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CONTINENTAL RESOURCES INC
Form 10-Q
November 15, 2004

United States
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2004

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: 333-61547

CONTINENTAL RESOURCES, INC.
(Exact name of registrant as specified in its charter)

<p>Oklahoma ----- (State or other jurisdiction of incorporation or organization)</p>	<p>73-0767549 ----- (I.R.S. Employer Identification No.)</p>
<p>302 N. Independence, Suite 1500, Enid, Oklahoma ----- (Address of principal executive offices)</p>	<p>73701 ----- (Zip Code)</p>

Registrant's telephone number, including area code: (580) 233-8955

Securities registered pursuant to Section 12 (b) of the Act: None

Securities registered pursuant to Section 12 (g) of the Act: None

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

The Registrant is not subject to the filing requirements of Section 13 and 15(d) of the Securities Exchange Act of 1934, but files reports required by those sections pursuant to contractual obligation requirements.

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the 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:

Class	Outstanding as of November 15, 2004
-----	-----
Common Stock, \$.01 par value	14,368,919 shares

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PART I. Financial Information

ITEM 1. FINANCIAL STATEMENTS

CONTINENTAL RESOURCES, INC. AND SUBSIDIARIES CONDENSED CONSOLIDATED BALANCE SHEETS (Dollars in thousands)

Assets	December 31, 2003	September 30, 2004
	-----	-----
Current assets:		(Unaudited)
Cash and cash equivalents	\$ 2,277	\$ 13,991
Accounts receivable:		
Oil and gas sales	19,035	25,314
Joint interest and other, net	13,577	8,266
Inventories	5,465	4,857
Prepaid expenses	336	1,195
Fair value of derivative contracts	151	406
	-----	-----
Total current assets	40,841	54,029
Property and equipment, at cost:		
Oil and gas properties, based on successful efforts accounting	601,325	650,094
Gas gathering and processing facilities	49,600	748
Service properties, equipment and other	19,515	18,697

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Total property and equipment	670,440	669,539
Less accumulated depreciation, depletion and amortization	231,008	249,155
Net property and equipment	439,432	420,384
Other assets:		
Debt issuance costs, net	4,707	4,755
Other assets	8	4
Total other assets	4,715	4,759
Total assets	\$ 484,988	\$ 479,172
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 27,950	\$ 18,507
Current portion of long-term debt	5,776	3,348
Revenues and royalties payable	8,250	10,443
Accrued liabilities:		
Interest	6,312	6,313
Other	7,212	2,473
Fair value of derivative contracts	640	1,208
Total current liabilities	56,140	42,292
Long-term debt, net of current portion	285,144	289,560
Asset retirement obligation	26,608	27,167
Other noncurrent liabilities	164	171
Stockholders' equity:		
Preferred stock, \$0.01 par value, 1,000,000 shares authorized, no shares issued and outstanding	-	-
Common stock, \$0.01 par value, 20,000,000 shares authorized, 14,368,919 shares issued and outstanding	144	144
Additional paid-in-capital	25,087	25,087
Retained earnings	92,190	95,956
Accumulated other comprehensive income	(489)	(1,205)
Total stockholders' equity	116,932	119,982
Total liabilities and stockholders' equity	\$ 484,988	\$ 479,172

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

CONTINENTAL RESOURCES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED INCOME STATEMENTS
(Unaudited)
(Dollars in thousands, except share data)

Three Months Ended September 30,

2003 2004

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Revenues:	(restated)	
Oil and gas sales	\$ 34,350	\$ 47,900
Crude oil marketing and trading	39,698	46,422
Change in derivative fair value	519	-
Oil and gas service operations	2,291	2,904
	-----	-----
Total revenues	76,858	97,226
Operating costs and expenses:		
Production	10,127	10,328
Production taxes	2,551	3,196
Exploration	3,495	3,970
Crude oil marketing and trading	39,002	46,056
Oil and gas service operations	1,445	1,701
Depreciation, depletion and amortization of oil and gas properties	8,134	7,224
Depreciation and amortization of other property and equipment	368	352
Property impairments	1,309	5,363
Asset retirement obligation accretion	341	264
General and administrative	2,219	2,763
	-----	-----
Total operating costs and expenses	68,991	81,217
Operating income	7,867	16,009
Other income (expense):		
Interest income	24	21
Interest expense	(4,899)	(5,369)
Other income, net	13	598
Gain (loss) on disposition of assets	90	(38)
	-----	-----
Total other income (expense)	(4,772)	(4,788)
Income from continuing operations	\$ 3,095	\$ 11,221
Income (loss) from discontinued operations	(63)	119
Loss on sale of discontinued operations	-	(632)
	-----	-----
Net income	\$ 3,032	\$ 10,708
	=====	=====
Basic earnings per common share		
Income from continuing operations	\$ 0.22	\$ 0.78
Income from discontinued operations	\$ -	\$ 0.01
Loss on sale of discontinued operations	\$ -	\$ (0.04)
	-----	-----
Basic	\$ 0.22	\$ 0.75
	=====	=====
Diluted earnings per common share		
Income from continuing operations	\$ 0.21	\$ 0.78
Income from discontinued operations	\$ -	\$ 0.01
Loss on sale of discontinued operations	-	(0.05)
	-----	-----
Diluted	\$ 0.21	\$ 0.74
	=====	=====

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

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CONTINENTAL RESOURCES, INC. AND SUBSIDIARIES
 CONDENSED CONSOLIDATED INCOME STATEMENTS
 (Unaudited)
 (Dollars in thousands, except share data)

	Nine Months Ended S	
	2003	
Revenues:	(restated)	
Oil and gas sales	\$ 103,419	\$
Crude oil marketing and trading	120,046	
Change in derivative fair value	926	
Oil and gas service operations	6,596	
Total revenues	230,987	
Operating costs and expenses:		
Production	29,882	
Production taxes	7,586	
Exploration	7,548	
Crude oil marketing and trading	118,878	
Oil and gas service operations	4,178	
Depreciation, depletion and amortization of oil and gas properties	23,350	
Depreciation and amortization of other property and equipment	1,436	
Property impairments	3,861	
Asset retirement obligation accretion	1,045	
General and administrative	7,176	
Total operating costs and expenses	204,940	
Operating income	26,047	
Other income (expense):		
Interest income	81	
Interest expense	(14,685)	
Other income, net	60	
Gain (loss) on disposition of assets	367	
Total other income (expense)	(14,177)	
Income from continuing operations	11,870	
Discontinued operations	2,242	
Loss on sale of discontinued operations	-	
Income before change in accounting principle	14,112	
Cumulative effect of change in accounting principle	273	
Net income	\$ 14,385	\$
Basic earnings per common share:		
From continuing operations	\$ 0.83	\$
From discontinued operations	\$ 0.16	\$

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Loss on sale of discontinued operations	\$ -	\$
Before cumulative effect of change in accounting principle	\$ 0.99	\$
Cumulative effect of change in accounting principle	\$ 0.02	\$
Basic	\$ 1.01	\$
Diluted earnings per common share:		
From continuing operations	\$ 0.82	\$
From discontinued operations	\$ 0.16	\$
Loss on sale of discontinued operations	\$ -	\$
Before cumulative effect of change in accounting principle	\$ 0.98	\$
Cumulative effect of change in accounting principle	\$ 0.02	\$
Diluted	\$ 1.00	\$

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

CONTINENTAL RESOURCES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited) (Dollars in thousands)

	Nine Months Ended September 30,	
	2003	2004
Cash flows from operating activities:	(restated)	
Net income	\$ 14,385	\$ 18,667
Adjustments to reconcile net income to net cash provided by operating activities-		
Depreciation, depletion and amortization	26,953	30,346
Accretion of asset retirement obligation	1,055	788
Impairment of properties	3,861	9,062
Change in derivative fair value	(926)	(404)
Amortization of debt issuance costs	1,190	1,290
(Gain) loss on disposition of assets	(359)	1,066
Change in accounting principle	(2,162)	-
Dry hole costs	4,834	7,153
Cash provided by (used in) changes in assets and liabilities-		
Accounts receivable	(6,790)	(969)
Inventories	(202)	608
Prepaid expenses	312	(859)
Accounts payable	7,360	(9,442)
Revenues and royalties payable	1,594	2,193
Accrued liabilities and other	(2,359)	(4,737)
Other noncurrent liabilities	39	12
Net cash provided by operating activities	48,785	54,774
Cash flows from investing activities:		
Exploration and development	(79,425)	(56,686)
Gas gathering and processing facilities and service properties, equipment and other	(16,529)	3,364
Purchase of oil and gas properties	(101)	(627)

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Proceeds from disposition of assets	4,768	22,710
Net cash used in investing activities	(91,287)	(31,239)
Cash flows from financing activities:		
Proceeds from line of credit and other debt	46,062	12,149
Repayment of debt	(2,956)	(7,732)
Dividend to stockholders	-	(14,900)
Paid-in capital	-	-
Debt issuance costs	(125)	(1,338)
Net cash provided by financing activities	42,981	(11,821)
Net increase in cash	479	11,714
Cash and cash equivalents, beginning of year	2,520	2,277
Cash and cash equivalents, end of period	\$ 2,999	\$ 13,991

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

CONTINENTAL RESOURCES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. CONTINENTAL RESOURCES, INC.'S FINANCIAL STATEMENTS:

Organization

In the opinion of management of Continental Resources, Inc., or CRI, or the Company, the accompanying unaudited condensed consolidated financial statements contain all adjustments necessary to present fairly the Company's financial position as of September 30, 2004, and the results of operations for the three and nine months ended September 30, 2003 and 2004, and cash flows for the nine months ended September 30, 2003 and 2004. Such adjustments are of a normal recurring nature. The unaudited condensed consolidated financial statements for the interim periods presented do not contain all information required by accounting principles generally accepted in the United States. The results of operations for any interim period are not necessarily indicative of the results of operations for the entire year. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's annual report on form 10-K for the year ended December 31, 2003. Certain reclassifications have been made to prior year amounts to conform to the current year presentation.

The Company is an S-Corporation under Subchapter S of the Internal Revenue Code. As a result, income taxes, if any, will be payable by the shareholders of the Company.

Recent Accounting Standards

In 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 143, Accounting for Asset Retirement Obligations (SFAS No. 143). SFAS No. 143 requires entities to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred and corresponding increase in the carrying amount of the related

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long-lived asset. Subsequently, the asset retirement cost should be allocated to expense using a systematic and rational method and the liability should be accreted to its estimated amount. The primary impact of this standard relates to oil and gas wells on which the Company has a legal obligation to plug and abandon the wells. The Company adopted SFAS No. 143 on January 1, 2003, that originally resulted in a cumulative effect adjustment of a \$4.1 million increase in net income.

SFAS No. 143 requires the Company to make certain estimates, including estimates related to the future plugging costs of wells, the future salvage value of equipment, and estimated life of the Company's wells. In the fourth quarter of 2003, the Company made certain adjustments to its assumptions used in its initial SFAS No. 143 estimates to better reflect its future plugging costs and future salvage values. These changes resulted in a decrease in the cumulative effect adjustment from the \$4.1 million originally reported during the quarter ended March 31, 2003, to \$2.2 million. The following table details the amounts originally reported for the nine months ended September 30, 2003, compared to the current restated amount:

(Dollars in thousands, except share data)	Nine Months Ended September 30, 2003	
	Originally Reported	Restated
Net income before change in accounting principle	\$12,223	\$12,223
Cumulative effect of change in accounting principle of continuing operations	1,953	273
Cumulative effect of change in accounting principle of discontinued operations	2,137	1,889
Net income	\$16,313	\$14,385
Basic earnings per share	\$ 1.14	\$ 1.01
Diluted earnings per share	\$ 1.13	\$ 1.00

The following table shows the effect on net income and net income per share if the Company had applied the fair value recognition provisions of SFAS No. 123, Accounting for Stock-Based Compensation:

(Dollars in thousands, except share data)	Three Months Ended September 30,		Nine M
	2003	2004	Sept
Net Income on continuing operations	\$ 3,148	\$ 11,221	\$ 11,870
Net income on discontinued operations	(116)	119	2,242
Loss of sale of discontinued operations	-	(632)	-
Cumulative effect of change in accounting principle	-	-	273
Net Income, as reported	\$ 3,032	\$ 10,708	\$ 14,385
Deduct:			
Total stock-based compensation expense determined under fair value based method for all awards relating to continuing operations	(41)	(54)	(125)

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Total stock-based compensation expense determined under fair value based method for all awards relating to discontinued operations	(8)	(10)	(23)
Pro Forma, net income	\$ 2,983	\$ 10,644	\$ 14,237
Basic earnings from continuing operations for common stockholders per common share:			
As reported	\$ 0.22	\$ 0.78	\$ 0.83
Pro forma	\$ 0.21	\$ 0.78	\$ 0.82
Diluted earnings from continuing operations for common stockholders per common share:			
As reported	\$ 0.21	\$ 0.78	\$ 0.82
Pro forma	\$ 0.21	\$ 0.77	\$ 0.81
Basic earnings for common stockholders per common share:			
As reported	\$ 0.22	\$ 0.75	\$ 1.01
Pro forma	\$ 0.21	\$ 0.74	\$ 0.99
Diluted earnings for common stockholders per common share:			
As reported	\$ 0.21	\$ 0.74	\$ 1.00
Pro forma	\$ 0.21	\$ 0.74	\$ 0.98

2. ACQUISITIONS AND OTHER SIGNIFICANT EVENTS:

On July 19, 2004, the Company paid a cash dividend of \$14.9 million to its shareholders.

On July 21, 2004, the Company completed the sale of all of the outstanding stock in CGI to the Company's shareholders, (the "Buyers") for \$22.6 million in cash. The sales price was representative of the fair value of the net assets based on an appraisal by an independent third party who also provided the Company with an opinion of the fairness from a financial point of view, of the sale of CGI to the Buyers. The CGI assets included seven gas gathering systems, three gas-processing plants, and approximately 750 miles of gas gathering lines. These assets represented the entire gas gathering, marketing and processing segment of the Company.

The assets and liabilities of CGI included within the related discontinued operations are as follows (dollars in thousands):

	July 21 2004

Cash	\$ 1,681
Accounts receivable	9,592
Inventories	153
Prepaid expenses	4

Total current assets of discontinued operations	\$11,430
Property and equipment, net	\$38,894
Other noncurrent assets	225

Total noncurrent assets of discontinued operations	\$39,119

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Total assets	\$50,549
	=====
Accounts Payable	\$10,566
Current portion of long-term debt	2,429
Accrued expense and other current liabilities	92

Total current liabilities of discontinued	\$13,087
Long-term debt, net of current portion	\$13,357
Other noncurrent liabilities	377

Total noncurrent liabilities of discontinued operations	\$13,734
Stockholder's equity	\$23,728

Total liabilities and stockholder's equity	\$50,549
	=====

The results of operations of CGI prior to its disposition are included within income from discontinued operations in the following periods (dollars in thousands):

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2003	2004	2003	2004
	-----	-----	-----	-----
Revenues	\$ 23,407	\$ 6,057	\$ 51,767	\$ 50,956
Net Income (Loss)	(63)	(513)	2,242	1,048

CGI operations are reported through July 21, 2004, the date of the sale of the CGI stock. The loss on disposition of discontinued operations was \$632,000.

3. LONG-TERM DEBT:

Long-term debt as of December 31, 2003, and September 30, 2004, consisted of the following:

	December 31,	September 30,
	2003	2004
	-----	-----
(Dollars in thousands)		
10.25% Senior Subordinated Notes due Aug.1, 2008	\$127,150	\$119,500
Credit Facility due March 31, 2007	132,900	137,049
Credit Facility due March 31, 2006	-	25,000
Credit Facility due September 30, 2006	17,000	-
Capital Lease Agreement	13,827	11,325
Ford Credit	43	34
	-----	-----
Outstanding Debt	290,920	292,908
Less Current Portion	5,776	3,348
	-----	-----
Total Long-Term Debt	\$285,144	\$289,560

=====

On March 31, 2002, the Company entered into a Fourth Amended and Restated Credit Agreement (the "Credit Agreement") providing for a \$175.0 million senior secured revolving credit facility with a borrowing base of \$150.0 million. Borrowings under the Credit Agreement are secured by liens on all oil and gas properties and associated assets of the Company. Borrowings under the Credit Agreement bear interest, payable quarterly, at (a) a rate per annum equal to the rate at which eurodollar deposits for one, two, three or six months are offered by the lead bank plus a margin ranging from 150 to 250 basis points, or (b) at the lead bank's reference rate plus an applicable margin ranging from 25 to 50 basis points. At September 30, 2004, the lead bank's reference rate plus margins on the revolving credit facility was 3.96%. The Company paid approximately \$2.2 million in debt issuance fees for the credit facility, which have been capitalized as other assets and are being amortized on a straight-line basis over the life of the Credit Agreement. The credit facility maturity date was extended on April 14, 2004, to March 31, 2007. At November 15, 2004, the outstanding balance under the revolving loan facility of the Credit Agreement was \$137.0 million.

On October 22, 2003, the Company executed the Second Amendment to the Credit Agreement and CGI was removed as a guarantor of the Company's obligations under the Credit Agreement. The borrowing base under the Second Amendment to the Credit Agreement was revised to \$145.0 million and \$17.0 million funded by CGI as disclosed below reduced the outstanding balance.

On April 14, 2004, the Company executed the Third Amendment to the Credit Agreement that provided for the addition of a term facility in an amount up to \$25.0 million that matures on March 31, 2006. The amendment increased the borrowing base to \$150.0 million. Borrowings under the term facility have margins of 5.5% on LIBOR loans and 3% on reference rate loans. On April 14, 2004, the Company drew \$25.0 million on the term facility and paid down the balance of the revolving credit facility. At September 30, 2004, the lead bank's reference rate plus margins on this term credit facility was 7.25%. At November 15, 2004, the outstanding balance on the term loan was \$25.0 million.

On July 21, 2004, the Company executed the Fourth Amendment to the Credit Agreement that modified the definitions to delete any reference to CGI.

On October 22, 2003, CGI entered into a new \$35.0 million secured credit facility consisting of a senior secured term loan facility of up to \$25.0 million, and a senior revolving credit facility of up to \$10.0 million. The initial advance under the term loan facility was \$17.0 million, which CGI paid to CRI who used the payment to reduce the outstanding balance on CRI's credit facility. No funds were initially advanced under the revolving loan facility. At September 30, 2004, CRI was not a guarantor and had no obligation under the CGI credit facility. On July 21, 2004, CRI sold all of the outstanding capital stock of CGI, to CRI's shareholders for \$22.6 million in cash. The sales price was representative of the fair value of the net assets based on an appraisal by an independent third party who also provided the Company with an opinion of the fairness from a financial point of view, of the sale of CGI. The CGI assets included seven gas gathering systems, three gas-processing plants, and approximately 750 miles of gas gathering lines. These assets represented the Company's entire gas gathering, marketing and processing segment.

On September 3, 2004, the Company executed the Fifth Amendment to the Credit Agreement that contained a one-time waiver of the requirement to comply with the hedging covenant set forth in Section 5.35 of the Credit Agreement, which states, the Company should maintain hedge agreements for at least 50% of the oil estimated to be produced during the ensuing six-month period, on a rolling six-month basis. The waiver is effective only until the earlier of: (i)

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the date on which the Administrative Agent, on behalf of the Required Banks, provides the Company written notice that the covenant set forth in Section 5.35 is to be reinstated and (ii) the last business day of any period of ten (10) consecutive business days during which the 6-month NYMEX strip price for light, sweet crude oil has averaged less than or equal to \$30.00 per barrel.

4. DERIVATIVE CONTRACTS:

The Company utilizes derivative contracts, consisting primarily of fixed price physical delivery contracts, fixed price basis contracts, collars and floors to reduce its exposure to unfavorable changes in oil and gas prices that are subject to significant and often volatile fluctuation. Under fixed price physical delivery contracts, the Company receives the fixed price stated in the contract. Under the fixed price basis contracts, the price the Company receives is determined based on a published index price plus or minus a fixed basis. Under collars and floors, if the market price of crude oil exceeds the ceiling strike price or falls below the floor strike price, then the Company receives the fixed price ceiling or floor. If the market price is between the floor strike price and the ceiling strike price, the Company receives market price.

The Company has designated its fixed price physical delivery contracts and fixed price basis contracts as "normal sales" contracts under SFAS No. 133, Accounting for Derivative and Hedging Activities and are therefore not marked to market as derivatives. The Company's collars and floors have been designated as cash flow hedges under SFAS No. 133 and are being accounted for accordingly. At September 30, 2004, the Company had no fixed price physical delivery contracts in place. The following table summarizes the Company's collars and floors in place at September 30, 2004:

Crude Oil Collars and Floors for 2004:	Contract Volumes (Bbls)	Weighted-average Fixed Price per Bbl
	-----	-----
Oct Floor	116,000	\$ 22.00
Oct Floor	100,000	\$ 24.00
Nov - Dec, Floor	230,000	\$ 24.50

	446,000	
	=====	
Oct Ceiling	100,000	\$ 36.00
Nov - Dec, Ceiling	230,000	\$ 45.00

	330,000	
	=====	

The Company engages in a series of contracts in order to exchange its crude oil production in the Rocky Mountain area for equal quantities of crude oil located at Cushing, Oklahoma. Such activity enables the Company to take advantage of better pricing and reduce the Company's credit risk associated with its first purchaser. This purchase and sale activity is presented gross in the accompanying income statement as crude oil marketing revenues and expenses under the guidance provided by Emerging Issues Task Force Consensus 99-19, Reporting Revenues Gross as a Principal and Net as an Agent. Additionally, in the first quarter of 2004, the Company engaged in certain crude oil trading activities, exclusive of its own production, utilizing fixed price and variable priced physical delivery contracts. The Company's derivatives associated with this activity are being marked to market with all changes in fair value being recorded in the income statement under the accounting prescribed by SFAS No.

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133, Accounting for Derivative and Hedging Activities. At September 30, 2004, the Company had closed its open trading positions, resulting in a gain of \$404,100 on such contracts.

5. ASSET RETIREMENT OBLIGATIONS:

Asset retirement obligations include plugging, abandonment, decommission and remediation costs, which are included in property and equipment.

The following is reconciliation at September 30, 2004, of the asset retirement obligation liability (dollars in thousands):

	2003 ----- (restated)	2004 -----
Asset Retirement Obligation liability at January 1,	\$ 23,966	\$ 26,608
Asset Retirement Obligation accretion expense	1,055	797
Plus: Additions for new assets	1,807	418
Less: Plugging costs and sold assets	(777)	(656)
	-----	-----
Asset Retirement Obligation liability at September 30,	\$ 26,051 =====	\$ 27,167 =====

6. EARNINGS PER SHARE:

Basic earnings per common share is computed by dividing income available to common shareholders by the weighted-average number of shares outstanding for the period. Diluted earnings per share reflects the potential dilution that could occur if stock options were exercised, using the treasury stock method of calculation. The weighted-average number of shares used to compute basic earnings per common share was 14,368,919 for the three and nine months ended September 30, 2003 and 2004. The weighted-average number of shares used to compute diluted earnings per share was 14,463,210 for the three and nine months ended September 30, 2003, and 14,439,053 for the three and nine months ended September 30, 2004.

7. GUARANTOR SUBSIDIARIES:

The Company's wholly owned subsidiaries, Continental Resources of Illinois, Inc. (CRII), and Continental Crude Co. (CCC), have guaranteed the Company's obligations under its outstanding 10 1/4% Senior Subordinated Notes due August 1, 2008. CCC has not engaged in any business activities since its inception. The following is a summary of the condensed consolidating balance sheets of the Company and its guarantor subsidiaries as of December 31, 2003, and September 30, 2004, and the results of operations and cash flows for the three-month and nine-month periods ended September 30, 2003, and 2004.

As of December 31, 2003

Condensed Consolidating Balance Sheet

(\$ in thousands)	Guarantor Subsidiaries	Parent	Eliminations	Consolidated
	-----	-----	-----	-----
Current Assets	\$ 11,162	\$ 44,428	\$ (14,749)	\$ 40,841
Property and Equipment	58,826	380,606	-	439,432

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Other Assets	281	4,448	(14)	4,715
	-----	-----	-----	-----
Total Assets	\$ 70,269	\$429,482	\$ (14,763)	\$484,988
Current Liabilities	\$ 18,512	\$ 44,694	\$ (7,066)	\$ 56,140
Long-Term Debt	22,286	270,541	(7,683)	285,144
Other Liabilities	4,943	21,829	-	26,772
Stockholders' Equity	24,528	92,418	(14)	116,932
	-----	-----	-----	-----
Total Liabilities and Stockholders' Equity	\$ 70,269	\$429,482	\$ (14,763)	\$484,988
	=====	=====	=====	=====

As of September 30, 2004

Condensed Consolidating Balance Sheet

(\$ in thousands)	Guarantor Subsidiaries	Parent	Eliminations	Consolidated
	-----	-----	-----	-----
Current Assets	\$ 4,340	\$ 62,388	\$ (12,699)	\$ 54,029
Property and Equipment	17,874	402,510	-	420,384
Other Assets	3	4,759	(3)	4,759
	-----	-----	-----	-----
Total Assets	\$ 22,217	\$469,657	\$ (12,702)	\$479,172
Current Liabilities	\$ 4,045	\$ 41,549	\$ (3,302)	\$ 42,292
Long-Term Debt	9,419	289,538	(9,397)	289,560
Other Liabilities	4,703	22,635	-	27,338
Stockholders' Equity	4,050	115,935	(3)	119,982
	-----	-----	-----	-----
Total Liabilities and Stockholders' Equity	\$ 22,217	\$469,657	\$ (12,702)	\$479,172
	=====	=====	=====	=====

For the Three Months
Ended September 30, 2003

Condensed Consolidating Income Statement

(\$ in thousands)	Guarantor Subsidiaries	Parent	Eliminations	Consolidated
	-----	-----	-----	-----
Total Revenue	\$ 3,158	\$ 73,700	\$ -	\$ 76,858
Operating Expense	(2,725)	(66,266)	-	(68,991)
Other Expense	(293)	(4,479)	-	(4,772)
	-----	-----	-----	-----
Net Income from continuing operations	140	2,955	-	3,095
Net Income from discontinued operations	(63)	-	-	(63)
	-----	-----	-----	-----
Net Income	\$ 77	\$ 2,955	\$ -	\$ 3,032
	=====	=====	=====	=====

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For the Three Months
Ended September 30, 2004

Condensed Consolidating Income Statement

(\$ in thousands)	Guarantor Subsidiaries	Parent	Eliminations	Consolidated
Total Revenue	\$ 3,863	\$ 93,363	\$ -	\$ 97,226
Operating Expense	(2,473)	(78,744)	-	(81,217)
Other Expense	(155)	(4,633)	-	(4,788)
Net Income from continuing operations	1,235	9,986	-	11,221
Net Income from discontinued operations	119	-	-	119
Loss on sale of discontinued operations	(632)	-	-	(632)
Net Income	\$ 722	\$ 9,986	\$ -	\$ 10,708

For the Nine Months Ended
September 30, 2003

Condensed Consolidating Income Statement

(\$ in thousands)	Guarantor Subsidiaries	Parent	Eliminations	Consolidated
Total Revenue	\$ 10,224	\$220,763	\$ -	\$230,987
Operating Expense	(7,366)	(197,574)	-	(204,940)
Other Expense	(847)	(13,330)	-	(14,177)
Cumulative Effect of Change in Accounting Principle	(1,939)	2,212	-	273
Net Income from continuing operations	72	12,071	-	12,143
Net Income from discontinued operations	2,242	-	-	2,242
Net Income	\$ 2,314	\$ 12,071	\$ -	\$ 14,385

For the Nine Months Ended
September 30, 2004

Condensed Consolidating Income Statement

(\$ in thousands)	Guarantor Subsidiaries	Parent	Eliminations	Consolidated
Total Revenue	\$ 10,890	\$280,004	\$ -	\$290,894
Operating Expense	(7,245)	(250,853)	-	(258,098)

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Other Expense	(421)	(14,756)	-	(15,177)
Net Income from continuing operations	3,224	14,395	-	17,619
Net Income from discontinued operations	1,680	-	-	1,680
Loss on sale of discontinued operations	(632)	-	-	(632)
Net Income	\$ 4,272	\$ 14,395	\$ -	\$ 18,667

For the Nine Months Ended
September 30, 2003

Condensed Consolidated Cash Flows Statements

(\$ in thousands)	Guarantor Subsidiaries	Parent	Eliminations	Consolidated
Cash Flows From Operating Activities	\$ 7,357	\$ 74,104	\$ (32,676)	\$ 48,785
Cash Flows From Investing Activities	(16,878)	(74,409)	-	(91,287)
Cash Flows From Financing Activities	9,924	33,057	-	42,981
Net Increase (Decrease) in Cash	403	32,752	(32,676)	479
Cash at Beginning of Period	456	2,064	-	2,520
Cash at End of Period	\$ 859	\$ 34,816	\$ (32,676)	\$ 2,999

For the Nine Months Ended
September 30, 2004

Condensed Consolidated Cash Flow Statements

(\$ in thousands)	Guarantor Subsidiaries	Parent	Eliminations	Consolidated
Cash Flow From Operating Activities	\$ 9,710	\$ 47,028	\$ (1,964)	\$ 54,774
Cash Flow From Investing Activities	7,948	(39,187)	-	(31,239)
Cash Flow From Financing Activities	(16,326)	2,541	1,964	(11,821)
Net Increase in Cash	1,332	10,382	-	11,714
Cash at Beginning of Period	702	1,575	-	2,277
Cash at End of Period	\$ 2,034	\$ 11,957	\$ -	\$ 13,991

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8. BUSINESS SEGMENTS:

As a result of the sale of CGI, the Company's only reportable segment pursuant to Statement of Financial Accounting Standards (SFAS) No. 131, Disclosure About Segments of an Enterprise and Related Information, is exploration and production. The gas gathering, marketing and processing segment is presented as discontinued operations. The Company's reportable business segments were identified based on the differences in products or services provided. Revenues from the exploration and production segment are derived from the production and sale of crude oil and natural gas. Revenues from the gas gathering, marketing and processing segment came from the transportation and sale of natural gas and natural gas liquids at retail. The accounting policies of the segments are the same. Financial information by operating segment is presented below:

For the Three Months Ended September 30, 2003	Exploration and Production	Discontinued Operations	Intersegment	To
----- (Dollars in thousands) -----				
REVENUES:				
Oil and gas sales	\$ 34,350	\$ -	\$ -	\$ -
Crude oil marketing and trading	39,698	-	-	-
Change in derivative fair value	519	-	-	-
Gas gathering, marketing and processing	-	23,407	(123)	-
Oil and gas service operations	2,291	-	-	-
	-----	-----	-----	-----
Total revenues	\$ 76,858	\$ 23,407	\$ (123)	\$ -
OPERATING COSTS AND EXPENSES:				
Production expenses	10,127	-	-	-
Production taxes	2,551	-	-	-
Exploration	3,495	-	-	-
Crude oil marketing and trading	39,002	-	-	-
Gas gathering, marketing and processing	-	22,198	(123)	-
Oil and gas service operations	1,445	-	-	-
Depreciation, depletion and amortization of oil and gas properties	8,134	-	-	-
Depreciation and amortization of other property and equipment	368	856	-	-
Property impairments	1,309	-	-	-
Asset retirement accretion	341	5	-	-
General and administrative	2,219	236	-	-
	-----	-----	-----	-----
Total operating costs and expenses	\$ 68,991	\$ 23,295	\$ (123)	\$ -
Total operating income	\$ 7,867	\$ 112	\$ -	\$ -
OTHER INCOME (EXPENSE):				
Interest income	477	2	(454)	-
Interest expense	(5,352)	(177)	454	-
Other income, net	13	-	-	-
Gain on disposition of assets	90	-	-	-
	-----	-----	-----	-----
Total other income (expense)	\$ (4,772)	\$ (175)	\$ -	\$ -
Net income (loss)	\$ 3,095	\$ (63)	\$ -	\$ -
	=====	=====	=====	=====

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Total assets	\$ 450,362	\$ 49,389	\$ (14,763)	\$ 4
	=====	=====	=====	=====
Capital expenditures	\$ 29,974	\$ 13,353	\$ -	\$
	=====	=====	=====	=====

For the Three Months Ended September 30, 2003	Exploration and Production	Discontinued Operations	Intersegment	To
----- (Dollars in thousands)	-----	-----	-----	-----
REVENUES:				
Oil and gas sales	\$ 47,900	\$ -	\$ -	\$
Crude oil marketing and trading	46,422	-	-	
Change in derivative fair value	-	-	-	
Gas gathering, marketing and processing	-	6,057	(1,022)	
Oil and gas service operations	2,904	-	-	
	-----	-----	-----	-----
Total revenues	\$ 97,226	\$ 6,057	\$ (1,022)	\$ 1
OPERATING COSTS AND EXPENSES:				
Production expenses	10,328	-	-	
Production taxes	3,196	-	-	
Exploration	3,970	-	-	
Crude oil marketing and trading	46,056	-	-	
Gas gathering, marketing and processing	-	5,302	(1,022)	
Oil and gas service operations	1,701	-	-	
Depreciation, depletion and amortization of oil and gas properties	7,224	-	-	
Depreciation and amortization of other property and equipment	352	248	-	
Property impairments	5,363	-	-	
Asset retirement accretion	264	(7)	-	
General and administrative	2,763	60	-	
	-----	-----	-----	-----
Total operating costs and expenses	\$ 81,217	\$ 5,603	\$ (1,022)	\$
Total operating income	\$ 16,009	\$ 454	\$ -	\$
OTHER INCOME (EXPENSE):				
Interest income	153	1	(132)	
Interest expense	(5,502)	(43)	132	
Other income, net	598	2	-	
Loss on disposition of assets	(37)	(927)	-	
	-----	-----	-----	-----
Total other income (expense)	\$ (4,788)	\$ (967)	\$ -	\$
Net income (loss)	\$ 11,221	\$ (513)	\$ -	\$
	=====	=====	=====	=====
Total assets	\$ 491,874	\$ -	\$ (12,702)	\$ 4
	=====	=====	=====	=====
Capital expenditures	\$ 21,134	\$ -	\$ -	\$
	=====	=====	=====	=====

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For the Nine Months Ended September 30, 2003	Exploration and Production	Discontinued Operations	Intersegment	To
----- (Dollars in thousands) -----				
REVENUE:				
Oil and gas sales	\$ 103,419	\$ -	\$ -	\$ 1
Crude oil marketing and trading	120,046	-	-	1
Change in derivative fair value	926	-	-	
Gas gathering, marketing and processing	-	51,767	(1,633)	
Oil and gas service operations	6,596	-	-	
	-----	-----	-----	-----
Total revenues	\$ 230,987	\$ 51,767	\$ (1,633)	\$ 2
OPERATING COSTS AND EXPENSES:				
Production expenses	29,882	-	-	
Production taxes	7,586	-	-	
Exploration	7,548	-	-	
Crude oil marketing and trading	118,878	-	-	1
Gas gathering, marketing and processing	-	48,330	(1,633)	
Oil and gas service operations	4,178	-	-	
Depreciation, depletion and amortization of oil and gas properties	23,350	-	-	
Depreciation and amortization of other property and equipment	1,436	2,167	-	
Property impairments	3,861	-	-	
Asset retirement accretion	1,045	10	-	
General and administrative	7,176	601	-	
	-----	-----	-----	-----
Total operating costs and expenses	\$ 204,940	\$ 51,108	\$ (1,633)	\$ 2
Total operating income	\$ 26,047	\$ 659	\$ -	\$
OTHER INCOME (EXPENSE):				
Interest income	1,289	5	(1,208)	
Interest expense	(15,893)	(306)	1,208	(
Other income, net	60	3	-	
Gain (loss) on disposition of assets	367	(8)	-	
	-----	-----	-----	-----
Total other income (expense)	\$ (14,177)	\$ (306)	\$ -	\$ (
Total income from operations	\$ 11,870	\$ 353	\$ -	\$
	-----	-----	-----	-----
Cumulative effect of change in accounting principle	273	1,889		
Net income	\$ 12,143	\$ 2,242	\$ -	\$
	=====	=====	=====	=====
Total assets	\$ 450,362	\$ 49,389	\$ (14,763)	\$ 4
	=====	=====	=====	=====
Capital expenditures	\$ 79,886	\$ 16,169	\$ -	\$
	=====	=====	=====	=====

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For the Nine Months Ended September 30, 2004	Exploration and Production	Discontinued Operations	Intersegment	To
----- (Dollars in thousands) -----				
REVENUES:				
Oil and gas sales	\$ 124,130	\$ -	\$ -	\$ 1
Crude oil marketing and trading	158,733	-	-	1
Change in derivative fair value	404	-	-	
Gas gathering, marketing and processing	-	50,956	(10,620)	
Oil and gas service operations	7,627	-	-	
	-----	-----	-----	-----
Total revenues	\$ 290,894	\$ 50,956	\$ (10,620)	\$ 3
OPERATING COSTS AND EXPENSES:				
Production expenses	30,955	-	-	
Production taxes	8,414	-	-	
Exploration	9,278	-	-	
Crude oil marketing and trading	158,645	-	-	1
Gas gathering, marketing and processing	-	46,008	(10,620)	
Oil and gas service operations	5,071	-	-	
Depreciation, depletion and amortization of oil and gas properties	27,281	-	-	
Depreciation and amortization of other property and equipment	1,052	1,996	-	
Property impairments	9,062	-	-	
Asset retirement accretion	788	1	-	
General and administrative	7,552	566	-	
	-----	-----	-----	-----
Total operating costs and expenses	\$ 258,098	\$ 48,571	\$ (10,620)	\$ 2
Total operating income	\$ 32,796	\$ 2,385	\$ -	\$
OTHER INCOME (EXPENSE):				
Interest income	545	5	(485)	
Interest expense	(16,210)	(428)	485	(
Other income, net	629	13	-	
Loss on disposition of assets	(141)	(927)	-	
	-----	-----	-----	-----
Total other income (expense)	\$ (15,177)	\$ (1,337)	\$ -	\$ (
Net income	\$ 17,619	\$ 1,048	\$ -	\$
	=====	=====	=====	=====
Total assets	\$ 491,874	\$ -	\$ (12,702)	\$ 4
	=====	=====	=====	=====
Capital expenditures	\$ 59,608	\$ 3,430	\$ -	\$
	=====	=====	=====	=====

9. COMPREHENSIVE INCOME:

The components of total comprehensive income for the three and nine months ended September 30, 2003 and 2004 are as follows:

Three Months Ended September 30,	Nine Months
----- 2003	----- 2003
2004	2003

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(Dollars in thousands)	(restated)		(restated)
Net Income	\$ 3,032	\$ 10,708	\$ 14,385
Other Comprehensive Income (Loss) - net of income tax:			
Deferred Hedging Loss	-	(558)	-
Total Comprehensive Income	\$ 3,032	\$ 10,150	\$ 14,385

10. SUBSEQUENT EVENTS:

On October 6, 2004, CRI notified the Trustee under the Indenture dated July 24, 1998, that the Company would redeem all of its outstanding 10 1/4% Senior Subordinated Notes due 2008 on November 22, 2004, pursuant to the optional redemption provisions contained in Section 3.7 of the indenture. The outstanding principal amount of the Senior Subordinated Notes is \$119.5 million. The Company expects a loss on the early redemption of \$4.1 million and a write off of debt issuance costs of \$2.8 million. The Company is negotiating a new, \$250.0 million credit facility and will use borrowings under the new credit facility as well as a loan from the Company's principal shareholders to redeem the Senior Subordinated Notes.

Due to the sale of CGI, a meeting was held on October 8, 2004, and the Company agreed to pay the president of CGI \$687,500 for his stock options.

On July 21, 2004, CRI acquired \$7.65 million of its 10 1/4% Senior Subordinated Notes due August 1, 2008, from its principal shareholder and certain of his affiliates. These Notes were retired on October 20, 2004. Through November 15, 2004, CRI has purchased and retired an aggregate of \$30.5 million principal amount of its Senior Subordinated Notes.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with our unaudited condensed consolidated financial statements, and the notes thereto that appear elsewhere in this report, and our annual report on Form 10-K for the year ended December 31, 2003. Our operating results for the periods discussed may not be indicative of future performance. Statements concerning future results are forward-looking statements. In the text below, financial statement numbers have been rounded; however, the percentage changes are based on amounts that have not been rounded.

OVERVIEW

We foresee continued growth through the end of 2004. During 2004, we have experienced relatively high oil and gas prices coupled with increases in production, which we expect to continue for the remainder of 2004. Our Cedar Hills North Unit and West Cedar Hills Unit are responding to high-pressure air injection, or HPAI, and to water injection, substantially as initially forecast by our resource development group. Our oil production in the Cedar Hills Units at September 30, 2004, was approximately 4,731 Bbls per day, an increase of 2,148 Bbls per day, or BOPD, since November 2003, and approximately 3,000 BOPD over projected primary rates of production without enhanced recovery. During the nine months ended September 30, 2004, 17.5 million net barrels of reserves in the Cedar Hills Units were moved from proved undeveloped, or PUD, reserves to proved developed producing, or PDP, reserves and 10.1 million net barrels were re-classified to proved developed non-producing, or PDNP, reserves from PUD

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reserves. Currently, we anticipate that the 10.1 million barrels will be re-classified to PDP by mid-year 2005 as response to HPAI continues. In addition, we expect our oil production in the Cedar Hills Units, on a daily basis, to reach 6,200 BOPD by the end of 2004 and to exceed 7,100 BOPD by mid-year 2005.

The following table reflects our production from the Cedar Hills Units beginning in November 2003, when we first experienced HPAI response, through September 2004:

Property	Monthly Production (Bbls)		Increase Bbls per Day
	Nov 2003	Sep 2004	
Cedar Hills North Unit	69,800	132,790	2,100
West Cedar Hills Unit	7,700	9,145	48
Total	77,500	141,935	2,148

Currently, lifting costs in our Rocky Mountain region are significantly higher than our historic average due to the energy costs and other associated costs used in HPAI recovery, coupled with the conversion of producing wells to injector wells to complete the injection pattern engineered for the field. Thus, less production is available at a time when injection costs are high. However, lifting costs per barrel have been declining dramatically in the Rocky Mountain region as response and increased production continues. We project a reduction of more than \$5.00 per barrel in lifting costs for the Rocky Mountain region by late 2004 or early 2005.

Excluding Cedar Hills, we completed 23 wells during the third quarter of 2004, resulting in 17 producers and 6 dry holes for a success rate of 74% for the quarter. Of these 17 wells, 5 are located in the Rocky Mountain region, 10 wells are in the Mid-Continent region and 2 wells are in the Gulf Coast region. In the Rockies, the Paula 1-7H completed flowing rates as high as 1,050 BOPD and 400 MCFD. CRI owns 71% working interest in the Paula 1-7H. The Fink Farms 1-29H, in which CRI has a 39% working interest, completed flowing approximately 800 BOPD and 400 MCFD. In the Mid Continent region, the Jackal 1-16, which CRI owns 50% working interest, completed flowing at rates up to 825MCFD. In the Gulf Coast the JISM #5 well logged 400-500 net feet of productive sands and is producing 200BOPD and 400MCFD from the first 30 feet of perforation from the lowest of the pay sands. CRI owns 50% working interest in the JISM #5. We currently have 5 wells drilling and 4 wells waiting on completion.

We continue to experience 100% success drilling wells in our Middle Bakken, or MB project, located in Richland County, Montana. Since completing our first well in the third quarter of 2003, we have drilled and completed 12 wells, (7.2 net wells) to date. These wells have added an estimated 6.6 MMBOE of gross PDP reserves (2.9 MMBOE net) for an average of 550 MBOE per gross well. These reserve figures are in line with expectations. Initial flow rates have ranged from 400 BOPD to 1,600 BOPD. We currently own approximately 93,000 net acres in the MB project with an inventory of 124 gross well locations (62 net wells) to be drilled. During the fourth quarter of 2004, we will be adding a fourth rig and anticipate completing an additional 6 wells (4.4 net wells) bringing the total producing well count in the MB project to 18 gross wells (11.6 net wells) by year-end 2004.

Using the MB project as our model, we have expanded our search for Bakken

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oil reserves into North Dakota. During the first three quarters of 2004, we have invested approximately \$8.7 million acquiring 232,000 net leasehold acres on opportunities in North Dakota identified by our geotechnical staff. Late in the third quarter, we elected to lease additional acreage in select areas in response to positive results. This leasing targets an additional 10,000 net acres with projected expenditures under \$1.0 million. The net reserve potential of these new leases could exceed those in the MB project but remains unproven at this time.

As a result of the additional leasing in MB and the new North Dakota projects, leasing expenditures for 2004 are projected to total an estimated \$21.0 million or \$13.3 million over the \$7.7 million originally budgeted for the year.

During the third quarter 2004, our subsidiary CRII, initiated development of two waterflood projects and performed several workovers on existing properties. The Cypress Bend property that we acquired during the second quarter of 2004 became operational effective November 1, 2004. We initiated development of the Aux Vases and Lower Renault reservoirs for water flooding in the third quarter of 2004.

The Peabody-Stovall properties were also unitized, and installation of a Paint Creek reservoir waterflood is currently underway. The Peabody-Stovall Waterflood Unit will become effective on December 1, 2004 and is scheduled for first injection by the year-end 2004.

There was also continued development of the Roland Unit Waterflood, with the Benoist zone injection beginning during the third quarter 2004. Additional workovers within the Roland Unit were also performed to clean out and acid stimulate producing wells. During the third quarter, CRII performed a total of eight workovers/conversions throughout its property base. Additional workovers are targeted for the fourth quarter 2004.

In the third quarter of 2004, drilling activity increased as CRII drilled two wells. Both wells were drilled and abandoned Warsaw tests in Posey County, Indiana. The Wolf #2 also in Posey County was a re-entry and resulted in an O'Hara lime producing well. CRII participated in the drilling of three non-operated wells. The Hermann #1 was a drilled and abandoned Warsaw test in Posey County, Indiana, while the drilling of two development wells in Franklin County, Illinois were completed and put on production.

CRII has scheduled eight prospects for drilling in the fourth quarter of this year.

The differential between the NYMEX oil price and the price received by Continental Resources of Illinois, Inc. for Illinois Basin oil continues to increase. Work is ongoing with several options to decrease this differential.

Our capital expenditure budget for 2004 is \$83.3 million. Through the first nine months of 2004, our aggregate capital expenditures were \$65.3 million.

THREE MONTHS ENDED SEPTEMBER 30, 2003, COMPARED TO THREE MONTHS ENDED SEPTEMBER 30, 2004

Certain reclassifications have been made to prior year amounts to conform to the current year presentation.

The following reflects our income and expense from operations for the third quarter of 2004 compared to the third quarter of 2003 with dollar and percentage increases or decreases:

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REVENUES:	Three Months Ended September 30,		Inc (Dec)
	2003	2004	
Oil and gas sales	\$ 34,350	\$ 47,900	\$
Crude oil marketing and trading	39,698	46,422	
Change in derivative fair value	519	-	
Oil and gas service operations	2,291	2,904	
Total revenues	\$ 76,858	\$ 97,226	\$
OPERATING COSTS AND EXPENSES:			
Production	\$ 10,127	\$ 10,328	\$
Production taxes	2,551	3,196	
Exploration	3,495	3,970	
Crude oil marketing and trading	39,002	46,056	
Oil and gas service operations	1,445	1,701	
DD&A of oil and gas properties	8,134	7,224	
D&A of other assets	368	352	
Property impairments	1,309	5,363	
Asset retirement obligation accretion	341	264	
General and administrative	2,219	2,763	
Total operating costs and expenses	\$ 68,991	\$ 81,217	\$
OPERATING INCOME	\$ 7,867	\$ 16,009	\$
OTHER INCOME (EXPENSE):			
Interest income	\$ 24	\$ 21	\$
Interest expense	(4,899)	(5,369)	
Other income, net	13	598	
Gain (loss) on disposition of assets	90	(38)	
Total other income (expense)	\$ (4,772)	\$ (4,788)	\$
INCOME FROM CONTINUING OPERATIONS	\$ 3,095	\$ 11,221	\$
INCOME FROM DISCONTINUED OPERATIONS	(63)	119	
LOSS ON DISCONTINUED OPERATIONS	-	(632)	
NET INCOME	\$ 3,032	\$ 10,708	\$

RESULTS OF OPERATIONS

The following table sets forth certain information regarding our production volumes, oil and gas sales, average sales prices and expenses for the periods indicated:

NET PRODUCTION:	For the Three Months Ended September 30,	
	2003	2004
Oil (Mbb1)	854	964

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Gas (MMcf)	2,537	2,243
Oil equivalent (MBoe)	1,277	1,338
OIL AND GAS SALES (dollars in thousands)		
Oil sales, excluding hedges	\$ 23,920	\$ 39,438
Hedges	(1,293)	(2,764)
	-----	-----
Total oil sales, including hedges	22,627	36,674
Gas sales	11,724	11,226
	-----	-----
Total oil and gas sales	\$ 34,351	\$ 47,900
	=====	=====
AVERAGE SALES PRICE:		
Oil, excluding hedges (dollar per barrel)	\$ 28.01	\$ 40.91
Oil, including hedges (dollar per barrel)	\$ 26.50	\$ 38.04
Gas (dollar per Mcf)	\$ 4.62	\$ 5.00
Oil equivalent, excluding hedges (dollar per Boe)	\$ 27.91	\$ 37.87
Oil equivalent, including hedges (dollar per Boe)	\$ 26.90	\$ 35.80
EXPENSES (dollars per Boe):		
Production expenses (including taxes)	\$ 9.93	\$ 10.11
General and administrative	\$ 1.74	\$ 2.11
DD&A (on oil and gas properties)	\$ 6.37	\$ 5.40

REVENUES

GENERAL

For the three months ended September 30, 2004, we experienced an increase in revenues attributable, in part, to oil prices being \$11.54 per barrel higher than in the same period in 2003, and to a 111,000 barrel increase in production compared to the same period in 2003. We also realized an increase in our oil marketing program due to the increase in prices and volumes in the 2004 period.

OIL AND GAS SALES

The increase in oil and gas sales revenue was primarily attributable to higher oil and gas prices in 2004 and volumes increased to 1,338 thousand barrels of oil equivalent, or MBoe, in the three months ended September 30, 2004, from 1,277 MBoe during the three months ended September 30, 2003.

The following table shows our production by region for the three months ended September 30, 2003 and 2004:

	Three Months Ended September 30,			
	2003		2004	
	MBoe	Percent	MBoe	Percent
Rocky Mountain	717	56.15%	859	64.20%
Mid-Continent	398	31.17%	382	28.55%
Gulf	162	12.69%	97	7.25%
	=====	=====	=====	=====
	1,277	100.00%	1,338	100.00%

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CRUDE OIL MARKETING AND TRADING

We enter into a series of contracts in order to exchange our crude oil production in our Rocky Mountain Region for equal quantities of crude oil located at Cushing, Oklahoma. Through this activity, we take advantage of better pricing and reduce our credit risk associated with our first purchaser. In our income statement, we present this purchase and sale activity separately as crude oil marketing revenues and crude oil marketing expenses, based on guidance provided by EITF 99-19, Reporting Revenues Gross as a Principal and or Net as an Agent.

CHANGE IN DERIVATIVE FAIR VALUE

The change in derivative fair value for the three months ended September 30, 2003, is related to a crude oil derivative contract used to reduce our exposure to changes in crude oil prices that did not qualify for special hedge accounting under SFAS No. 133. Such contract expired at December 31, 2003.

OIL AND GAS SERVICE OPERATIONS

We initiated sales of HPAI services to a third party in 2004, which increased our oil and gas service operations \$0.5 million in the third quarter of 2004 compared to the third quarter of 2003.

COSTS AND EXPENSES

PRODUCTION EXPENSES AND TAXES

Our production expenses including taxes for the third quarter of 2004 compared to the third quarter of 2003 increased \$0.8 million, or 7%. Most of the increase was due to production taxes which are generally assessed as a percent of oil and gas revenues. Our production expenses including taxes per BOE for the third quarter of 2004 increased to \$10.11 from \$9.93 for the third quarter of 2003.

EXPLORATION EXPENSES

The \$0.5 million increase in exploration expense for the three months ended September 30, 2004, compared to the same period in 2003 was primarily due to an increase in our dry hole costs in the Gulf Coast region, which were amplified by significant mechanical problems and cost overruns while drilling the Shaffer D-2 well in Nueces County, Texas.

CRUDE OIL MARKETING AND TRADING

The \$7.1 million increase in our crude oil marketing expense for the three months ended September 30, 2004 compared to the same period in 2003 was primarily due to increased prices for oil that we purchased.

OIL AND GAS SERVICE OPERATIONS

The \$0.3 million increase in our oil and gas service operations expense for the third quarter of 2004 compared to the third quarter of 2003 was due to increased cost of purchasing and treating reclaimed oil for resale.

DEPRECIATION, DEPLETION AND AMORTIZATION OF OIL AND GAS PROPERTIES (DD&A)

Depletion decreased \$0.9 million in the third quarter of 2004 compared to the third quarter of 2003, due to additional impairments on our Gulf of Mexico

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properties and less activity in this area in 2004, which lowered our depletion. In the third quarter of 2004, our DD&A expense on our oil and gas properties was calculated at \$5.40 per BOE, compared to \$6.37 per BOE for the third quarter of 2003.

DEPRECIATION AND AMORTIZATION OF OTHER PROPERTY AND EQUIPMENT

The change in our depreciation and amortization of other property and equipment expense for the third quarter of 2004 compared to the third quarter of 2003 was immaterial.

PROPERTY IMPAIRMENTS

The \$4.1 million increase in our property impairments for the three months ended September 30, 2004, compared to the same period in 2003 was primarily due to increased impairment on capitalized costs of our Gulf of Mexico properties and other Southern Region wells. In 2003 we assessed non-producing properties annually and in 2004, we are assessing these properties quarterly.

ASSET RETIREMENT ACCRETION

We adopted SFAS No. 143, Accounting for Asset Retirement Obligations, on January 1, 2003. The change in our asset retirement accretion expense for the third quarter of 2004 compared to the third quarter of 2003 was immaterial.

GENERAL AND ADMINISTRATIVE (G&A)

Our G&A expense for the third quarter of 2004 compared to the third quarter of 2003 increased \$0.5 million due to increased employee expenses primarily related to employee bonuses. Our G&A expense per BOE for the third quarter of 2004 increased to \$2.07 from \$1.74 for the third quarter of 2003.

INTEREST EXPENSE

The \$0.5 million increase in our interest expense for the three months ended September 30, 2004, compared to the same period in 2003 was due to additional interest on higher average debt balances outstanding under our credit facilities and higher interest rates during the third quarter of 2004 compared to the third quarter of 2003.

NINE MONTHS ENDED SEPTEMBER 30, 2003, COMPARED TO NINE MONTHS ENDED SEPTEMBER 30, 2004.

Certain reclassifications have been made to prior year amounts to conform to the current year presentation.

The following table shows our income statement for the nine months ended September 30, 2003, compared to the nine months ended September 30, 2004, with dollar and percentage increases or decreases:

	Nine Months Ended September 30,		(
REVENUES:	2003	2004	
Oil and gas sales	\$ 103,419	\$ 124,130	\$
Crude oil marketing and trading	120,046	158,733	
Change in derivative fair value	926	404	
Oil and gas service operations	6,596	7,627	

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Total revenues	\$	230,987	\$	290,894	\$
OPERATING COSTS AND EXPENSES:					
Production	\$	29,882	\$	30,955	\$
Production taxes		7,586		8,414	
Exploration		7,548		9,278	
Crude oil marketing and trading		118,878		158,645	
Oil and gas service operations		4,178		5,071	
DD&A of oil and gas properties		23,350		27,281	
DD&A of other assets		1,436		1,052	
Property impairments		3,861		9,062	
Asset retirement obligation accretion		1,045		788	
General and administrative		7,176		7,552	
Total operating costs and expenses	\$	204,940	\$	258,098	\$
OPERATING INCOME	\$	26,047	\$	32,796	\$
OTHER INCOME (EXPENSE):					
Interest income	\$	81	\$	60	\$
Interest expense		(14,685)		(15,725)	
Other income, net		60		629	
Gain (loss) on disposition of assets		367		(141)	
Total other income (expense)	\$	(14,177)	\$	(15,177)	\$
INCOME FROM CONTINUING OPERATIONS	\$	11,870	\$	17,619	\$
DISCONTINUED OPERATIONS		2,242		1,680	
LOSS ON SALE OF DISCONTINUED OPERATIONS		-		(632)	
INCOME BEFORE CHANGE IN ACCOUNTING PRINCIPLE	\$	14,112		18,667	
CHANGE IN ACCOUNTING PRINCIPLE		273	\$	-	\$
NET INCOME	\$	14,385	\$	18,667	\$

RESULTS OF OPERATIONS

The following table sets forth certain information regarding our production volumes, oil and gas sales, average sales prices and expenses for the periods indicated:

	For the Nine Months Ended September 30,	
	2003	2004
NET PRODUCTION:	(restated)	
Oil (MBbl)	2,645	2,610
Gas (MMcf)	7,496	6,712
Oil equivalent (MBoe)	3,894	3,728
OIL AND GAS SALES (dollars in thousands)		
Oil sales, excluding hedges	\$ 76,694	\$ 95,354
Hedges	(8,597)	(4,487)
Total oil sales, including hedges	68,097	90,867

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Gas sales		35,322		33,263
		-----		-----
Total oil and gas sales	\$	103,419	\$	124,130
AVERAGE SALES PRICE:				
Oil, excluding hedges (dollar per barrel)	\$	29.00	\$	36.53
Oil, including hedges (dollar per barrel)	\$	25.75	\$	34.81
Gas (dollar per Mcf)	\$	4.71	\$	4.96
Oil equivalent, excluding hedges (dollar per Boe)	\$	28.77	\$	34.50
Oil equivalent, including hedges (dollar per Boe)	\$	26.56	\$	33.30
EXPENSES (dollars per Boe):				
Production expenses (including taxes)	\$	9.62	\$	10.56
General and administrative	\$	1.84	\$	2.18
DD&A (on oil and gas properties)	\$	6.00	\$	7.32

REVENUES

GENERAL

Our revenues increased due to higher oil and gas prices realized on our oil and gas production in the 2004 period. Oil prices increased \$9.06 per barrel and gas increased \$0.25 per Mcf in the nine months of 2004 compared to the same period in 2003. Revenues from our oil marketing program also increased in the nine months of 2004 compared to the same period in 2003 due to the increased oil price.

OIL AND GAS SALES

Although our volumes for the first nine months of 2004 decreased 166 MBoe compared to the first nine months of 2003, our oil and gas sales revenues for the same 2004 period increased \$20.7 million compared to the same period of 2003 due predominately to higher oil prices.

The following table shows our production by region for the nine months ended September 30, 2003 and 2004:

	Nine Months Ended September 30,			
	2003		2004	
	MBoe	Percent	MBoe	Percent
Rocky Mountain	2,240	57.52%	2,299	61.67%
Mid-Continent	1,188	30.51%	1,107	29.69%
Gulf	466	11.97%	322	8.64%
	=====	=====	=====	=====
	3,894	100.00%	3,728	100.00%

CRUDE OIL MARKETING AND TRADING

We enter into a series of contracts in order to exchange our crude oil production in our Rocky Mountain Region for equal quantities of crude oil located at Cushing, Oklahoma. Through this activity, we take advantage of better pricing and reduce our credit risk associated with our first purchaser. In our

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income statement, we present this purchase and sale activity separately as crude oil marketing revenues and crude oil marketing expenses, based on guidance provided by EITF 99-19, Reporting Revenues Gross as a Principal and or Net as an Agent.

Additionally, in the first five months of 2004, we engaged in certain crude oil trading activities, exclusive of our own production, utilizing fixed price and variable priced physical delivery contracts. Our derivative trading activities are being marked to market with all changes in fair value being recorded in the income statement under the accounting prescribed by SFAS No. 133, Accounting for Derivative and Hedging Activities. Effective May 2004, we closed out all open trading positions and have terminated our derivative trading activities.

CHANGE IN DERIVATIVE FAIR VALUE

The change in derivative fair value for the nine months ended September 30, 2003, is related to a crude oil derivative contract used to reduce our exposure to changes in crude oil prices that did not qualify for special hedge accounting under SFAS No. 133. Such contract expired at December 31, 2003. The change in derivative fair value for the nine months ended September 30, 2004, is the result of those derivative trading contracts described in Note 4 to our Condensed Consolidated Financial Statements.

OIL AND GAS SERVICE OPERATIONS

We initiated the sale of HPAI services to a third party in 2004 which increased our oil and gas service operations \$1.0 million in the first nine months of 2004 compared to the first nine months of 2003.

COSTS AND EXPENSES

PRODUCTION EXPENSES AND TAXES

Our production expense including taxes for the first nine months of 2004 compared to the first nine months of 2003 increased \$1.9 million, or 5% from the same period in 2003. The 11% increase in taxes is the result of higher prices for oil and gas production in the 2004 period compared to the 2003 period. Our production expenses including taxes per BOE for the first nine months of 2004 was \$10.51 compared to \$9.57 for the first nine months of 2003.

EXPLORATION EXPENSES

The \$1.7 million increase in exploration expense for the nine months ended September 30, 2004, compared to the same period in 2003 was primarily due to an increase in our dry hole costs in the Gulf Coast region, which were amplified by significant mechanical problems and cost overruns associated with the Shaffer D-2 well in Nueces County, Texas in the first nine months of 2004 compared to the first nine months of 2003.

CRUDE OIL MARKETING AND TRADING

The \$39.8 million increase in our crude oil marketing expense for the nine months ended September 30, 2004, compared to the same period in 2003 was primarily due to increased prices for oil we purchased and greater volumes marketed and traded.

OIL AND GAS SERVICE OPERATIONS

The \$0.9 million increase in our oil and gas service operations expense for the nine months ended September 30, 2004, compared to the same period in 2003 was due to higher prices paid for purchasing and treating reclaimed oil for

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resale in 2004.

DEPRECIATION, DEPLETION AND AMORTIZATION OF OIL AND GAS PROPERTIES ("DD&A")

For the nine months ended September 30, 2004, DD&A of our oil and gas properties increased \$3.8 million due to certain developmental dry hole costs being added to our amortization base and depleted with the costs of the related property offsets and due to slightly higher production decline rates in the Gulf Coast region. In the first nine months of 2004, our DD&A expense on oil and gas properties was calculated at \$7.30 per BOE compared to \$6.02 per BOE for the first nine months of 2003.

DEPRECIATION AND AMORTIZATION OF OTHER ASSETS ("D&A")

The change in depreciation and amortization expense related to our other properties and equipment decreased \$0.4 million. The company jet was fully depreciated by June 2003, which made up most of the \$0.4 million decrease. Some computer equipment and company vehicles were also fully depreciated.

PROPERTY IMPAIRMENTS

Property impairments for the nine months ended September 30, 2004, increased \$5.2 million compared to the nine months ended September 30, 2003. Individually significant non-producing properties are periodically assessed for impairment of value and a loss is recognized if there is no firm plan for the property. In 2003, we only assessed properties annually and in 2004 we are assessing these properties quarterly. The increase in 2004 was due to increased impairment on capitalized costs of our undeveloped leasehold and impairment primarily of our Gulf of Mexico properties.

ASSET RETIREMENT ACCRETION

Recalculation of our asset retirement obligation lowered our obligation and accretion expense by \$0.3 million in the first nine months of 2004 compared to the first nine months of 2003.

GENERAL AND ADMINISTRATIVE (G&A)

Our G&A expense for the nine months of 2004 compared to the nine months of 2003 did not change significantly, but the decrease in volumes from the same periods caused our G&A expense per BOE for the first half of 2004 to increase to \$2.03 from \$1.84 for the same period in 2003.

INTEREST EXPENSE

The increase in our interest expense was due to additional interest on higher average debt balances outstanding under our credit facilities and increase interest rates during the nine months ended September 30, 2004, compared to the nine months ended September 30, 2003.

DISCONTINUED OPERATIONS

The \$0.6 million decrease in income from discontinued operations, formerly our gas gathering, marketing and processing segment, for the nine month period from 2003 to 2004 is primarily due to the period covered in 2004 only includes results through July 21, 2004, while the 2003 period includes results for the full nine month period.

LIQUIDITY AND CAPITAL RESOURCES

CASH FLOW FROM OPERATIONS

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Net cash provided by our operating activities for the nine months ended September 30, 2004, was \$54.8 million, an increase of \$6.0 million from \$48.8 million provided by our operating activities during the comparable 2003 period. Our cash balance as of September 30, 2004, was \$14.0 million, an increase of \$11.7 million from our cash balance of \$2.3 million held at December 31, 2003.

DEBT

Our long-term debt at December 31, 2003, and September 30, 2004, consisted of the following:

(Dollars in thousands)	December 31, 2003	September 30 2004
	-----	-----
10.25% Senior Subordinated Notes due Aug. 1, 2008	\$ 127,150	\$ 119,500
Credit Facility due March 31, 2007	132,900	137,049
Credit Facility due March 31, 2006	-	25,000
Credit Facility due September 30, 2006	17,000	-
Capital Lease Agreement	13,827	11,325
Ford Credit	43	34
	-----	-----
Outstanding Debt	290,920	292,908
Less Current Portion	5,776	3,348
	-----	-----
Total Long-Term Debt	\$ 285,144	\$ 289,560
	=====	=====

CREDIT FACILITY

On July 21, 2004, we executed the Fourth Amendment to our credit Agreement that modified the definitions to delete any reference to CGI.

On April 14, 2004, we executed the Third Amendment to our Credit Agreement that added a \$25.0 million term facility that matures on March 31, 2006. The amendment also extended the maturity date of the revolving credit facility to March 31, 2007. Borrowings under the term facility have margins of 5.5% on LIBOR loans and 3% on reference rate loans. On April 14, 2004, we drew \$25.0 million on the new term facility and reduced the balance of the revolving credit facility. Borrowings under the revolving credit facility bear interest based on an annual rate equal to the rate at which eurodollar deposits for one, two, three or six months are offered by the lead bank plus an applicable margin ranging from 150 to 250 basis points or the lead bank's reference rate plus an applicable margin ranging from 25 to 50 basis points. The effective rate of interest on our borrowings under our revolving credit facility was 3.96% and the effective rate of interest on our borrowings under our term facility was 7.25% at September 30, 2004. The borrowing base of our credit facility was \$150.0 million on September 30, 2004, and is re-determined semi-annually. Borrowings under our Credit Agreement are secured by liens on substantially all of our assets.

We paid a cash dividend to our shareholders on July 19, 2004 that was funded with short-term borrowings under our Credit Agreement and we used corporate funds to acquire \$7.65 million of our 10 1/4% Senior Subordinated Notes, or Notes, on July 21, 2004. These Notes were retired on October 20, 2004 reducing our outstanding balance to \$119.5 million at November 15, 2004.

At November 15, 2004, the outstanding balances under our revolving credit facility and the term loan were \$137.0 million and \$25.0 million, respectively.

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At November 15, 2004, we had \$13.0 million of availability under our revolving credit facility. We are currently negotiating a new, \$250.0 million credit facility and expect to use proceeds under this new facility, together with funds provided by our principal shareholders, to redeem our outstanding Notes and fund our capital budget.

On October 22, 2003, our subsidiary, CGI, established a new \$35.0 million secured credit facility consisting of a senior secured term loan facility of up to \$25.0 million and a senior revolving credit facility of up to \$10.0 million. On that date, CGI ceased to be a guarantor of our obligations under our credit agreement. On July 21, 2004, but effective May 31, 2004, we sold all of the outstanding capital stock of CGI to our shareholders. Section 4.10 of our indenture requires that within 360 days after the receipt of any net proceeds from any asset sale, we may apply such net proceeds, at our option, in any order or combination, (a) to reduce Senior Debt or Guarantor Senior Debt, (b) to make permitted investments, (c) to make investments in interests in oil and gas businesses or (d) to make capital expenditures in respect of our Restricted Subsidiaries' oil and gas business. Pending the final application of any such net proceeds, we may temporarily reduce indebtedness under our revolving credit facility or otherwise invest such net proceeds in any manner that is not prohibited by the indenture. We intend to use the proceeds from the sale of the stock of CGI to fund our drilling program for the next three months.

On September 3, 2004, the Company executed the Fifth Amendment to the Credit Agreement that contained a one-time waiver of the requirement to comply with the hedging covenant set forth in Section 5.35 of the Credit Agreement, which states, the Company should maintain hedge agreements for at least 50% of the oil estimated to be produced during the ensuing six-month period, on a rolling six-month basis. The waiver is effective only until the earlier of: (i) the date on which the Administrative Agent, on behalf of the Required Banks, provides the Company written notice that the covenant set forth in Section 5.35 is to be reinstated and (ii) the last business day of any period of ten (10) consecutive business days during which the 6-month NYMEX strip price for light, sweet crude oil has averaged less than or equal to \$30.00 per barrel.

Our credit agreement contains certain financial and other covenants. At September 30, 2004, we were in compliance with all of the covenants.

CAPITAL EXPENDITURES

Our 2004 capital expenditures budget, exclusive of acquisitions, is \$83.3 million, of which \$6.7 million was dedicated to our Cedar Hills Field secondary recovery project. During the nine months ended September 30, 2004, we incurred \$65.3 million of capital expenditures, compared to \$96.1 million during the comparable nine-month period of 2003. Of the total \$65.3 million of capital expenditures, we expended \$46.7 million in exploration and development, \$4.4 million on secondary recovery operations, and \$10.5 million on leasing. We used the majority of the remaining \$3.7 million for additions to our gas gathering systems. The \$30.8 million decrease in our capital expenditures during the first nine months of 2004 compared to the first nine months of 2003 was the result of our completion of the high-pressure air injection project in the Cedar Hills Field in our Rocky Mountain Region. We expect to fund the remainder of our 2004 capital budget through cash flows from operations and the proceeds from the sale of CGI.

DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

This report includes "forward-looking statements". All statements other than statements of historical fact, including, without limitation, statements contained under "Management's Discussion and Analysis of Financial Condition and Results of Operations" regarding our financial position, business strategy, plans and objectives of our management for future operations and industry

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conditions, are forward-looking statements. Although we believe that the expectations reflected in such forward-looking statements are reasonable, we can give no assurance that such expectations will prove to be correct. Important factors that could cause actual results to differ materially from our expectations ("Cautionary Statements") include, without limitation, future production levels, future prices and demand for oil and gas, results of future exploration and development activities, future operating and development costs, the effect of existing and future laws and governmental regulations (including those pertaining to the environment) and the political and economic climate of the United States as discussed in this quarterly report and the other documents we previously filed with the Securities and Exchange Commission. All subsequent written and oral forward-looking statements attributable to us, or persons acting on our behalf, are expressly qualified in their entirety by the Cautionary Statements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

GENERAL

We are exposed to market risks, including commodity price risk and interest rate risk, in the normal course of our business operations. Information regarding our exposures to these market risks is provided below.

COMMODITY PRICE EXPOSURE

Non-trading

We utilize fixed-price contracts, fixed price basis contracts, collars and floors to reduce exposure to the unfavorable changes in oil and gas prices that are subject to significant and often volatile fluctuation. Under the fixed price physical delivery contracts we receive the fixed price stated in the contract. Under the fixed price basis contracts, the price we receive is determined based on a published regional index price plus or minus a fixed basis. Under the collars and floors, if the market price of crude oil exceeds the ceiling strike price or falls below the floor strike price, then we receive the fixed price ceiling or floor. If the market price is between the floor strike price and the ceiling strike price, we receive market price.

These contracts allow us to predict with greater certainty the effective oil and gas prices to be received for hedged production and benefit operating cash flows and earnings when market prices are less than the fixed prices provided in the contracts. However, we will not benefit from market prices that are higher than the fixed, or ceiling prices in the contracts for hedged production.

On September 3, 2004, the Company executed the Fifth Amendment to the Credit Agreement that contained a one-time waiver of the requirement to comply with the hedging covenant set forth in Section 5.35 of the Credit Agreement, which states, the Company should maintain hedge agreements for at least 50% of the oil estimated to be produced during the ensuing six-month period, on a rolling six-month basis,. The waiver is effective only until the earlier of: (i) the date on which the Administrative Agent, on behalf of the Required Banks, provides the Company written notice that the covenant set forth in Section 5.35 is to be reinstated and (ii) the last business day of any period of ten (10) consecutive business days during which the 6-month NYMEX strip price for light, sweet crude oil has averaged less than or equal to \$30.00 per barrel.

At September 30, 2004, we had a mark-to-market unrealized loss of approximately \$1,205,000 on our collar and floor contracts. As such contracts have been designated and qualify as cash flow hedges, the loss has been recorded as a component of Accumulated Other Comprehensive Income at September 30, 2004. The ineffectiveness associated with our cash flow hedging strategy was

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immaterial.

The following table summarizes our non-trading contracts in place at September 30, 2004:

Crude Oil Collars and Floors for 2004:	Contract Volumes (Bbls)	Weighted-average Fixed Price per Bbl
	-----	-----
Oct Floor	116,000	\$ 22.00
Oct Floor	100,000	\$ 24.00
Nov - Dec, Floor	230,000	\$ 24.50

	446,000	
	=====	
Oct Ceiling	100,000	\$ 36.00
Nov - Dec, Ceiling	230,000	\$ 45.00

	330,000	
	=====	

Trading

In the first five months of 2004, we engaged in certain crude oil trading activities, exclusive of our own production, utilizing fixed price and variable price physical delivery contracts. At September 30, 2004, we had no open trading derivative contracts in place.

INTEREST RATE RISK

Our exposure to changes in interest rates relates primarily to long-term debt obligations. We manage our interest rate exposure by limiting our variable-rate debt to a certain percentage of total capitalization and by monitoring the effects of market changes in interest rates. We may utilize interest rate derivatives to alter interest rate exposure in an attempt to reduce interest rate expense related to existing debt issues. Interest rate derivatives are used solely to modify interest rate exposure and not to modify the overall leverage of the debt portfolio. The fair value of long-term debt is estimated based on quoted market prices and management's estimate of current rates available for similar issues. The following table itemizes our long-term debt maturities and the weighted-average interest rates by maturity date.

(Dollars in thousands)	2004	2005	2006	2007	Thereafter	Total	F
	-----	-----	-----	-----	-----	-----	-----
Fixed rate debt:							
Senior subordinated notes							
Principal amount	\$ -	\$ -	\$ -	\$ -	\$ 119,500	\$ 119,500	\$ 119,500
Weighted-average interest rate	10.25%	10.25%	10.25%	10.25%	10.25%		

Variable rate debt:

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Credit facility-Tranch A													
Principal amount	\$	-	\$	-	\$	-	\$137,049	\$	-	\$137,049	\$		
Weighted-average interest rate		3.96%		3.96%		3.96%		3.96%		3.96%			
Variable rate debt:													
Credit facility-Tranch B													
Principal amount	\$	-	\$	-	\$	25,000	\$	-	\$	-	\$	25,000	\$
Weighted-average interest rate		7.25%		7.25%		7.25%		7.25%		7.25%		7.25%	
Variable rate debt:													
Capital lease agreement													
Principal amount	\$	834	\$	3,336	\$	3,336	\$	3,336	\$	483	\$	11,325	\$
Weighted-average interest rate		4.00%		4.00%		4.00%		4.00%		4.00%		4.00%	
Variable rate debt:													
Ford Credit agreement													
Principal amount	\$	3	\$	13	\$	13	\$	4	\$	-	\$	33	\$
Weighted-average interest rate		5.50%		5.50%		5.50%		5.50%		5.50%		5.50%	

ITEM 4. CONTROLS AND PROCEDURES

The Securities and Exchange Commission rules require that we maintain disclosure controls and procedures to provide reasonable assurance that we are able to record, process, summarize and report the information required in quarterly and annual reports filed under the Securities Exchange Act of 1934. While we believe that our existing disclosure controls and procedures are reasonably adequate to accomplish these objectives, we intend to continue to examine, refine and formalize our disclosure controls and procedures and to maintain ongoing developments in this area.

As of the end of the period covered by this report, our principal executive officer and principal financial officer have evaluated our disclosure controls and procedures (as defined in Rule 13a-14(c) under the Securities Exchange Act of 1934) and concluded that our disclosure controls and procedures are effective.

There have been no significant changes in our internal controls or in other factors that could significantly affect these controls, since the date the controls were evaluated.

PART II. Other Information

ITEM 1. LEGAL PROCEEDINGS

From time to time, we are a party to litigation or other legal proceedings that we consider to be a part of the ordinary course of our business. We are not involved in any legal proceedings nor are we a party to any pending or threatened claims that could reasonably be expected to have a material adverse effect on our financial condition or results of operations.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

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None.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

(a) EXHIBITS:

DESCRIPTION AND METHOD OF FILING

- 3.1 Amended and Restated Certificate of Incorporation of Continental Resources, Inc. [3.1](1)
- 3.2 Amended and Restated Bylaws of Continental Resources, Inc. [3.2](1)
- 4.1 Fourth Amended and Restated Credit Agreement dated March 28, 2002, among the Registrant, Union Bank of California, N.A., Guaranty Bank, FSB and Fortis Capital Corp. [10.1](3)
 - 4.1.1 First Amendment to the Revolving Credit Agreement dated June 12, 2003, among the Registrant, Union Bank of California, N.A., Guaranty Bank, FSB and Fortis Capital Corp. [10.1](4)
 - 4.1.2 Second Amendment to the Revolving Credit Agreement dated October 22, 2003, among the Registrant, Union Bank of California, N.A., Guaranty Bank, FSB and Fortis Capital Corp. [10.1](5)
 - 4.1.3 Third Amendment to the Revolving Credit Agreement dated April 14, 2004, among the Registrant, Union Bank of California, N.A., Guaranty Bank, FSB, Fortis Capital Corp., and The Royal Bank of Scotland plc. [10.1](7)
 - 4.1.4 Fourth Amendment to the Revolving Credit Agreement dated July 21, 2004, among the Registrant, Union Bank of California, N. A., Guaranty Bank, FSB, Fortis Capital Corp., and The Royal Bank of Scotland plc.
 - 4.1.5* Fifth Amendment to Fourth Amended and Restated Credit Agreement dated September 3, 2004, among the Registrant, Union Bank of California, N.A., Guaranty Bank, FSB, Fortis Capital Corp., and The Royal Bank of Scotland plc.
- 4.2 Indenture dated as of July 24, 1998, between Continental Resources, Inc. as Issuer, the Subsidiary Guarantors named therein and the United States Trust Company of New York, as Trustee. [4.2](1)
- 10.1 Unlimited Guaranty Agreement dated March 28, 2002. [10.2](3)
- 10.2 Security Agreement dated March 28, 2002, between Registrant and Guaranty Bank, FSB, as Agent. [10.3](3)
- 10.3 Stock Pledge Agreement dated March 28, 2002, between Registrant and Guaranty Bank, FSB, as Agent. [10.4](3)
- 10.4+ Continental Resources, Inc. 2000 Stock Option Plan. [10.6](2)
- 10.5+ Form of Incentive Stock Option Agreement. [10.7](2)

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- 10.6+ Form of Non-Qualified Stock Option Agreement. [10.8] (2)
- 10.7 Collateral Assignment of Contracts dated March 28, 2002, between Registrant and Guaranty Bank, FSB, as Agent. [10.5] (3)
- 10.8 Stock Purchase Agreement dated July 19, 2004, among the Registrant, Harold Hamm and Bert H. Mackie, as Trustee of the Harold Hamm DST Trust and the Harold Hamm HJ Trust, providing for the sale of all of the outstanding capital stock of Continental Gas, Inc. to the shareholders of the Registrant [10] (6)
- 12.1* Statement re computation of ratio of debt to Adjusted EBITDA.
- 12.2* Statement re computation of ratio of earning to fixed charges.
- 31.1* Certification pursuant to section 302 of the Sarbanes-Oxley Act of 2002 - Chief Executive Officer
- 31.2* Certification pursuant to section 302 of the Sarbanes-Oxley Act of 2002 - Chief Financial Officer

* Filed herewith

+ Represents management compensatory plans or agreements

- (1) Filed as an exhibit to the Company's Registration Statement on Form S-4, as amended (No. 333-61547), which was filed with the Securities and Exchange Commission. The exhibit number is indicated in brackets and is incorporated herein by reference.
- (2) Filed as an exhibit to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2000. The exhibit number is indicated in brackets and is incorporated herein by reference.
- (3) Filed as an exhibit to Registrant's current report on Form 8-K dated April 11, 2002. The exhibit number is indicated in brackets and is incorporated herein by reference.
- (4) Filed as an exhibit to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2003. The exhibit number is indicated in brackets and is incorporated herein by reference.
- (5) Filed as an exhibit to Registrant's current report on Form 8-K dated October 22, 2003. The exhibit number is indicated in brackets and is incorporated herein by reference.
- (6) Filed as an exhibit to the Registrant's current report on Form 8-K dated August 5, 2004. The exhibit number is indicated in brackets and is incorporated herein by reference.
- (7) Filed as an exhibit to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2004. The exhibit number is indicated in brackets and is incorporated herein by reference.

(b) REPORTS ON FORM 8-K:

On August 5, 2004, the Registrant filed a current report on Form 8-K to report under Item 2. Acquisition or Disposition of Assets the Registrant's sale of all the issued and outstanding capital stock of Continental Gas, Inc. to the Registrant's shareholders.

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On August 18, 2004, the Registrant filed a current report on Form 8-K to report under Item 4. Changes in Registrant's Certifying Accountant the Registrant's notice on August 13, 2004, that Ernst & Young had resigned from serving as the independent accountant for the Registrant.

On September 22, 2004, the Registrant filed a current report on Form 8-K to report under Item 4.01 Changes in Registrant's Certifying Accountant the Registrant's engagement of Grant Thornton LLP to act as the independent accountant.

On October 8, 2004, the Registrant filed a current report on Form 8-K to report under Item 2.04 Triggering Events That Accelerate or Increase a Direct Financial Obligation or an Obligation Under an Off-Balance Sheet Arrangement the Registrant provided notice to the Trustee that the Registrant will redeem all of the outstanding Notes on November 22, 2004.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Continental Resources, Inc.

Date: November 11, 2004

By: /S/ ROGER V. CLEMENT
Roger V. Clement
Senior Vice President and Chief Financial
Officer

EXHIBIT INDEX

Exhibit No. ---	Description -----	Method of Filing -----
3.1	Amended and Restated Certificate of Incorporation of Continental Resources, Inc.	Incorporated herein by reference
3.2	Amended and Restated Bylaws of Continental Resources, Inc.	Incorporated herein by reference
4.1	Fourth Amended and Restated Credit Agreement dated March 28, 2002, among the Registrant, Union Bank of California, N.A., Guaranty Bank, FSB and Fortis Capital Corp.	Incorporated herein by reference
4.1.1	First Amendment to the Revolving Credit Agreement dated June 12, 2003, among the Registrant, Union Bank of California, N.A., Guaranty Bank, FSB and Fortis Capital Corp.	Incorporated herein by reference
4.1.2	Second Amendment to the Revolving	Incorporated herein by reference

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- Credit Agreement dated October 22, 2003, among the Registrant, Union Bank of California, N.A., Guaranty Bank, FSB and Fortis Capital Corp.
- 4.1.3 Third Amendment to the Revolving Credit Agreement dated April 14, 2004, among the Registrant, Union Bank of California, N.A., Guaranty Bank, FSB, Fortis Capital Corp., and The Royal Bank of Scotland plc. Incorporated herein by reference
- 4.1.4 Fourth Amendment to the Revolving Credit Agreement dated July 21, 2004, among the Registrant, Union Bank of California, N. A., Guaranty Bank, FSB, Fortis Capital Corp., and The Royal Bank of Scotland plc. Incorporated herein by reference
- 4.1.5 Fifth Amendment to Fourth Amended and Restated Credit Agreement dated September 3, 2004, among the Registrant, Union Bank of California, N.A., Guaranty Bank, FSB, Fortis Capital Corp., and The Royal Bank of Scotland plc. Filed herewith electronically
- 4.2 Indenture dated as of July 24, 1998, between Continental Resources, Inc. as Issuer, the Subsidiary Guarantors named therein and the United States Trust Company of New York, as Trustee. Incorporated herein by reference
- 10.1 Unlimited Guaranty Agreement dated March 28, 2002. Incorporated herein by reference
- 10.2 Security Agreement dated March 28, 2002, between Registrant and Guaranty Bank, FSB, as Agent. Incorporated herein by reference
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