

CONTINENTAL RESOURCES INC

Form 10-Q

November 07, 2008

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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 September 30, 2008

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 is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definition of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer 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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. 169,163,507 common shares were outstanding on October 31, 2008.

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CONTINENTAL RESOURCES, INC.

FORM 10-Q

Quarter Ended September 30, 2008

Unless the context otherwise indicates, all references in this report to Continental , Company , we , us , or our are to Continental Resources, Inc. and its 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.

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 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.

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

Mcf. One thousand cubic feet of natural gas.

MBoe. One thousand Boe.

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.

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 oil, 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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PART I. Financial Information

ITEM 1. Financial Statements

On May 14, 2007, the Company completed its initial public offering. In conjunction therewith, the Company effected an 11 for 1 stock split by means of a stock dividend. All prior period share and per share information contained in this report have been retroactively restated to give effect to the stock split. On May 14, 2007, the Company amended its certificate of incorporation to, among other things, increase the number of authorized preferred shares to 25 million and common shares to 500 million. Prior to completion of the public offering, the Company was a subchapter S corporation and income taxes were payable by its shareholders. In connection with the public offering, the Company converted to a subchapter C corporation and recorded a charge to earnings of \$198.4 million to recognize deferred taxes at May 14, 2007. Thereafter, the Company has provided for income taxes on income.

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Continental Resources, Inc. and Subsidiary

Condensed Consolidated Balance Sheets

	September 30, 2008 (Unaudited)	December 31, 2007
(In thousands, except par values and share data)		
Assets		
Current assets:		
Cash and cash equivalents	\$ 3,133	\$ 8,761
Receivables:		
Oil and natural gas sales	119,176	95,165
Affiliated parties	38,268	17,146
Joint interest and other, net	142,320	50,779
Inventories	34,018	19,119
Deferred and prepaid taxes	690	12,159
Prepaid expenses and other	1,928	2,435
Total current assets	339,533	205,564
Net property and equipment, based on successful efforts method of accounting	1,765,848	1,157,926
Debt issuance costs, net	1,296	1,683
Total assets	\$ 2,106,677	\$ 1,365,173
Liabilities and shareholders equity		
Current liabilities:		
Accounts payable trade	\$ 291,736	\$ 127,730
Accounts payable trade to affiliated parties	26,239	15,090
Accrued liabilities and other	42,805	25,295
Revenues and royalties payable	103,973	67,349
Unrealized derivative losses		26,703
Current portion of asset retirement obligation	2,720	3,939
Total current liabilities	467,473	266,106
Long-term debt	229,400	165,000
Other noncurrent liabilities:		
Deferred tax liability	415,406	271,424
Asset retirement obligation, net of current portion	41,649	38,153
Other noncurrent liabilities	1,545	1,358
Total other noncurrent liabilities	458,600	310,935
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, 169,223,802 shares issued and outstanding at September 30, 2008; 168,864,015 shares issued and outstanding at December 31, 2007	1,692	1,689
Additional paid-in-capital	422,970	415,435
Retained earnings	526,542	206,008
Total shareholders equity	951,204	623,132

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Total liabilities and shareholders' equity	\$ 2,106,677	\$ 1,365,173
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The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

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Continental Resources, Inc. and Subsidiary

Unaudited Condensed Consolidated Statements of Operations

	Three Months Ended September 30, 2008		Nine Months Ended September 30, 2008	
	2007		2007	
	(In thousands, except per share data)		(In thousands, except per share data)	
Revenues:				
Oil and natural gas sales	\$ 266,544	\$ 159,987	\$ 753,554	\$ 400,781
Oil and natural gas sales to affiliates	19,650	6,717	55,684	21,953
Loss on mark-to-market derivative instruments		(14,393)	(7,966)	(14,393)
Oil and natural gas service operations	7,415	4,461	23,422	14,880
Total revenues	293,609	156,772	824,694	423,221
Operating costs and expenses:				
Production expenses	18,886	16,014	60,704	44,629
Production expense to affiliates	6,361	4,547	14,569	13,572
Production tax	17,941	8,711	48,411	22,311
Exploration expense	15,285	2,758	26,278	6,664
Oil and natural gas service operations	5,099	2,414	15,797	8,767
Depreciation, depletion, amortization and accretion	39,120	23,568	95,828	67,306
Property impairments	9,947	4,099	17,620	12,992
General and administrative	10,005	6,231	27,812	27,654
(Gain) loss on sale of assets	(194)	62	(406)	(338)
Total operating costs and expenses	122,450	68,404	306,613	203,557
Income from operations	171,159	88,368	518,081	219,664
Other income (expense):				
Interest expense	(2,506)	(2,774)	(8,782)	(9,854)
Other	185	318	732	1,207
	(2,321)	(2,456)	(8,050)	(8,647)
Income before income taxes	168,838	85,912	510,031	211,017
Provision for income taxes	63,582	29,540	189,497	243,329
Net income (loss)	\$ 105,256	\$ 56,372	\$ 320,534	\$ (32,312)
Basic net income (loss) per share	\$ 0.63	\$ 0.34	\$ 1.91	\$ (0.20)
Diluted net income (loss) per share	\$ 0.62	\$ 0.33	\$ 1.89	\$ (0.20)
Dividends per share				0.33
Pro forma (unaudited):				
Income before income taxes				\$ 211,017
Provision for income taxes				80,186
Net income				\$ 130,831
Basic net income per share				\$ 0.80
Diluted net income per share				\$ 0.80

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

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Continental Resources, Inc. and Subsidiary

Condensed Consolidated Statements of Shareholders' Equity

	Shares outstanding	Common stock	Additional paid-in capital (in thousands, except share data)	Retained earnings	Accumulated other comprehensive income (loss)	Total shareholders equity
Balance, January 1, 2007	159,106,244	\$ 144	\$ 27,087	\$ 463,255	\$ (25)	\$ 490,461
Comprehensive income:						
Net income				28,580		28,580
Other comprehensive income, net of tax					25	25
Total comprehensive income						28,605
Public offering of common stock	8,850,000	89	124,406			124,495
Reclass for stock split		1,447	(1,447)			
Adjust for undistributed earnings from conversion to subchapter C corporation			234,099	(234,099)		
Reclass stock compensation liability to equity			29,828			29,828
Stock-based compensation			3,874			3,874
Tax benefit on share-based compensation plan			1,630			