

CONTINENTAL RESOURCES, INC
Form 10-Q
August 08, 2013
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 June 30, 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)

Oklahoma 73-0767549
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

20 N. Broadway, Oklahoma City, 73102
Oklahoma (Zip Code)
(Address of principal executive offices)

(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

185,638,546 shares of our \$0.01 par value common stock were outstanding on August 1, 2013.

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

Glossary of Crude Oil and Natural Gas Terms

The terms defined in this section may be 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.

“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.

“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 may lack readily apparent traps, seals and discrete hydrocarbon-water boundaries that typically define conventional reservoirs. 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, and generally require horizontal drilling, fracture stimulation treatments or other special recovery processes in order to achieve economic production.

“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.

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,” “g” 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.

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

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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.

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

	June 30, 2013	December 31, 2012
In thousands, except par values and share data	(Unaudited)	
Assets		
Current assets:		
Cash and cash equivalents	\$220,413	\$35,729
Receivables:		
Crude oil and natural gas sales	584,392	468,650
Affiliated parties	15,902	12,410
Joint interest and other, net	339,388	356,111
Derivative assets	76,478	18,389
Inventories	42,085	46,743
Deferred and prepaid taxes	6,425	365
Prepaid expenses and other	8,547	8,386
Total current assets	1,293,630	946,783
Net property and equipment, based on successful efforts method of accounting	9,440,216	8,105,269
Net debt issuance costs and other	74,570	55,726
Noncurrent derivative assets	91,566	32,231
Total assets	\$10,899,982	\$9,140,009
Liabilities and shareholders' equity		
Current liabilities:		
Accounts payable trade	\$769,249	\$687,310
Revenues and royalties payable	276,446	261,856
Payables to affiliated parties	5,476	6,069
Accrued liabilities and other	195,501	153,454
Derivative liabilities	6,809	12,999
Current portion of asset retirement obligations	1,964	2,227
Current portion of long-term debt	1,981	1,950
Total current liabilities	1,257,426	1,125,865
Long-term debt, net of current portion	4,440,820	3,537,771
Other noncurrent liabilities:		
Deferred income tax liabilities	1,510,511	1,262,576
Asset retirement obligations, net of current portion	45,568	44,944
Noncurrent derivative liabilities	—	2,173
Other noncurrent liabilities	2,317	2,981
Total other noncurrent liabilities	1,558,396	1,312,674
Commitments and contingencies (Note 7)		
Shareholders' equity:		
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; 185,642,832 shares issued and outstanding at June 30, 2013; 185,604,681 shares issued and outstanding at December 31, 2012	1,856	1,856
Additional paid-in capital	1,242,579	1,226,835

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Retained earnings	2,398,905	1,935,008
Total shareholders' equity	3,643,340	3,163,699
Total liabilities and shareholders' equity	\$ 10,899,982	\$ 9,140,009

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

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

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
In thousands, except per share data				
Revenues				
Crude oil and natural gas sales	\$864,538	\$511,192	\$1,627,170	\$1,046,504
Crude oil and natural gas sales to affiliates	27,649	12,201	48,534	29,147
Gain on derivative instruments, net	199,056	471,728	114,225	302,671
Crude oil and natural gas service operations	9,509	9,598	21,052	21,497
Total revenues	1,100,752	1,004,719	1,810,981	1,399,819
Operating costs and expenses				
Production expenses	73,143	43,479	134,460	83,495
Production and other expenses to affiliates	1,495	1,427	3,152	2,496
Production taxes and other expenses	81,050	48,077	152,308	97,807
Exploration expenses	11,151	8,702	20,965	12,853
Crude oil and natural gas service operations	7,317	7,255	15,914	17,097
Depreciation, depletion, amortization and accretion	236,790	161,018	450,468	310,473
Property impairments	79,712	35,871	119,793	65,778
General and administrative expenses	35,873	29,813	69,690	54,779
(Gain) loss on sale of assets, net	349	(17,397)	213	(67,024)
Total operating costs and expenses	526,880	318,245	966,963	577,754
Income from operations	573,872	686,474	844,018	822,065
Other income (expense):				
Interest expense	(61,378)	(31,691)	(108,853)	(55,969)
Other	634	789	1,180	1,570
	(60,744)	(30,902)	(107,673)	(54,399)
Income before income taxes	513,128	655,572	736,345	767,666
Provision for income taxes	189,858	249,888	272,448	292,888
Net income	\$323,270	\$405,684	\$463,897	\$474,778
Basic net income per share	\$1.76	\$2.26	\$2.52	\$2.64
Diluted net income per share	\$1.75	\$2.25	\$2.51	\$2.63

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

Continental Resources, Inc. and Subsidiaries
Condensed Consolidated Statements of Shareholders' Equity

	Shares outstanding	Common stock	Additional paid-in capital	Retained earnings	Total shareholders' equity
In thousands, except share data					
Balance at December 31, 2012	185,604,681	\$ 1,856	\$ 1,226,835	\$ 1,935,008	\$ 3,163,699
Net income (unaudited)	—	—	—	463,897	463,897
Stock-based compensation (unaudited)	—	—	19,003	—	19,003
Restricted stock:					
Issued (unaudited)	129,850	1	—	—	1
Repurchased and canceled (unaudited)	(38,876)	—	(3,259)	—	(3,259)
Forfeited (unaudited)	(52,823)	(1)	—	—	(1)
Balance at June 30, 2013	185,642,832	\$ 1,856	\$ 1,242,579	\$ 2,398,905	\$ 3,643,340

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

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

In thousands	Six months ended June 30,	
	2013	2012
Cash flows from operating activities		
Net income	\$463,897	\$474,778
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion, amortization and accretion	448,639	314,367
Property impairments	119,793	65,778
Change in fair value of derivatives	(125,787	) (349,652
Stock-based compensation	18,998	13,305
Provision for deferred income taxes	266,618	290,738
Dry hole costs	8,063	98
(Gain) loss on sale of assets, net	213	(67,024
Other, net	2,466	2,275
Changes in assets and liabilities:		
Accounts receivable	(100,542	) 18,375
Inventories	4,658	(10,212
Prepaid expenses and other	(6,526	) 2,952
Accounts payable trade	21,678	(21,661
Revenues and royalties payable	12,920	4,477
Accrued liabilities and other	16,018	32,241
Other noncurrent assets and liabilities	5,839	(5
Net cash provided by operating activities	1,156,945	770,830
Cash flows from investing activities		
Exploration and development	(1,823,215	) (1,778,808
Purchase of producing crude oil and natural gas properties	(9,311	) (63,263
Purchase of other property and equipment	(18,545	) (32,230
Proceeds from sale of assets	894	100,809
Net cash used in investing activities	(1,850,177	) (1,773,492
Cash flows from financing activities		
Revolving credit facility borrowings	440,000	1,239,000
Repayment of revolving credit facility	(1,035,000	) (1,060,000
Proceeds from issuance of Senior Notes	1,479,375	787,000
Proceeds from other debt	—	22,000
Repayment of other debt	(969	) (628
Debt issuance costs	(2,231	) (4,083
Repurchase of equity grants	(3,259	) (5,094
Exercise of stock options	—	60
Net cash provided by financing activities	877,916	978,255
Net change in cash and cash equivalents	184,684	(24,407
Cash and cash equivalents at beginning of period	35,729	53,544
Cash and cash equivalents at end of period	\$220,413	\$29,137

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

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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 and approximately 87% of its crude oil and natural gas revenues for the six months ended June 30, 2013. The Company has focused its operations on the exploration and development of crude oil since the 1980s. For the six months ended June 30, 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 June 30, 2013 and for the three and six month periods ended June 30, 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 and estimation 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:

In thousands	June 30, 2013	December 31, 2012
Tubular goods and equipment	\$12,326	\$13,590
Crude oil	29,759	33,153
Total	\$42,085	\$46,743

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:

MBbls	June 30, 2013	December 31, 2012
Crude oil line fill requirements	398	391
Temporarily stored crude oil	97	211
Total	495	602

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 and six months ended June 30, 2013 and 2012. All stock options issued by the Company in prior periods had been exercised or had expired as of March 31, 2012.

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
In thousands, except per share data				
Income (numerator):				
Net income - basic and diluted	\$323,270	\$405,684	\$463,897	\$474,778
Weighted average shares (denominator):				
Weighted average shares - basic	184,039	179,781	184,019	179,744
Non-vested restricted stock	700	554	685	541
Stock options	—	—	—	32
Weighted average shares - diluted	184,739	180,335	184,704	180,317
Net income per share:				
Basic	\$1.76	\$2.26	\$2.52	\$2.64
Diluted	\$1.75	\$2.25	\$2.51	\$2.63

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 the Company's derivative instruments and did not have an impact on its financial position, results of operations or cash flows.

Note 3. Supplemental Cash Flow Information

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.

Continental Resources, Inc. and Subsidiaries
Notes to Unaudited Condensed Consolidated Financial Statements

In thousands	Six months ended June 30,		
	2013	2012	
Supplemental cash flow information:			
Cash paid for interest	\$88,856	\$38,567	
Cash paid for income taxes	16,883	754	
Cash received for income tax refunds	(173) (72)
Non-cash investing activities:			
Increase in accrued capital expenditures	59,414	43,850	
Asset retirement obligations, net	3,403	2,973	

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 "Gain 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 June 30, 2013, the Company had outstanding derivative contracts with respect to future production as set forth in the tables below.

Crude Oil - NYMEX WTI	Swaps	Collars		Weighted Average Price	Weighted Average Price
		Floors	Ceilings		
Period and Type of Contract	Bbbs	Weighted Average Price	Range	Weighted Average Price	Range
July 2013 - December 2013					
Swaps - WTI	5,796,000	\$92.65			
Collars - WTI	4,416,000		\$80.00 - \$95.00	\$86.92	\$92.30 - \$110.33
January 2014 - December 2014					

Swaps - WTI

10,311,250 \$96.20

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Crude Oil - ICE Brent		Swaps Weighted Average Price	Collars Floors Range	Weighted Average Price	Ceilings Range	Weighted Average Price
Period and Type of Contract	Bbls					
July 2013 - December 2013						
Swaps - ICE Brent	2,484,000	\$108.72				
January 2014 - December 2014						
Swaps - ICE Brent	13,687,500	\$102.52				
Collars - ICE Brent	2,190,000		\$90.00 - \$95.00	\$90.83	\$104.70 - \$108.85	\$107.13
January 2015 - December 2015						
Swaps - ICE Brent	1,277,500	\$98.48				
Natural Gas - NYMEX Henry Hub						Swaps Weighted Average Price
Period and Type of Contract			MMBtus			
July 2013 - December 2013						
Swaps - Henry Hub			46,000,000			\$3.78
January 2014 - March 2014						
Swaps - Henry Hub			14,400,000			\$4.30
April 2014 - December 2014						
Swaps - Henry Hub			30,250,000			\$4.14

Derivative gains and losses

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

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
In thousands				
Realized gain (loss) on derivatives:				
Crude oil fixed price swaps	\$2,081	\$(6,367)	\$(7,512)	\$(37,791)
Crude oil collars	254	(4,048)	379	(14,968)
Natural gas fixed price swaps	(7,087)	) 3,359	(4,429)	) 5,778
Realized loss on derivatives, net	\$(4,752)	) \$(7,056)	) \$(11,562)	) \$(46,981)
Unrealized gain (loss) on derivatives:				
Crude oil fixed price swaps	\$141,912	\$329,545	\$108,548	\$248,547
Crude oil collars	15,968	158,053	2,206	99,110
Natural gas fixed price swaps	45,928	(8,814)	) 15,033	1,995
Unrealized gain on derivatives, net	\$203,808	\$478,784	\$125,787	\$349,652
Gain on derivative instruments, net	\$199,056	\$471,728	\$114,225	\$302,671
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

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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.

In thousands	June 30, 2013			December 31, 2012		
	Gross amounts of recognized assets	Gross amounts offset on balance sheet	Net amounts of assets on balance sheet	Gross amounts of recognized assets	Gross amounts offset on balance sheet	Net amounts of assets on balance sheet
Commodity derivative assets	\$ 185,882	\$(17,838)	\$ 168,044	\$ 86,506	\$(35,886)	\$ 50,620

In thousands	June 30, 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
Commodity derivative liabilities	\$(8,285)	\$ 1,476	\$(6,809)	\$(16,241)	\$ 1,069	\$(15,172)

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

In thousands	June 30, 2013	December 31, 2012
Derivative assets	\$ 76,478	\$ 18,389
Noncurrent derivative assets	91,566	32,231
Net amounts of assets on balance sheet	\$ 168,044	\$ 50,620
Derivative liabilities	\$(6,809)	\$(12,999)
Noncurrent derivative liabilities	—	(2,173)
Net amounts of liabilities on balance sheet	\$(6,809)	\$(15,172)
Total derivative assets, net	\$ 161,235	\$ 35,448

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.

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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 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.

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 June 30, 2013 and December 31, 2012.

In thousands Description	Fair value measurements at June 30, 2013 using:			Total
	Level 1	Level 2	Level 3	
Derivative assets (liabilities):				
Fixed price swaps	\$—	\$ 160,297	\$—	\$ 160,297
Collars	—	938	—	938
Total	\$—	\$ 161,235	\$—	\$ 161,235

In thousands Description	Fair value measurements at December 31, 2012 using:			Total
	Level 1	Level 2	Level 3	
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

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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%

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

At June 30, 2013 and 2012, the Company determined the carrying amounts of certain proved properties were not recoverable from future cash flows and, therefore, were impaired. Impairments of proved properties amounted to \$39.6 million for the six months ended June 30, 2013, all of which was recognized in the second quarter. Such impairments primarily reflected uneconomic results for certain wells drilled on the Company's acreage in the Niobrara play in Colorado and Wyoming. The impaired properties were written down to their estimated fair value totaling approximately \$22.2 million as of June 30, 2013. Impairment provisions for proved properties totaled \$4.3 million for the three and six months ended June 30, 2012, primarily reflecting uneconomic results in a non-Woodford single-well field in the Company's South region. Those impaired properties were written down to their estimated fair value totaling approximately \$2.2 million as of June 30, 2012.

Certain unproved crude oil and natural gas properties were impaired during the three and six months ended June 30, 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.

In thousands	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
Proved property impairments	\$39,635	\$4,332	\$39,635	\$4,332
Unproved property impairments	40,077	31,539	80,158	61,446
Total	\$79,712	\$35,871	\$119,793	\$65,778

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.

In thousands	June 30, 2013		December 31, 2012	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Debt:				
Revolving credit facility	\$—	\$—	\$595,000	\$595,000
Note payable	19,452	18,178	20,421	20,148
8 1/4% Senior Notes due 2019	298,192	327,750	298,085	339,000
7 3/8% Senior Notes due 2020	198,621	219,000	198,552	226,833
7 1/8% Senior Notes due 2021	400,000	438,700	400,000	454,333
5% Senior Notes due 2022	2,026,536	2,019,200	2,027,663	2,165,833
4 1/2% Senior Notes due 2023	1,500,000	1,455,000	—	—
Total debt	\$4,442,801	\$4,477,828	\$3,539,721	\$3,801,147

The fair value of any revolving credit facility borrowings approximates the 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.

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The fair values of the 8 1/4% Senior Notes due 2019 (“2019 Notes”), the 7 3/8% Senior Notes due 2020 (“2020 Notes”), the 7 1/8% Senior Notes due 2021 (“2021 Notes”), the 5% Senior Notes due 2022 (“2022 Notes”), and the 4 1/2% Senior Notes due 2023 (“2023 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:

In thousands	June 30, 2013	December 31, 2012
Revolving credit facility	\$—	\$595,000
Note payable	19,452	20,421
8 1/4% Senior Notes due 2019 (1)	298,192	298,085
7 3/8% Senior Notes due 2020 (2)	198,621	198,552
7 1/8% Senior Notes due 2021 (3)	400,000	400,000
5% Senior Notes due 2022 (4)	2,026,536	2,027,663
4 1/2% Senior Notes due 2023 (3)	1,500,000	—
Total debt	4,442,801	3,539,721
Less: Current portion of long-term debt	(1,981	) (1,950
Long-term debt, net of current portion	\$4,440,820	\$3,537,771

(1) The carrying amount is net of unamortized discounts of \$1.8 million and \$1.9 million at June 30, 2013 and December 31, 2012, respectively.

(2) The carrying amount is net of unamortized discounts of \$1.4 million at both June 30, 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 \$26.5 million and \$27.7 million at June 30, 2013 and December 31, 2012, respectively.

Revolving Credit Facility

On April 3, 2013, certain terms of the Company’s credit facility were amended. The amendment included, among other things, the following changes:

Allows the Company to elect to suspend the need to comply with borrowing base requirements under the credit facility if either Moody’s or Standard & Poor’s (“S&P”) rates the Company’s senior unsecured debt at or above Ba1 (in the case of Moody’s) or BB+ (in the case of S&P). Previously, the credit facility required both Moody’s and S&P to provide those respective debt ratings before the Company could elect to suspend the borrowing base requirements.

Allows the Company to elect to release the collateral consisting of crude oil and natural gas properties if either Moody’s or S&P rates the Company’s senior unsecured debt at or above Baa3 (in the case of Moody’s) or BBB- (in the case of S&P) (collectively, the “Collateral Release Ratings”), but requires the Company to continue certain reporting requirements and maintain a ratio of the Present Value, as defined in the amended credit facility, of the Company’s crude oil and natural gas properties to all funded debt of the Company of not less than 1.75 to 1.0 (the “Present Value Covenant”) during the period that only one of Moody’s or S&P has issued a rating at or above the Collateral Release Ratings. Previously, the credit facility required both Moody’s and S&P to rate the Company’s senior unsecured debt at or above the Collateral Release Ratings before the collateral from crude oil and natural gas properties could be released.

Provides that if at least one of Moody’s or S&P has not rated the Company’s senior unsecured debt at or above the Collateral Release Ratings, the Company must provide an acceptable security interest in the lesser of (i) crude oil and

natural gas properties of the Company representing 80% of the Present Value of such properties and (ii) such of the Company's proved reserves and associated crude oil and natural gas properties sufficient to provide a Collateral Coverage Ratio, as defined in the amended credit facility, of at least 1.75 to 1.0.

- Provides that if both Moody's and S&P rate the Company's senior unsecured debt at or above the Collateral Release Ratings, the Company is not required to comply with certain reporting requirements and the Present Value Covenant. The Company will again be required to comply with such reporting requirements and the Present Value Covenant at such

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time as both Moody's and S&P do not rate the Company's senior unsecured debt at or above the Collateral Release Ratings.

The Company had no outstanding borrowings at June 30, 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 \$4.25 billion at June 30, 2013, subject to semi-annual redetermination. The most recent borrowing base redetermination was completed in May 2013, whereby the lenders approved an increase in the Company's borrowing base from \$3.25 billion to \$4.25 billion. 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.

The Company had approximately \$1.5 billion of unused commitments under its credit facility at June 30, 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 June 30, 2013.

Senior Notes

On April 5, 2013, the Company issued \$1.5 billion of 4 1/2% Senior Notes due 2023 and received net proceeds of approximately \$1.48 billion after deducting the initial purchasers' fees. The Company used a portion of the net proceeds from the offering to repay all borrowings then outstanding under its credit facility, which had a balance prior to payoff of approximately \$1.04 billion, and has been using the remaining net proceeds to fund a portion of its 2013 capital budget and for general corporate purposes. The 2023 Notes will mature on April 15, 2023 and interest is payable on the 2023 Notes on April 15 and October 15 of each year, commencing October 15, 2013.

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 June 30, 2013.

	2019 Notes	2020 Notes	2021 Notes	2022 Notes	2023 Notes
Maturity date	Oct 1, 2019	Oct 1, 2020	April 1, 2021	Sep 15, 2022	April 15, 2023
Interest payment dates	April 1, Oct. 1	April 1, Oct. 1	April 1, Oct. 1	March 15, Sept. 15	April 15, Oct. 15
Call premium redemption period (1)	Oct 1, 2014	Oct 1, 2015	April 1, 2016	March 15, 2017	n/a
Make-whole redemption period (2)	Oct 1, 2014	Oct 1, 2015	April 1, 2016	March 15, 2017	Jan 15, 2023
Equity offering redemption period (3)	—	Oct 1, 2013	April 1, 2014		n/a

March 15,
2015

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

At any time prior to these dates, the Company has the option to redeem all or a portion of its senior notes at the (2) “make-whole” redemption prices specified in the Indentures plus any accrued and unpaid interest to the date of redemption.

At any time prior to these dates, the Company may redeem up to 35% of the principal amount of its senior notes (3) 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.

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The Indentures, excluding the indenture governing the 2023 Notes, 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. The indenture governing the 2023 Notes is less restrictive and contains covenants that limit the Company's ability to create liens securing certain indebtedness and consolidate, merge or transfer certain assets. These covenants are subject to a number of important exceptions and qualifications. The Company was in compliance with these covenants at June 30, 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.

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 June 30, 2013.

Note 7. Commitments and Contingencies

Included below is a discussion of various future commitments of the Company as of June 30, 2013. The commitments under these arrangements are not recorded in the accompanying condensed consolidated balance sheets.

Drilling commitments – As of June 30, 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 June 30, 2013 total approximately \$65 million, of which \$48 million is expected to be incurred in the remainder of 2013 and \$17 million in 2014.

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 crude oil 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 June 30, 2013 under the operational crude oil pipeline transportation arrangements amount to approximately \$50 million, of which \$7 million is expected to be incurred in the remainder of 2013, \$14 million in 2014, \$14 million in 2015, \$10 million in 2016 and \$5 million in 2017.

The Company has also entered into a commitment to guarantee pipeline access capacity on an operational natural gas pipeline system to move a portion of its North region natural gas production to market. The commitment, which has a 10-year term ending in October 2023, requires the Company to pay per-unit transportation charges regardless of the amount of pipeline capacity used. Future commitments under the arrangement amount to approximately \$25 million, which is expected to be incurred ratably over its 10-year term.

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 the counterparties before being completed. Future commitments under the non-operational arrangements total approximately \$1.0 billion at June 30, 2013, including approximately \$96 million with an affiliate controlled by the Company's Chairman of the Board, Chief Executive Officer and principal shareholder. These commitments represent aggregate transportation charges expected to be 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 2014 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

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regardless of the amount of rail capacity used. Future commitments remaining as of June 30, 2013 under the rail transportation arrangements amount to approximately \$27 million, of which \$17 million is expected to be incurred in the remainder of 2013 and \$10 million in 2014.

The Company's pipeline and rail transportation commitments are for production primarily 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 \$165 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 June 30, 2013 and December 31, 2012, the Company has recorded a liability in the condensed consolidated balance sheets under the caption "Other noncurrent liabilities" of \$1.7 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") and 2013 Long-Term Incentive Plan ("2013 Plan") as discussed below. The Company's associated compensation expense, which is included in the caption "General and administrative expenses" in the unaudited condensed consolidated statements of income, is reflected in the table below for the periods presented.

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
In thousands				
Non-cash equity compensation	\$9,756	\$7,790	\$18,998	\$13,305

In May 2013, the Company's shareholders, upon recommendation by the Board of Directors, approved the adoption of the Company's 2013 Plan. The 2013 Plan is a broad-based incentive plan that allows the Company to use, if desired, a variety of equity compensation alternatives in structuring compensation arrangements for the Company's officers, directors and key employees. Effective May 23, 2013, the 2013 Plan replaced the Company's 2005 Plan as the instrument used to grant long-term incentive awards and no further awards will be granted under the 2005 Plan.

However, restricted stock awards granted under the 2005 Plan prior to the adoption of the 2013 Plan will remain outstanding in accordance with their terms.

The maximum number of shares of common stock available for issuance under the 2013 Plan will be 9,840,036 shares, which includes (i) 7,500,000 new shares authorized under the 2013 Plan, (ii) 1,840,036 shares that remained available for issuance under the 2005 Plan as of March 27, 2013 that have been transferred from the 2005 Plan to the 2013 Plan, and (iii) up to 500,000 shares available for issuance under the 2013 Plan to the extent such shares are forfeited or withheld for payment of income taxes related to existing awards outstanding under the 2005 Plan. As of June 30, 2013, the Company had a maximum of 9,829,816 shares of restricted stock available to grant to officers, directors and key employees under the 2013 Plan.

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Restricted stock is awarded in the name of the recipient and constitutes issued and outstanding shares of the Company's common stock for all corporate purposes during the period of restriction and, except as otherwise provided under the 2013 Plan or agreement relevant to a given award, includes the right to vote the restricted stock or to receive dividends, subject to forfeiture. Restricted stock grants generally vest over periods ranging from one to three years. A summary of changes in non-vested restricted stock shares outstanding for the six months ended June 30, 2013 is presented below:

	Number of non-vested shares	Weighted average grant-date fair value
Non-vested restricted shares outstanding at December 31, 2012	1,629,462	\$63.28
Granted	129,850	83.94
Vested	(124,777	) 60.65
Forfeited	(52,823	) 72.47
Non-vested restricted shares outstanding at June 30, 2013	1,581,712	\$67.52

The grant date fair value of restricted stock represents the closing market price of the Company's common stock on the date of grant. Compensation expense for a restricted stock grant is a fixed amount determined at the grant date fair value and is recognized ratably over the vesting period as services are rendered by employees and directors. The expected life of restricted stock is based on the non-vested period that remains subsequent to the date of grant. There are no post-vesting restrictions related to the Company's restricted stock. The fair value of restricted stock that vested during the six months ended June 30, 2013 at the vesting date was appro