

CONTINENTAL RESOURCES, INC

Form 10-Q

May 08, 2013

[Table of Contents](#)

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended March 31, 2013

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)

Edgar Filing: CONTINENTAL RESOURCES, INC - Form 10-Q

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

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

**Not Applicable**

**(Former name, former address and former fiscal year, if changed since last report)**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

Large accelerated filer  Accelerated filer   
Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company   
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

185,627,255 shares of our \$0.01 par value common stock were outstanding on April 30, 2013.

**Table of Contents**

**Table of Contents**

**PART I. Financial Information**

Item 1.	<u>Financial Statements</u>	1
	<u>Condensed Consolidated Balance Sheets</u>	1
	<u>Unaudited Condensed Consolidated Statements of Income</u>	2
	<u>Condensed Consolidated Statements of Shareholders' Equity</u>	3
	<u>Unaudited Condensed Consolidated Statements of Cash Flows</u>	4
	<u>Notes to Unaudited Condensed Consolidated Financial Statements</u>	5
Item 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	17
Item 3.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	30
Item 4.	<u>Controls and Procedures</u>	31

**PART II. Other Information**

Item 1.	<u>Legal Proceedings</u>	32
Item 1A.	<u>Risk Factors</u>	32
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	32
Item 3.	<u>Defaults Upon Senior Securities</u>	32
Item 4.	<u>Mine Safety Disclosures</u>	33
Item 5.	<u>Other Information</u>	33
Item 6.	<u>Exhibits</u>	33
	<u>Signature</u>	34

When we refer to us, we, our, Company, or Continental we are describing Continental Resources, Inc. and our subsidiaries.

## **Table of Contents**

### **Glossary of Crude Oil and Natural Gas Terms**

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

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

*Boe* Barrels of crude oil equivalent, with six thousand cubic feet of natural gas being equivalent to one barrel of crude oil based on the average equivalent energy content of the two commodities.

*Btu* British thermal unit, which represents the amount of energy needed to heat one pound of water by one degree Fahrenheit and can be used to describe the energy content of fuels.

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

*conventional play* An area believed to be capable of producing crude oil and natural gas occurring in discrete accumulations in structural and stratigraphic traps.

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

*developed acreage* The number of acres allocated or assignable to productive wells or wells capable of production.

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

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

*dry hole* Exploratory or development well that does not produce crude oil and/or natural gas in economically producible quantities.

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

*exploratory well* A well drilled to find a new field or to find a new reservoir in a field previously found to be productive of crude oil or natural gas in another reservoir.

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

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

*horizontal drilling* A drilling technique used in certain formations where a well is drilled vertically to a certain depth and then drilled horizontally within a specified interval.

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

*injection well* A well into which liquids or gases are injected in order to push additional crude oil or natural gas out of underground reservoirs and into the wellbores of producing wells. Typically considered an enhanced recovery process.

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

*MBoe* One thousand Boe.

Edgar Filing: CONTINENTAL RESOURCES, INC - Form 10-Q

*Mcf* One thousand cubic feet of natural gas.

*MMBoe* One million Boe.

*MMBtu* One million British thermal units.

*MMcf* One million cubic feet of natural gas.

## **Table of Contents**

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

*NYMEX* The New York Mercantile Exchange.

*play* A portion of the exploration and production cycle following the identification by geologists and geophysicists of areas with potential crude oil and natural gas reserves.

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

*prospect* A potential geological feature or formation which geologists and geophysicists believe may contain hydrocarbons. A prospect can be in various stages of evaluation, ranging from a prospect that has been fully evaluated and is ready to drill to a prospect that will require substantial additional seismic data processing and interpretation.

*proved reserves* The quantities of crude oil and natural gas, which, by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be economically producible from a given date forward, from known reservoirs and under existing economic conditions, operating methods, and government regulations prior to the time at which contracts providing the right to operate expire, unless evidence indicates renewal is reasonably certain.

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

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

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

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

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

*SCOOP* Refers to the South Central Oklahoma Oil Province, a term we use to describe an emerging area of crude oil and liquids-rich natural gas properties located in the Anadarko basin of south central Oklahoma.

*unconventional play* An area believed to be capable of producing crude oil and natural gas occurring in accumulations that are regionally extensive, but require recently developed technologies to achieve profitability. These areas tend to have low permeability and may be closely associated with source rock as is the case with oil and gas shale, tight oil and gas sands and coalbed methane.

*undeveloped acreage* Lease acreage on which wells have not been drilled or completed to a point that would permit the production of commercial quantities of crude oil and/or natural gas.

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

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

**Table of Contents**

**Cautionary Statement for the Purpose of the Safe Harbor Provisions of the Private Securities Litigation Reform Act of 1995**

This report includes 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. All statements other than statements of historical fact, including, but not limited to, statements or information concerning the Company's future operations, performance, financial condition, production and reserves, schedules, plans, timing of development, returns, budgets, costs, business strategy, objectives, and cash flow, included in this report are forward-looking statements. When used in this report, the words could, may, believe, anticipate, intend, estimate, expect, project, budget, plan, continue, potential, and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain such identifying words. Forward-looking statements are based on the Company's current expectations and assumptions about future events and currently available information as to the outcome and timing of future events. Although the Company believes the expectations reflected in the forward-looking statements are reasonable and based on reasonable assumptions, no assurance can be given that such expectations will be correct or achieved or that the assumptions are accurate. When considering forward-looking statements, you should keep in mind the risk factors and other cautionary statements described under *Part II, Item 1A. Risk Factors* included in this report, our Annual Report on Form 10-K for the year ended December 31, 2012, registration statements filed from time to time with the SEC, and other announcements we make from time to time.

Without limiting the generality of the foregoing, certain statements incorporated by reference, if any, or included in this report constitute forward-looking statements.

Forward-looking statements may include statements about:

our business strategy;

our future operations;

our reserves;

our technology;

our financial strategy;

crude oil, natural gas liquids, and natural gas prices and differentials;

the timing and amount of future production of crude oil and natural gas and flaring activities;

the amount, nature and timing of capital expenditures;

estimated revenues, expenses and results of operations;

drilling and completing of wells;

competition;

marketing of crude oil and natural gas;

transportation of crude oil, natural gas liquids, and natural gas to markets;

exploitation or property acquisitions and dispositions;

costs of exploiting and developing our properties and conducting other operations;

our financial position;

general economic conditions;

credit markets;

our liquidity and access to capital;

the impact of governmental policies, laws and regulations, as well as regulatory and legal proceedings involving us and of scheduled or potential regulatory or legal changes;

our future operating results;

plans, objectives, expectations and intentions contained in this report that are not historical, including, without limitation, statements regarding our future growth plans;

our commodity hedging arrangements; and

the ability and willingness of current or potential lenders, hedging contract counterparties, customers, and working interest owners to fulfill their obligations to us or to enter into transactions with us in the future on terms that are acceptable to us.



**Table of Contents**

We caution you these forward-looking statements are subject to all of the risks and uncertainties, most of which are difficult to predict and many of which are beyond our control, incident to the exploration for, and development, production, and sale of, crude oil and natural gas. These risks include, but are not limited to, commodity price volatility, inflation, lack of availability of drilling, completion and production equipment and services, environmental risks, drilling and other operating risks, regulatory changes, the uncertainty inherent in estimating crude oil and natural gas reserves and in projecting future rates of production, cash flows and access to capital, the timing of development expenditures, and the other risks described under *Part II, Item 1A. Risk Factors* in this report, our Annual Report on Form 10-K for the year ended December 31, 2012, registration statements filed from time to time with the SEC, and other announcements we make from time to time.

Readers are cautioned not to place undue reliance on forward-looking statements, which speak only as of the date hereof. Should one or more of the risks or uncertainties described in this report occur, or should underlying assumptions prove incorrect, our actual results and plans could differ materially from those expressed in any forward-looking statements. All forward-looking statements are expressly qualified in their entirety by this cautionary statement. This cautionary statement should also be considered in connection with any subsequent written or oral forward-looking statements that we or persons acting on our behalf may issue.

Except as otherwise required by applicable law, we disclaim any duty to update any forward-looking statements to reflect events or circumstances after the date of this report.

**Table of Contents****PART I. Financial Information****ITEM 1. Financial Statements****Continental Resources, Inc. and Subsidiaries****Condensed Consolidated Balance Sheets**

	<b>March 31, 2013</b> <i>(Unaudited)</i>	<b>December 31, 2012</b>
	<i>In thousands, except par values and share data</i>	
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 58,546	\$ 35,729
Receivables:		
Crude oil and natural gas sales	546,560	468,650
Affiliated parties	12,329	12,410
Joint interest and other, net	356,624	356,111
Derivative assets	3,550	18,389
Inventories	61,739	46,743
Deferred and prepaid taxes	31,715	365
Prepaid expenses and other	9,529	8,386
Total current assets	1,080,592	946,783
Net property and equipment, based on successful efforts method of accounting	8,764,624	8,105,269
Net debt issuance costs and other	54,096	55,726
Noncurrent derivative assets	32,864	32,231
Total assets	\$ 9,932,176	\$ 9,140,009
<b>Liabilities and shareholders equity</b>		
Current liabilities:		
Accounts payable trade	\$ 734,948	\$ 687,310
Revenues and royalties payable	261,787	261,856
Payables to affiliated parties	5,936	6,069
Accrued liabilities and other	133,661	153,454
Derivative liabilities	76,672	12,999
Current portion of asset retirement obligations	2,089	2,227
Current portion of long-term debt	1,965	1,950
Total current liabilities	1,217,058	1,125,865
Long-term debt, net of current portion	3,976,801	3,537,771
Other noncurrent liabilities:		
Deferred income tax liabilities	1,376,517	1,262,576
Asset retirement obligations, net of current portion	44,332	44,944
Noncurrent derivative liabilities	2,315	2,173
Other noncurrent liabilities	3,073	2,981
Total other noncurrent liabilities	1,426,237	1,312,674
Commitments and contingencies (Note 7)		
Shareholders equity:		

## Edgar Filing: CONTINENTAL RESOURCES, INC - Form 10-Q

Preferred stock, \$0.01 par value; 25,000,000 shares authorized; no shares issued and outstanding

Common stock, \$0.01 par value; 500,000,000 shares authorized; 185,632,612 shares issued and outstanding at March 31, 2013; 185,604,681 shares issued and outstanding at December 31, 2012

	1,856	1,856
Additional paid-in capital	1,234,589	1,226,835
Retained earnings	2,075,635	1,935,008
Total shareholders' equity	3,312,080	3,163,699
Total liabilities and shareholders' equity	\$ 9,932,176	\$ 9,140,009

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

**Table of Contents****Continental Resources, Inc. and Subsidiaries****Unaudited Condensed Consolidated Statements of Income**

	<b>Three months ended March 31,</b>	
	<b>2013</b>	<b>2012</b>
	<i>In thousands, except per share data</i>	
<b>Revenues</b>		
Crude oil and natural gas sales	\$ 762,632	\$ 535,312
Crude oil and natural gas sales to affiliates	20,885	16,946
Loss on derivative instruments, net	(84,831)	(169,057)
Crude oil and natural gas service operations	11,543	11,899
<b>Total revenues</b>	<b>710,229</b>	<b>395,100</b>
<b>Operating costs and expenses</b>		
Production expenses	61,318	40,016
Production and other expenses to affiliates	1,657	1,069
Production taxes and other expenses	71,257	49,730
Exploration expenses	9,814	4,151
Crude oil and natural gas service operations	8,597	9,842
Depreciation, depletion, amortization and accretion	213,678	149,455
Property impairments	40,081	29,907
General and administrative expenses	33,817	24,966
Gain on sale of assets, net	(136)	(49,627)
<b>Total operating costs and expenses</b>	<b>440,083</b>	<b>259,509</b>
Income from operations	270,146	135,591
Other income (expense):		
Interest expense	(47,475)	(24,278)
Other	546	781
	(46,929)	(23,497)
Income before income taxes	223,217	112,094
Provision for income taxes	82,590	43,000
<b>Net income</b>	<b>\$ 140,627</b>	<b>\$ 69,094</b>
Basic net income per share	\$ 0.76	\$ 0.38
Diluted net income per share	\$ 0.76	\$ 0.38

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

**Table of Contents****Continental Resources, Inc. and Subsidiaries****Condensed Consolidated Statements of Shareholders Equity**

	Shares outstanding	Common stock	Additional paid-in capital	Retained earnings	Total shareholders equity
	<i>In thousands, except share data</i>				
Balance at December 31, 2012	185,604,681	\$ 1,856	\$ 1,226,835	\$ 1,935,008	\$ 3,163,699
Net income (unaudited)				140,627	140,627
Stock-based compensation (unaudited)			9,242		9,242
Restricted stock:					
Issued (unaudited)	64,735				
Repurchased and canceled (unaudited)	(17,856)		(1,488)		(1,488)
Forfeited (unaudited)	(18,948)				
Balance at March 31, 2013	185,632,612	\$ 1,856	\$ 1,234,589	\$ 2,075,635	\$ 3,312,080

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

**Table of Contents****Continental Resources, Inc. and Subsidiaries****Unaudited Condensed Consolidated Statements of Cash Flows**

	<b>Three months ended March 31,</b>	
	<b>2013</b>	<b>2012</b>
	<i>In thousands</i>	
<b>Cash flows from operating activities</b>		
Net income	\$ 140,627	\$ 69,094
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion, amortization and accretion	215,464	150,273
Property impairments	40,081	29,907
Change in fair value of derivatives	78,021	129,132
Stock-based compensation	9,242	5,515
Provision for deferred income taxes	82,590	40,850
Dry hole costs	2,261	88
Gain on sale of assets, net	(136)	(49,627)
Other, net	1,390	828
Changes in assets and liabilities:		
Accounts receivable	(78,118)	(19,921)
Inventories	(14,995)	(2,634)
Prepaid expenses and other	(984)	1,484
Accounts payable trade	5,068	(1,768)
Revenues and royalties payable	(69)	5,778
Accrued liabilities and other	(22,340)	5,948
Other noncurrent assets and liabilities	9	(3)
Net cash provided by operating activities	458,111	364,944
<b>Cash flows from investing activities</b>		
Exploration and development	(857,523)	(1,012,308)
Purchase of producing crude oil and natural gas properties	(3,332)	(57,662)
Purchase of other property and equipment	(12,649)	(9,963)
Proceeds from sale of assets	351	84,818
Net cash used in investing activities	(873,153)	(995,115)
<b>Cash flows from financing activities</b>		
Revolving credit facility borrowings	440,000	718,000
Repayment of revolving credit facility		(900,000)
Proceeds from issuance of Senior Notes		787,000
Proceeds from other debt		22,000
Repayment of other debt	(485)	(159)
Debt issuance costs	(168)	(3,843)
Repurchase of equity grants	(1,488)	(3,748)
Exercise of stock options		60
Net cash provided by financing activities	437,859	619,310
Net change in cash and cash equivalents	22,817	(10,861)
Cash and cash equivalents at beginning of period	35,729	53,544
Cash and cash equivalents at end of period	58,546	42,683

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

**Table of Contents****Continental Resources, Inc. and Subsidiaries****Notes to Unaudited Condensed Consolidated Financial Statements****Note 1. Organization and Nature of Business***Description of the Company*

Continental's principal business is crude oil and natural gas exploration, development and production with properties in the North, South, and East regions of the United States. The North region consists of properties north of Kansas and west of the Mississippi River and includes North Dakota Bakken, Montana Bakken and the Red River units. The South region includes Kansas and all properties south of Kansas and west of the Mississippi River including the South Central Oklahoma Oil Province ( SCOOP ), Northwest Cana, and Arkoma Woodford plays in Oklahoma. The East region is comprised of undeveloped leasehold acreage east of the Mississippi River.

The Company's operations are geographically concentrated in the North region, with that region comprising approximately 77% of the Company's crude oil and natural gas production for the three months ended March 31, 2013. The Company has focused its operations on the exploration and development of crude oil since the 1980s. For the three months ended March 31, 2013, crude oil accounted for approximately 71% of the Company's total production and approximately 88% of its crude oil and natural gas revenues.

**Note 2. Basis of Presentation and Significant Accounting Policies***Basis of presentation*

The condensed consolidated financial statements include the accounts of Continental and its wholly owned subsidiaries after all significant intercompany accounts and transactions have been eliminated upon consolidation.

This report has been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (the SEC) applicable to interim financial information. Because this is an interim period filing presented using a condensed format, it does not include all disclosures required by accounting principles generally accepted in the United States ( U.S. GAAP ), although the Company believes the disclosures are adequate to make the information not misleading. You should read this Form 10-Q together with the Company's Annual Report on Form 10-K for the year ended December 31, 2012 ( 2012 Form 10-K ), which includes a summary of the Company's significant accounting policies and other disclosures.

The condensed consolidated financial statements as of March 31, 2013 and for the three month periods ended March 31, 2013 and 2012 are unaudited. The condensed consolidated balance sheet as of December 31, 2012 was derived from the audited balance sheet included in the 2012 Form 10-K. The Company has evaluated events or transactions through the date this report on Form 10-Q was filed with the SEC in conjunction with its preparation of these condensed consolidated financial statements.

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The most significant of the estimates and assumptions that affect reported results are the estimates of the Company's crude oil and natural gas reserves, which are used to compute depreciation, depletion, amortization and impairment of proved crude oil and natural gas properties. In the opinion of management, all adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation in accordance with U.S. GAAP have been included in these unaudited interim condensed consolidated financial statements. The results of operations for any interim period are not necessarily indicative of the results of operations that may be expected for any other interim period or for the entire year.

*Inventories*

Inventories are stated at the lower of cost or market and consist of the following:

<b>In thousands</b>	<b>March 31, 2013</b>	<b>December 31, 2012</b>
Tubular goods and equipment	\$ 15,251	\$ 13,590

Edgar Filing: CONTINENTAL RESOURCES, INC - Form 10-Q

Crude oil		46,488		33,153
Total		\$ 61,739	\$	46,743



**Table of Contents****Continental Resources, Inc. and Subsidiaries****Notes to Unaudited Condensed Consolidated Financial Statements**

Crude oil inventories are valued at the lower of cost or market using the first-in, first-out inventory method. Crude oil inventories consist of the following volumes:

<i>MBbls</i>	March 31, 2013	December 31, 2012
Crude oil line fill requirements	422	391
Temporarily stored crude oil	378	211
<b>Total</b>	<b>800</b>	<b>602</b>

*Earnings per share*

Basic net income per share is computed by dividing net income by the weighted-average number of shares outstanding for the period. Diluted net income per share reflects the potential dilution of non-vested restricted stock awards and stock options, which are calculated using the treasury stock method as if the awards and options were exercised. The following table presents the calculation of basic and diluted weighted average shares outstanding and net income per share for the three months ended March 31, 2013 and 2012:

	Three months ended March 31,	
	2013	2012
	<i>In thousands, except per share data</i>	
<b>Income (numerator):</b>		
Net income - basic and diluted	\$ 140,627	\$ 69,094
<b>Weighted average shares (denominator):</b>		
Weighted average shares - basic	183,999	179,707
Non-vested restricted stock	657	512
Stock options		64
<b>Weighted average shares - diluted</b>	<b>184,656</b>	<b>180,283</b>
<b>Net income per share:</b>		
Basic	\$ 0.76	\$ 0.38
Diluted	\$ 0.76	\$ 0.38

*Adoption of new accounting standard*

In December 2011, the Financial Accounting Standards Board ( FASB ) issued Accounting Standards Update ( ASU ) No. 2011-11, *Balance Sheet (Topic 210) Disclosures about Offsetting Assets and Liabilities*. The new standard requires an entity to disclose information about offsetting arrangements to enable financial statement users to understand the effect of netting arrangements on an entity's financial position. The disclosures are required for recognized financial instruments and derivative instruments that are subject to offsetting under current accounting literature or are subject to master netting arrangements irrespective of whether they are offset. The disclosure requirements became effective for periods beginning on or after January 1, 2013 and must be applied retrospectively to all periods presented on the balance sheet. The Company adopted the provisions of the new standard on January 1, 2013 and has included the required disclosures in *Note 4. Derivative Instruments*. Adoption of the new standard required additional footnote disclosures for our derivative instruments and did not have an impact on our financial position, results of operations or cash flows.

**Note 3. Supplemental Cash Flow Information**

## Edgar Filing: CONTINENTAL RESOURCES, INC - Form 10-Q

The following table discloses supplemental cash flow information about cash paid for interest and income taxes. Also disclosed is information about investing activities that affects recognized assets and liabilities but does not result in cash receipts or payments.

	<b>Three months ended March 31,</b>	
	<b>2013</b>	<b>2012</b>
	<i>In thousands</i>	
<b>Supplemental cash flow information:</b>		
Cash paid for interest	\$ 53,169	\$ 2,915
Cash paid for income taxes	11,049	626
Cash received for income tax refunds	(8)	(5)
<b>Non-cash investing activities:</b>		
Increase (decrease) in accrued capital expenditures	42,214	(37,439)
Asset retirement obligations, net	2,227	1,762

**Table of Contents****Continental Resources, Inc. and Subsidiaries****Notes to Unaudited Condensed Consolidated Financial Statements****Note 4. Derivative Instruments**

The Company is required to recognize all derivative instruments on the balance sheet as either assets or liabilities measured at fair value. The Company has not designated its derivative instruments as hedges for accounting purposes and, as a result, marks its derivative instruments to fair value and recognizes the realized and unrealized changes in fair value in the unaudited condensed consolidated statements of income under the caption Loss on derivative instruments, net.

The Company has utilized swap and collar derivative contracts to hedge against the variability in cash flows associated with the forecasted sale of future crude oil and natural gas production. While the use of these derivative instruments limits the downside risk of adverse price movements, their use also limits future revenues from upward price movements.

With respect to a fixed price swap contract, the counterparty is required to make a payment to the Company if the settlement price for any settlement period is less than the swap price, and the Company is required to make a payment to the counterparty if the settlement price for any settlement period is greater than the swap price. For a collar contract, the counterparty is required to make a payment to the Company if the settlement price for any settlement period is below the floor price, the Company is required to make a payment to the counterparty if the settlement price for any settlement period is above the ceiling price, and neither party is required to make a payment to the other party if the settlement price for any settlement period is between the floor price and the ceiling price.

The Company's derivative contracts are settled based upon reported settlement prices on commodity exchanges, with crude oil derivative settlements based on NYMEX West Texas Intermediate ( WTI ) pricing or Inter-Continental Exchange ( ICE ) pricing for Brent crude oil and natural gas derivative settlements based on NYMEX Henry Hub pricing. The estimated fair value of derivative contracts is based upon various factors, including commodity exchange prices, over-the-counter quotations, and, in the case of collars, volatility, the risk-free interest rate, and the time to expiration. The calculation of the fair value of collars requires the use of an option-pricing model. See *Note 5. Fair Value Measurements*.

At March 31, 2013, the Company had outstanding derivative contracts with respect to future production as set forth in the tables below.

<i>Crude Oil - NYMEX WTI</i>	Bbls	Swaps Weighted Average Price	Floors Range	Collars		Weighted Average Price
				Weighted Average Price	Range	
Period and Type of Contract						
April 2013 - December 2013						
Swaps - WTI	8,937,500	\$ 92.66				
Collars - WTI	6,600,000		\$ 80.00 - \$95.00	\$ 86.92	\$ 92.30 - \$110.33	\$ 99.46
January 2014 - December 2014						
Swaps - WTI	10,311,250	\$ 96.20				

<i>Crude Oil - ICE Brent</i>	Bbls	Swaps Weighted Average Price	Floors Range	Collars		Weighted Average Price
				Weighted Average Price	Range	
Period and Type of Contract						
April 2013 - December 2013						
Swaps - ICE Brent	3,712,500	\$ 108.72				
January 2014 - December 2014						
Swaps - ICE Brent	11,862,500	\$ 102.83				
Collars - ICE Brent	2,190,000		\$ 90.00 - \$95.00	\$ 90.83	\$ 104.70 - \$108.85	\$ 107.13
January 2015 - December 2015						

Edgar Filing: CONTINENTAL RESOURCES, INC - Form 10-Q

Swaps - ICE Brent	1,277,500	\$ 98.48
-------------------	-----------	----------

*Natural Gas - NYMEX Henry Hub*

<b>Period and Type of Contract</b>	<b>MMBtus</b>	<b>Swaps Weighted Average Price</b>
April 2013 - December 2013		
Swaps - Henry Hub	68,750,000	\$ 3.78
January 2014 - December 2014		
Swaps - Henry Hub	40,150,000	\$ 4.14

**Table of Contents****Continental Resources, Inc. and Subsidiaries****Notes to Unaudited Condensed Consolidated Financial Statements***Derivative gains and losses*

The following table presents realized and unrealized gains and losses on derivative instruments for the periods presented.

	<b>Three months ended March 31,</b>	
	<b>2013</b>	<b>2012</b>
	<i>In thousands</i>	
Realized gain (loss) on derivatives:		
Crude oil fixed price swaps	\$ (9,593)	\$ (31,424)
Crude oil collars	125	(10,920)
Natural gas fixed price swaps	2,658	2,419
Realized loss on derivatives, net	\$ (6,810)	\$ (39,925)
Unrealized gain (loss) on derivatives:		
Crude oil fixed price swaps	\$ (33,364)	\$ (80,998)
Crude oil collars	(13,762)	(58,943)
Natural gas fixed price swaps	(30,895)	10,809
Unrealized loss on derivatives, net	\$ (78,021)	\$ (129,132)
Loss on derivative instruments, net	\$ (84,831)	\$ (169,057)

*Balance sheet offsetting of derivative assets and liabilities*

In December 2011, the FASB issued ASU No. 2011-11, *Balance Sheet (Topic 210) Disclosures about Offsetting Assets and Liabilities*, which requires an entity to disclose information about offsetting arrangements to enable financial statement users to understand the effect of netting arrangements on an entity's financial position. The Company adopted the provisions of the new standard on January 1, 2013 as required and has provided the applicable disclosures below with respect to its derivative instruments.

All of the Company's derivative contracts are carried at their fair value in the condensed consolidated balance sheets under the captions

Derivative assets, Noncurrent derivative assets, Derivative liabilities, and Noncurrent derivative liabilities. Derivative assets and liabilities with the same counterparty that are subject to contractual terms which provide for net settlement are reported on a net basis in the condensed consolidated balance sheets.

The following tables present the gross amounts of recognized derivative assets and liabilities, the amounts offset under netting arrangements with counterparties, and the resulting net amounts presented in the condensed consolidated balance sheets for the periods presented, all at fair value.

	<b>March 31, 2013</b>			<b>December 31, 2012</b>		
	<b>Gross amounts of recognized assets</b>	<b>Gross amounts offset on balance sheet</b>	<b>Net amounts of assets on balance sheet</b>	<b>Gross amounts of recognized assets</b>	<b>Gross amounts offset on balance sheet</b>	<b>Net amounts of assets on balance sheet</b>
<i>In thousands</i>						
Commodity derivative assets	\$ 53,705	\$ (17,291)	\$ 36,414	\$ 86,506	\$ (35,886)	\$ 50,620

Edgar Filing: CONTINENTAL RESOURCES, INC - Form 10-Q

	March 31, 2013			December 31, 2012		
	Gross amounts of recognized liabilities	Gross amounts offset on balance sheet	Net amounts of liabilities on balance sheet	Gross amounts of recognized liabilities	Gross amounts offset on balance sheet	Net amounts of liabilities on balance sheet
<i>In thousands</i>						
Commodity derivative liabilities	\$ (95,742)	\$ 16,755	\$ (78,987)	\$ (16,241)	\$ 1,069	\$ (15,172)

**Table of Contents****Continental Resources, Inc. and Subsidiaries****Notes to Unaudited Condensed Consolidated Financial Statements**

The following table reconciles the net amounts disclosed above to the individual financial statement line items in the condensed consolidated balance sheets.

<b>In thousands</b>	<b>March 31, 2013</b>	<b>December 31, 2012</b>
Derivative assets	\$ 3,550	\$ 18,389
Noncurrent derivative assets	32,864	32,231
<b>Net amounts of assets on balance sheet</b>	<b>\$ 36,414</b>	<b>\$ 50,620</b>
Derivative liabilities	\$ (76,672)	\$ (12,999)
Noncurrent derivative liabilities	(2,315)	(2,173)
<b>Net amounts of liabilities on balance sheet</b>	<b>\$ (78,987)</b>	<b>\$ (15,172)</b>
<b>Total derivative assets (liabilities), net</b>	<b>\$ (42,573)</b>	<b>\$ 35,448</b>

**Note 5. Fair Value Measurements**

The Company follows a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy categorizes assets and liabilities measured at fair value into one of three different levels depending on the observability of the inputs employed in the measurement. The three levels are defined as follows:

Level 1: Observable inputs that reflect unadjusted quoted prices for identical assets or liabilities in active markets as of the reporting date.

Level 2: Observable market-based inputs or unobservable inputs that are corroborated by market data. These are inputs other than quoted prices in active markets included in Level 1, which are either directly or indirectly observable as of the reporting date.

Level 3: Unobservable inputs that are not corroborated by market data and may be used with internally developed methodologies that result in management's best estimate of fair value.

A financial instrument's categorization within the hierarchy is based upon the lowest level of input that is significant to the fair value measurement. Level 1 inputs are given the highest priority in the fair value hierarchy while Level 3 inputs are given the lowest priority. The Company's assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the placement of assets and liabilities within the levels of the hierarchy. As Level 1 inputs generally provide the most reliable evidence of fair value, the Company uses Level 1 inputs when available. The Company's policy is to recognize transfers between the hierarchy levels as of the beginning of the reporting period in which the event or change in circumstances caused the transfer.

*Assets and Liabilities Measured at Fair Value on a Recurring Basis*

Certain assets and liabilities are reported at fair value on a recurring basis, including the Company's derivative instruments. In determining the fair values of fixed price swaps, a discounted cash flow method is used due to the unavailability of relevant comparable market data for the Company's exact contracts. The discounted cash flow method estimates future cash flows based on quoted market prices for forward commodity prices and a risk-adjusted discount rate. The fair values of fixed price swaps are calculated mainly using significant observable inputs (Level 2). Calculation of the fair values of collar contracts requires the use of an industry-standard option pricing model that considers various inputs

## Edgar Filing: CONTINENTAL RESOURCES, INC - Form 10-Q

including quoted forward prices for commodities, time value, volatility factors, and current market and contractual prices for the underlying instruments, as well as other relevant economic measures. These assumptions are observable in the marketplace or can be corroborated by active markets or broker quotes and are therefore designated as Level 2 within the valuation hierarchy. The Company's calculation for each of its derivative positions is compared to the counterparty valuation for reasonableness.



**Table of Contents****Continental Resources, Inc. and Subsidiaries****Notes to Unaudited Condensed Consolidated Financial Statements**

The following tables summarize the valuation of financial instruments by pricing levels that were accounted for at fair value on a recurring basis as of March 31, 2013 and December 31, 2012.

Description	Fair value measurements at March 31, 2013 using:			Total
	Level 1	Level 2	Level 3	
	<i>In thousands</i>			
Derivative assets (liabilities):				
Fixed price swaps	\$	\$ (27,543)	\$	\$ (27,543)
Collars		(15,030)		(15,030)
Total	\$	\$ (42,573)	\$	\$ (42,573)

Description	Fair value measurements at December 31, 2012 using:			Total
	Level 1	Level 2	Level 3	
	<i>In thousands</i>			
Derivative assets (liabilities):				
Fixed price swaps	\$	\$ 36,716	\$	\$ 36,716
Collars		(1,268)		(1,268)
Total	\$	\$ 35,448	\$	\$ 35,448

*Assets Measured at Fair Value on a Nonrecurring Basis*

Certain assets are reported at fair value on a nonrecurring basis in the condensed consolidated financial statements. The following methods and assumptions were used to estimate the fair values for those assets.

**Asset Impairments** Proved crude oil and natural gas properties are reviewed for impairment on a field-by-field basis each quarter, or when events and circumstances indicate a possible decline in the recoverability of the carrying value of such field. The estimated future cash flows expected in connection with the field are compared to the carrying amount of the field to determine if the carrying amount is recoverable. If the carrying amount of the field exceeds its estimated undiscounted future cash flows, the carrying amount of the field is reduced to its estimated fair value. Due to the unavailability of relevant comparable market data, a discounted cash flow method is used to determine the fair value of proved properties. The discounted cash flow method estimates future cash flows based on management's estimates of future crude oil and natural gas production, commodity prices based on commodity futures price strips, operating and development costs, and a risk-adjusted discount rate. The fair value of proved crude oil and natural gas properties is calculated using significant unobservable inputs (Level 3). The following table sets forth quantitative information about the significant unobservable inputs used by the Company to calculate the fair value of proved crude oil and natural gas properties using a discounted cash flow method.

Unobservable Input	Assumption
Future production	Future production estimates for each property
Forward commodity prices	Forward NYMEX swap prices through 2017 (adjusted for differentials), escalating 3% per year thereafter
Operating and development costs	Estimated costs for the current year, escalating 3% per year thereafter
Productive life of field	Ranging from 0 to 50 years
Discount rate	10%

Unobservable inputs to the fair value assessment are reviewed quarterly and are revised as warranted based on a number of factors, including reservoir performance, new drilling, crude oil and natural gas prices, changes in costs, technological advances, new geological or geophysical

## Edgar Filing: CONTINENTAL RESOURCES, INC - Form 10-Q

data, or other economic factors. Fair value measurements of proved properties are reviewed and approved by certain members of the Company's management.

Proved properties were reviewed for impairment at March 31, 2013 and 2012. For those periods, future cash flows were determined to be in excess of cost basis, therefore no impairment was recorded for the Company's proved crude oil and natural gas properties.

**Table of Contents****Continental Resources, Inc. and Subsidiaries****Notes to Unaudited Condensed Consolidated Financial Statements**

Certain unproved crude oil and natural gas properties were impaired during the three months ended March 31, 2013 and 2012, reflecting recurring amortization of undeveloped leasehold costs on properties that management expects will not be transferred to proved properties over the lives of the leases based on experience of successful drilling and the average holding period.

The following table sets forth the non-cash impairments of both proved and unproved properties for the indicated periods. Proved and unproved property impairments are recorded under the caption *Property impairments* in the unaudited condensed consolidated statements of income.

	<b>Three months ended March 31,</b>	
	<b>2013</b>	<b>2012</b>
	<i>In thousands</i>	
Proved property impairments	\$	\$
Unproved property impairments	40,081	29,907
<b>Total</b>	<b>\$ 40,081</b>	<b>\$ 29,907</b>

*Financial Instruments Not Recorded at Fair Value*

The following table sets forth the fair values of financial instruments that are not recorded at fair value in the condensed consolidated financial statements.

<i>In thousands</i>	<b>March 31, 2013</b>		<b>December 31, 2012</b>	
	<b>Carrying Amount</b>	<b>Fair Value</b>	<b>Carrying Amount</b>	<b>Fair Value</b>
<b>Debt:</b>				
Revolving credit facility	\$ 1,035,000	\$ 1,035,000	\$ 595,000	\$ 595,000
Note payable	19,936	19,432	20,421	20,148
8 1/4% Senior Notes due 2019	298,138	334,250	298,085	339,000
7 3/8% Senior Notes due 2020	198,586	225,167	198,552	226,833
7 1/8% Senior Notes due 2021	400,000	451,333	400,000	454,333
5% Senior Notes due 2022	2,027,106	2,120,833	2,027,663	2,165,833
<b>Total debt</b>	<b>\$ 3,978,766</b>	<b>\$ 4,186,015</b>	<b>\$ 3,539,721</b>	<b>\$ 3,801,147</b>

The fair value of the revolving credit facility approximates its carrying value based on borrowing rates available to the Company for bank loans with similar terms and maturities and is classified as Level 2 in the fair value hierarchy.

The fair value of the note payable is determined using a discounted cash flow approach based on the interest rate and payment terms of the note payable and an assumed discount rate. The fair value of the note payable is significantly influenced by the discount rate assumption, which is derived by the Company and is unobservable. Accordingly, the fair value of the note payable is classified as Level 3 in the fair value hierarchy.

The fair values of the 8 1/4% Senior Notes due 2019 (the 2019 Notes), the 7 3/8% Senior Notes due 2020 (the 2020 Notes), the 7 1/8% Senior Notes due 2021 (the 2021 Notes) and the 5% Senior Notes due 2022 (the 2022 Notes) are based on quoted market prices and, accordingly, are classified as Level 1 in the fair value hierarchy.

The carrying values of all classes of cash and cash equivalents, trade receivables, and trade payables are considered to be representative of their respective fair values due to the short term maturities of those instruments.

**Note 6. Long-Term Debt**

Long-term debt consists of the following:

	March 31, 2013	December 31, 2012
	<i>In thousands</i>	
Revolving credit facility	\$ 1,035,000	\$ 595,000
Note payable	19,936	20,421
8 1/4% Senior Notes due 2019 <sup>(1)</sup>	298,138	298,085
7 3/8% Senior Notes due 2020 <sup>(2)</sup>	198,586	198,552
7 1/8% Senior Notes due 2021 <sup>(3)</sup>	400,000	400,000
5% Senior Notes due 2022 <sup>(4)</sup>	2,027,106	2,027,663
<b>Total debt</b>	<b>3,978,766</b>	<b>3,539,721</b>
Less: Current portion of long-term debt	(1,965)	(1,950)
<b>Long-term debt, net of current portion</b>	<b>\$ 3,976,801</b>	<b>\$ 3,537,771</b>

- (1) The carrying amount is net of unamortized discounts of \$1.9 million at both March 31, 2013 and December 31, 2012.
- (2) The carrying amount is net of unamortized discounts of \$1.4 million at both March 31, 2013 and December 31, 2012.
- (3) These notes were sold at par and are recorded at 100% of face value.
- (4) The carrying amount includes an unamortized premium of \$27.1 million and \$27.7 million at March 31, 2013 and December 31, 2012, respectively.

**Table of Contents****Continental Resources, Inc. and Subsidiaries****Notes to Unaudited Condensed Consolidated Financial Statements***Revolving Credit Facility*

The Company had \$1,035.0 million of outstanding borrowings at March 31, 2013 on its credit facility, which matures on July 1, 2015. At December 31, 2012, the Company had \$595.0 million of outstanding borrowings on its credit facility. The credit facility had aggregate commitments of \$1.5 billion and a borrowing base of \$3.25 billion at March 31, 2013, subject to semi-annual redetermination. The terms of the facility allow for the commitment level to be increased up to the lesser of the borrowing base then in effect or \$2.5 billion. Borrowings under the facility bear interest at a rate per annum equal to the London Interbank Offered Rate (LIBOR) for one, two, three or six months, as elected by the Company, plus a margin ranging from 150 to 250 basis points, depending on the percentage of the borrowing base utilized, or the lead bank's reference rate (prime) plus a margin ranging from 50 to 150 basis points. Credit facility borrowings are required to be secured by the Company's interest in at least 80% (by value) of all of its proved reserves and associated crude oil and natural gas properties unless the Collateral Coverage Ratio, as defined in the amended credit facility, is greater than or equal to 1.75 to 1.0, in which case the 80% requirement will not apply.

The Company had approximately \$460.2 million of unused commitments (after considering outstanding borrowings and letters of credit) under its credit facility at March 31, 2013 and incurs commitment fees of 0.375% per annum of the daily average amount of unused borrowing availability. The credit facility contains certain restrictive covenants including a requirement that the Company maintain a current ratio of not less than 1.0 to 1.0 and a ratio of total funded debt to EBITDAX of no greater than 4.0 to 1.0. As defined by the credit facility, the current ratio represents the ratio of current assets to current liabilities, inclusive of available borrowing capacity under the credit facility and exclusive of current balances associated with derivative contracts and asset retirement obligations. EBITDAX represents earnings before interest expense, income taxes, depreciation, depletion, amortization and accretion, property impairments, exploration expenses, non-cash gains and losses resulting from the requirements of accounting for derivatives, and non-cash equity compensation expense. EBITDAX is not a measure of net income or operating cash flows as determined by U.S. GAAP. Reconciliations of net income and operating cash flows to EBITDAX are provided in *Part I, Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations - Non-GAAP Financial Measures*. The total funded debt to EBITDAX ratio represents the sum of outstanding borrowings and letters of credit on the credit facility plus the Company's note payable and senior note obligations, divided by total EBITDAX for the most recent four quarters. The Company was in compliance with these covenants at March 31, 2013.

See *Note 10. Subsequent Events* for a discussion of the amendment made to the Company's credit facility subsequent to March 31, 2013.

*Senior Notes*

The following table summarizes the maturity dates, semi-annual interest payment dates, and optional redemption periods related to the Company's outstanding senior note obligations at March 31, 2013.

	2019 Notes	2020 Notes	2021 Notes	2022 Notes
Maturity date	October 1, 2019	October 1, 2020	April 1, 2021	September 15, 2022
Interest payment dates	April 1, October 1	April 1, October 1	April 1, October 1	March 15, Sept. 15
Call premium redemption period <sup>(1)</sup>	October 1, 2014	October 1, 2015	April 1, 2016	March 15, 2017
Make-whole redemption period <sup>(2)</sup>	October 1, 2014	October 1, 2015	April 1, 2016	March 15, 2017
Equity offering redemption period <sup>(3)</sup>		October 1, 2013	April 1, 2014	March 15, 2015

- (1) On or after these dates, the Company has the option to redeem all or a portion of its senior notes at the decreasing redemption prices specified in the respective senior note indentures (together, the "Indentures") plus any accrued and unpaid interest to the date of redemption.

---

**Table of Contents**

**Continental Resources, Inc. and Subsidiaries**

**Notes to Unaudited Condensed Consolidated Financial Statements**

- (2) At any time prior to these dates, the Company has the option to redeem all or a portion of its senior notes at the make-whole redemption prices specified in the Indentures plus any accrued and unpaid interest to the date of redemption.
- (3) At any time prior to these dates, the Company may redeem up to 35% of the principal amount of its senior notes under certain circumstances with the net cash proceeds from one or more equity offerings at the redemption prices specified in the Indentures plus any accrued and unpaid interest to the date of redemption. The optional redemption period for the 2019 Notes using equity offering proceeds expired on October 1, 2012.

The Company's senior notes are not subject to any mandatory redemption or sinking fund requirements.

The Indentures contain certain restrictions on the Company's ability to incur additional debt, pay dividends on common stock, make certain investments, create certain liens on assets, engage in certain transactions with affiliates, transfer or sell certain assets, consolidate or merge, or sell substantially all of the Company's assets. These covenants are subject to a number of important exceptions and qualifications. The Company was in compliance with these covenants at March 31, 2013. Two of the Company's subsidiaries, Banner Pipeline Company, L.L.C. and CLR Asset Holdings, LLC, which have insignificant assets with no current value and no operations, fully and unconditionally, guarantee the senior notes. The Company's other subsidiary, 20 North Broadway Associates LLC, the value of whose assets and operations are minor, does not guarantee the senior notes.

See *Note 10. Subsequent Events* for a discussion of the new senior notes issued by the Company subsequent to March 31, 2013.

*Note Payable*

In February 2012, 20 North Broadway Associates LLC, a wholly-owned subsidiary of the Company, borrowed \$22 million under a 10-year amortizing term loan secured by the Company's corporate office building in Oklahoma City, Oklahoma. The loan bears interest at a fixed rate of 3.14% per annum. Principal and interest are payable monthly through the loan's maturity date of February 26, 2022. Accordingly, approximately \$2.0 million is reflected as a current liability under the caption "Current portion of long-term debt" in the condensed consolidated balance sheets as of March 31, 2013.

**Note 7. Commitments and Contingencies**

Included below is a discussion of various future commitments of the Company as of March 31, 2013. The commitments under these arrangements are not recorded in the accompanying condensed consolidated balance sheets.

*Drilling commitments* As of March 31, 2013, the Company had drilling rig contracts with various terms extending through August 2014. These contracts were entered into in the ordinary course of business to ensure rig availability to allow the Company to execute its business objectives in its key strategic plays. Future commitments as of March 31, 2013 total approximately \$82 million, of which \$65 million is expected to be incurred in the remainder of 2013 and \$17 million in 2014.

*Fracturing and well stimulation service agreement* The Company has an agreement with a third party whereby the third party will provide, on a take-or-pay basis, hydraulic fracturing services and related equipment to service certain of the Company's properties in North Dakota and Montana. The term of the agreement ends in September 2013. Pursuant to the take-or-pay provisions, the Company is to pay a fixed rate per day for a minimum number of days per calendar quarter regardless of whether the services are provided. The agreement also stipulates the Company will bear the cost of certain products and materials used. Future commitments remaining as of March 31, 2013 amount to approximately \$11 million, which is expected to be incurred up through September 2013. Since the inception of this agreement, the Company has been using the services more than the minimum number of days each quarter.

*Pipeline transportation commitments* The Company has entered into firm transportation commitments to guarantee pipeline access capacity totaling 15,000 barrels of crude oil per day on operational pipelines in order to reduce the impact of possible production curtailments that may arise due to limited transportation capacity. The commitments, which have 5-year terms extending as far as November 2017, require the Company to pay varying per-barrel transportation charges regardless of the amount of pipeline capacity used. Future commitments remaining as of March 31, 2013 under the operational pipeline transportation arrangements amount to approximately \$52 million, of which \$10 million is expected to be incurred in the remainder of 2013, \$13 million in 2014, \$13 million in 2015, \$10 million in 2016 and \$6 million in 2017.

## Edgar Filing: CONTINENTAL RESOURCES, INC - Form 10-Q

Further, the Company is a party to additional 5-year firm transportation commitments for future pipeline projects being considered for development that are not yet operational. Such projects require the granting of regulatory approvals or otherwise require significant additional construction efforts by our counterparties before being completed. Future commitments under the non-operational arrangements total approximately \$1.0 billion at March 31, 2013, representing aggregate transportation charges expected to be

---

**Table of Contents**

**Continental Resources, Inc. and Subsidiaries**

**Notes to Unaudited Condensed Consolidated Financial Statements**

incurred over the 5-year terms of the arrangements assuming the proposed pipeline projects are completed and become operational. The timing of the commencement of pipeline operations is not known due to uncertainties involving matters such as regulatory approvals, resolution of legal and environmental disputes, construction progress and the ultimate probability of pipeline completion. Accordingly, the timing of the Company's obligations under these non-operational arrangements cannot be predicted with certainty and may not be incurred on a ratable basis over a calendar year or may not be incurred at all. Although timing is uncertain, the Company's obligations under these arrangements are not expected to begin until at least 2014.

*Rail transportation commitments* The Company has entered into firm transportation commitments to guarantee capacity on rail transportation facilities in order to reduce the impact of possible curtailments that may arise due to limited transportation capacity. The rail commitments have various terms extending through December 2015 and require the Company to pay varying per-barrel transportation charges on volumes ranging from 2,500 to 10,000 barrels of crude oil per day regardless of the amount of rail capacity used. Future commitments remaining as of March 31, 2013 under the rail transportation arrangements amount to approximately \$43 million, of which \$26 million is expected to be incurred in the remainder of 2013, \$10 million in 2014 and \$7 million in 2015.

The Company's pipeline and rail transportation commitments are for crude oil production in the North region where the Company allocates a significant portion of its capital expenditures. The Company is not committed under these contracts to deliver fixed and determinable quantities of crude oil or natural gas in the future.

*Litigation* In November 2010, an alleged class action was filed against the Company alleging the Company improperly deducted post-production costs from royalties paid to plaintiffs and other royalty interest owners as categorized in the petition from crude oil and natural gas wells located in Oklahoma. The plaintiffs have alleged a number of claims, including breach of contract, fraud, breach of fiduciary duty, unjust enrichment, and other claims and seek recovery of compensatory damages, interest, punitive damages and attorney fees on behalf of the alleged class. The Company has responded to the petition, denied the allegations and raised a number of affirmative defenses. Discovery is ongoing and information and documents continue to be exchanged. The Company is not currently able to estimate a reasonably possible loss or range of loss or what impact, if any, the action will have on its financial condition, results of operations or cash flows due to the preliminary status of the matter, the complexity and number of legal and factual issues presented by the matter and uncertainties with respect to, among other things, the nature of the claims and defenses, the potential size of the class, the scope and types of the properties and agreements involved, the production years involved, and the ultimate potential outcome of the matter. The class has not been certified. Plaintiffs have indicated that if the class is certified they may seek damages in excess of \$145 million, a majority of which would be comprised of interest. The Company disputes plaintiffs' claims, disputes that the case meets the requirements for a class action and is vigorously defending the case.

The Company is involved in various other legal proceedings such as commercial disputes, claims from royalty and surface owners, property damage claims, personal injury claims and similar matters. While the outcome of these legal matters cannot be predicted with certainty, the Company does not expect them to have a material effect on its financial condition, results of operations or cash flows. As of March 31, 2013 and December 31, 2012, the Company has recorded a liability in the condensed consolidated balance sheets under the caption "Other noncurrent liabilities" of \$2.5 million and \$2.4 million, respectively, for various matters, none of which are believed to be individually significant.

*Environmental risk* Due to the nature of the crude oil and natural gas business, the Company is exposed to possible environmental risks. The Company is not aware of any material environmental issues or claims.

**Note 8. Stock-Based Compensation**

The Company has granted restricted stock to employees and directors pursuant to the Continental Resources, Inc. 2005 Long-Term Incentive Plan ( "2005 Plan" ) as discussed below. The Company's associated compensation expense, which is included in the caption "General and administrative expenses" in th