used in this prospectus in the Glossary of Oil and Natural Gas Terms beginning on page A-1 of this prospectus. Unless otherwise indicated, the information contained in this prospectus assumes that the underwriters do not exercise their overallotment option to purchase additional shares.

Our Business

We are an independent oil and natural gas exploration and production company with operations in the Rocky Mountain, Mid-Continent and Gulf Coast regions of the United States. We focus our exploration activities in large new or developing plays that provide us the opportunity to acquire undeveloped acreage positions for future drilling operations. We have been successful in targeting large repeatable resource plays where horizontal drilling, advanced fracture stimulation and enhanced recovery technologies provide the means to economically develop and produce oil and natural gas reserves from unconventional formations. As a result of these efforts, we have grown substantially through the drillbit, adding 96.2 MMBoe of proved oil and natural gas reserves through extensions and discoveries from January 1, 2001 through December 31, 2006 compared to 5.1 MMBoe added through proved reserve purchases during that same period.

As of December 31, 2006, our estimated proved reserves were 118.3 MMBoe, with estimated proved developed reserves of 87.1 MMBoe, or 74% of our total estimated proved reserves. Crude oil comprised 83% of our total estimated proved reserves. At December 31, 2006, we had 1,772 scheduled drilling locations on the 1,775,000 gross (1,071,000 net) acres that we held. For the year ended December 31, 2006, we generated revenues of $483.7 million, and operating cash flows of $417.0 million. For the first quarter of 2007, daily production averaged approximately 28,000 Boe per day.

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The following table summarizes our total estimated proved reserves, PV-10 and net producing wells as of December 31, 2006, average daily production for the three months ended December 31, 2006 and the reserve-to-production ratio in our principal regions. Our reserve estimates as of December 31, 2006 are based primarily on a reserve report prepared by Ryder Scott Company, L.P., our independent reserve engineers. In preparing its report, Ryder Scott Company, L.P. evaluated properties representing approximately 83% of our PV-10. Our technical staff evaluated properties representing the remaining 17% of our PV-10.

	At December 31, 2006				Average daily production		
	Proved reserves (MBoe)	Percent of total	PV-10(1) (in millions)	Net producing wells	Fourth quarter 2006 (Boe per day)	Percent of total	Annualized reserve/ production index(2)
Rocky Mountain:							
Red River units	66,527	56%	$ 791	201	11,732	44%	15.5
Bakken field	25,623	22%	441	66	7,905	30%	8.9
Other	9,077	8%	104	233	1,717	7%	14.5
Mid-Continent	16,894	14%	244	672	4,280	16%	10.8
Gulf Coast	228		4	19	869	3%	0.7
Total	118,349	100%	$ 1,584	1,191	26,503	100%	12.2

(1) PV-10 is a non GAAP financial measure and generally differs from Standardized Measure, the most directly comparable GAAP financial measure, because it does not include the effects of income taxes on future net revenues. However, our PV-10 and our Standardized Measure are equivalent because we are a subchapter S-corporation. In connection with the closing of this offering, we will convert to a subchapter C-corporation. Our pro-forma Standardized Measure, assuming our conversion to a subchapter C-corporation, was $1.0 billion at December 31, 2006. Neither PV-10 nor Standardized Measure represents an estimate of the fair market value of our oil and gas properties. We and others in the industry use PV-10 as a measure to compare the relative size and value of proved reserves held by companies without regard to the specific tax characteristics of such entities.

(2) The Annualized Reserve/Production Index is the number of years proved reserves would last assuming current production continued at the same rate. This index is calculated by dividing annualized fourth quarter 2006 production into the proved reserve quantity at December 31, 2006.

The following table provides additional information regarding our key development areas:

	At December 31, 2006					2007 Budget	
	Developed acres		Undeveloped acres		Scheduled drilling locations(1)	Wells planned for drilling	Capital expenditures (in millions)
	Gross	Net	Gross	Net			
Rocky Mountain:							
Red River units	144,309	128,484			133	51	$ 151
Bakken field	81,761	60,176	581,846	342,321	804	58	145
Other	49,010	38,534	375,185	213,516	66	12	13
Mid-Continent	147,681	94,214	335,982	175,780	762	151	122

Gulf Coast	41,450	11,869	17,368	6,360	7	3	6
Total	464,211	333,277	1,310,381	737,977	1,772	275	$ 437

(1) Scheduled drilling locations represent total gross locations specifically identified and scheduled by management as an estimate of our future multi-year drilling activities on existing acreage. Of the total locations shown in the table, 249 are classified as PUDs. As of April 12, 2007, we have commenced drilling 116 locations shown in the table, including 67 PUD locations. Our actual drilling activities may change depending on oil and natural gas prices, the availability of capital, costs, drilling results, regulatory approvals and other factors. See Risk Factors Risks Relating to the Oil and Natural Gas Industry and Our Business.

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Our Business Strategy

Our goal is to increase shareholder value by finding and developing crude oil and natural gas reserves at costs that provide an attractive rate of return on our investment. The principal elements of our business strategy are:

Growth Through Drilling. Substantially all of our annual capital expenditures are invested in drilling projects and acreage and seismic acquisitions.

Internally Generate Prospects. Our technical staff has internally generated substantially all of the opportunities for the investment of our capital. Because we have been an early entrant in new or emerging plays, our costs to acquire undeveloped acreage have generally been less than those of later entrants into a developing play.

Focus on Unconventional Oil and Natural Gas Resource Plays. Our experience with horizontal drilling, advanced fracture stimulation and enhanced recovery technologies allows us to commercially develop unconventional oil and natural gas resource plays, such as the Red River B dolomite, Bakken Shale and Woodford Shale formations.

Acquire Significant Acreage Positions in New or Developing Plays. Our technical staff is focused on identifying and testing new unconventional oil and natural gas resource plays where significant reserves could be developed if commercial production rates can be achieved through advanced drilling, fracture stimulation and enhanced recovery techniques.

Our Business Strengths

We have a number of strengths that we believe will help us successfully execute our strategies:

Large Drilling and Acreage Inventory. Our large number of identified drilling locations in all of our areas of operations provide for a multi-year drilling inventory.

Horizontal Drilling and Enhanced Recovery Experience. In 1992, we drilled our initial horizontal well, and we have drilled over 350 horizontal wells since that time. We also have substantial experience with enhanced recovery methods and currently serve as the operator of 48 waterflood units and eight high-pressure air injection units.

Control Operations Over a Substantial Portion of our Assets and Investments. As of December 31, 2006, we operated properties comprising 95% of our PV-10. By controlling operations, we are able to more effectively manage the cost and timing of exploration and development of our properties.

Experienced Management Team. Our senior management team has extensive expertise in the oil and gas industry. Our seven senior officers have an average of 26 years of oil and gas industry experience.

Strong Financial Position. As of May 8, 2007, we had outstanding borrowings under our credit facility of approximately $252.5 million. We believe that our planned exploration and development activities will be funded substantially from our operating cash flows. After giving effect to this offering at an assumed public offering price of $17.00 per share and the application of the net proceeds we will receive in this offering, we expect to have borrowings of approximately $112.9 million outstanding under our credit facility.

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Recent Events

Cash Dividends. On January 10, 2007, we declared a cash dividend of approximately $18.8 million to our shareholders and, subject to forefeiture, to holders of unvested restricted stock. On January 31, 2007, we paid $18.7 million of the dividend declared, of which $16.9 million was paid to our principal shareholder. On March 6, 2007, we declared a cash dividend of approximately $33.3 million to our shareholders and, subject to forfeiture, to holders of unvested restricted stock. On April 12, 2007, we paid $33.1 million of the dividend declared, of which $30.0 million was paid to our principal shareholder. We are currently a subchapter S-corporation under the rules and regulations of the Internal Revenue Service. As a result, income taxes attributable to our federal and state income are payable by our shareholders. The dividends have been paid to shareholders to fund their taxes due and estimated tax payments. In connection with the completion of this offering, we will convert from a subchapter S-corporation to a subchapter C-corporation, and we do not anticipate paying any additional cash dividends on our common stock in the foreseeable future. The selling shareholder has received dividends of approximately $13.5 million, $1.8 million, $79.0 million and $46.9 million in 2004, 2005, 2006 and 2007, respectively. The total net proceeds to the selling shareholder in this offering will be approximately $330.0 million, or approximately $400.7 million if the underwriters exercise their overallotment option in full, in each case assuming an initial public offering price of $17.00 per share, which is the midpoint of the range set forth on the cover of this prospectus.

Risk Factors

Investing in our common stock involves risks that include the speculative nature of oil and natural gas exploration, competition, volatile oil and natural gas prices and other material factors. You should read carefully the section entitled Risk Factors beginning on page 11 for an explanation of these risks before investing in our common stock. In particular, the following considerations may offset our business strengths or have a negative effect on our business strategy as well as on activities on our properties, which could cause a decrease in the price of our common stock and result in a loss of all or a portion of your investment:

- A substantial or extended decline in oil and natural gas prices may adversely affect our business, financial condition or results of operations and our ability to meet our capital expenditure obligations and financial commitments.
- Drilling for and producing oil and natural gas are high risk activities with many uncertainties that could adversely affect our business, financial condition or results of operations.
- Reserve estimates depend on many assumptions that may turn out to be inaccurate. Any material inaccuracies in these reserve estimates or underlying assumptions will materially affect the quantities and present value of our reserves.
- Our use of enhanced recovery methods creates uncertainties that could adversely affect our results of operations and financial condition.
- Our development and exploitation projects require substantial capital expenditures. We may be unable to obtain needed capital or financing on satisfactory terms, which could lead to a decline in our oil and natural gas reserves.
- If oil and natural gas prices decrease, we may be required to take write-downs of the carrying values of our oil and natural gas properties.

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- Unless we replace our oil and natural gas reserves, our reserves and production will decline, which would adversely affect our cash flows and results of operations.

- The unavailability or high cost of additional drilling rigs, equipment, supplies, personnel and oilfield services could adversely affect our ability to execute our exploration and development plans within our budget and on a timely basis.

- We may incur substantial losses and be subject to substantial liability claims as a result of our oil and natural gas operations; we may not be insured for, or our insurance may be inadequate to protect us against, these risks.

- Prospects that we decide to drill may not yield oil or natural gas in commercially viable quantities.

- Our identified drilling locations are scheduled out over several years, making them susceptible to uncertainties that could materially alter the occurrence or timing of their drilling.

- Following this offering, our Chairman and Chief Executive Officer will own approximately 73.2% of our outstanding common stock, giving him influence and control in corporate transactions and other matters.

For a discussion of other considerations that could negatively affect us, including risks related to this offering and our common stock, see Risk Factors and Cautionary Statement Regarding Forward-Looking Statements.

Corporate History and Information

Continental Resources, Inc. is incorporated under the laws of the State of Oklahoma. We were originally formed in 1967 to explore, develop and produce oil and natural gas properties in Oklahoma. Through 1993, our activities and growth remained focused primarily in Oklahoma. In 1993, we expanded our activity into the Rocky Mountain and Gulf Coast regions. Through drilling success and strategic acquisitions, approximately 86% of our estimated proved reserves as of December 31, 2006 are located in the Rocky Mountain region.

We are currently a subchapter S-corporation under the rules and regulations of the Internal Revenue Service. However, upon the consummation of this offering, we will have more shareholders than the IRS rules and regulations governing S-corporations allow, and, therefore, we will convert automatically from a subchapter S-corporation to a subchapter C-corporation. In connection with this conversion, we will record a charge to earnings (estimated to be approximately $175.7 million as if the conversion occurred on December 31, 2006) to recognize deferred taxes.

In addition, concurrent with the closing of this offering, we will effect an 11 for 1 stock split of our shares in the form of a stock dividend.

Our principal executive offices are located at 302 N. Independence, Enid, Oklahoma 73701, and our telephone number at that address is (580) 233-8955.

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The Offering

Common Stock Offered:

By Continental Resources, Inc.: 8,850,000 shares

By the selling shareholder: 20,650,000 shares

Overallotment option granted by the selling shareholder: 4,425,000 shares

Common stock to be owned by the selling shareholder after the offering: 122,980,608 shares (or 118,555,608 shares if the underwriters overallotment option is exercised in full)

Common stock to be outstanding after the offering: 168,018,636 shares

Use of Proceeds:

We expect to receive approximately $139.6 million of net proceeds from the sale of the common stock offered by us, based upon the assumed initial public offering price of $17.00 per share (the midpoint of the price range set forth on the cover page of this prospectus), after deducting underwriting discounts and estimated offering expenses. Each $1.00 increase (decrease) in the public offering price would increase (decrease) our net proceeds by approximately $8.3 million. We intend to use all of the net proceeds we receive from this offering to repay a portion of borrowings outstanding under our credit facility. We will not receive any proceeds from the sale of the shares of common stock by the selling shareholder. See Use of Proceeds.

Dividend Policy:

We do not anticipate paying any cash dividends on our common stock. See Dividend Policy.

New York Stock Exchange Symbol:

CLR

Other Information About This Prospectus:

Unless specifically stated otherwise, the information in this prospectus:

- is adjusted to reflect an 11 for 1 stock split of our shares of common stock to be effected in the form of a stock dividend concurrent with the consummation of this offering;
- assumes no exercise of the underwriters overallotment option to purchase additional shares; and
- assumes an initial public offering price of $17.00, which is the midpoint of the range set forth on the front cover of this prospectus.

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Summary Historical and Pro Forma Consolidated Financial Data

This section presents our summary historical and pro forma consolidated financial data. The summary historical consolidated financial data presented below is not intended to replace our historical consolidated financial statements.

The following historical consolidated financial data, as it relates to each of the fiscal years ended December 31, 2004 through 2006, has been derived from our audited historical consolidated financial statements for such periods. You should read the following summary historical consolidated financial data in connection with Capitalization, Management s Discussion and Analysis of Financial Condition and Results of Operations and our historical consolidated financial statements and related notes included elsewhere in this prospectus. The summary historical consolidated results are not necessarily indicative of results to be expected in future periods.

The summary pro forma financial data reflect the tax effects of our conversion, concurrent with the closing of this offering, from a subchapter S-corporation to a subchapter C-corporation and the earnings per share impact of our 11 for 1 stock split to be effected in the form of a stock dividend concurrent with the closing of this offering. The pro forma earnings per share adjustments for 2006 also give effect to the number of shares to be issued in this offering whose net proceeds would be sufficient to pay the $52.1 million of cash dividends declared in 2007.

	Year ended December 31,		
	2004	**2005**	**2006(1)**
			(as restated)
	(in thousands, except per share amounts)		
Statement of operations data:			
Revenues:			
Oil and natural gas sales	$ 181,435	$ 361,833	$ 468,602
Crude oil marketing and trading(2)	226,664		
Oil and natural gas service operations	10,811	13,931	15,050
Total revenues	418,910	375,764	483,652
Operating costs and expenses:			
Production expense	43,754	52,754	62,865
Production tax	12,297	16,031	22,331
Exploration expense	12,633	5,231	19,738
Crude oil marketing and trading(2)	227,210		
Oil and gas service operations	6,466	7,977	8,231
Depreciation, depletion, amortization and accretion	38,627	49,802	65,428
Property impairments	11,747	6,930	11,751
General and administrative(3)	12,400	31,266	31,074
(Gain) loss on sale of assets	150	(3,026)	(290)
Total operating costs and expenses	$ 365,284	$ 166,965	$ 221,128
Income from operations	$ 53,626	$ 208,799	$ 262,524

Other income (expense)			
Interest expense	(23,617)	(14,220)	(11,310)
Loss on redemption of bonds	(4,083)		
Other	890	867	1,742
Total other income (expense)	(26,810)	(13,353)	(9,568)

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	Year ended December 31,		
	2004	2005	2006(1)
			(as restated)
	(in thousands, except per share amounts)		
Income from continuing operations before income taxes	26,816	195,446	252,956
Provision (benefit) for income taxes(4)		1,139	(132)
Income from continuing operations	26,816	194,307	253,088
Discontinued operations(5)	1,680		
Loss on sale of discontinued operations(5)	(632)		
Net income	$ 27,864	$ 194,307	$ 253,088
Basic earnings per share:			
From continuing operations	$ 1.87	$ 13.52	$ 17.61
From discontinued operations(5)	0.11		
Loss on sale of discontinued operations(5)	(0.04)		
Net income per share	$ 1.94	$ 13.52	$ 17.61
Shares used in basic earnings per share	14,369	14,369	14,374
Diluted earnings per share:			
From continuing operations	$ 1.85	$ 13.42	$ 17.44
From discontinued operations(5)	0.12		
Loss on sale of discontinued operations(5)	(0.04)		
Net income per share	$ 1.93	$ 13.42	$ 17.44
Shares used in diluted earnings per share	14,476	14,482	14,515
Pro forma C-corporation and stock split data:			
Income from continuing operations before income taxes	$ 26,816	$ 195,446	$ 252,956
Pro forma provision for income taxes attributable to operations	10,190	74,269	96,123
Pro forma income from operations after tax	16,626	121,177	156,833
Discontinued operations, net of tax(5)	1,042		
Loss on sale of discontinued operations, net of tax(5)	(392)		
Pro forma net income	$ 17,276	$ 121,177	$ 156,833
Pro forma basic earnings per share	$ 0.11	$ 0.77	$ 0.97
Pro forma diluted earnings per share	0.11	0.76	0.96
Other financial data:			
Cash dividends per share	$ 1.04	$ 0.14	$ 6.06
EBITDAX(6)	116,498	285,344	372,115
Net cash provided by operations	93,854	265,265	417,041
Net cash used in investing	(72,992)	(133,716)	(324,523)

Net cash used in financing	(7,245)	(141,467)	(91,451)
Capital expenditures	94,307	144,800	326,579
Balance sheet data at December 31:			
Cash and cash equivalents	$ 15,894	$ 6,014	$ 7,018
Property and equipment, net	434,339	509,393	751,747
Total assets	504,951	600,234	858,929
Long-term debt, including current maturities	290,522	143,000	140,000
Shareholders equity	130,385	324,730	490,461

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(1) Our 2006 consolidated financial statements were restated due to increased stock-based compensation as a result of adjustments that reflected an increased historical fair value of our common stock for financial reporting purposes. See Note 1 to the Notes to the Consolidated Financial Statements included elsewhere in this prospectus.

(2) Crude oil marketing and trading captions consist of our marketing activities under which crude oil production was sold at the wellhead and transported to a local hub where we purchased the barrels back to exchange at Cushing, Oklahoma in order to minimize pricing differentials with the NYMEX oil futures contract. We adopted Emerging Issues Task Force (EITF) 04-13 on January 1, 2005, which allowed certain purchase and sales transactions with the same counterparty to be combined and accounted for as a single transaction under the guidance of Accounting Principles Board Opinion No. 29. In 2005, we netted $39.8 million of crude oil marketing and trading revenues and $39.7 million of crude oil marketing and trading expenses under oil and natural gas sales. Prior to the adoption of EITF 04-13, we presented crude oil marketing and trading revenues and expenses gross under the guidance provided by EITF 99-19, Reporting Revenues Gross as a Principal and/or Net as an Agent. Effective March 2005, we ceased marketing our crude oil production under these arrangements. Thereafter, we have sold our crude oil at the wellhead. Certain of these sales have been to our affiliates, as described under Certain Relationships and Related Party Transactions.

(3) We have included stock-based compensation of $2.0 million, $13.7 million and $10.9 million in general and administrative expenses for the years ended December 31, 2004, 2005 and 2006, respectively. See Management s Discussion and Analysis of Financial Condition and Results of Operations as well as Note 9 to the Notes to the Consolidated Financial Statements included elsewhere in this prospectus.

(4) Properties owned by us at May 31, 1997, the date we converted into a subchapter S-corporation from a subchapter C-corporation, may be subject to federal taxation if sold for an amount in excess of the then tax basis for the sold assets. During 2005, we incurred federal taxes due to the sale of assets acquired prior to May 31, 1997. The benefit recorded during 2006 reflects a change in estimate of the original provision recorded for federal taxes incurred.

(5) In July 2004, we sold all of the outstanding stock in Continental Gas, Inc., a wholly owned subsidiary, to our shareholders. The Continental Gas, Inc. assets included seven gas gathering systems and three gas-processing plants. These assets represented our entire gas gathering, marketing and processing segment. We have accounted for these operations as discontinued operations.

(6) EBITDAX represents earnings before interest expense, income taxes (when applicable), depreciation, depletion, amortization and accretion, property impairments, exploration expense and non-cash compensation expense. EBITDAX is not a measure of net income or cash flow as determined by generally accepted accounting principles (GAAP). EBITDAX should not be considered as an alternative to, or more meaningful than, net income or cash flow as determined in accordance with GAAP or as an indicator of a company s operating performance or liquidity. Certain items excluded from EBITDAX are significant components in understanding and assessing a company s financial performance, such as a company s cost of capital and tax structure, as well as the historic costs of depreciable assets, none of which are components of EBITDAX. Our computations of EBITDAX may not be comparable to other similarly titled measures of other companies. We believe that EBITDAX is a widely followed measure of operating performance and may also be used by investors to measure our ability to meet future debt service requirements, if any. Our credit facility requires that we maintain a total debt to EBITDAX ratio of no greater than 3.75 to 1 on a rolling four-quarter basis. Our credit facility defines EBITDAX consistently with the definition of EBITDAX utilized and presented by us. At December 31, 2005 and 2006, this ratio was approximately 0.5 to 1 and 0.4 to 1, respectively. The following table represents a reconciliation of our net income to EBITDAX:

	Year ended December 31,		
	2004	2005	2006
			(as restated)
		(in thousands)	
Net income	$ 27,864	$ 194,307	$ 253,088
Interest expense	23,617	14,220	11,310
Provision (benefit) for income taxes		1,139	(132)
Depreciation, depletion, amortization and accretion	38,627	49,802	65,428
Property impairments	11,747	6,930	11,751
Exploration expense	12,633	5,231	19,738
Equity compensation	2,010	13,715	10,932
EBITDAX	$ 116,498	$ 285,344	$ 372,115

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Summary Reserve, Production and Operating Data

The following table presents summary data with respect to our estimated net proved oil and natural gas reserves as of the dates indicated. Our reserve estimates as of December 31, 2004, 2005 and 2006 are based primarily on reserve reports prepared by Ryder Scott Company, L.P., our independent reserve engineers. In preparing its reports, Ryder Scott Company, L.P. evaluated properties representing approximately 83% of our PV-10 as of the end of each period. Our technical staff evaluated our remaining properties. A copy of Ryder Scott Company, L.P. s summary report as of December 31, 2006 is included in this prospectus beginning on page B-1. All calculations of estimated net proved reserves have been made in accordance with the rules and regulations of the Securities and Exchange Commission, or the SEC. For additional information regarding our reserves, see Business and Properties Proved Reserves.

	As of December 31,		
	2004	**2005**	**2006**
Proved reserves:			
Oil (MBbls)	80,602	98,645	98,038
Natural gas (MMcf)	60,620	108,118	121,865
Oil equivalents (MBoe)	90,705	116,665	118,349
Proved developed reserves percentage	83%	69%	74%
PV-10 (in millions)(1)	$ 1,114	$ 2,204	$ 1,584
Estimated reserve life (in years)	17.6	16.2	13.1
Costs incurred (in thousands):			
Property acquisition costs	$ 12,456	$ 16,763	$ 36,534
Exploration costs	30,867	9,289	68,686
Development costs	53,036	117,837	221,286
Total	$ 96,359	$ 143,889	$ 326,506

(1) PV-10 is a non GAAP financial measure and generally differs from Standardized Measure, the most directly comparable GAAP financial measure, because it does not include the effects of income taxes on future net revenues. However, our PV-10 and our Standardized Measure are equivalent because we are a subchapter S-corporation. In connection with the closing of this offering, we will convert to a subchapter C-corporation. Our pro-forma Standardized Measure, assuming our conversion to a subchapter C-corporation, was $1.0 billion at December 31, 2006. Neither PV-10 nor Standardized Measure represents an estimate of the fair market value of our oil and gas properties. We and others in the industry use PV-10 as a measure to compare the relative size and value of proved reserves held by companies without regard to the specific tax characteristics of such entities.

The following table sets forth summary data with respect to our production results, average sales prices and production costs on a historical basis for the periods presented:

	Year ended December 31,		
	2004	**2005**	**2006**
			(as restated)
Net production volumes:			

Oil (MBbls)(1)	3,688	5,708	7,480
Natural gas (MMcf)	8,794	9,006	9,225
Oil equivalents (MBoe)	5,154	7,209	9,018
Average prices(1):			
Oil, without hedges ($/Bbl)	$ 38.85	$ 52.45	$ 55.30
Oil, with hedges ($/Bbl)	37.12	52.45	55.30
Natural gas ($/Mcf)	5.06	6.93	6.08
Oil equivalents, without hedges ($/Boe)	36.45	50.19	52.09
Oil equivalents, with hedges ($/Boe)	35.20	50.19	52.09
Costs and expenses(1):			
Production expense ($/Boe)	$ 8.49	$ 7.32	$ 6.99
Production tax ($/Boe)	2.39	2.22	2.48
General and administrative ($/Boe)	2.41	4.34	3.45
DD&A expense ($/Boe)(2)	7.02	6.50	6.91

(1) Oil sales volumes are 21 MBbls less than oil production volumes for the year ended December 31, 2006. Average prices and per unit costs have been calculated using sales volumes.

(2) Rate is determined based on DD&A expense derived from oil and natural gas assets.

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Risk Factors

You should carefully consider each of the risks described below, together with all of the other information contained in this prospectus, before deciding to invest in shares of our common stock. If any of the following risks develop into actual events, our business, financial condition or results of operations could be materially adversely affected, the trading price of your shares could decline and you may lose all or part of your investment.

Risks Relating to the Oil and Natural Gas Industry and Our Business

A substantial or extended decline in oil and natural gas prices may adversely affect our business, financial condition or results of operations and our ability to meet our capital expenditure obligations and financial commitments.

The price we receive for our oil and natural gas production heavily influences our revenue, profitability, access to capital and future rate of growth. Oil and natural gas are commodities and, therefore, their prices are subject to wide fluctuations in response to relatively minor changes in supply and demand. Historically, the markets for oil and natural gas have been volatile. These markets will likely continue to be volatile in the future. The prices we receive for our production, and the levels of our production, depend on numerous factors beyond our control. These factors include the following:

- changes in global supply and demand for oil and natural gas;
- the actions of the Organization of Petroleum Exporting Countries, or OPEC;
- the price and quantity of imports of foreign oil and natural gas;
- political conditions in or affecting other oil-producing and natural gas-producing countries, including the current conflicts in the Middle East and conditions in South America and Russia;
- the level of global oil and natural gas exploration and production;
- the level of global oil and natural gas inventories;
- localized supply and demand fundamentals and transportation availability;
- weather conditions;

technological advances affecting energy consumption; and

the price and availability of alternative fuels.

Lower oil and natural gas prices will reduce our cash flows and borrowing ability. See Our development and exploitation projects require substantial capital expenditures. We may be unable to obtain needed capital or financing on satisfactory terms, which could lead to a decline in our oil and natural gas reserves. Lower oil and natural gas prices may also reduce the amount of oil and natural gas that we can produce economically. Substantial decreases in oil and natural gas prices would render uneconomic a significant portion of our exploitation projects. This may result in our having to make significant downward adjustments to our estimated proved reserves. As a result, a substantial or extended decline in oil or natural gas prices may materially and adversely affect our future business, financial condition, results of operations, liquidity or ability to finance planned capital expenditures.

In addition, because our producing properties are geographically concentrated in the Rocky Mountain region, we are vulnerable to fluctuations in pricing in that area. In particular, 81% of our production during the fourth quarter of 2006 was from the Rocky Mountain region. As a result of this concentration, we may be disproportionately exposed to the impact of regional supply and demand factors, transportation capacity

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constraints, curtailment of production or interruption of transportation of oil produced from the wells in these areas. Such factors can cause significant fluctuation in our realized oil and natural gas prices. For example, the company-wide difference between the average NYMEX oil price and our average realized oil price for the year ended December 31, 2005 was $5.24 per Bbl, whereas the company-wide difference between the NYMEX oil price and our realized oil price for the year ended December 31, 2006 was $11.04 per Bbl. The increase in the difference was caused by higher oil imports and production in the Rocky Mountain region, lower demand by local Rocky Mountain refineries due to downtime for maintenance and reduced seasonal demand for gasoline and downstream transportation capacity constraints. We are unable to predict when, or if, the difference will revert back to pre-2006 levels. If such significant price differentials continue, our future business, financial condition and results of operations may be materially adversely affected.

Drilling for and producing oil and natural gas are high risk activities with many uncertainties that could adversely affect our business, financial condition or results of operations.

Our future financial condition and results of operations will depend on the success of our exploitation, exploration, development and production activities. Our oil and natural gas exploration and production activities are subject to numerous risks beyond our control, including the risk that drilling will not result in commercially viable oil or natural gas production. We expect to invest approximately 45% of our exploration and development capital during 2007 in two relatively new unconventional projects, the Bakken Shale in western North Dakota and the Woodford Shale in eastern Oklahoma. Due to limited production history from the relatively few number of wells drilled in these projects, we are unable to predict with certainty the quantity of future production from wells to be drilled in those projects. Our decisions to purchase, explore, develop or otherwise exploit prospects or properties will depend in part on the evaluation of data obtained through geophysical and geological analyses, production data and engineering studies, the results of which are often inconclusive or subject to varying interpretations. For a discussion of the uncertainty involved in these processes, see Reserve estimates depend on many assumptions that may turn out to be inaccurate. Any material inaccuracies in these reserve estimates or underlying assumptions will materially affect the quantities and present value of our reserves. Our cost of drilling, completing and operating wells is often uncertain before drilling commences. For example, our exploration expenses increased more significantly than we had expected in 2006 to $19.7 million, primarily due to increased dry hole expenses in each of the Rocky Mountain, Mid-Continent and Gulf Coast regions as a result of a higher level of drilling in 2006. In addition, impairment provisions for our developed oil and natural gas properties increased to $6.3 million for the year ended December 31, 2006 as a result of developmental well dry holes and properties where the associated field level reserves were not sufficient to recover capitalized drilling and completion costs. Overruns in budgeted expenditures are common risks that can make a particular project uneconomical.

Further, many factors may curtail, delay or cancel our scheduled drilling projects, including the following:

- delays imposed by or resulting from compliance with regulatory requirements;
- pressure or irregularities in geological formations;
- shortages of or delays in obtaining equipment and qualified personnel;
- equipment failures or accidents;
- adverse weather conditions, such as hurricanes and tropical storms;

reductions in oil and natural gas prices;

title problems; and