CONTINENTAL RESOURCES INC
Form 10-K
February 27, 2009
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2008

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to

Commission File Number: 001-32886

CONTINENTAL RESOURCES, INC.

(Exact name of registrant as specified in its charter)

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

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

Securities registered under Section 12(b) of the Exchange Act:

Title of Class	Name of Exchange on Which Registered
Common Stock, $0.01 par value	New York Stock Exchange

Securities registered under Section 12(g) of the Exchange Act: None

Indicate by check mark if registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No ¨

Indicate by check mark if registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x

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 x No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of accelerated filer , large accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨ Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked prices of such common equity, as of the last business day of the registrant s most recently completed second fiscal quarter. As of June 30, 2008 aggregate market value was $3,138,228,490.

As of February 23, 2009, the registrant had 169,556,833 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive Proxy Statement of Continental Resources, Inc. for the Annual Meeting of Stockholders to be held May 28, 2009, which will be filed with the Commission no later than April 30, 2009 are incorporated by reference into Part III of this Form 10-K.

Table of Contents

Table of Contents

Glossary of Oil and Natural Gas Terms

The terms defined in this section are used throughout this report:

AMI. Area of mutual interest.

Bbl. One stock tank barrel, of 42 U.S. gallons liquid volume, used herein in reference to crude oil, condensate or natural gas liquids.

Bcf. One billion cubic feet of natural gas.

Bcfe. One billion cubic feet of natural gas equivalent with one barrel of oil converted to six thousand cubic feet of natural gas.

Boe. Barrels of oil equivalent, with six thousand cubic feet of natural gas being equivalent to one barrel of oil.

Basin. A large natural depression on the earth s surface in which sediments generally brought by water accumulate.

Completion. The process of treating a drilled well followed by the installation of permanent equipment for the production of natural gas or oil, or in the case of a dry hole, the reporting of abandonment to the appropriate agency.

DD&A. Depreciation, depletion, amortization and accretion.

Developed acreage. The number of acres that are allocated or assignable to productive wells or wells capable of production.

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

Dry hole. A well found to be incapable of producing hydrocarbons in sufficient quantities such that proceeds from the sale of such production exceed production expenses and taxes.

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

Exploratory well. A well drilled to find and produce natural gas or oil reserves not classified as proved, to find a new reservoir in a field previously found to be productive of natural gas or oil in another reservoir or to extend a known reservoir.

Field. An area consisting of a single reservoir or multiple reservoirs all grouped on, or related to, the same individual geological structural feature or stratigraphic condition. The field name refers to the surface area, although it may refer to both the surface and the underground productive formations.

Formation. A layer of rock which has distinct characteristics that differs from nearby rock.

Horizontal drilling. A drilling technique used in certain formations where a well is drilled vertically to a certain depth and then drilled at a right angle within a specified interval.

HPAI. High pressure air injection.

Infill wells. Wells drilled into the same pool as known producing wells so that oil or natural gas does not have to travel as far through the formation.

Table of Contents

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

Mcf. One thousand cubic feet of natural gas.

MBoe. One thousand Boe.

MMBoe. One million Boe.

MMBtu. One million British thermal units.

MMcf. One million cubic feet of natural gas.

NYMEX. The New York Mercantile Exchange.

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

PUD. Proved undeveloped.

PV-10. When used with respect to oil and natural gas reserves, PV-10 means the estimated future gross revenue to be generated from the production of proved reserves, net of estimated production and future development and abandonment costs, using prices and costs in effect at the determination date, before income taxes, and without giving effect to non-property-related expenses, discounted to a present value using an annual discount rate of 10% in accordance with the guidelines of the SEC. PV-10 is not a financial measure calculated in accordance with generally accepted accounting principles (GAAP) and generally differs from Standardized Measure, the most directly comparable GAAP financial measure, because it does not include the effects of income taxes on future net revenues. Neither PV-10 nor Standardized Measure represents an estimate of the fair market value of our oil and gas properties. We and others in the industry use PV-10 as a measure to compare the relative size and value of proved reserves held by companies without regard to the specific tax characteristics of such entities.

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

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

Proved reserves. The estimated quantities of oil, natural gas and natural gas liquids which geological and engineering data demonstrate with reasonable certainty to be commercially recoverable in future years from known reservoirs under existing economic and operating conditions.

Proved undeveloped reserves (*PUD*). Proved reserves that are expected to be recovered from new wells on undrilled acreage or from existing wells where a relatively major expenditure is required for recompletion.

Reservoir. A porous and permeable underground formation containing a natural accumulation of producible oil and/or natural gas that is confined by impermeable rock or water barriers and is separate from other reservoirs.

Simul-Frac. Simultaneously fracture treating two or more wells within the same fracture plane in order to create pressure interference between the wells and thereby increasing the stimulated reservoir volume.

Spacing. The distance between wells producing from the same reservoir. Spacing is often expressed in terms of acres, e.g., 40-acre spacing, and is often established by regulatory agencies.

Table of Contents

Standardized Measure. Discounted future net cash flows estimated by applying year-end prices to the estimated future production of year-end proved reserves. Future cash inflows are reduced by estimated future production and development costs based on period-end costs to determine pre-tax cash inflows. Future income taxes, if applicable, are computed by applying the statutory tax rate to the excess of pre-tax cash inflows over our tax basis in the oil and gas properties. Future net cash inflows after income taxes are discounted using a 10% annual discount rate.

Unit. The joining of all or substantially all interests in a reservoir or field, rather than a single tract, to provide for development and operation without regard to separate property interests. Also, the area covered by a unitization agreement.

Waterflood. The injection of water into an oil reservoir to push additional oil out of the reservoir rock and into the wellbores of producing wells. Typically an enhanced recovery process.

Wellbore. The hole drilled by the bit that is equipped for oil or gas production on a completed well. Also called well or borehole.

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

Cautionary Statement Regarding Forward-Looking Statements

This report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements are subject to a number of risks and uncertainties, many of which are beyond our control. All statements, other than statements of historical fact included in this report, regarding our strategy, future operations, financial position, estimated revenues and losses, projected costs, prospects, plans and objectives of management are forward-looking statements. When used in this report, the words could, believe, anticipate, intend, estimate, expect, project and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain such identifying words. Except as otherwise specifically indicated, these statements assume no significant changes will occur in the operating environment for oil and natural gas properties and that there will be no material acquisitions, divestitures or financings except as otherwise described.

Forward-looking statements may include statements about our:

- business strategy;
- reserves;
- technology;
- financial strategy;
- oil and natural gas realized prices;
- timing and amount of future production of oil and natural gas;
- the amount, nature and timing of capital expenditures;
- drilling of wells;

competition and government regulations;

marketing of oil and natural gas;

exploitation or property acquisitions;

Table of Contents

- costs of exploiting and developing our properties and conducting other operations;
- general economic conditions;
- credit markets;
- liquidity and access to capital;
- uncertainty regarding our future operating results; and
- plans, objectives, expectations and intentions contained in this report that are not historical.

All forward-looking statements speak only as of the date of this report. You should not place undue reliance on these forward-looking statements. Although we believe that our plans, intentions and expectations reflected in or suggested by the forward-looking statements we make in this report are reasonable, we can give no assurance that these plans, intentions or expectations will be achieved. We disclose important factors that could cause our actual results to differ materially from our expectations under Item 1A. Risk Factors and Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operation and elsewhere in this report. These cautionary statements qualify all forward-looking statements attributable to us or persons acting on our behalf.

Table of Contents

Part I

You should read this entire report carefully, including Risk Factors and our historical consolidated financial statements and the notes to those historical consolidated financial statements included elsewhere in this report. Unless the context otherwise requires, references in this report to Continental Resources, we, us, our, or ours refer to Continental Resources, Inc., and its subsidiary.

Item 1. Business

General

We are an independent oil and natural gas exploration and production company with operations in the Rocky Mountain, Mid-Continent and Gulf Coast regions of the United States. We were originally formed in 1967 to explore, develop and produce oil and natural gas properties. Through 1993, our activities and growth remained focused primarily in Oklahoma. In 1993, we expanded our activity into the Rocky Mountain and Gulf Coast regions. Approximately 70% of our estimated proved reserves as of December 31, 2008 are located in the Rocky Mountain region. We completed an initial public offering of our common stock on May 14, 2007, and our common stock began trading on the New York Stock Exchange on May 15, 2007 under the ticker symbol CLR .

We focus our exploration activities in large new or developing plays that provide us the opportunity to acquire undeveloped acreage positions for future drilling operations. We have been successful in targeting large repeatable resource plays where horizontal drilling, advanced fracture stimulation and enhanced recovery technologies provide the means to economically develop and produce oil and natural gas reserves from unconventional formations. As a result of these efforts, we have grown substantially through the drillbit, adding 121.7 MMBoe of proved oil and natural gas reserves through extensions and discoveries from January 1, 2004 through December 31, 2008 compared to 3.1 MMBoe added through proved reserve purchases during that same period.

As of December 31, 2008, our estimated proved reserves were 159.3 MMBoe, with estimated proved developed reserves of 106.0 MMBoe, or 67% of our total estimated proved reserves. Crude oil comprised 67% of our total estimated proved reserves. For the year ended December 31, 2008, we generated revenues of $960.5 million and operating cash flows of $719.9 million. For the year and quarter ended December 31, 2008, daily production averaged 32,803 and 36,018 Boe per day, respectively. This represents growth of 13% and 19% as compared to the year and quarter ended December 31, 2007, when daily production averaged 29,099 Boe and 30,369 Boe, respectively.

Table of Contents

The following table summarizes our total estimated proved reserves, PV-10 and net producing wells as of December 31, 2008, average daily production for the three months ended December 31, 2008 and the reserve-to-production index in our principal regions. Our reserve estimates as of December 31, 2008 are based primarily on a reserve report prepared by Ryder Scott Company, L.P., our independent reserve engineers. In preparing its report, Ryder Scott Company, L.P. evaluated properties representing approximately 83% of our PV-10. Our technical staff evaluated properties representing the remaining 17% of our PV-10.

	At December 31, 2008				Average daily production fourth quarter 2008 (Boe per day)	Percent of Total	Annualized reserve/ production index[2]
	Proved reserves (MBoe)	Percent of total	PV-10[1] (in millions)	Net producing wells			
Rockies:							
Red River units	59,386	37.3%	$ 697	242	14,058	39.0%	11.5
Bakken field							
Montana Bakken	28,228	17.7%	240	100	6,410	17.8%	12.0
North Dakota Bakken	17,507	11.0%	160	48	4,401	12.2%	10.9
Other	6,900	4.3%	62	272	2,508	7.0%	7.5
Mid-Continent:							
Arkoma Woodford	30,749	19.3%	184	42	3,276	9.1%	25.6
Other	16,062	10.1%	170	752	4,750	13.2%	9.2
Gulf Coast	430	0.3%	10	17	615	1.7%	1.9
Total	159,262	100.0%	$ 1,523	1,473	36,018	100.0%	12.1

(1) PV-10 is a non GAAP financial measure and generally differs from Standardized Measure, the most directly comparable GAAP financial measure, because it does not include the effects of income taxes on future net revenues. The Standardized Measure at December 31, 2008 is $1.3 billion, a $0.2 billion difference from PV-10 because of the tax effect. Neither PV-10 nor Standardized Measure represents an estimate of the fair market value of our oil and gas properties. We and others in the industry use PV-10 as a measure to compare the relative size and value of proved reserves held by companies without regard to the specific tax characteristics of such entities.

(2) The Annualized Reserve/Production Index is the number of years proved reserves would last assuming current production continued at the same rate. This index is calculated by dividing annualized fourth quarter 2008 production into the proved reserve quantity at December 31, 2008.

The following table provides additional information regarding our key development areas:

	Developed acres		Undeveloped acres		Gross wells planned for drilling	Capital expenditures (in millions)[1]
	Gross	Net	Gross	Net		
Rockies:						
Red River units	147,235	131,320			4	$ 46
Bakken field						
Montana Bakken	82,182	64,438	131,422	101,010		7
North Dakota Bakken	76,337	37,135	865,116	378,425	86	72
Other	61,963	46,818	309,741	189,818	2	2
Mid-Continent:						
Arkoma Woodford	61,461	13,288	99,158	33,568	63	56
Other	138,437	95,093	584,215	382,377	19	27
Gulf Coast	40,748	11,733	36,304	29,247		1
Total	608,363	399,825	2,025,956	1,114,445	174	$ 211

(1) Capital expenditures budgeted for 2009 includes amounts for drilling, capital workovers and facilities and excludes amounts for land of $54 million, seismic of $4 million, and $6 million for vehicles, computers and other equipment. While the above capital expenditures budget reflects our current intentions, we intend to manage our 2009 capital expenditures to be inline with our cash flow from operations. Continued weakness in oil and natural gas prices could cause us to curtail our actual capital expenditures. Conversely, an increase in commodity prices could result in increased capital expenditures.

Our Business Strategy

Our goal is to increase shareholder value by finding and developing crude oil and natural gas reserves at costs that provide an attractive rate of return on our investment. The principal elements of our business strategy are:

Focus on Oil. During the late 1980 s we began to believe that the valuation potential for crude oil exceeded that of natural gas. Accordingly, we began to shift our reserve and production profiles towards crude oil. As of December 31, 2008, crude oil comprises 67% of our total proved reserves and 76% of our 2008 annual production. Although we do pursue natural gas opportunities, we continue to believe that crude oil valuations will be superior to natural gas valuations on a relative Btu basis.

Growth Through Low-Cost Drilling. Substantially all of our annual capital expenditures are invested in drilling projects and acreage and seismic acquisitions. From January 1, 2004 through December 31, 2008, proved oil and natural gas reserve additions through extensions and discoveries were 121.7 MMBoe compared to 3.1 MMBoe of proved reserve purchases.

Internally Generate Prospects. Our technical staff has internally generated substantially all of the opportunities for the investment of our capital. As an early entrant in new or emerging plays, we expect to acquire undeveloped acreage at a lower cost than those of later entrants into a developing play.

Focus on Unconventional Oil and Natural Gas Resource Plays. Our experience with horizontal drilling, advanced fracture stimulation and enhanced recovery technologies allows us to commercially develop unconventional oil and natural gas resource plays, such as the Red River B dolomite, Bakken Shale and Arkoma Woodford formations. Production rates in the Red River units also have been increased through the use of enhanced recovery technology. Our production from the Red River units, the Bakken field, and the Arkoma Woodford comprised approximately 9,302 MBoe, or 77% of our total oil and natural gas production during the year ended December 31, 2008.

Acquire Significant Acreage Positions in New or Developing Plays. In addition to the 513,003 net undeveloped acres held in the Montana and North Dakota Bakken shale and Arkoma Woodford fields, we held 359,120 net undeveloped acres in other oil and natural gas shale plays as of December 31, 2008. Our technical staff is focused on identifying and testing new unconventional oil and natural gas resource plays where significant reserves could be developed if commercial production rates can be achieved through advanced drilling, fracture stimulation and enhanced recovery techniques.

Our Business Strengths

We have a number of strengths that we believe will help us successfully execute our strategies:

Large Acreage Inventory. We own 1,114,445 net undeveloped and 399,825 net developed acres as of December 31, 2008. Approximately 78% of the undeveloped acres are located within unconventional shale resource plays including the Bakken shale in North Dakota and Montana, the Woodford shale in southeast and western Oklahoma, the Atoka shale in western Oklahoma and the Texas Panhandle, the New Albany shale in Indiana and Kentucky and the Lower Huron, Rhinestreet and Marcellus shales in West Virginia, Pennsylvania, New York and Ohio. The balance of the undeveloped acreage is located primarily in conventional plays

Table of Contents

including 3D defined locations for the Trenton-Black River of Michigan, Red River of Montana and North Dakota, Morrow-Springer of western Oklahoma and Frio in South Texas.

Horizontal Drilling and Enhanced Recovery Experience. In 1992, we drilled our initial horizontal well, and we have drilled over 600 horizontal wells since that time. We also have substantial experience with enhanced recovery methods and currently serve as the operator of 48 waterflood units. Additionally, we operate eight high pressure air injection (HPAI) floods.

Control Operations Over a Substantial Portion of Our Assets and Investments. As of December 31, 2008, we operated properties comprising 91% of our PV-10. By controlling operations, we are able to more effectively manage the cost and timing of exploration and development of our properties, including the drilling and fracture stimulation methods used.

Experienced Management Team. Our senior management team has extensive expertise in the oil and gas industry. Our Chief Executive Officer, Harold G. Hamm, began his career in the oil and gas industry in 1967. Our seven senior officers have an average of 28 years of oil and gas industry experience. Additionally, our technical staff, which includes 27 petroleum engineers, 17 geoscientists and 11 landmen, has an average of 20 years experience in the industry.

Strong Financial Position. As of February 23, 2009, we had outstanding borrowings under our revolving credit facility of approximately $474.4 million and available borrowing capacity under our selected commitment level of $198.1 million. We have elected to set the commitment level at $672.5 million, which is below the revolving credit facility note amount of $750.0 million and the established borrowing base of $850.0 million. We believe that our planned exploration and development activities will be funded substantially from our operating cash flows and borrowings under our revolving credit facility. Our 2009 capital expenditures budget has been established based on our current expectation of available cash flow from operations. Should expected available cash flow from operations materially vary from expectations, we believe our credit facility has sufficient availability to fund any deficit or that we can further reduce our capital expenditures to be in line with cash flow from operations.

Oil and Gas Operations

Proved Reserves

The following tables set forth our estimated proved oil and natural gas reserves, percent of total proved reserves that are proved developed, the PV-10 and standardized measure of discounted future net cash flows as of December 31, 2008 by reserve category and region. Ryder Scott Company, L.P., our independent petroleum engineers, evaluated properties representing approximately 83% of our PV-10, and our technical staff evaluated the remaining properties. The year-end weighted average oil and natural gas prices used in the computation of future net cash flows at December 31, 2008 were $39.69 per barrel and $4.90 per Mcf, respectively.

	December 31, 2008			
	Oil (MBbls)	Gas (MMcf)	Total (MBoe)	PV-10[1] (in millions)
Proved developed producing	79,845	153,038	105,351	$ 1,267
Proved developed non-producing	542	498	625	5
Proved undeveloped	25,852	164,602	53,286	251
Total proved reserves	106,239	318,138	159,262	$ 1,523
Standardized measure				$ 1,277

Table of Contents

	Oil (MBbls)	Gas (MMcf)	Total (MBoe)	% Proved developed	PV-10[1] (in millions)
Rockies:					
Red River units	54,917	26,812	59,386	85%	$ 697
Bakken field					
Montana Bakken	24,154	24,443	28,228	64%	240
North Dakota Bakken	14,832	16,047	17,507	52%	160
Other	5,524	8,255	6,900	99%	62
Mid-Continent:					
Arkoma Woodford	62	184,120	30,749	24%	184
Other	6,657	56,439	16,062	86%	170
Gulf Coast	93	2,022	430	100%	10
Total	106,239	318,138	159,262	67%	$ 1,523

(1) PV-10 is a non GAAP financial measure and generally differs from Standardized Measure, the most directly comparable GAAP financial measure, because it does not include the effects of income taxes on future net revenues. The Standardized Measure at December 31, 2008 is $1.3 billion, a $0.2 billion difference from PV-10 because of the tax effect. Neither PV-10 nor Standardized Measure represents an estimate of the fair market value of our oil and gas properties. We and others in the industry use PV-10 as a measure to compare the relative size and value of proved reserves held by companies without regard to the specific tax characteristics of such entities.

Developed and Undeveloped Acreage

The following table presents the total gross and net developed and undeveloped acreage by region as of December 31, 2008:

	Developed acres		Undeveloped acres		Total	
	Gross	Net	Gross	Net	Gross	Net
Rockies:						
Red River units						