

CIMAREX ENERGY CO  
Form 10-Q  
May 05, 2015  
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the Quarterly Period ended March 31, 2015

Commission File No. 001-31446

CIMAREX ENERGY CO.

1700 Lincoln Street, Suite 3700

Denver, Colorado 80203

(303) 295-3995

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Incorporated in the State of Delaware      Employer Identification No. 45-0466694

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      Smaller reporting company  
(Do not check if a 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    .

The number of shares of Cimarex Energy Co. common stock outstanding as of March 31, 2015, was 87,673,459.

Table of Contents

CIMAREX ENERGY CO.

Table of Contents

	Page
<u>PART I — FINANCIAL INFORMATION</u>	
<u>Item 1</u> <u>Financial Statements</u>	
<u>Condensed consolidated balance sheets (unaudited) as of March 31, 2015 and December 31, 2014</u>	4
<u>Consolidated statements of operations and comprehensive income (loss) (unaudited) for the three months ended March 31, 2015 and 2014</u>	5
<u>Condensed consolidated statements of cash flows (unaudited) for the three months ended March 31, 2015 and 2014</u>	6
<u>Notes to consolidated financial statements (unaudited)</u>	7
<u>Item 2</u> <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	16
<u>Item 3</u> <u>Quantitative and Qualitative Disclosures about Market Risk</u>	29
<u>Item 4</u> <u>Controls and Procedures</u>	29
<u>PART II — OTHER INFORMATION</u>	
<u>Item 1</u> <u>Legal Proceedings</u>	31
<u>Item</u> <u>Risk Factors</u>	
<u>1A</u>	31
<u>Item 6</u> <u>Exhibits</u>	34
<u>Signatures</u>	35

Table of Contents

GLOSSARY

Bbl/d—Barrels (of oil or natural gas liquids) per day

Bbls—Barrels (of oil or natural gas liquids)

Bcf—Billion cubic feet

Bcfe—Billion cubic feet equivalent

Btu—British thermal unit

MBbls—Thousand barrels

Mcf—Thousand cubic feet (of natural gas)

Mcfe—Thousand cubic feet equivalent

MMBbl/MMBbls—Million barrels

MMBtu—Million British Thermal Units

MMcf—Million cubic feet

MMcf/d—Million cubic feet per day

MMcfe—Million cubic feet equivalent

MMcfe/d—Million cubic feet equivalent per day

Net Acres—Gross acreage multiplied by working interest percentage

Net Production—Gross production multiplied by net revenue interest

NGL or NGLs—Natural gas liquids

Tcf—Trillion cubic feet

Tcfe—Trillion cubic feet equivalent

Energy equivalent is determined using the ratio of one barrel of crude oil, condensate or NGL to six Mcf of natural gas

CAUTIONARY INFORMATION ABOUT FORWARD-LOOKING STATEMENTS

Throughout this Form 10-Q, we make statements that may be deemed “forward-looking” statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities and Exchange Act of 1934, as amended. These forward-looking statements include, among others, statements concerning our outlook with regard to timing and amount of future production of oil and gas, price realizations, amounts, nature and timing of capital expenditures for exploration and development, plans for funding operations and capital expenditures, drilling of wells, operating costs and other expenses, marketing of oil, gas, and NGLs and other statements of expectations, beliefs, future plans and strategies, anticipated events or trends, and similar expressions concerning matters that are not historical facts. The forward-looking statements in this report are subject to risks and uncertainties that could cause actual results to differ materially from those expressed in or implied by the statements.

These risks and uncertainties include, but are not limited to, fluctuations in the price we receive for our oil and gas production, full cost ceiling impairments to the carrying values of our oil and gas properties, reductions in the quantity of oil and gas sold due to decreased industry-wide demand and/or curtailments in production from specific properties or areas due to mechanical, transportation, marketing, weather or other problems, operating and capital expenditures that are either significantly higher or lower than anticipated because the actual cost of identified projects varied from original estimates and/or from the number of exploration and development opportunities being greater or fewer than currently anticipated, and increased financing costs due to a significant increase in interest rates. In addition, exploration and development opportunities that we pursue may not result in economic, productive oil and gas properties. There are also numerous uncertainties inherent in estimating quantities of proved reserves, projecting future rates of production and the timing of development expenditures. These and other risks and uncertainties affecting us are discussed in greater detail in this report and in our other filings with the Securities and Exchange Commission.

Table of Contents

## PART I

## ITEM 1 - Financial Statements

## CIMAREX ENERGY CO.

## Condensed Consolidated Balance Sheets

(Unaudited)

	March 31, 2015	December 31, 2014
	(in thousands, except share data)	
Assets		
Current assets:		
Cash and cash equivalents	\$ 120,932	\$ 405,862
Receivables, net	339,711	412,108
Oil and gas well equipment and supplies	81,462	89,780
Deferred income taxes	10,077	13,475
Prepaid expenses	8,003	9,356
Other current assets	1,000	1,223
Total current assets	561,185	931,804
Oil and gas properties at cost, using the full cost method of accounting:		
Proved properties	14,761,734	14,402,064
Unproved properties and properties under development, not being amortized	713,409	759,149
	15,475,143	15,161,213
Less — accumulated depreciation, depletion, amortization and impairment	(9,067,931)	(8,257,502)
Net oil and gas properties	6,407,212	6,903,711
Fixed assets, net	213,358	211,031
Goodwill	620,232	620,232
Other assets, net	58,064	58,515
	\$ 7,860,051	\$ 8,725,293
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 74,749	\$ 138,051
Accrued liabilities	336,606	447,384
Revenue payable	141,840	190,892
Total current liabilities	553,195	776,327
Long-term debt	1,500,000	1,500,000
Deferred income taxes	1,522,629	1,754,706
Other liabilities	198,089	193,628
Total liabilities	3,773,913	4,224,661
Commitments and contingencies		

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Stockholders' equity:

Preferred stock, \$0.01 par value, 15,000,000 shares authorized, no shares issued	—	—
Common stock, \$0.01 par value, 200,000,000 shares authorized, 87,673,459 and 87,592,535 shares issued, respectively	877	876
Paid-in capital	2,011,454	1,997,080
Retained earnings	2,072,603	2,501,574
Accumulated other comprehensive income	1,204	1,102
	4,086,138	4,500,632
	\$ 7,860,051	\$ 8,725,293

See accompanying notes to consolidated financial statements.

Table of Contents

## CIMAREX ENERGY CO.

## Consolidated Statements of Operations and Comprehensive Income (Loss)

(Unaudited)

For the Three Months  
Ended March 31,  
2015                      2014

(in thousands, except per share data)

Revenues:		
Oil sales	\$ 196,005	\$ 325,071
Gas sales	110,962	170,097
NGL sales	45,600	89,957
Gas gathering and other	8,270	12,464
Gas marketing, net	165	1,627
	361,002	599,216
Costs and expenses:		
Impairment of oil and gas properties	603,599	—
Depreciation, depletion and amortization	216,778	173,931
Asset retirement obligation	1,736	3,218
Production	82,211	75,141
Transportation, processing, and other operating	39,642	44,248
Gas gathering and other	8,864	8,784
Taxes other than income	21,981	33,621
General and administrative	15,938	20,712
Stock compensation	5,155	3,724
(Gain) loss on derivative instruments, net	—	15,735
Other operating, net	524	103
	996,428	379,217
Operating income (loss)	(635,426)	219,999
Other (income) and expense:		
Interest expense	21,256	14,042
Capitalized interest	(9,417)	(7,290)
Other, net	(3,585)	(6,955)
Income (loss) before income tax	(643,680)	220,202
Income tax expense (benefit)	(228,739)	81,745
Net income (loss)	\$ (414,941)	\$ 138,457
Earnings (loss) per share to common stockholders:		
Basic	\$ (4.84)	\$ 1.59
Diluted	\$ (4.84)	\$ 1.59
Dividends per share	\$ 0.16	\$ 0.16



Comprehensive income (loss):		
Net income (loss)	\$ (414,941)	\$ 138,457
Other comprehensive income:		
Change in fair value of investments, net of tax	101	40
Total comprehensive income (loss)	\$ (414,840)	\$ 138,497

See accompanying notes to consolidated financial statements.

5

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Table of Contents

## CIMAREX ENERGY CO.

## Condensed Consolidated Statements of Cash Flows

(Unaudited)

	For the Three Months Ended March 31,	
	2015	2014
	(in thousands)	
Cash flows from operating activities:		
Net income (loss)	\$ (414,941)	\$ 138,457
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Impairment of oil and gas properties	603,599	—
Depreciation, depletion and amortization	216,778	173,931
Asset retirement obligation	1,736	3,218
Deferred income taxes	(228,739)	81,745
Stock compensation	5,155	3,724
(Gain) loss on derivative instruments	—	15,735
Settlements on derivative instruments	—	(4,787)
Changes in non-current assets and liabilities	1,046	(4,207)
Other, net	2,311	1,076
Changes in operating assets and liabilities:		
Receivables, net	72,397	(35,529)
Other current assets	9,894	(16,772)
Accounts payable and other current liabilities	(156,063)	(8,567)
Net cash provided by operating activities	113,173	348,024
Cash flows from investing activities:		
Oil and gas expenditures	(371,106)	(420,040)
Sales of oil and gas assets and other assets	1,180	104
Other capital expenditures	(18,848)	(19,854)
Net cash used by investing activities	(388,774)	(439,790)
Cash flows from financing activities:		
Net bank debt borrowings	—	101,000
Dividends paid	(13,947)	(12,143)
Issuance of common stock and other	4,618	2,908
Net cash provided by (used in) financing activities	(9,329)	91,765
Net change in cash and cash equivalents	(284,930)	(1)
Cash and cash equivalents at beginning of period	405,862	4,531
Cash and cash equivalents at end of period	\$ 120,932	\$ 4,530

See accompanying notes to consolidated financial statements.



Table of Contents

CIMAREX ENERGY CO.

Notes to Consolidated Financial Statements

March 31, 2015

(Unaudited)

1. Basis of Presentation

The accompanying unaudited financial statements have been prepared by Cimarex Energy Co. (“Cimarex,” “we” or “us”) pursuant to rules and regulations of the Securities and Exchange Commission (SEC). Accordingly, certain disclosures required by accounting principles generally accepted in the United States and normally included in Annual Reports on Form 10-K have been omitted. Although management believes that our disclosures in these interim financial statements are adequate, they should be read in conjunction with the financial statements, summary of significant accounting policies, and footnotes included in our Annual Report on Form 10-K/A for the year ended December 31, 2014.

In the opinion of management, the accompanying financial statements reflect all adjustments necessary to present fairly our financial position, results of operations, and cash flows for the periods and as of the dates shown. We have evaluated subsequent events through the date of this filing.

Use of Estimates

Areas of significance requiring the use of management’s judgments relate to the estimation of proved oil and gas reserves, the use of proved reserves in calculating depletion, depreciation, and amortization (DD&A), estimates of future net revenues in computing ceiling test limitations and estimates of future abandonment obligations used in recording asset retirement obligations, and the assessment of goodwill. Estimates and judgments also are required in determining allowance for bad debt, impairments of undeveloped properties and other assets, purchase price allocation, valuation of deferred tax assets, fair value measurements and contingencies.

Oil and Gas Well Equipment and Supplies

Our oil and gas well equipment and supplies are valued at the lower of cost or market using weighted average cost. An analysis of our oil and gas well equipment and supplies was performed and no impairment was required. However, the industry-wide decline in drilling operations has put downward pressure on the price of oil and gas well equipment and supplies. Further declines in future periods could cause us to recognize impairments on these assets. An impairment would not affect cash flow from operating activities, but would adversely affect our net income and stockholders' equity.

#### Oil and Gas Properties

We use the full cost method of accounting for our oil and gas operations. Accounting rules require us to perform a quarterly ceiling test calculation to test our oil and gas properties for possible impairment. If the net capitalized cost of our oil and gas properties subject to amortization (the carrying value) exceeds the ceiling limitation, the excess is charged to expense. The ceiling limitation is equal to the sum of the present value discounted at 10% of estimated future net cash flows from proved reserves, the cost of properties not being amortized, the lower of cost or estimated fair value of unproven properties included in the costs being amortized, and all related tax effects. Estimated future net cash flows are determined by commodity prices and proved reserve quantities.

At March 31, 2015, the carrying value of our oil and gas properties subject to the test exceeded the calculated value of the ceiling limitation, and we recognized an impairment of \$603.6 million (\$383.2 million, net of tax). This impairment resulted from the impact of decreases in the 12-month average trailing prices for oil, natural gas and NGLs utilized in determining the future net cash flows from proved reserves. If pricing conditions stay at current levels or decline further, or if there is a negative impact on one or more of the other components of the calculation, we will incur full cost ceiling impairments in future quarters. The ceiling calculation is not intended to be indicative of the fair market value of our proved reserves.

Table of Contents

CIMAREX ENERGY CO.

Notes to Consolidated Financial Statements

March 31, 2015

(Unaudited)

Accounts Receivable, Accounts Payable, and Accrued Liabilities

The components of our accounts receivable, accounts payable and accrued liabilities are shown below: