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CONTINENTAL RESOURCES INC

Form 8-K

August 05, 2004

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

FORM 8-K

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

Date of Report (Date of earliest event) July 21, 2004

Commission File Number: 333-61547

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

|   |                                      |  |
|---|--------------------------------------|--|
| Oklahoma  | 333-61547                            | 73-0767549                                       |
| -----<br>(State or other jurisdiction of<br>incorporation or organization)                  | -----<br>(Commission<br>File Number) | -----<br>(I.R.S. Employer<br>Identification No.) |
| 302 N. Independence, Suite 1500, Enid, Oklahoma<br>(Address of principal executive offices) |                                      | 73701<br>(Zip Code)                              |

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

-----  
(Former Name or Former Address if Changed Since Last Report)

ITEM 2. ACQUISITION OR DISPOSITION OF ASSETS

On July 21, 2004, Continental Resources, Inc. ("CRI") completed the sale of all of the issued and outstanding capital of its subsidiary, Continental Gas, Inc. ("CGI"), to its shareholders, Harold Hamm and Bert H. Mackie, as Trustee of the Harold Hamm DST Trust (the "DST Trust") and of the Harold Hamm HJ Trust (the "Buyers") for \$22.6 million. The sale was effective as of May 31, 2004. The purchase price was based on the appraisal of an independent third party appraiser who also issued a fairness opinion with respect to the financial terms of the transaction. The assets of CGI included seven gas gathering systems, three gas-processing plants, and approximately 750 miles of gas gathering lines, and at the date of the sale, CGI had outstanding indebtedness under its credit facility of \$16.4 million. Immediately prior to the sale, CGI transferred to CRI all of CGI's interests in the oil and gas properties previously owned by CGI. In addition, on July 20, 2004, CRI paid a \$14.9 million cash dividend to its shareholders. Also, on July 19, 2004, CRI repurchased \$7,650,000 aggregate principal amount of its outstanding 10-1/4% Senior Subordinated Notes Due 2008 for a purchase price of \$7,650,000 plus accrued but unpaid interest.

ITEM 7. FINANCIAL STATEMENTS, PRO FORMA FINANCIAL INFORMATION AND EXHIBITS

(b) Pro forma financial information

Continental Resources, Inc. Unaudited Pro Forma Consolidated Financial  
Statements

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Unaudited Pro Forma Consolidated Balance Sheet as of March 31, 2004

Unaudited Pro Forma Consolidated Statements of Operations for the  
year ended December 31, 2003 and for the three months ended March 31,  
2004

(c) Exhibits:

- 10 Stock Purchase Agreement dated July 19, 2004, among Continental Resources, Inc., Harold Hamm, and Bert H. Mackie, as Trustee of the Harold Hamm DST Trust and the Harold Hamm HJ Trust.

Notes to Unaudited Pro Forma Consolidated Financial Statements

### CONTINENTAL RESOURCES, INC. UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS

The following tables set forth certain pro forma information after giving effect to the sale of CGI stock and the application of the proceeds therefrom (the "Sale"). The unaudited pro forma consolidated balance sheet as of March 31, 2004, is based on our unaudited historical consolidated balance sheet as of March 31, 2004, and gives effect to the Sale as if it had occurred on March 31, 2004. The unaudited pro forma consolidated statement of operations for the year ended December 31, 2003, has been derived from our audited consolidated financial statements for the year ended December 31, 2003. The unaudited pro forma consolidated statement of operations for the three months ended March 31, 2004 gives effect to the Sale as if it had occurred on January 1, 2003. The pro forma information presented herein does not purport to be indicative of the financial position or results of operations that would have actually occurred had the Sale occurred on the dates indicated or which may occur in the future. All pro forma adjustments are based on preliminary estimates and assumptions and are subject to revision.

### CONTINENTAL RESOURCES, INC. AND SUBSIDIARIES PRO FORMA CONSOLIDATED BALANCE SHEET March 31, 2004 (Unaudited, in thousands)

| Assets  | PRO FORMA  |             |         |
|---|------------|-------------|---------|
|   | HISTORICAL | ADJUSTMENTS | PRO FOR |
| <b>Current assets:</b>  |            |             |         |
| Cash and cash equivalents   | \$ 1,968   | \$ (1,583)  | \$ 3    |
| Accounts receivable:  |            |             |         |
| Oil and gas sales   | 18,964     | (58)        | 18,9    |
| Joint interest and other, net                                     | 11,196     | (5,773)     | 5,4     |
| Inventories   | 5,168      | (153)       | 5,0     |
| Prepaid expenses  | 144        | (4)         | 1       |
| Fair value of derivative contracts                                | 40         |             |         |
| Total current assets  | 37,480     | (7,571)     | 29,9    |
| <b>Property and equipment, at cost:</b>                           |            |             |         |
| Oil and gas properties, based on<br>successful efforts accounting | 616,546    | -           | 616,5   |
| Gas gathering and processing facilities                           | 50,882     | (50,186)    | 6       |

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|   |            |             |          |
|---|------------|-------------|----------|
| Service properties, equipment and other   | 19,629     | (1,579)     | 18,0     |
|   | -----      | -----       | -----    |
| Total property and equipment  | 687,057    | (51,765)    | 635,2    |
| Less accumulated depreciation,<br>depletion and amortization  | 242,076    | (14,015)    | 228,0    |
|   | -----      | -----       | -----    |
| Net property and equipment  | 444,981    | (37,750)    | 407,2    |
| Other assets:   |            |             |          |
| Debt issuance costs, net  | 4,344      | (255)       | 4,0      |
| Other assets  | 8          | (5)         |          |
|   | -----      | -----       | -----    |
| Total other assets  | 4,352      | (260)       | 4,0      |
|   | -----      | -----       | -----    |
| Total assets  | \$ 486,813 | \$ (45,581) | \$ 441,2 |
|   | =====      | =====       | =====    |
| Liabilities and stockholders' equity  |            |             |          |
| Current liabilities:  |            |             |          |
| Accounts payable  | \$ 26,614  | \$ (6,843)  | \$ 19,7  |
| Current portion of long-term debt   | 5,776      | (2,429)     | 3,3      |
| Revenues and royalties payable  | 7,935      | (51)        | 7,8      |
| Accrued liabilities:  |            |             |          |
| Interest  | 3,054      | -           | 3,0      |
| Other   | 6,330      | (138)       | 6,1      |
| Fair value of derivative contracts  | 1,433      | -           | 1,4      |
|   | -----      | -----       | -----    |
| Total current liabilities   | 51,142     | (9,461)     | 41,6     |
| Long-term debt, net of current portion  | 291,199    | (13,964)    | 277,2    |
| Asset retirement obligation   | 26,891     | (371)       | 26,5     |
| Other noncurrent liabilities  | 166        | -           | 1        |
| Stockholders' equity:   |            |             |          |
| Preferred stock, \$0.01 par value, 1,000,000 shares<br>authorized, no shares issued and outstanding       | -          | -           |          |
| Common stock, \$0.01 par value, 20,000,000 shares<br>authorized, 14,368,919 shares issued and outstanding | 144        |             | 1        |
| Additional paid-in-capital  | 25,087     | (10)        | 25,0     |
| Retained earnings   | 93,181     | (21,775)    | 71,4     |
| Accumulated other comprehensive income  | (997)      | -           | (9       |
|   | -----      | -----       | -----    |
| Total stockholders' equity  | 117,415    | (21,785)    | 95,6     |
|   | -----      | -----       | -----    |
| Total liabilities and stockholders' equity  | \$ 486,813 | \$ (45,581) | \$ 441,2 |
|   | =====      | =====       | =====    |

CONTINENTAL RESOURCES, INC. AND SUBSIDIARIES  
PRO FORMA CONSOLIDATED INCOME STATEMENT  
(Dollars in thousands, unaudited)

|                                 | Three Months Ende |       |
|---------------------------------|-------------------|-------|
|                                 | HISTORICAL        | ADJU  |
|                                 | -----             | ----- |
| Revenues:                       |                   |       |
| Oil and gas sales               | \$ 36,123         | \$    |
| Crude oil marketing and trading | 55,705            |       |

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|  |         |       |
|--|---------|-------|
| Change in derivative fair value                                    | (396)   |       |
| Gas gathering, marketing and processing                            | 15,865  |       |
| Oil and gas service operations                                     | 2,114   |       |
|  |         | ----- |
| Total revenues   | 109,411 |       |
| Operating costs and expenses:                                      |         |       |
| Production   | 10,548  |       |
| Production taxes   | 2,582   |       |
| Exploration  | 2,092   |       |
| Crude oil marketing and trading                                    | 55,863  |       |
| Gas gathering, marketing and processing                            | 13,808  |       |
| Oil and gas service operations                                     | 1,946   |       |
| Depreciation, depletion and amortization of oil and gas properties | 10,467  |       |
| Depreciation and amortization of other property and equipment      | 1,165   |       |
| Property impairments   | 1,897   |       |
| Asset retirement obligation accretion                              | 277     |       |
| General and administrative   | 2,500   |       |
|  |         | ----- |
| Total operating costs and expenses                                 | 103,145 |       |
| Operating income   | 6,266   |       |
| Other income (expenses):   |         |       |
| Interest income  | 27      |       |
| Interest expense   | (5,289) |       |
| Other income, net  | 23      |       |
| Loss on disposition of assets                                      | (35)    |       |
|  |         | ----- |
| Total other income (expense)                                       | (5,274) |       |
| Net income (loss)  | \$ 992  | \$    |
|  | =====   | ===== |

CONTINENTAL RESOURCES, INC. AND SUBSIDIARIES  
PRO FORMA CONSOLIDATED INCOME STATEMENT  
(Dollars in thousands)

|   | Year Ended December 31, 2003 |             |       |
|---|------------------------------|-------------|-------|
|   | HISTORICAL                   | ADJUSTMENTS | PRO   |
|   | -----                        | -----       | ----- |
| Revenues:   |                              | (Unaudited) | (Una  |
| Oil and gas sales                                       | \$ 138,948                   | \$ -        | \$ 13 |
| Crude oil marketing and trading                         | 168,092                      | -           | 16    |
| Change in derivative fair value                         | 1,455                        | -           |       |
| Gas gathering, marketing and processing                 | 74,459                       | (74,459)    |       |
| Oil and gas service operations                          | 9,114                        | -           |       |
|   |                              |             | ----- |
| Total revenues  | 392,068                      | (74,459)    | 31    |
| Operating costs and expenses:                           |                              |             |       |
| Production  | 37,604                       | -           | 3     |
| Production taxes  | 10,251                       | -           | 1     |
| Exploration   | 17,221                       | -           | 1     |
| Crude oil marketing                                     | 166,731                      | (68,969)    | 9     |
| Gas gathering, marketing and processing                 | 68,969                       | -           | 6     |
| Oil and gas service operations                          | 8,046                        | -           |       |
| Depreciation, depletion and amortization of oil and gas |                              |             |       |

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|   |          |            |       |
|---|----------|------------|-------|
| properties  | 37,329   | -          | 3     |
| Depreciation and amortization of other property and equipment | 5,038    | (3,248)    |       |
| Property impairments  | 8,975    | -          |       |
| Asset retirement obligation accretion                         | 1,151    | -          |       |
| General and administrative                                    | 11,178   | (762)      | 1     |
|   | -----    | -----      | ----- |
| Total operating costs and expenses                            | 372,493  | (72,979)   | 29    |
| Operating income  | 19,575   | (1,480)    | 1     |
| Other income (expenses):                                      |          |            |       |
| Interest income   | 108      | (7)        |       |
| Interest expense  | (20,258) | 497        | (1    |
| Other income, net   | 197      | (3)        |       |
| Gain on disposition of assets                                 | 556      | 33         |       |
|   | -----    | -----      | ----- |
| Total other income (expense)                                  | (19,397) | 520        | (1    |
| Income before change in accounting principle                  | 178      | (960)      |       |
| Cumulative effect of change in accounting principle           | 2,162    | (1,889)    |       |
|   | -----    | -----      | ----- |
| Net income (loss)   | \$ 2,340 | \$ (2,849) | \$    |
|   | =====    | =====      | ===== |

SIGNATURE

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 hereunto duly authorized.

Date: August 5, 2004

Continental Resources, Inc.,

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

EXHIBIT INDEX

| Exhibit<br>No. | Description  | Method of Filing              |
|----------------|--|-------------------------------|
| ---            | -----  | -----                         |
| 10             | Stock Purchase Agreement dated July 19, 2004, among Continental Resources, Inc., Harold Hamm, and Bert H. Mackie, as Trustee of the Harold Hamm DST Trust and the Harold Hamm HJ Trust | Filed herewith electronically |