

CONTINENTAL RESOURCES INC

Form 10-Q

May 03, 2012

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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, 2012

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)

Oklahoma (State or other jurisdiction of incorporation or organization)	73-0767549 (I.R.S. Employer Identification No.)
20 N. Broadway, Oklahoma City, Oklahoma (Address of principal executive offices)	73102 (Zip Code)

(405) 234-9000
(Registrant's telephone number, including area code)

302 N. Independence, Suite 1500, Enid, Oklahoma 73701
(Former name, former address and former fiscal year, if changed since last report)

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 Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) 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

181,028,205 shares of our \$0.01 par value common stock were outstanding on April 27, 2012.

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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.

completion The process of treating a drilled well followed by the installation of permanent equipment for the production of crude oil and/or natural gas.

conventional play An area 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 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 gas Refers to natural gas that remains in a gaseous state in the reservoir and does not produce large quantities of liquid hydrocarbons when brought to the surface. Also may refer to gas that has been processed or treated to remove all natural gas liquids.

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, supplementing its natural energy. Enhanced recovery methods are sometimes 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 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.

hydraulic fracturing A process involving the high pressure injection of water, sand and additives into rock formations to stimulate crude oil and natural gas production.

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.

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MMBtu One million British thermal units. A British thermal unit represents the amount of energy needed to heat one pound of water by one degree Fahrenheit and can be used to describe the energy content of fuels.

MMcf One million cubic feet of natural gas.

net acres The percentage of total acres an owner has out of a particular number of acres, or a specified tract. An owner who has a 50% interest in 100 acres owns 50 net acres.

NYMEX The New York Mercantile Exchange.

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.

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productive well A well 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 geological and/or geophysical analysis and interpretation.

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

proved undeveloped reserves or PUD Proved reserves 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.

resource play Refers to an expansive contiguous geographical area with prospective crude oil and/or natural gas reserves that has the potential to be developed uniformly with repeatable commercial success due to advancements in horizontal drilling and multi-stage fracturing technologies.

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

unconventional play An area 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 oil and 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 economically producible 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 *Part II, Item 1A. Risk Factors* included in this report, our Annual Report on Form 10-K for the year ended December 31, 2011, registration statements filed from time to time with the SEC, and other announcements we make from time to time.

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;
- marketing of crude oil and natural gas;
- transportation of crude oil and natural gas to markets;
- 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;
- our future operating results; and
- plans, objectives, expectations and intentions contained in this report that are not historical, including, without limitation, statements regarding our future growth plans.

We caution you 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, 2011, 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. 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, 2012 <i>(Unaudited)</i>	December 31, 2011
	<i>In thousands, except par values and share data</i>	
Assets		
Current assets:		
Cash and cash equivalents	\$ 42,683	\$ 53,544
Receivables:		
Crude oil and natural gas sales	377,688	366,441
Affiliated parties	26,998	31,108
Joint interest and other, net	392,776	379,991
Derivative assets	14,126	6,669
Inventories	43,162	41,270
Deferred and prepaid taxes	78,213	47,658
Prepaid expenses and other	9,729	9,692
Total current assets	985,375	936,373
Net property and equipment, based on successful efforts method of accounting	5,501,142	4,681,733
Net debt issuance costs and other	40,328	24,355
Noncurrent derivative assets	3,352	3,625
Total assets	\$ 6,530,197	\$ 5,646,086
Liabilities and shareholders equity		
Current liabilities:		
Accounts payable trade	\$ 604,771	\$ 642,889
Revenues and royalties payable	227,806	222,027
Payables to affiliated parties	8,850	9,939
Accrued liabilities and other	124,735	117,674
Derivative liabilities	205,575	116,985
Current portion of asset retirement obligations	1,742	2,287
Current portion of long-term debt	2,572	
Total current liabilities	1,176,051	1,111,801
Long-term debt, net of current portion	1,891,651	1,254,301
Other noncurrent liabilities:		
Deferred income tax liabilities	923,215	850,282
Asset retirement obligations, net of current portion	51,238	60,338
Noncurrent derivative liabilities	105,324	57,598
Other noncurrent liabilities	3,349	3,640
Total other noncurrent liabilities	1,083,126	971,858
Commitments and contingencies (Note 7)		
Shareholders equity:		

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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; 181,011,724 shares issued and outstanding at March 31, 2012; 180,871,688 shares issued and outstanding at December 31, 2011

Additional paid-in capital	1,112,842	1,110,694
Retained earnings	1,264,717	1,195,623
Total shareholders' equity	2,379,369	2,308,126
Total liabilities and shareholders' equity	\$ 6,530,197	\$ 5,646,086

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,	
	2012	2011
	<i>In thousands, except per share data</i>	
Revenues		
Crude oil and natural gas sales	\$ 535,312	\$ 316,740
Crude oil and natural gas sales to affiliates	16,946	9,727
Loss on derivative instruments, net	(169,057)	(369,303)
Crude oil and natural gas service operations	11,899	6,626
Total revenues	395,100	(36,210)
Operating costs and expenses		
Production expenses	40,016	28,398
Production and other expenses to affiliates	1,069	872
Production taxes and other expenses	49,730	27,562
Exploration expenses	4,151	6,812
Crude oil and natural gas service operations	9,842	5,451
Depreciation, depletion, amortization and accretion	149,455	75,650
Property impairments	29,907	20,848
General and administrative expenses	24,966	16,347
Gain on sale of assets, net	(49,627)	(15,257)
Total operating costs and expenses	259,509	166,683
Income (loss) from operations	135,591	(202,893)
Other income (expense):		
Interest expense	(24,278)	(18,971)
Other	781	509
	(23,497)	(18,462)
Income (loss) before income taxes	112,094	(221,355)
Provision (benefit) for income taxes	43,000	(84,154)
Net income (loss)	\$ 69,094	\$ (137,201)
Basic net income (loss) per share	\$ 0.38	\$ (0.80)
Diluted net income (loss) per share	\$ 0.38	\$ (0.80)

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

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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 at December 31, 2011	180,871,688	\$ 1,809	\$ 1,110,694	\$ 1,195,623	\$ 2,308,126
Net income (unaudited)				69,094	69,094
Stock-based compensation (unaudited)					