

CONTINENTAL RESOURCES INC

Form S-1/A

May 12, 2006

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As filed with the Securities and Exchange Commission on May 12, 2006

Registration No. 333-132257

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Amendment No. 2

to

FORM S-1

REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

Continental Resources, Inc.

(Exact name of registrant as specified in charter)

Oklahoma
(State or other jurisdiction of
incorporation or organization)

1311
(Primary Standard Industrial
Classification Code Number)
302 N. Independence

Enid, Oklahoma 73701

(580) 233-8955

73-0767549
(I.R.S. Employer
Identification Number)

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(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

Mark E. Monroe

President and Chief Operating Officer

302 N. Independence

Enid, Oklahoma 73701

(580) 233-8955

(Address, including zip code, and telephone number, including area code, of agent for service)

With a copy to:

David P. Oelman

Winthrop B. Conrad, Jr.

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Approximate date of commencement of proposed sale to the public: As soon as practicable on or after the effective date of this Registration Statement.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. "

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. "

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. "

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. "

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

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The information in this prospectus is not complete and may be changed. These securities may not be sold until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities nor does it seek an offer to buy these securities in any state where the offer or sale is not permitted.

Subject to completion, dated May 12, 2006

PROSPECTUS

Shares

Continental Resources, Inc.

Common Stock

This is our initial public offering of common stock. The selling shareholder identified in this prospectus is offering shares of our common stock. We will not receive any proceeds from the sale of the shares by the selling shareholder. The estimated initial public offering price is between \$ and \$ per share.

Prior to this offering, there has been no public market for our common stock. Our common stock has been approved for listing on the New York Stock Exchange, subject to official notice of issuance, under the symbol CXP.

Investing in our common stock involves a high degree of risk. See **Risk Factors** beginning on page 12.

Per share Total

Initial public offering price	\$	\$
Underwriting discount	\$	\$
Proceeds to selling shareholder(1)	\$	\$

(1) Expenses, other than underwriting discounts, associated with the offering will be paid by us.

The selling shareholder has granted the underwriters an option for a period of 30 days to purchase up to _____ additional shares of common stock to cover overallocments, if any. If such option is exercised in full, the total underwriting discount will be \$ _____ and the total proceeds to the selling shareholder will be \$ _____.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

The underwriters expect to deliver the shares of common stock to investors on _____, 2006.

JPMorgan

Merrill Lynch & Co.

Citigroup

UBS Investment Bank

Petrie Parkman & Co.

Raymond James

_____, 2006

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Cautionary Statement Regarding Forward-Looking Statements

This prospectus contains forward-looking statements that 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 prospectus, 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 prospectus, 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.

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;

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

general economic conditions;

uncertainty regarding our future operating results; and

plans, objectives, expectations and intentions contained in this prospectus that are not historical.

All forward-looking statements speak only as of the date of this prospectus. 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 prospectus 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 **Risk Factors** and **Management's Discussion and Analysis of Financial Condition and Results of Operations** and elsewhere in this prospectus. These cautionary statements qualify all forward-looking statements attributable to us or persons acting on our behalf.

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Industry and Market Data

The market data and certain other statistical information used throughout this prospectus are based on independent industry publications, government publications or other published independent sources. Some data are also based on our good faith estimates. Although we believe these third-party sources are reliable, we have not independently verified the information and cannot guarantee its accuracy and completeness.

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Prospectus Summary

This summary highlights information contained elsewhere in this prospectus. You should read this entire prospectus carefully, including Risk Factors and our historical consolidated financial statements and the notes to those historical consolidated financial statements included elsewhere in this prospectus. Unless the context otherwise requires, references in this prospectus to Continental Resources, we, us, our, ours or company refer to Continental Resources, Inc. and its subsidiaries.

We have provided definitions for the oil and natural gas terms used in this prospectus in the Glossary of Oil and Natural Gas Terms beginning on page A-1 of this prospectus. Unless otherwise indicated, the information contained in this prospectus assumes that the underwriters do not exercise their overallocation option to purchase additional shares.

Our Business

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 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 86.2 MMBoe of proved oil and natural gas reserves through extensions and discoveries from January 1, 2001 through December 31, 2005 compared to 4.7 MMBoe added through proved reserve purchases during that same period.

As of December 31, 2005, our estimated proved reserves were 116.7 MMBoe, with estimated proved developed reserves of 80.3 MMBoe, or 69% of our total estimated proved reserves. Crude oil comprised 85% of our total estimated proved reserves. At December 31, 2005, we had 1,233 scheduled drilling locations on the 1,523,000 gross (961,000 net) acres that we held. For the year ended December 31, 2005 and the three months ended March 31, 2006, we generated revenues of \$375.8 million and \$103.8 million, respectively, and operating cash flows of \$265.3 million and \$74.9 million, respectively.

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The following table summarizes our total estimated proved reserves, PV-10 and net producing wells as of December 31, 2005, average daily production for the three months ended March 31, 2006 and the reserve-to-production ratio in our principal regions. Our reserve estimates as of December 31, 2005 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, 2005				Average daily production		
	Proved reserves (MBoe)	Percent of total	PV-10(1) (in millions)	Net producing wells	First quarter 2006 (Boe per day)	Percent of total	Annualized reserve/production index(2)
Rocky Mountain:							
Red River units	67,711	58%	\$ 1,215	187	9,677	42%	19.2
Bakken field	24,041	21%	505	34	6,560	29%	10.0
Other	9,065	8%	137	230	1,384	6%	17.9
Mid-Continent	15,472	13%	328	630	3,916	17%	10.8
Gulf Coast	376		19	23	1,323	6%	0.8
Total	116,665	100%	\$ 2,204	1,104	22,860	100%	14.0

- (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. However, our PV-10 and our Standardized Measure are equivalent because we are a subchapter S-corporation. In connection with the closing of this offering, we will convert to a subchapter C-corporation. Our pro-forma Standardized Measure, assuming our conversion to a subchapter C-corporation, was \$1.4 billion at December 31, 2005. 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 first quarter 2006 production into the proved reserve quantity at December 31, 2005.

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

	At December 31, 2005				2006 Budget		
	Developed acres		Undeveloped acres		Scheduled drilling locations(1)	Wells planned for drilling	Capital expenditures (in millions)
	Gross	Net	Gross	Net			
Rocky Mountain:							
Red River units	144,176	128,047			135	41	\$ 84
Bakken field	52,421	38,971	588,081	356,426	918	54	96
Other	45,720	36,153	358,649	208,612	71	34	40
Mid-Continent	152,734	99,279	115,746	73,582	96	70	64

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Gulf Coast	41,842	11,890	23,598	7,873	13	13	17
Total	436,893	314,340	1,086,074	646,493	1,233	212	\$ 301

- (1) Scheduled drilling locations represent total gross locations specifically identified and scheduled by management as an estimate of our future multi-year drilling activities on existing acreage. Of the total locations shown in the table, 256 are classified as PUDs. As of April 30, 2006, we have commenced drilling of 55 locations shown in the table, including 34 PUD locations. Scheduled drilling locations include 37 potential drilling sites in our New Albany Shale, Lewis Shale, Floyd Shale and Woodford Shale projects. While we owned 168,000 gross (72,000 net) undeveloped acres in these projects as of December 31, 2005, we have not sufficiently evaluated the opportunities on our acreage at this date to schedule further locations. Our actual drilling activities may change depending on oil and natural gas prices, the availability of capital, costs, drilling results, regulatory approvals and other factors. See Risk Factors Risks Relating to the Oil and Natural Gas Industry and Our Business.

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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:

Growth Through Drilling. Substantially all of our annual capital expenditures are invested in drilling projects and acreage and seismic acquisitions.

Internally Generate Prospects. Our technical staff has internally generated substantially all of the opportunities for the investment of our capital. Because we have been an early entrant in new or emerging plays, our costs to acquire undeveloped acreage have generally been less 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 and Bakken Shale formations.

Acquire Significant Acreage Positions in New or Developing Plays. 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 Drilling and Acreage Inventory. Our large number of identified drilling locations in all of our areas of operations provide for a multi-year drilling inventory.

Horizontal Drilling and Enhanced Recovery Experience. In 1992, we drilled our initial horizontal well, and we have drilled over 300 horizontal wells since that time. We also have substantial experience with enhanced recovery methods and currently serve as the operator of 39 waterflood units and eight high-pressure air injection units.

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Control Operations Over a Substantial Portion of our Assets and Investments. As of December 31, 2005, we operated properties comprising 97% 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.

Experienced Management Team. Our senior management team has extensive expertise in the oil and gas industry. Our eight senior officers have an average of 25 years of oil and gas industry experience.

Strong Financial Position. As of May 9, 2006, we had outstanding borrowings under our credit facility of approximately \$189.5 million. We believe that our planned exploration and development activities will be funded substantially from our operating cash flows.

Recent Events

Payment of Cash Dividend. On April 13, 2006, we paid a cash dividend of approximately \$60.0 million to our shareholders for tax purposes and, subject to forfeiture, to holders of unvested restricted stock. In connection with the completion of this offering, we will convert from a subchapter S-corporation to a subchapter

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C-corporation, and we do not anticipate paying any additional cash dividends on our common stock in the foreseeable future.

NYMEX and Related Oil Price Differential. The difference between the calendar month average of the NYMEX crude oil prices and our realized crude oil prices increased in the Rocky Mountain region during the first quarter 2006. For the year ended December 31, 2005, the average company-wide difference was \$5.24 per Bbl. The company-wide difference for January, February and March 2006 was \$7.95, \$10.70 and \$15.00 per Bbl, respectively, and is estimated to be approximately \$12.00 per Bbl of oil for April and May 2006. Factors affecting the difference include higher oil imports and production in the region, lower demand by local refineries due to downtime for maintenance and reduced seasonal demand for gasoline and downstream transportation capacity constraints. We are unable to predict when, or if, the difference will revert back to historical levels.

Oil Storage; Production Curtailment. Due to downstream transportation constraints in the Rocky Mountain region, one of our oil purchasers was unable to accept delivery of a portion of our March 2006 sales volumes. As a result, we stored approximately 3,000 net Bbls of oil per day of production in Guernsey, Wyoming. We expect to sell the stored oil in May 2006. As a result of the same market disruption, we shut in wells in the Red River units representing approximately 1,700 net Bbls of oil per day. For the month of April 2006, our wells in the region were on production for the full month except for three to five days of downtime due to loss of electricity in the area as a result of a snowstorm, and we sold all of the production from those wells.

Acquisition of Banner Pipeline Company. For the year ended December 31, 2005, oil sales to Banner Pipeline Company, L.L.C., which was wholly owned by our principal shareholder, accounted for approximately 19% of our total oil and gas sales. In February 2006, we decided to market the majority of our crude oil in the Rocky Mountain region directly or through a wholly owned subsidiary rather than through an affiliate, and, as Banner has existing contacts and relationships with crude oil purchasers, we decided to purchase Banner. On March 30, 2006, we acquired Banner for approximately \$8.8 million, the book value of working capital, principally cash, accounts receivable, crude oil inventory and accounts payable.

Acreage Acquisition. In April 2006, we purchased a 50% interest in 135,000 acres in the Marfa Basin in Presidio and Brewster Counties, Texas as well as overriding royalty interests covering a portion of the acreage for approximately \$7 million. We plan to re-enter a well on the acreage to test the Woodford and Barnett equivalent shales during the second half of 2006.

Risk Factors

Investing in our common stock involves risks that include the speculative nature of oil and natural gas exploration, competition, volatile oil and natural gas prices and other material factors. You should read carefully the section entitled "Risk Factors" beginning on page 12 for an explanation of these risks before investing in our common stock. In particular, the following considerations may offset our business strengths or have a negative effect on our business strategy as well as on activities on our properties, which could cause a decrease in the price of our common stock and result in a loss of all or a portion of your investment:

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A substantial or extended decline in oil and natural gas prices may adversely affect our business, financial condition or results of operations and our ability to meet our capital expenditure obligations and financial commitments.

Drilling for and producing oil and natural gas are high risk activities with many uncertainties that could adversely affect our business, financial condition or results of operations.

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Reserve estimates depend on many assumptions that may turn out to be inaccurate. Any material inaccuracies in these reserve estimates or underlying assumptions will materially affect the quantities and present value of our reserves.

The results of enhanced recovery methods are uncertain.

Our development and exploitation projects require substantial capital expenditures. We may be unable to obtain needed capital or financing on satisfactory terms, which could lead to a decline in our oil and natural gas reserves.

If oil and natural gas prices decrease, we may be required to take write-downs of the carrying values of our oil and natural gas properties.

A substantial portion of our producing properties are located in the Rocky Mountains, making us vulnerable to risks associated with operating in one major geographic area.

Unless we replace our oil and natural gas reserves, our reserves and production will decline, which would adversely affect our cash flows and results of operations.

The unavailability or high cost of additional drilling rigs, equipment, supplies, personnel and oilfield services could adversely affect our ability to execute our exploration and development plans within our budget and on a timely basis.

We may incur substantial losses and be subject to substantial liability claims as a result of our oil and natural gas operations; we may not be insured for, or our insurance may be inadequate to protect us against, these risks.

The inability of our significant customers to meet their obligations to us may adversely affect our financial results.

Following this offering, our Chairman and Chief Executive Officer will own approximately % of our outstanding common stock, giving him influence and control in corporate transactions and other matters.

For a discussion of other considerations that could negatively affect us, including risks related to this offering and our common stock, see **Risk Factors** and **Cautionary Statement Regarding Forward-Looking Statements**.

Corporate History and Information

Continental Resources, Inc. is incorporated under the laws of the State of Oklahoma. We were originally formed in 1967 to explore, develop and produce oil and natural gas properties in Oklahoma. 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. Through drilling success and strategic acquisitions, approximately 87% of our estimated proved reserves as of December 31, 2005 are located in the Rocky Mountain region.

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We are currently a subchapter S-corporation under the rules and regulations of the Internal Revenue Service. However, upon the consummation of this offering, we will have more shareholders than the IRS rules and regulations governing S-corporations allow, and, therefore, we will convert automatically from a subchapter S-corporation to a subchapter C-corporation. In connection with this conversion, we will record a charge to earnings estimated to be approximately \$127.9 million as of March 31, 2006 to recognize deferred taxes.

In addition, concurrent with the closing of this offering, we will effect an 11 for 1 stock split of our shares in the form of a stock dividend.

Our principal executive offices are located at 302 N. Independence, Enid, Oklahoma 73701, and our telephone number at that address is (580) 233-8955.

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The Offering

Common Stock Offered:

By the selling shareholder: shares

Overallotment option granted by the selling shareholder: shares

Common stock to be owned by the selling shareholder after the offering: shares (or shares if the underwriters' overallotment option is exercised in full)

Common stock to be outstanding after the offering: 159,069,801 shares

Use of Proceeds:

We will not receive any proceeds from the sale of the shares of common stock by the selling shareholder. See [Use of Proceeds](#).

Dividend Policy:

We do not anticipate paying any cash dividends on our common stock. See [Dividend Policy](#).

Proposed New York Stock Exchange Symbol:

CXP

Other Information About This Prospectus:

Unless specifically stated otherwise, the information in this prospectus:

is adjusted to reflect an 11 for 1 stock split of our shares of common stock to be effected in the form of a stock dividend concurrent with the consummation of this offering;

assumes no exercise of the underwriters' overallotment option to purchase additional shares; and

assumes an initial public offering price of \$, which is the midpoint of the range set forth on the front cover of this prospectus.

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This section presents our summary historical and pro forma consolidated financial data. The summary historical consolidated financial data presented below is not intended to replace our historical consolidated financial statements.

The following historical consolidated financial data, as it relates to each of the fiscal years ended December 31, 2003 through 2005, has been derived from our audited historical consolidated financial statements for such periods. The following historical consolidated financial data, as it relates to each of the three month periods ended March 31, 2005 and 2006, has been derived from our unaudited historical consolidated financial statements for such periods. You should read the following summary historical consolidated financial data in connection with Capitalization, Management's Discussion and Analysis of Financial Condition and Results of Operations and our historical consolidated financial statements and related notes included elsewhere in this prospectus. The summary historical consolidated results are not necessarily indicative of results to be expected in future periods.

The summary pro forma financial data reflect the tax effects of our conversion, concurrent with the closing of this offering, from a subchapter S-corporation to a subchapter C-corporation and the earnings per share impact of our 11 for 1 stock split to be effected in the form of a stock dividend concurrent with the closing of this offering.

	Year ended December 31,			Three months ended March 31,	
	2003	2004	2005	2005	2006
(in thousands, except per share amounts)					
Statement of operations data:					
Revenues:					
Oil and natural gas sales	\$ 138,948	\$ 181,435	\$ 361,833	\$ 59,728	\$ 99,768
Crude oil marketing and trading(1)	169,547	226,664			
Oil and natural gas service operations	9,114	10,811	13,931	4,360	3,997
Total revenues	317,609	418,910	375,764	64,088	103,765
Operating costs and expenses:					
Production expense	40,821	43,754	52,754	11,159	15,562
Production tax	10,251	12,297	16,031	3,766	4,367
Exploration expense	17,221	12,633	5,231	789	2,082
Crude oil marketing and trading(1)	166,731	227,210			
Oil and gas service operations	5,641	6,466	7,977	2,427	2,118
Depreciation, depletion, amortization and accretion	40,256	38,627	49,802	9,408	13,292
Property impairments	8,975	11,747	6,930	1,907	1,415
General and administrative(2)	9,604	12,400	31,266	7,773	7,936
(Gain) loss on sale of assets	(589)	150	(3,026)	(2,913)	(222)
Total operating costs and expenses	\$ 298,911	\$ 365,284	\$ 166,965	\$ 34,316	\$ 46,550

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	Year ended December 31,			Three months ended March 31,	
	2003	2004	2005	2005	2006
(in thousands, except per share amounts)					
Income from operations	\$ 18,698	\$ 53,626	\$ 208,799	\$ 29,772	\$ 57,215
Other income (expense)					
Interest expense	(19,761)	(23,617)	(14,220)	(3,779)	(2,485)
Loss on redemption on bonds		(4,083)			
Other	295	890	867	85	320
Total other income (expense)	(19,466)	(26,810)	(13,353)	(3,694)	(2,165)
Income (loss) from continuing operations before income taxes	(768)	26,816	195,446	26,078	55,050
Provision for income taxes(3)			1,139	1,139	
Income (loss) from continuing operations	(768)	26,816	194,307	24,939	55,050
Discontinued operations(4)	946	1,680			
Loss on sale of discontinued operations(4)		(632)			
Income before cumulative effect of change in accounting principle	178	27,864	194,307	24,939	55,050
Cumulative effect of change in accounting principle(5)	2,162				
Net income	\$ 2,340	\$ 27,864	\$ 194,307	\$ 24,939	\$ 55,050
Basic earnings (loss) per share:					
From continuing operations	\$ (0.05)	\$ 1.87	\$ 13.52	\$ 1.74	\$ 3.83
From discontinued operations(4)	0.06	0.11			
Loss on sale of discontinued operations(4)		(0.04)			
Before cumulative effect of change in accounting principle	0.01	1.94	13.52	1.74	3.83
Cumulative effect of change in accounting principle	0.15				
Net income per share	\$ 0.16	\$ 1.94	\$ 13.52	\$ 1.74	\$ 3.83
Shares used in basic earnings (loss) per share	14,369	14,369	14,369	14,369	14,369
Diluted earnings (loss) per share:					
From continuing operations	\$ (0.05)	\$ 1.85	\$ 13.42	1.72	3.80
From discontinued operations(4)	0.06	0.12			
Loss on sale of discontinued operations(4)		(0.04)			
Before cumulative effect of change in accounting principle	0.01	1.93	13.42	1.72	3.80
Cumulative effect of change in accounting principle	0.15				
Net income per share	\$ 0.16	\$ 1.93	\$ 13.42	\$ 1.72	\$ 3.80
Shares used in diluted earnings (loss) per share	14,369	14,476	14,482	14,467	14,489

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	Year ended December 31,			Three months ended March 31,	
	2003	2004	2005	2005	2006
(in thousands, except per share amounts)					
Pro forma C-corporation and stock split data:					
Income (loss) from continuing operations before income taxes	\$ (768)	\$ 26,816	\$ 195,446	\$ 26,078	\$ 55,050
Pro forma provision (benefit) for income taxes attributable to operations	(292)	10,190	74,269	9,910	20,919
Pro forma income (loss) from operations after tax	(476)	16,626	121,177	16,168	34,131
Discontinued operations net of tax(4)	587	1,042			
Loss on sale of discontinued operations(4)		(392)			
Cumulative effect of change in accounting principle net of tax	1,340				
Pro forma net income	\$ 1,451	\$ 17,276	\$ 121,177	\$ 16,168	\$ 34,131
Pro forma basic earnings per share	\$ 0.01	\$ 0.11	\$ 0.77	\$ 0.10	\$ 0.22
Pro forma diluted earnings per share	0.01	0.11	0.76	0.10	0.21
Other financial data:					
Cash dividends per share	\$	\$ 1.04	\$ 0.14	\$	\$ 4.15
EBITDAX (6)	88,750	116,498	285,344	45,351	77,617
Net cash provided by operations	65,246	93,854	265,265	21,717	74,889
Net cash used in investing	(108,791)	(72,992)	(133,716)	(15,479)	(58,764)
Net cash provided by (used in) financing	43,302	(7,245)	(141,467)	(14,239)	(11,500)
Capital expenditures	114,145	94,307	144,800	26,332	59,659
Balance sheet data (at period end):					
Cash and cash equivalents	\$ 2,277	\$ 15,894	\$ 6,014	\$ 7,886	\$ 10,654
Property and equipment, net	439,432	434,339	509,393	436,267	553,360
Total assets	484,988	504,951	600,234	512,799	651,644
Long-term debt, including current maturities	290,920	290,522	143,000	267,000	131,500
Shareholders' equity	116,932	130,385	324,730	156,453	319,793

(1) Crude oil marketing and trading captions consist of our marketing activities under which crude oil production was sold at the wellhead and transported to a local hub where we purchased the barrels back to exchange at Cushing, Oklahoma in order to minimize pricing differentials with the NYMEX oil futures contract. We adopted Emerging Issues Task Force (EITF) 04-13 on January 1, 2005, which allowed certain purchase and sales transactions with the same counterparty to be combined and accounted for as a single transaction under the guidance of Accounting Principles Board Opinion No. 29. In 2005, we netted \$39.8 million of crude oil marketing and trading revenues and \$39.7 million of crude oil marketing and trading expenses under oil and natural gas sales. Prior to the adoption of EITF 04-13, we presented crude oil marketing and trading revenues and expenses gross under the guidance provided by EITF 99-19, Reporting Revenues Gross as a Principal and/or Net as an Agent. Effective March 2005, we ceased marketing our crude oil production under these arrangements. Thereafter, we have sold our crude oil at the wellhead. Certain of these sales have been to our affiliates, as described under Certain Relationships and Related Party Transactions.

(2) We have included stock-based compensation of \$0.2 million, \$2.0 million, \$13.7 million, \$3.4 million and \$3.3 million in general and administrative expenses for the years ended December 31, 2003, 2004 and 2005 and the three months ended March 31, 2005 and 2006, respectively. Our stock based compensation plan requires us to purchase vested shares at the employee's request based on an internally calculated value of our stock. Amounts noted herein represent the increase in our liability associated with our purchase obligation. The valuation is based on the book value of our shareholders' equity adjusted for our PV-10 as of each calendar quarter. Our requirement to purchase vested shares will be eliminated once we begin reporting under Section 12 of the Securities Exchange Act of 1934, as amended (the Exchange Act). As a result of this change, we will recognize a charge of approximately \$ upon completion of this offering, assuming an offering price at the midpoint of the range set forth on the cover page of this prospectus. See Capitalization.

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- (3) Properties owned by us at May 31, 1997, the date we converted into a subchapter S-corporation from a subchapter C-corporation, may be subject to federal taxation if sold for an amount in excess of the then tax basis for the sold assets. During 2005, we incurred federal taxes due to the sale of assets acquired prior to May 31, 1997.

- (4) In July 2004, we sold all of the outstanding stock in Continental Gas, Inc., a wholly owned subsidiary, to our shareholders. The Continental Gas, Inc. assets included seven gas gathering systems and three gas-processing plants. These assets represented our entire gas gathering, marketing and processing segment. We have accounted for these operations as discontinued operations.

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- (5) We adopted Statement of Financial Accounting Standards No. 143, Accounting for Asset Retirement Obligations and recorded the cumulative effect of the change in accounting principle on January 1, 2003.
- (6) EBITDAX represents earnings before interest expense, income taxes (when applicable), depreciation, depletion, amortization and accretion, property impairments, exploration expense and non-cash compensation expense. EBITDAX is not a measure of net income or cash flow as determined by generally accepted accounting principles (GAAP). EBITDAX should not be considered as an alternative to, or more meaningful than, net income or cash flow as determined in accordance with GAAP or as an indicator of a company's operating performance or liquidity. Certain items excluded from EBITDAX are significant components in understanding and assessing a company's financial performance, such as a company's cost of capital and tax structure, as well as the historic costs of depreciable assets, none of which are components of EBITDAX. Our computations of EBITDAX may not be comparable to other similarly titled measures of other companies. We believe that EBITDAX is a widely followed measure of operating performance and may also be used by investors to measure our ability to meet future debt service requirements, if any. Our credit facility requires that we maintain a total debt to EBITDAX ratio of no greater than 3.75 to 1 on a rolling four-quarter basis. Our credit facility defines EBITDAX consistently with the definition of EBITDAX utilized and presented by us. At December 31, 2005, this ratio was approximately 0.5 to 1, and at March 31, 2006, this ratio was approximately 0.4 to 1. The following table represents a reconciliation of our net income to EBITDAX:

	Year ended December 31,			Three months ended	
	2003	2004	2005	March 31, 2005	2006
	(in thousands)				
Net income	\$ 2,340	\$ 27,864	\$ 194,307	\$ 24,939	\$ 55,050
Interest expense	19,761	23,617	14,220	3,779	2,485
Provision for income taxes			1,139	1,139	
Depreciation, depletion, amortization and accretion	40,256	38,627	49,802	9,408	13,292
Property impairments	8,975	11,747	6,930	1,907	1,415
Exploration expense	17,221	12,633	5,231	789	2,082
Equity compensation	197	2,010	13,715	3,390	3,293
EBITDAX	\$ 88,750	\$ 116,498	\$ 285,344	\$ 45,351	\$ 77,617

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The following table presents summary data with respect to our estimated net proved oil and natural gas reserves as of the dates indicated. Our reserve estimates as of December 31, 2003, 2004 and 2005 are based primarily on reserve reports prepared by Ryder Scott Company, L.P., our independent reserve engineers. In preparing its reports, Ryder Scott Company, L.P. evaluated properties representing approximately 83% of our PV-10 as of the end of each period. Our technical staff evaluated our remaining properties. A copy of Ryder Scott Company, L.P.'s summary report as of December 31, 2005 is included in this prospectus beginning on page B-1. All calculations of estimated net proved reserves have been made in accordance with the rules and regulations of the Securities and Exchange Commission, or the SEC. For additional information regarding our reserves, see Business and Properties Proved Reserves.

	As of December 31,		
	2003	2004	2005
Proved reserves:			
Oil (MBbls)	73,000	80,602	98,645
Natural gas (MMcf)	67,096	60,620	108,118
Oil equivalent (MBoe)	84,183	90,705	116,665
Proved developed reserves percentage	55%	83%	69%
PV-10 (in millions)(1)	\$ 815	\$ 1,114	\$ 2,204
Estimated reserve life (in years)	16.0	17.6	16.2
Costs incurred (in thousands):			
Property acquisition costs	\$ 8,683	\$ 12,456	\$ 16,763
Exploration costs	11,981	30,867	9,289
Development costs	75,396	53,036	117,837
Total	\$ 96,060	\$ 96,359	\$ 143,889

- (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. However, our PV-10 and our Standardized Measure are equivalent because we are a subchapter S-corporation. In connection with the closing of this offering, we will convert to a subchapter C-corporation. Our pro-forma Standardized Measure, assuming our conversion to a subchapter C-corporation, was \$1.4 billion at December 31, 2005. 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.

The following table sets forth summary data with respect to our production results, average sales prices and production costs on a historical basis for the periods presented:

Year ended December 31,			Three months ended March 31,	
2003	2004	2005	2005	2006

Net production volumes:

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Oil (MBbls)(1)	3,463	3,688	5,708	1,067	1,677
Natural gas (MMcf)	10,751	8,794	9,006	2,100	2,286
Oil equivalents (MBoe)	5,255	5,154	7,209	1,417	2,058
Average prices(1):					
Oil, without hedges (\$/Bbl)	\$ 28.88	\$ 38.85	\$ 52.45	\$ 45.53	\$ 52.81
Oil, with hedges (\$/Bbl)	25.98	37.12	52.45	45.53	52.81
Natural gas (\$/Mcf)	4.55	5.06	6.93	5.31	7.13
Oil equivalents, without hedges (\$/Boe)	28.35	36.45	50.19	42.15	50.86
Oil equivalents, with hedges (\$/Boe)	26.44	35.20	50.19	42.15	50.86
Costs and expenses(1):					
Production expense (\$/Boe)	\$ 7.77	\$ 8.49	\$ 7.32	\$ 7.88	\$ 7.93
Production tax (\$/Boe)	1.95	2.39	2.22	2.66	2.23
General and administrative (\$/Boe)	1.83	2.41	4.34	5.49	4.05
DD&A expense (\$/Boe)(2)	7.10	7.02	6.50	6.21	6.37

(1) Oil sales volumes are 96 MBbls less than oil production volumes for the three months ended March 31, 2006. Average prices and per unit costs have been calculated using sales volumes.

(2) Rate is determined based on DD&A expense derived from oil and natural gas assets.

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Risk Factors

You should carefully consider each of the risks described below, together with all of the other information contained in this prospectus, before deciding to invest in shares of our common stock. If any of the following risks develop into actual events, our business, financial condition or results of operations could be materially adversely affected, the trading price of your shares could decline and you may lose all or part of your investment.

Risks Relating to the Oil and Natural Gas Industry and Our Business

A substantial or extended decline in oil and natural gas prices may adversely affect our business, financial condition or results of operations and our ability to meet our capital expenditure obligations and financial commitments.

The price we receive for our oil and natural gas production heavily influences our revenue, profitability, access to capital and future rate of growth. Oil and natural gas are commodities and, therefore, their prices are subject to wide fluctuations in response to relatively minor changes in supply and demand. Historically, the markets for oil and natural gas have been volatile. These markets will likely continue to be volatile in the future. The prices we receive for our production, and the levels of our production, depend on numerous factors beyond our control. These factors include the following:

changes in global supply and demand for oil and natural gas;

the actions of the Organization of Petroleum Exporting Countries, or OPEC;

the price and quantity of imports of foreign oil and natural gas;

political conditions in or affecting other oil-producing and natural gas-producing countries, including the current conflicts in the Middle East and conditions in South America and Russia;

the level of global oil and natural gas exploration and production;

the level of global oil and natural gas inventories;

localized supply and demand fundamentals and transportation availability;

weather conditions;

technological advances affecting energy consumption; and

the price and availability of alternative fuels.

Lower oil and natural gas prices may also reduce the amount of oil and natural gas that we can produce economically. Substantial decreases in oil and natural gas prices would render uneconomic a significant portion of our exploitation projects. This may result in our having to make significant downward adjustments to our estimated proved reserves. As a result, a substantial or extended decline in oil or natural gas prices may materially and adversely affect our future business, financial condition, results of operations, liquidity or ability to finance planned capital expenditures.

In addition, because our producing properties are geographically concentrated in the Rocky Mountain region, we are vulnerable to fluctuations in pricing in that area. In particular, 77% of our production during the first quarter of 2006 was from the Rocky Mountain region. As a result of this concentration, we may be disproportionately exposed to the impact of regional supply and demand factors, transportation capacity

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constraints, curtailment of production or interruption of transportation of oil produced from the wells in these areas. Such factors can cause significant fluctuation in our realized oil and natural gas prices. For example, the company-wide difference between the average NYMEX oil price and our average realized oil price for the year ended December 31, 2005 was \$5.24 per Bbl, whereas the company-wide difference between the NYMEX oil price and our realized oil price for January, February and March 2006 was \$7.95, \$10.70 and \$15.00 per Bbl, respectively. The increase in the difference was caused by higher oil imports and production in the Rocky Mountain region, lower demand by local Rocky Mountain refineries due to downtime for maintenance and reduced seasonal demand for gasoline and downstream transportation capacity constraints. We are unable to predict when, or if, the difference will revert back to historical levels. If such significant price differentials continue, our future business, financial condition and results of operations may be materially adversely affected.

Drilling for and producing oil and natural gas are high risk activities with many uncertainties that could adversely affect our business, financial condition or results of operations.

Our future financial condition and results of operations will depend on the success of our exploitation, exploration, development and production activities. Our oil and natural gas exploration and production activities are subject to numerous risks beyond our control, including the risk that drilling will not result in commercially viable oil or natural gas production. Our decisions to purchase, explore, develop or otherwise exploit prospects or properties will depend in part on the evaluation of data obtained through geophysical and geological analyses, production data and engineering studies, the results of which are often inconclusive or subject to varying interpretations. For a discussion of the uncertainty involved in these processes, see Reserve estimates depend on many assumptions that may turn out to be inaccurate. Any material inaccuracies in these reserve estimates or underlying assumptions will materially affect the quantities and present value of our reserves. Our cost of drilling, completing and operating wells is often uncertain before drilling commences. Overruns in budgeted expenditures are common risks that can make a particular project uneconomical. Further, many factors may curtail, delay or cancel drilling, including the following:

delays imposed by or resulting from compliance with regulatory requirements;

pressure or irregularities in geological formations;

shortages of or delays in obtaining equipment and qualified personnel;

equipment failures or accidents;

adverse weather conditions, such as hurricanes and tropical storms;

reductions in oil and natural gas prices;

title problems; and

limitations in the market for oil and natural gas.

Reserve estimates depend on many assumptions that may turn out to be inaccurate. Any material inaccuracies in these reserve estimates or underlying assumptions will materially affect the quantities and present value of our reserves.

The process of estimating oil and natural gas reserves is complex. It requires interpretations of available technical data and many assumptions, including assumptions relating to economic factors. Any significant inaccuracies in these interpretations or assumptions could materially affect the estimated quantities and present value of reserves shown in this prospectus. See [Business and Properties](#) [Proved Reserves](#) for information about our oil and natural gas reserves.

In order to prepare our estimates, we must project production rates and timing of development expenditures. We must also analyze available geological, geophysical, production and engineering data. The extent, quality and

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reliability of this data can vary. The process also requires economic assumptions about matters such as oil and natural gas prices, drilling and operating expenses, capital expenditures, taxes and availability of funds.

Actual future production, oil and natural gas prices, revenues, taxes, development expenditures, operating expenses and quantities of recoverable oil and natural gas reserves most likely will vary from our estimates. Any significant variance could materially affect the estimated quantities and present value of reserves shown in this prospectus. In addition, we may adjust estimates of proved reserves to reflect production history, results of exploration and development, prevailing oil and natural gas prices and other factors, many of which are beyond our control.

For example, our initial well in the Bakken Field was completed in August 2003. As of December 31, 2005, we had 10.8 MMBoe of proved producing reserves assigned to 62 producing wells and 13.2 MMBoe of proved undeveloped reserves assigned to 60 undrilled locations. The Bakken Field contained 21% of our total proved reserves and 36% of our total proved undeveloped reserves as of December 31, 2005. Due to the limited production history of our wells in the Bakken Field, the estimates of future production associated with such properties may be subject to greater variance to actual production than would be the case with properties having a longer production history.

You should not assume that the present value of future net revenues from our proved reserves referred to in this prospectus is the current market value of our estimated oil and natural gas reserves. In accordance with SEC requirements, we generally base the estimated discounted future net cash flows from our proved reserves on prices and costs on the date of the estimate. Actual future prices and costs may differ materially from those used in the present value estimate. If oil prices decline by \$1.00 per Bbl, then our PV-10 as of December 31, 2005 would decrease from \$2,204 million to \$2,156 million. If natural gas prices decline by \$0.10 per Mcf, then our PV-10 as of December 31, 2005 would decrease from \$2,204 million to \$2,199 million.

Our use of enhanced recovery methods creates uncertainties that could adversely affect our results of operations and financial condition.

We inject water and high-pressure air into formations on some of our properties to increase the production of oil and natural gas. The additional production and reserves attributable to the use of these enhanced recovery methods are inherently difficult to predict. If our enhanced recovery programs do not allow for the extraction of oil and natural gas in the manner or to the extent that we anticipate, our future results of operations and financial condition could be materially adversely affected.

Our development and exploitation projects require substantial capital expenditures. We may be unable to obtain needed capital or financing on satisfactory terms, which could lead to a decline in our oil and natural gas reserves.

The oil and natural gas industry is capital intensive. We make and expect to continue to make substantial capital expenditures in our business for the development, exploitation, production and acquisition of oil and natural gas reserves. To date, these capital expenditures have been financed with cash generated by operations and through borrowings from banks and from our principal shareholder. We intend to finance our future capital expenditures primarily through cash flow from operations and through borrowings under our revolving credit facility; however, our financing needs may require us to alter or increase our capitalization substantially through the issuance of debt or equity securities. The issuance of additional debt will require that a portion of our cash flow from operations be used for the payment of interest and principal on our debt, thereby reducing our ability to use cash flow to fund working capital, capital expenditures and acquisitions. The issuance of additional equity securities could have a dilutive effect on the value of your common stock.

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Our cash flow from operations and access to capital are subject to a number of variables, including:

our proved reserves;

the level of oil and natural gas we are able to produce from existing wells;

the prices at which our oil and natural gas are sold; and

our ability to acquire, locate and produce new reserves.

If our revenues or the borrowing base under our credit facility decrease as a result of lower oil or natural gas prices, operating difficulties, declines in reserves or for any other reason, we may have limited ability to obtain the capital necessary to sustain our operations at current levels. If additional capital is needed, we may not be able to obtain debt or equity financing. If cash generated by operations or cash available under our revolving credit facility is not sufficient to meet our capital requirements, the failure to obtain additional financing could result in a curtailment of our operations relating to development of our prospects, which in turn could lead to a decline in our oil and natural gas reserves, and could adversely affect our business, financial condition and results of operations.

If oil and natural gas prices decrease, we may be required to take write-downs of the carrying values of our oil and natural gas properties.

Accounting rules require that we review periodically the carrying value of our oil and natural gas properties for possible impairment. Based on specific market factors and circumstances at the time of prospective impairment reviews, and the continuing evaluation of development plans, production data, economics and other factors, we may be required to write down the carrying value of our oil and natural gas properties. A write-down constitutes a non-cash charge to earnings. We may incur impairment charges in the future, which could have a material adverse effect on our results of operations for the periods in which such charges are taken.

Unless we replace our oil and natural gas reserves, our reserves and production will decline, which would adversely affect our cash flows and results of operations.

Unless we conduct successful development, exploitation and exploration activities or acquire properties containing proved reserves, our proved reserves will decline as those reserves are produced. Producing oil and natural gas reservoirs generally are characterized by declining production rates that vary depending upon reservoir characteristics and other factors. Our future oil and natural gas reserves and production, and therefore our cash flow and results of operations, are highly dependent on our success in efficiently developing and exploiting our current reserves and economically finding or acquiring additional recoverable reserves. We may not be able to develop, exploit, find or acquire sufficient additional reserves to replace our current and future production.

The unavailability or high cost of additional drilling rigs, equipment, supplies, personnel and oilfield services could adversely affect our ability to execute our exploration and development plans within our budget and on a timely basis.

Shortages or the high cost of drilling rigs, equipment, supplies, personnel or oilfield services could delay or adversely affect our development and exploration operations, which could have a material adverse effect on our business, financial condition or results of operations.

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We may incur substantial losses and be subject to substantial liability claims as a result of our oil and natural gas operations; we may not be insured for, or our insurance may be inadequate to protect us against, these risks.

We are not insured against all risks. Losses and liabilities arising from uninsured and underinsured events could materially and adversely affect our business, financial condition or results of operations. Our oil and natural gas exploration and production activities are subject to all of the operating risks associated with drilling for and producing oil and natural gas, including the possibility of:

environmental hazards, such as uncontrollable flows of oil, natural gas, brine, well fluids, toxic gas or other pollution into the environment, including groundwater and shoreline contamination;

abnormally pressured formations;

mechanical difficulties, such as stuck oilfield drilling and service tools and casing collapse;

fires, explosions and ruptures of pipelines in connection with our high-pressure air injection operations;

personal injuries and death; and

natural disasters.

Any of these risks could adversely affect our ability to conduct operations or result in substantial losses to our company as a result of:

injury or loss of life;

damage to and destruction of property, natural resources and equipment;

pollution and other environmental damage;

regulatory investigations and penalties;

suspension of our operations; and

repair and remediation costs.

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We may elect not to obtain insurance if we believe that the cost of available insurance is excessive relative to the risks presented. In addition, pollution and environmental risks generally are not fully insurable. The occurrence of an event that is not fully covered by insurance could have a material adverse effect on our business, financial condition and results of operations.

Prospects that we decide to drill may not yield oil or natural gas in commercially viable quantities.

Prospects that we decide to drill that do not yield oil or natural gas in commercially viable quantities will adversely affect our result of operations and financial condition. In this prospectus, we describe some of our current prospects and our plans to explore those prospects. Our prospects are in various stages of evaluation, ranging from a prospect which is ready to drill to a prospect that will require substantial additional seismic data processing and interpretation. There is no way to predict in advance of drilling and testing whether any particular prospect will yield oil or natural gas in sufficient quantities to recover drilling or completion costs or to be economically viable. The use of seismic data and other technologies and the study of producing fields in the same area will not enable us to know conclusively prior to drilling whether oil or natural gas will be present or, if present, whether oil or natural gas will be present in commercial quantities. We cannot assure you that the analogies we draw from available data from other wells, more fully explored prospects or producing fields will be applicable to our drilling prospects.

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Our identified drilling locations are scheduled out over several years, making them susceptible to uncertainties that could materially alter the occurrence or timing of their drilling.

Our management has specifically identified and scheduled drilling locations as an estimation of our future multi-year drilling activities on our existing acreage. As of December 31, 2005, we had identified and scheduled 1,233 gross drilling locations. These scheduled drilling locations represent a significant part of our growth strategy. Our ability to drill and develop these locations depends on a number of uncertainties, including oil and natural gas prices, the availability of capital, costs, drilling results, regulatory approvals and other factors. Because of these uncertainties, we do not know if the numerous potential drilling locations we have identified will ever be drilled or if we will be able to produce oil or natural gas from these or any other potential drilling locations. In addition, unless production is established within the spacing units covering the undeveloped acres on which some of the locations are identified, the leases for such acreage will expire. As of December 31, 2005, we had 93,922, 123,214 and 160,891 net acres expiring in 2006, 2007 and 2008, respectively. As such, our actual drilling activities may materially differ from those presently identified, which could adversely affect our business.

Market conditions or operational impediments may hinder our access to oil and natural gas markets or delay our production.

Market conditions or the unavailability of satisfactory oil and natural gas transportation arrangements may hinder our access to oil and natural gas markets or delay our production. The availability of a ready market for our oil and natural gas production depends on a number of factors, including the demand for and supply of oil and natural gas and the proximity of reserves to pipelines and terminal facilities. Our ability to market our production depends in substantial part on the availability and capacity of gathering systems, pipelines and processing facilities owned and operated by third parties. Our failure to obtain such services on acceptable terms could materially harm our business. We may be required to shut in wells due to lack of a market or inadequacy or unavailability of crude oil or natural gas pipeline or gathering system capacity. If that were to occur, then we would be unable to realize revenue from those wells until production arrangements were made to deliver to market.

We have been an early entrant into new or emerging plays; as a result, our drilling results in these areas are uncertain, and the value of our undeveloped acreage will decline if drilling results are unsuccessful.

While our costs to acquire undeveloped acreage in new or emerging plays have generally been less than those of later entrants into a developing play, our drilling results in these areas are more uncertain than drilling results in areas that are developed and producing. Since new or emerging plays have limited or no production history, we are unable to use past drilling results in those areas to help predict our future drilling results. As a result, our cost of drilling, completing and operating wells in these areas may be higher than initially expected, and the value of our undeveloped acreage will decline if drilling results are unsuccessful.

We are subject to complex federal, state, local, provincial and other laws and regulations that could adversely affect the cost, manner or feasibility of conducting our operations.

Our oil and natural gas exploration, production and transportation operations are subject to complex and stringent laws and regulations. In order to conduct our operations in compliance with these laws and regulations, we must obtain and maintain numerous permits, approvals and certificates from various federal, state, local and provincial governmental authorities. We may incur substantial costs in order to maintain compliance with these existing laws and regulations. In addition, our costs of compliance may increase if existing laws and regulations are revised or reinterpreted, or if new laws and regulations become applicable to our operations. Such costs could have a material adverse effect on

our business, financial condition and results of operations.

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Our business is subject to federal, state, local and provincial laws and regulations as interpreted and enforced by governmental authorities possessing jurisdiction over various aspects of the exploration for, and the production and transportation of, oil and natural gas. Failure to comply with such laws and regulations, as interpreted and enforced, could have a material adverse effect on our business, financial condition and results of operations. See [Business and Properties Environmental, Health and Safety Regulation](#) and [Business and Properties Regulation of the Oil and Natural Gas Industry](#) for a description of the laws and regulations that affect us.

Our operations expose us to significant costs and liabilities with respect to environmental and operational safety matters.

We may incur significant costs and liabilities as a result of environmental, health and safety requirements applicable to our oil and natural gas exploration, production and transportation activities. These costs and liabilities could arise under a wide range of federal, state, local and provincial laws and regulations relating to protection of the environment, health and safety, including regulations and enforcement policies that have tended to become increasingly strict over time. Failure to comply with these laws and regulations may result in the assessment of administrative, civil and criminal penalties, imposition of cleanup and site restoration costs and liens, and, to a lesser extent, issuance of injunctions to limit or cease operations. In addition, claims for damages to persons or property, including natural resources, may result from the environmental, health and safety impacts of our operations.

Strict, joint and several liability may be imposed under certain environmental laws, which could cause us to become liable for the conduct of others or for consequences of our own actions that were in compliance with all applicable laws at the time those actions were taken. New laws, regulations or enforcement policies could be more stringent and impose unforeseen liabilities or significantly increase compliance costs. If we were not able to recover the resulting costs through insurance or increased revenues, our business, financial condition or results of operations could be adversely affected. See [Business and Properties Environmental, Health and Safety Regulation](#) for more information.

Competition in the oil and natural gas industry is intense, making it more difficult for us to acquire properties, market oil and natural gas and secure trained personnel.

We operate in a highly competitive environment for acquiring properties, marketing oil and natural gas and securing trained personnel. Many of our competitors possess and employ financial, technical and personnel resources substantially greater than ours, which can be particularly important in the areas in which we operate. Those companies may be able to pay more for productive oil and natural gas properties and exploratory prospects and to evaluate, bid for and purchase a greater number of properties and prospects than our financial or personnel resources permit. In addition, those companies may be able to offer better compensation packages to attract and retain qualified personnel than we are able to offer. The cost to attract and retain qualified personnel has increased over the past two years due to competition and may increase substantially in the future. Our ability to acquire additional prospects and to find and develop reserves in the future will depend on our ability to evaluate and select suitable properties and to consummate transactions in a highly competitive environment. Also, there is substantial competition for capital available for investment in the oil and natural gas industry. We may not be able to compete successfully in the future in acquiring prospective reserves, developing reserves, marketing hydrocarbons, attracting and retaining quality personnel and raising additional capital. Our failure to acquire properties, market oil and natural gas and secure trained personnel and increased compensation for trained personnel could have a material adverse effect on our business.

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The loss of senior management or technical personnel could adversely affect operations.

To a large extent, we depend on the services of our senior management and technical personnel. The loss of the services of our senior management or technical personnel, including Harold G. Hamm, our Chairman and Chief Executive Officer, could have a material adverse effect on our operations. We do not maintain, nor do we plan to obtain, any insurance against the loss of any of these individuals.

Terrorist attacks aimed at our energy operations could adversely affect our business.

The continued threat of terrorism and the impact of military and other government action has led and may lead to further increased volatility in prices for oil and natural gas and could affect these commodity markets or financial markets used by us. In addition, the U.S. government has issued warnings that energy assets may be a future target of terrorist organizations. These developments have subjected our oil and natural gas operations to increased risks. Any future terrorist attack on our facilities, those of our customers and, in some cases, those of other energy companies, could have a material adverse effect on our business.

Seasonal weather conditions and lease stipulations adversely affect our ability to conduct drilling activities in some of the areas where we operate.

Oil and natural gas operations in the Rocky Mountains are adversely affected by seasonal weather conditions and lease stipulations designed to protect various wildlife. In certain areas, including parts of Montana, North Dakota, South Dakota, Utah and Wyoming, drilling and other oil and natural gas activities can only be conducted during the spring and summer months. This limits our ability to operate in those areas and can intensify competition during those months for drilling rigs, oilfield equipment, services, supplies and qualified personnel, which may lead to periodic shortages. These constraints and the resulting shortages or high costs could delay our operations and materially increase our operating and capital costs.

Our credit facility contains certain covenants that may inhibit our ability to make certain investments, incur additional indebtedness and engage in certain other transactions, which could adversely affect our ability to meet our future goals.

Our credit facility includes certain covenants that, among other things, restrict:

our investments, loans and advances and the paying of dividends and other restricted payments;

our incurrence of additional indebtedness;

the granting of liens, other than liens created pursuant to the credit facility and certain permitted liens;

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mergers, consolidations and sales of all or substantial part of our business or properties;

the hedging, forward sale or swap of our production of crude oil or natural gas or other commodities;

the sale of assets; and

our capital expenditures.

Our credit facility requires us to maintain certain financial ratios, such as leverage ratios. All of these restrictive covenants may restrict our ability to expand or pursue our business strategies. Our ability to comply with these and other provisions of our credit facility may be impacted by changes in economic or business conditions, results of operations or events beyond our control. The breach of any of these covenants could result in a default under our credit facility, in which case, depending on the actions taken by the lenders thereunder or their successors or assignees, such lenders could elect to declare all amounts borrowed under our credit facility, together with accrued interest, to be due and payable. If we were unable to repay such borrowings or interest, our lenders could proceed against their collateral. If the indebtedness under our credit facility were to be accelerated, our assets may not be sufficient to repay in full such indebtedness.

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The inability of our significant customers to meet their obligations to us may adversely affect our financial results.

We are subject to credit risk due to concentration of our crude oil and natural gas receivables with several significant customers. The three largest purchasers of our oil and natural gas in 2005 accounted for 31% , 19% and 10% of our total oil and natural gas sales revenues. We do not require our customers to post collateral. The inability of our significant customers to meet their obligations to us may adversely affect our financial results.

Risks Relating to the Offering and Our Common Stock

The initial public offering price of our common stock may not be indicative of the market price of our common stock after this offering. In addition, our stock price may be volatile.

Prior to this offering, there has been no public market for our common stock. An active market for our common stock may not develop or may not be sustained after this offering. The initial public offering price of our common stock was determined by negotiations between us and representatives of the underwriters, based on numerous factors which we discuss in the Underwriting section of this prospectus. This price may not be indicative of the market price for our common stock after this initial public offering. The market price of our common stock could be subject to significant fluctuations after this offering, and may decline below the initial public offering price. You may not be able to resell your shares at or above the initial public offering price. The following factors could affect our stock price:

our operating and financial performance and prospects;

quarterly variations in the rate of growth of our financial indicators, such as net income per share, net income and revenues;

changes in revenue or earnings estimates or publication of reports by equity research analysts;

speculation in the press or investment community;

sales of our common stock by us, Harold G. Hamm or other shareholders, or the perception that such sales may occur;

general market conditions, including fluctuations in commodity prices; and

domestic and international economic, legal and regulatory factors unrelated to our performance.

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The stock markets in general have experienced extreme volatility that has often been unrelated to the operating performance of particular companies. These broad market fluctuations may adversely affect the trading price of our common stock.

Following this offering, our Chairman and Chief Executive Officer will own approximately % of our outstanding common stock, giving him influence and control in corporate transactions and other matters, including a sale of our company.

As of the closing of this offering, Harold G. Hamm, our Chairman and Chief Executive Officer, will beneficially own shares of our outstanding common stock (assuming no exercise of the underwriters' overallotment option), representing approximately % of our outstanding common stock. As a result, Mr. Hamm will continue to be our controlling shareholder and will continue to be able to control the election of our directors, determine our corporate and management policies and determine, without the consent of our other shareholders, the outcome of certain corporate transactions or other matters submitted to our shareholders for approval, including potential mergers or acquisitions, asset sales and other significant corporate transactions. As controlling shareholder, Mr. Hamm could cause, delay or prevent a change of control of our company. The interests of Mr. Hamm may not coincide with the interests of other holders of our common stock.

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Several affiliated companies controlled by Mr. Hamm provide oilfield, gathering and processing, marketing and other services to us. We expect these transactions will continue in the future and may result in conflicts of interest between Mr. Hamm's affiliated companies and us. We can provide no assurance that any such conflicts will be resolved in our favor.

Purchasers of common stock in this offering will experience immediate and substantial dilution of \$ per share.

Based on an assumed initial public offering price of \$ per share, purchasers of our common stock in this offering will experience an immediate and substantial dilution of \$ per share in the pro forma as adjusted net tangible book value per share of common stock from the initial public offering price, and our pro forma as adjusted net tangible book value as of March 31, 2006 after giving effect to this offering would be \$2.00 per share. See Dilution for a complete description of the calculation of net tangible book value.