

CONTINENTAL RESOURCES INC

Form 10-Q

May 05, 2011

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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, 2011

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

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"/> (Do not check if a smaller reporting company)	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

180,533,094 shares of our \$0.01 par value common stock were outstanding on May 2, 2011.

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

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Glossary of Crude 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.

Boe Barrels of crude oil equivalent, with six thousand cubic feet of natural gas being equivalent to one barrel of crude oil based on the average equivalent energy content of the two commodities.

Boepd Barrels of crude oil equivalent per day.

Bopd Barrels of crude oil per day.

Completion The process of treating a drilled well followed by 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.

Conventional play An area that is believed to be capable of producing crude oil and natural gas occurring in discrete accumulations in structural and stratigraphic traps.

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.

Development well A well drilled within the proved area of a crude oil or natural gas reservoir to the depth of a stratigraphic horizon known to be productive.

Dry hole Exploratory or development well that does not produce crude oil and/or natural gas in economically producible quantities.

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

Exploratory well A well drilled to find a new field or to find a new reservoir in a field previously found to be productive of crude oil or natural gas in another reservoir.

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 differ 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.

Injection well A well into which liquids or gases are injected in order to push additional crude oil or natural gas out of underground reservoirs and into the wellbores of producing wells. Typically considered an enhanced recovery process.

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

MBoe One thousand Boe.

Mcf One thousand cubic feet of natural gas.

Mcfd Mcf per day.

MMBtu One million British thermal units.

MMcf One million cubic feet of natural gas.

NYMEX The New York Mercantile Exchange.

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Play A portion of the exploration and production cycle following the identification by geologists and geophysicists of areas with potential crude oil and natural gas reserves.

Productive well A well that is found to be capable of producing hydrocarbons in sufficient quantities such that proceeds from the sale of the production exceed production expenses and taxes.

Prospect A potential geological feature or formation which geologists and geophysicists believe may contain hydrocarbons. A prospect can be in various stages of evaluation, ranging from a prospect that has been fully evaluated and is ready to drill to a prospect that will require substantial additional seismic data processing and interpretation.

Proved developed reserves Reserves that can be expected to be recovered through existing wells with existing equipment and operating methods.

Proved reserves The quantities of crude oil and natural gas, 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.

Proved undeveloped reserves or 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.

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 separate from other reservoirs.

Royalty interest Refers to the ownership of a percentage of the resources or revenues that are produced from a crude oil or natural gas property. A royalty interest owner does not bear any of the exploration, development, or operating expenses associated with drilling and producing a crude oil or natural gas property.

Unconventional play An area that is believed to be capable of producing crude oil and/or natural gas occurring in accumulations that are regionally extensive, but require recently developed technologies to achieve profitability. These areas tend to have low permeability and may be closely associated with source rock as is the case with gas shale, tight oil and gas sands and coalbed methane.

Undeveloped acreage Lease acreage on which wells have not been drilled or completed to a point that would permit the production of commercial quantities of crude oil and/or natural gas.

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.

Working interest The right granted to the lessee of a property to explore for and to produce and own crude oil, natural gas, or other minerals. The working interest owners bear the exploration, development, and operating costs on either a cash, penalty, or carried basis.

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Cautionary Statement Regarding Forward-Looking Statements

Certain statements and information in this report may constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. All statements other than statements of historical fact included in this report are forward-looking statements. When used in this report, the words could, may, believe, anticipate, intend, estimate, expect, project and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain such identifying words. Forward-looking statements are based on the Company's current expectations and assumptions about future events and currently available information as to the outcome and timing of future events. When considering forward-looking statements, you should keep in mind the risk factors and other cautionary statements described under the heading *Item 1A. Risk Factors* included in this report and in our Annual Report on Form 10-K for the year ended December 31, 2010.

Without limiting the generality of the foregoing, certain statements incorporated by reference, if any, or included in this report constitute forward-looking statements.

Forward-looking statements may include statements about:

our business strategy;

our future operations;

our reserves;

our technology;

our financial strategy;

crude oil and natural gas prices;

the timing and amount of future production of crude oil and natural gas;

the amount, nature and timing of capital expenditures;

estimated revenues and results of operations;

drilling of wells;

competition and government regulations;

marketing of crude oil and natural gas;

exploitation or property acquisitions;

costs of exploiting and developing our properties and conducting other operations;

our financial position;

general economic conditions;

credit markets;

our liquidity and access to capital;

the impact of regulatory and legal proceedings involving us and of scheduled or potential regulatory changes;

uncertainty regarding our future operating results; and

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

We caution you that these forward-looking statements are subject to all of the risks and uncertainties, most of which are difficult to predict and many of which are beyond our control, incident to the exploration for, and development, production, and sale of, crude oil and natural gas. These risks include, but are not limited to, commodity price volatility, inflation, lack of availability of drilling and production equipment and services, environmental risks, drilling and other operating risks, regulatory changes, the uncertainty inherent in estimating crude oil and natural gas reserves and in projecting future rates of production, cash flows and access to capital, the timing of development expenditures, and the other risks described under *Part II, Item 1A. Risk Factors* in this report, our Annual Report on Form 10-K for the year ended December 31, 2010, registration statements filed from time to time with the SEC, and other announcements we make from time to time.

Readers are cautioned not to place undue reliance on forward-looking statements, which speak only as of the date hereof.

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Should one or more of the risks or uncertainties described in this report occur, or should underlying assumptions prove incorrect, our actual results and plans could differ materially from those expressed in any forward-looking statements. All forward-looking statements are expressly qualified in their entirety by this cautionary statement. This cautionary statement should also be considered in connection with any subsequent written or oral forward-looking statements that we or persons acting on our behalf may issue.

Except as otherwise required by applicable law, we disclaim any duty to update any forward-looking statements to reflect events or circumstances after the date of this report.

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

	March 31, 2011 (Unaudited)	December 31, 2010
<i>In thousands, except par values and share data</i>		
Assets		
Current assets:		
Cash and cash equivalents	\$ 477,440	\$ 7,916
Receivables:		
Crude oil and natural gas sales	260,570	208,211
Affiliated parties	17,038	20,156
Joint interest and other, net	282,861	254,471
Derivative assets	17,360	21,365
Inventories	52,248	38,362
Deferred and prepaid taxes	84,004	22,672
Prepaid expenses and other	9,724	9,173
Total current assets	1,201,245	582,326
Net property and equipment, based on successful efforts method of accounting	3,285,824	2,981,991
Debt issuance costs, net	26,342	27,468
Noncurrent derivative assets	49	
Total assets	\$ 4,513,460	\$ 3,591,785
Liabilities and shareholders equity		
Current liabilities:		
Accounts payable trade	\$ 425,812	\$ 390,892
Revenues and royalties payable	174,620	133,051
Payables to affiliated parties	4,263	4,438
Accrued liabilities and other	106,357	94,829
Derivative liabilities	232,884	76,771
Current portion of asset retirement obligations	2,270	2,241
Total current liabilities	946,206	702,222
Long-term debt	896,065	925,991
Other noncurrent liabilities:		
Deferred income tax liabilities	559,929	582,841
Asset retirement obligations, net of current portion	55,141	54,079
Noncurrent derivative liabilities	316,958	112,940
Other noncurrent liabilities	5,468	5,557
Total other noncurrent liabilities	937,496	755,417
Commitments and contingencies (Note 7)		
Shareholders equity:		
Preferred stock, \$0.01 par value; 25,000,000 shares authorized; no shares issued and outstanding		

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Common stock, \$0.01 par value; 500,000,000 shares authorized; 180,535,512 shares issued and outstanding at March 31, 2011; 170,408,652 shares issued and outstanding at

December 31, 2010	1,805	1,704
Additional paid-in-capital	1,102,538	439,900
Retained earnings	629,350	766,551
Total shareholders' equity	1,733,693	1,208,155
Total liabilities and shareholders' equity	\$ 4,513,460	\$ 3,591,785

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

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

	Three months ended March 31,	
	2011	2010
	<i>In thousands, except per share data</i>	
Revenues:		
Crude oil and natural gas sales	\$ 316,740	\$ 208,059
Crude oil and natural gas sales to affiliates	9,727	9,065
Gain (loss) on derivative instruments, net	(369,303)	26,344
Crude oil and natural gas service operations	6,626	4,800
Total revenues	(36,210)	248,268
Operating costs and expenses:		
Production expenses	28,398	19,159
Production expenses to affiliates	872	3,442
Production taxes and other expenses	27,562	16,007
Exploration expenses	6,812	1,786
Crude oil and natural gas service operations	5,451	3,956
Depreciation, depletion, amortization and accretion	75,650	52,587
Property impairments	20,848	15,175
General and administrative expenses	16,347	11,849
Gain on sale of assets	(15,257)	(222)
Total operating costs and expenses	166,683	123,739
Income (loss) from operations	(202,893)	124,529
Other income (expense):		
Interest expense	(18,971)	(8,360)
Other	509	706
	(18,462)	(7,654)
Income (loss) before income taxes	(221,355)	116,875
Provision (benefit) for income taxes	(84,154)	44,410
Net income (loss)	\$ (137,201)	\$ 72,465
Basic net income (loss) per share	\$ (0.80)	\$ 0.43
Diluted net income (loss) per share	\$ (0.80)	\$ 0.43

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

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

	Shares outstanding	Common stock	Additional paid-in capital	Retained earnings	Total shareholders equity
			<i>In thousands, except share data</i>		
Balance, December 31, 2009	169,968,471	\$ 1,700	\$ 430,283	\$ 598,296	\$ 1,030,279
Net income				168,255	168,255
Excess tax benefit on stock-based compensation			5,230		