

CIMAREX ENERGY CO
Form 10-Q
November 06, 2018
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the Quarterly Period ended September 30, 2018

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 No. 001-31446

CIMAREX ENERGY CO.

(Exact name of registrant as specified in its charter)

Delaware 45-0466694
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

1700 Lincoln Street, Suite 3700, Denver, Colorado 80203
(Address of principal executive offices) (Zip Code)

(303) 295-3995
(Registrant's telephone number, including area code)

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 every Interactive Data File required to be submitted 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, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 October 31, 2018 was 95,602,883.

Table of Contents

CIMAREX ENERGY CO.
Table of Contents

	Page
<u>PART I — FINANCIAL INFORMATION</u>	
<u>Item 1. Financial Statements</u>	
<u>Condensed Consolidated Balance Sheets (Unaudited) as of September 30, 2018 and December 31, 2017</u>	4
<u>Condensed Consolidated Statements of Operations and Comprehensive Income (Unaudited) for the three and nine months ended September 30, 2018 and 2017</u>	5
<u>Condensed Consolidated Statements of Cash Flows (Unaudited) for the nine months ended September 30, 2018 and 2017</u>	6
<u>Condensed Consolidated Statement of Stockholders' Equity (Unaudited) for the nine months ended September 30, 2018</u>	7
<u>Notes to Condensed Consolidated Financial Statements (Unaudited)</u>	8
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	25
<u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u>	41
<u>Item 4. Controls and Procedures</u>	42
<u>PART II — OTHER INFORMATION</u>	
<u>Item 1. Legal Proceedings</u>	43
<u>Item 1A. Risk Factors</u>	43
<u>Item 6. Exhibits</u>	43
<u>Signatures</u>	44

Table of Contents

GLOSSARY

Bbls—Barrels

Bcf—Billion cubic feet

BOE—Barrels of oil equivalent

Gross Wells—The total wells in which a working interest is owned.

MBbls—Thousand barrels

MBOE—Thousand barrels of oil equivalent

Mcf—Thousand cubic feet

MMBtu—Million British thermal units

MMcf—Million cubic feet

Net Wells—The sum of the fractional working interest owned in gross wells expressed in whole numbers and fractions of whole numbers.

NGL or NGLs—Natural gas liquids

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 test impairments to the carrying values of our oil and gas properties, reductions in the quantity of, and price received for, 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, increased financing costs due to a significant increase in interest rates, availability of financing, and the effectiveness of our internal control over financial reporting and our ability to remediate a material weakness in our internal control over financial reporting. 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

(in thousands, except share and per share information)

(Unaudited)

	September 30, 2018	December 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	\$863,946	\$400,534
Accounts receivable, net of allowance:		
Trade	112,884	100,356
Oil and gas sales	346,380	344,552
Gas gathering, processing, and marketing	12,159	15,266
Oil and gas well equipment and supplies	55,546	49,722
Derivative instruments	31,176	15,151
Prepaid expenses	4,133	8,518
Other current assets	1,491	1,536
Total current assets	1,427,715	935,635
Oil and gas properties at cost, using the full cost method of accounting:		
Proved properties	18,047,645	17,513,460
Unproved properties and properties under development, not being amortized	564,982	476,903
	18,612,627	17,990,363
Less—accumulated depreciation, depletion, amortization, and impairment	(15,124,111)	(14,748,833)
Net oil and gas properties	3,488,516	3,241,530
Fixed assets, net of accumulated depreciation of \$324,270 and \$290,114, respectively	244,125	210,922
Goodwill	620,232	620,232
Derivative instruments	154	2,086
Other assets	37,693	32,234
	\$5,818,435	\$5,042,639
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable:		
Trade	\$118,104	\$68,883
Gas gathering, processing, and marketing	23,322	29,503
Accrued liabilities:		
Exploration and development	154,783	115,762
Taxes other than income	35,044	23,687
Other	222,920	212,400
Derivative instruments	97,480	42,066
Revenue payable	193,692	187,273
Total current liabilities	845,345	679,574
Long-term debt:		
Principal	1,500,000	1,500,000
Less—unamortized debt issuance costs and discount	(11,853)	(13,080)
Long-term debt, net	1,488,147	1,486,920

Edgar Filing: CIMAREX ENERGY CO - Form 10-Q

Deferred income taxes	244,592	101,618
Asset retirement obligation	151,868	158,421
Derivative instruments	14,076	4,268
Other liabilities	48,585	43,560
Total liabilities	2,792,613	2,474,361
Commitments and contingencies (Note 10)		
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, 95,602,550 and 95,437,434 shares issued, respectively	956	954
Additional paid-in capital	2,778,203	2,764,384
Retained earnings (accumulated deficit)	243,923	(199,259)
Accumulated other comprehensive income	2,740	2,199
Total stockholders' equity	3,025,822	2,568,278
	\$5,818,435	\$5,042,639

See accompanying Notes to Condensed Consolidated Financial Statements.

4

Table of Contents

CIMAREX ENERGY CO.

Condensed Consolidated Statements of Operations and Comprehensive Income

(in thousands, except per share information)

(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2018	2017	2018	2017
Revenues:				
Oil sales	\$342,495	\$231,441	\$1,036,402	\$687,960
Gas and NGL sales	240,087	220,898	646,007	646,629
Gas gathering and other	9,244	11,056	32,506	32,416
Gas marketing	(338)	286	(19)	304
	591,488	463,681	1,714,896	1,367,309
Costs and expenses:				
Depreciation, depletion, and amortization	136,302	111,396	412,549	315,096
Asset retirement obligation	1,893	1,497	5,006	4,077
Production	76,272	65,410	226,758	190,409
Transportation, processing, and other operating	49,720	58,387	146,818	172,034
Gas gathering and other	10,569	8,856	29,859	25,930
Taxes other than income	28,431	24,314	86,549	63,104
General and administrative	21,148	21,039	64,208	58,835
Stock compensation	6,437	7,038	16,262	19,619
Loss (gain) on derivative instruments, net	54,006	16,109	71,546	(50,261)
Other operating expense, net	10,015	95	15,470	977
	394,793	314,141	1,075,025	799,820
Operating income	196,695	149,540	639,871	567,489
Other (income) and expense:				
Interest expense	17,159	16,838	50,837	57,985
Capitalized interest	(5,457)	(5,373)	(15,117)	(17,456)
Loss on early extinguishment of debt	—	—	—	28,169
Other, net	(7,544)	(4,563)	(14,716)	(9,004)
Income before income tax	192,537	142,638	618,867	507,795
Income tax expense	44,183	51,239	143,198	188,162
Net income	\$148,354	\$91,399	\$475,669	\$319,633
Earnings per share to common stockholders:				
Basic	\$1.56	\$0.96	\$5.00	\$3.36
Diluted	\$1.56	\$0.96	\$5.00	\$3.36
Dividends declared per share	\$0.18	\$0.08	\$0.50	\$0.24
Comprehensive income:				
Net income	\$148,354	\$91,399	\$475,669	\$319,633
Other comprehensive income:				
Change in fair value of investments, net of tax of \$159, \$134, \$160, and \$494, respectively	539	234	541	860
Total comprehensive income	\$148,893	\$91,633	\$476,210	\$320,493

See accompanying Notes to Condensed Consolidated Financial Statements.

5

Table of Contents

CIMAREX ENERGY CO.

Condensed Consolidated Statements of Cash Flows

(in thousands)

(Unaudited)

	Nine Months Ended September 30,	
	2018	2017
Cash flows from operating activities:		
Net income	\$475,669	\$319,633
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion, and amortization	412,549	315,096
Asset retirement obligation	5,006	4,077
Deferred income taxes	142,815	188,168
Stock compensation	16,262	19,619
Loss (gain) on derivative instruments, net	71,546	(50,261)
Settlements on derivative instruments	(20,418)	(2,742)
Loss on early extinguishment of debt	—	28,169
Changes in non-current assets and liabilities	(1,244)	2,144
Other, net	3,242	4,630
Changes in operating assets and liabilities:		
Accounts receivable	(11,772)	(128,921)
Other current assets	4,421	(19,372)
Accounts payable and other current liabilities	59,737	75,565
Net cash provided by operating activities	1,157,813	755,805
Cash flows from investing activities:		
Oil and gas capital expenditures	(1,151,484)	(901,949)
Other capital expenditures	(75,037)	(31,332)
Sales of oil and gas assets	573,367	8,136
Sales of other assets	990	510
Net cash used by investing activities	(652,164)	(924,635)
Cash flows from financing activities:		
Borrowings of long-term debt	—	748,110
Repayments of long-term debt	—	(750,000)
Call premium, financing, and underwriting fees	—	(29,194)
Dividends paid	(38,038)	(22,743)
Employee withholding taxes paid upon the net settlement of equity-classified stock awards	(6,410)	(7,637)
Proceeds from exercise of stock options	2,211	226
Net cash used by financing activities	(42,237)	(61,238)
Net change in cash and cash equivalents	463,412	(230,068)
Cash and cash equivalents at beginning of period	400,534	652,876
Cash and cash equivalents at end of period	\$863,946	\$422,808

See accompanying Notes to Condensed Consolidated Financial Statements.

Table of Contents

CIMAREX ENERGY CO.

Condensed Consolidated Statement of Stockholders' Equity

(in thousands)

(Unaudited)

	Common Stock		Additional	Retained	Accumulated	Total
	Shares	Amount	Paid-in	Earnings	Other	Stockholders'
			Capital	(Accumulated	Comprehensive	Equity
				Deficit)	Income	
Balance, December 31, 2017	95,437	\$ 954	\$2,764,384	\$ (199,259)	\$ 2,199	\$2,568,278
Dividends paid on stock awards subsequently forfeited	—	—	33	20	—	53
Dividends declared	—	—	(15,250)	(32,507)	—	(47,757)
Net income	—	—	—	475,669	—	475,669
Unrealized change in fair value of investments, net of tax	—	—	—	—	541	541
Issuance of restricted stock awards	289	3	(3)	—	—	—
Common stock reacquired and retired	(64)	—	(6,410)	—	—	(6,410)
Restricted stock forfeited and retired	(92)	(1)	1	—	—	—
Exercise of stock options	33	—	2,211	—	—	2,211
Stock-based compensation	—	—	33,237	—	—	33,237
Balance, September 30, 2018	95,603	\$ 956	\$2,778,203	\$ 243,923	\$ 2,740	\$3,025,822

See accompanying Notes to Condensed Consolidated Financial Statements.

7

Table of Contents

CIMAREX ENERGY CO.

Notes to Condensed Consolidated Financial Statements

September 30, 2018

(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 for the year ended December 31, 2017.

In the opinion of management, the accompanying financial statements reflect all adjustments necessary to fairly present our financial position, results of operations, and cash flows for the periods and as of the dates shown. Certain amounts in the prior year financial statements have been reclassified to conform to the 2018 financial statement presentation.

Use of Estimates

Areas of significance requiring the use of management’s judgments include the estimation of proved oil and gas reserves used in calculating depletion, the estimation of future net revenues used in computing ceiling test limitations, the estimation of future abandonment obligations used in recording asset retirement obligations, and the assessment of goodwill. Estimates and judgments also are required in determining allowances for doubtful accounts, impairments of unproved properties and other assets, 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 and net realizable value, where net realizable value is estimated selling prices in the ordinary course of business, less reasonably predictable costs of disposal and transportation. Declines in the price of oil and gas well equipment and supplies 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. All costs associated with property acquisition, exploration, and development activities are capitalized. Under the full cost method of accounting, we are required 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, as adjusted for income taxes, exceeds the ceiling limitation, the excess is charged to expense. The ceiling limitation is equal to the sum of: (i) the present value discounted at 10% of estimated future net revenues from proved reserves, (ii) the cost of properties not being amortized, and (iii) the lower of cost or estimated fair value of unproven properties included in the costs being amortized, as adjusted for income taxes. We currently do not have any unproven properties that are being amortized. Estimated future net revenues are determined based on trailing twelve-month average commodity prices and estimated proved reserve quantities, operating costs, and capital expenditures. The calculated ceiling limitation is not intended to be indicative of the fair market value of our proved reserves or future results.

We did not recognize a ceiling test impairment during the nine months ended September 30, 2018 and 2017 because the net capitalized cost of our oil and gas properties, as adjusted for income taxes, did not exceed the ceiling limitation. If pricing conditions deteriorate, including the further widening of local market basis differentials, or if there is a negative impact on one or more of the other components of the calculation, we may incur full cost ceiling test impairments in future quarters. Impairment charges do not affect cash flow from operating activities, but do adversely affect our net income and various components of our balance sheet. Any impairment of oil and gas properties is not reversible at a later date.

Table of Contents

CIMAREX ENERGY CO.

Notes to Condensed Consolidated Financial Statements

September 30, 2018

(Unaudited)

Revenue Recognition

Oil, Gas, and NGL Sales

Effective January 1, 2018, we adopted the provisions of Accounting Standards Codification 606, Revenue from Contracts with Customers (“ASC 606”), utilizing the modified retrospective approach, which we applied to contracts that were not completed as of that date. Because we utilized the modified retrospective approach, there was no impact to prior periods’ reported amounts. Application of ASC 606 has no impact on our net income or cash flows from operations; however, certain costs classified as Transportation, processing, and other operating in the statement of operations under prior accounting standards are now reflected as deductions from revenue under ASC 606. The following tables present the impact on our Oil sales, Gas sales, and NGL sales and on our Transportation, processing, and other operating costs from the application of ASC 606 in the current reporting period:

	Three Months Ended			
	September 30,			
	2018			2017
(in thousands)	Pre-ASC 606 Adoption	Impact of ASC 606	Post-ASC 606 Adoption	As Reported
Oil sales	\$342,495	\$—	\$342,495	\$231,441
Gas sales	98,321	(3,888)	94,433	125,707
NGL sales	151,648	(5,994)	145,654	95,191
Total oil, gas, and NGL sales	\$592,464	\$(9,882)	\$582,582	\$452,339
Transportation, processing, and other operating costs	\$59,602	\$(9,882)	\$49,720	\$58,387
	Nine Months Ended			
	September 30,			
	2018			2017
(in thousands)	Pre-ASC 606 Adoption	Impact of ASC 606	Post-ASC 606 Adoption	As Reported
Oil sales	\$1,036,402	\$—	\$1,036,402	\$687,960
Gas sales	295,725	(10,784)	284,941	390,126
NGL sales	382,387	(21,321)	361,066	256,503
Total oil, gas, and NGL sales	\$1,714,514	\$(32,105)	\$1,682,409	\$1,334,589
Transportation, processing, and other operating costs	\$178,923	\$(32,105)	\$146,818	\$172,034

Revenue is recognized from the sales of oil, gas, and NGLs when the customer obtains control of the product, when we have no further obligations to perform related to the sale, and when collectability is probable. All of our sales of oil, gas, and NGLs are made under contracts with customers, which typically include variable consideration based on monthly pricing tied to local indices and monthly volumes delivered. The nature of our contracts with customers does not require us to constrain that variable consideration or to estimate the amount of transaction price attributable to future performance obligations for accounting purposes. As of September 30, 2018, we had open contracts with customers with terms of one month to multiple years, as well as “evergreen” contracts that renew on a periodic basis if not canceled by us or the customer. Performance obligations under our contracts with customers are typically satisfied at a point-in-time through monthly delivery of oil, gas, and/or NGLs. Our contracts with customers typically require

payment within one month of delivery.

9

Table of Contents

CIMAREX ENERGY CO.

Notes to Condensed Consolidated Financial Statements

September 30, 2018

(Unaudited)

Our gas and NGLs are sold under a limited number of contract structure types common in our industry. Under these contracts the gas and its components, including NGLs, may be sold to a single purchaser or the residue gas and NGLs may be sold to separate purchasers. Regardless of the contract structure type, the terms of these contracts compensate us for the value of the residue gas and NGLs at current market prices for each product, and are disaggregated in the tables above on that basis. Our oil typically is sold at specific delivery points under contract terms that also are common in our industry.

Gas Gathering

When we transport and/or process third-party gas associated with our equity gas, we recognize revenue for the fees charged to third-parties for such services.

Gas Marketing

When we market and sell gas for working interest owners, we act as agent under short-term sales and supply agreements and may earn a fee for such services. Revenues from such services are recognized as gas is delivered.

Gas Imbalances

Revenue from the sale of gas is recorded on the basis of gas actually sold by us. If our aggregate sales volumes for a well are greater (or less) than our proportionate share of production from the well, a liability (or receivable) is established to the extent there are insufficient proved reserves available to make-up the overproduced (or underproduced) imbalance. Imbalances have not been significant in the periods presented.

Recently Issued Accounting Standards

In February 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-02, Leases (Topic 842). The key provision of this ASU is that a lessee must recognize on its balance sheet: (i) liabilities to make lease payments and (ii) right-of-use assets. The ASU permits lessees to make a policy election to not recognize lease assets and liabilities for leases with terms of less than 12 months. Under current generally accepted accounting principles, a determination of whether a lease is a capital or operating lease is made at lease inception and no assets or liabilities are recognized for operating leases. Under this ASU, the determination to be made at the inception of a contract is whether the contract is, or contains, a lease. Leases convey the right to control the use of an identified asset in exchange for consideration. Only the lease components of a contract must be accounted for in accordance with this ASU. Non-lease components, such as activities that transfer a good or service to the customer, shall be accounted for under other applicable Topics. An entity may make a policy election to not separate lease and non-lease components and account for the non-lease components together with the lease components as a single lease component. This ASU retains a distinction between finance and operating leases concerning the recognition and presentation of the expense and payments related to leases in the statements of operations and comprehensive income and cash flows, however, both types of leases require the recognition of assets and liabilities on the balance sheet. This ASU is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years, with early adoption permitted. We are evaluating the potential impact of adopting this guidance, but believe the primary effect will be to record assets and liabilities for contracts currently accounted for as operating leases. We do not intend to adopt the standard early.

In January 2018, the FASB issued ASU 2018-01, Leases (Topic 842) Land Easement Practical Expedient for Transition to Topic 842. This ASU provides an optional transition practical expedient to not evaluate under Topic 842 (discussed above) existing or expired land easements that were not previously accounted for as leases under the current leases guidance in Topic 840. An entity that elects this practical expedient should evaluate new or modified land easements under Topic 842 beginning at the date that the entity adopts Topic 842. Under the full cost method of accounting, we capitalize to oil and gas properties all property acquisition, exploration, and development costs, which include the costs of land easements. We plan to elect this practical expedient and continue to apply our current accounting policy to account for land easements that existed before our adoption of Topic 842 and will evaluate new

or modified land easements under Topic 842 upon our adoption of Topic 842. We are evaluating the potential impact of adopting this guidance and do not intend to adopt the standard early.

Table of Contents

CIMAREX ENERGY CO.

Notes to Condensed Consolidated Financial Statements

September 30, 2018

(Unaudited)

2. LONG-TERM DEBT

Long-term debt at September 30, 2018 and December 31, 2017 consisted of the following:

(in thousands)	September 30, 2018			December 31, 2017		
	Principal	Unamortized Debt Issuance Costs and Discount (1)	Long-term Debt, net	Principal	Unamortized Debt Issuance Costs and Discount (1)	Long-term Debt, net
4.375% Senior Notes	\$750,000	\$ (4,671)	\$745,329	\$750,000	\$ (5,383)	\$744,617
3.90% Senior Notes	750,000	(7,182)	742,818	750,000	(7,697)	742,303
Total long-term debt	\$1,500,000	\$ (11,853)	\$1,488,147	\$1,500,000	\$ (13,080)	\$1,486,920

At September 30, 2018, the unamortized debt issuance costs and discount related to the 3.90% notes were \$5.5 (1) million and \$1.7 million, respectively. At December 31, 2017, the unamortized debt issuance costs and discount related to the 3.90% notes were \$5.9 million and \$1.8 million, respectively. The 4.375% notes were issued at par.

Bank Debt

We have a senior unsecured revolving credit facility (“Credit Facility”) that matures October 16, 2020. The Credit Facility has aggregate commitments of \$1.0 billion, with an option for us to increase the aggregate commitments to \$1.25 billion at any time. There is no borrowing base subject to the discretion of the lenders based on the value of our proved reserves under the Credit Facility. As of September 30, 2018, we had no bank borrowings outstanding under the Credit Facility, but did have letters of credit of \$2.5 million outstanding, leaving an unused borrowing availability of \$997.5 million.

At our option, borrowings under the Credit Facility may bear interest at either (a) LIBOR plus 1.125 – 2.0% based on the credit rating for our senior unsecured long-term debt, or (b) a base rate (as defined in the credit agreement) plus 0.125 – 1.0%, based on the credit rating for our senior unsecured long-term debt. Unused borrowings are subject to a commitment fee of 0.125 – 0.35%, based on the credit rating for our senior unsecured long-term debt.

The Credit Facility contains representations, warranties, covenants, and events of default that are customary for investment grade, senior unsecured bank credit agreements, including a financial covenant for the maintenance of a defined total debt-to-capital ratio of no greater than 65%. As of September 30, 2018, we were in compliance with all of the financial covenants.

At September 30, 2018 and December 31, 2017, we had \$2.4 million and \$3.4 million, respectively, of unamortized debt issuance costs associated with our Credit Facility, which were recorded as assets and included in Other assets on our Condensed Consolidated Balance Sheets. These costs are being amortized to interest expense ratably over the life of the Credit Facility.

Senior Notes

In April 2017, we issued \$750 million aggregate principal amount of 3.90% senior unsecured notes at 99.748% of par to yield 3.93% per annum. These notes are due May 15, 2027 and interest is payable semiannually on May 15 and November 15. The effective interest rate on these notes, including the amortization of debt issuance costs and discount, is 4.01%.

In June 2014, we issued \$750 million aggregate principal amount of 4.375% senior unsecured notes at par. These notes are due June 1, 2024 and interest is payable semiannually on June 1 and December 1. The effective interest rate on these notes, including the amortization of debt issuance costs, is 4.50%.

Our senior unsecured notes are governed by indentures containing certain covenants, events of default, and other restrictive provisions with which we were in compliance as of September 30, 2018.

Table of Contents

CIMAREX ENERGY CO.

Notes to Condensed Consolidated Financial Statements

September 30, 2018

(Unaudited)

3. DERIVATIVE INSTRUMENTS

We periodically use derivative instruments to mitigate volatility in commodity prices. While the use of these instruments limits the downside risk of adverse price changes, their use may also limit future cash flow from favorable price changes. Depending on changes in oil and gas futures markets and management's view of underlying supply and demand trends, we may increase or decrease our derivative positions from current levels.

As of September 30, 2018, we have entered into oil and gas collars and oil basis swaps. Under our collars, we receive the difference between the published index price and a floor price if the index price is below the floor price or we pay the difference between the ceiling price and the index price if the index price is above the ceiling price. No amounts are paid or received if the index price is between the floor and the ceiling prices. By using a collar, we have fixed the minimum and maximum prices we can receive on the underlying production. Our basis swaps are settled based on the difference between a published index price minus a fixed differential and the applicable local index price under which the underlying production is sold. By using a basis swap, we have fixed the differential between the published index price and certain of our physical pricing points. For our Permian oil production, the basis swaps fix the price differential between the WTI NYMEX (Cushing Oklahoma) price and the WTI Midland price. For our Permian and Mid-Continent gas production, the contract prices in our collars are consistent with the index prices used to sell our production. The following tables summarize our outstanding derivative contracts as of September 30, 2018:

Oil Collars	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
2018:					
WTI (1)					
Volume (Bbls)	—	—	—	3,404,000	3,404,000
Weighted Avg Price - Floor	\$ —	\$ —	\$ —	\$ 52.97	\$ 52.97
Weighted Avg Price - Ceiling	\$ —	\$ —	\$ —	\$ 64.79	\$ 64.79
2019:					
WTI (1)					
Volume (Bbls)	2,790,000	2,821,000	2,208,000	1,472,000	9,291,000
Weighted Avg Price - Floor	\$ 53.94	\$ 53.94	\$ 55.67	\$ 58.50	\$ 55.07
Weighted Avg Price - Ceiling	\$ 66.88	\$ 66.88	\$ 70.03	\$ 71.94	\$ 68.43
2020:					
WTI (1)					
Volume (Bbls)	728,000	—	—	—	728,000
Weighted Avg Price - Floor	\$ 60.00	\$ —	\$ —	\$ —	\$ 60.00
Weighted Avg Price - Ceiling	\$ 75.85	\$ —	\$ —	\$ —	\$ 75.85

(1) The index price for these collars is West Texas Intermediate ("WTI") as quoted on the New York Mercantile Exchange ("NYMEX").

Table of Contents

CIMAREX ENERGY CO.

Notes to Condensed Consolidated Financial Statements

September 30, 2018

(Unaudited)

Gas Collars	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
2018:					
PEPL (1)					
Volume (MMBtu)	—	—	—	10,120,000	10,120,000
Weighted Avg Price - Floor	\$ —	\$ —	\$ —	\$ 2.10	\$ 2.10
Weighted Avg Price - Ceiling	\$ —	\$ —	\$ —	\$ 2.42	\$ 2.42
Perm EP (2)					
Volume (MMBtu)	—	—	—	7,360,000	7,360,000
Weighted Avg Price - Floor	\$ —	\$ —	\$ —	\$ 1.81	\$ 1.81
Weighted Avg Price - Ceiling	\$ —	\$ —	\$ —	\$ 2.03	\$ 2.03
Waha (3)					
Volume (MMBtu)	—	—	—	1,840,000	1,840,000
Weighted Avg Price - Floor	\$ —	\$ —	\$ —	\$ 1.38	\$ 1.38
Weighted Avg Price - Ceiling	\$ —	\$ —	\$ —	\$ 1.66	\$ 1.66
2019:					
PEPL (1)					
Volume (MMBtu)	9,000,000	9,100,000	6,440,000	3,680,000	28,220,000
Weighted Avg Price - Floor	\$ 2.06	\$ 2.06	\$ 1.91	\$ 1.90	\$ 2.01
Weighted Avg Price - Ceiling	\$ 2.39	\$ 2.39	\$ 2.27	\$ 2.35	\$ 2.36
Perm EP (2)					
Volume (MMBtu)	6,300,000	6,370,000	4,600,000	1,840,000	19,110,000
Weighted Avg Price - Floor	\$ 1.73	\$ 1.73	\$ 1.50	\$ 1.35	\$ 1.64
Weighted Avg Price - Ceiling	\$ 1.95	\$ 1.95	\$ 1.74	\$ 1.55	\$ 1.86
Waha (3)					
Volume (MMBtu)	1,800,000	1,820,000	1,840,000	1,840,000	7,300,000
Weighted Avg Price - Floor	\$ 1.38	\$ 1.38	\$ 1.38	\$ 1.38	\$ 1.38
Weighted Avg Price - Ceiling	\$ 1.66	\$ 1.66	\$ 1.66	\$ 1.66	\$ 1.66
2020:					
PEPL (1)					
Volume (MMBtu)	910,000	—	—	—	910,000
Weighted Avg Price - Floor	\$ 1.90	\$ —	\$ —	\$ —	\$ 1.90
Weighted Avg Price - Ceiling	\$ 2.38	\$ —	\$ —	\$ —	\$ 2.38
Waha (3)					
Volume (MMBtu)	910,000	—	—	—	910,000
Weighted Avg Price - Floor	\$ 1.40	\$ —	\$ —	\$ —	\$ 1.40
Weighted Avg Price - Ceiling	\$ 1.76	\$ —	\$ —	\$ —	\$ 1.76

(1) The index price for these collars is Panhandle Eastern Pipe Line, Tex/OK Mid-Continent Index (“PEPL”) as quoted in Platt’s Inside FERC.

(2) The index price for these collars is El Paso Natural Gas Company, Permian Basin Index (“Perm EP”) as quoted in Platt’s Inside FERC.

(3) The index price for these collars is Waha West Texas Natural Gas Index (“Waha”) as quoted in Platt’s Inside FERC.

Table of Contents

CIMAREX ENERGY CO.

Notes to Condensed Consolidated Financial Statements

September 30, 2018

(Unaudited)

Oil Basis Swaps	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
2018:					
WTI Midland (1)					
Volume (Bbls)	—	—	—	2,668,000	2,668,000
Weighted Avg Differential (2)	\$ —	\$ —	\$ —	\$ (5.01)	\$ (5.01)
2019:					
WTI Midland (1)					
Volume (Bbls)	2,610,000	2,639,000	2,208,000	1,472,000	8,929,000
Weighted Avg Differential (2)	\$ (5.46)	\$ (5.46)	\$ (6.50)	\$ (7.79)	\$ (6.10)

(1) The index price we pay under these basis swaps is WTI Midland as quoted by Argus Americas Crude.

(2) The index price we receive under these basis swaps is WTI as quoted on the NYMEX less the weighted average differential shown in the table.

Table of Contents

CIMAREX ENERGY CO.

Notes to Condensed Consolidated Financial Statements

September 30, 2018

(Unaudited)

The following tables summarize our derivative contracts entered into subsequent to September 30, 2018 through November 5, 2018:

Gas Collars	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
2018:					
PEPL (1)					
Volume (MMBtu)	—	—	—	1,220,000	1,220,000
Weighted Avg Price - Floor	\$ —	\$ —	\$ —	\$ 2.00	\$ 2.00
Weighted Avg Price - Ceiling	\$ —	\$ —	\$ —	\$ 2.58	\$ 2.58
Perm EP (2)					
Volume (MMBtu)	—	—	—	610,000	610,000
Weighted Avg Price - Floor	\$ —	\$ —	\$ —	\$ 1.40	\$ 1.40
Weighted Avg Price - Ceiling	\$ —	\$ —	\$ —	\$ 1.70	\$ 1.70
Waha (3)					
Volume (MMBtu)	—	—	—	610,000	610,000
Weighted Avg Price - Floor	\$ —	\$ —	\$ —	\$ 1.40	\$ 1.40
Weighted Avg Price - Ceiling	\$ —	\$ —	\$ —	\$ 1.70	\$ 1.70
2019:					
PEPL (1)					
Volume (MMBtu)	1,800,000	1,820,000	1,840,000	1,840,000	7,300,000
Weighted Avg Price - Floor	\$ 2.00	\$ 2.00	\$ 2.00	\$ 2.00	\$ 2.00
Weighted Avg Price - Ceiling	\$ 2.58	\$ 2.58	\$ 2.58	\$ 2.58	\$ 2.58
Perm EP (2)					
Volume (MMBtu)	900,000	910,000	920,000	920,000	3,650,000
Weighted Avg Price - Floor	\$ 1.40	\$ 1.40	\$ 1.40	\$ 1.40	\$ 1.40
Weighted Avg Price - Ceiling	\$ 1.70	\$ 1.70	\$ 1.70	\$ 1.70	\$ 1.70
Waha (3)					
Volume (MMBtu)	900,000	910,000	920,000	920,000	3,650,000
Weighted Avg Price - Floor	\$ 1.40	\$ 1.40	\$ 1.40	\$ 1.40	\$ 1.40
Weighted Avg Price - Ceiling	\$ 1.70	\$ 1.70	\$ 1.70	\$ 1.70	\$ 1.70
2020:					
PEPL (1)					
Volume (MMBtu)	1,820,000	—	—	—	1,820,000
Weighted Avg Price - Floor	\$ 2.00	\$ —	\$ —	\$ —	\$ 2.00
Weighted Avg Price - Ceiling	\$ 2.58	\$ —	\$ —	\$ —	\$ 2.58
Perm EP (2)					
Volume (MMBtu)	910,000	—	—	—	910,000
Weighted Avg Price - Floor	\$ 1.40	\$ —	\$ —	\$ —	\$ 1.40
Weighted Avg Price - Ceiling	\$ 1.70	\$ —	\$ —	\$ —	\$ 1.70
Waha (3)					
Volume (MMBtu)	910,000	—	—	—	910,000
Weighted Avg Price - Floor	\$ 1.40	\$ —	\$ —	\$ —	\$ 1.40
Weighted Avg Price - Ceiling	\$ 1.70	\$ —	\$ —	\$ —	\$ 1.70

- (1) The index price for these collars is PEPL as quoted in Platt's Inside FERC.
- (2) The index price for these collars is Perm EP as quoted in Platt's Inside FERC.
- (3) The index price for these collars is Waha as quoted in Platt's Inside FERC.

Table of Contents

CIMAREX ENERGY CO.

Notes to Condensed Consolidated Financial Statements

September 30, 2018

(Unaudited)

Oil Basis Swaps	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
2020:					
WTI Midland (1)					
Volume (Bbls)	637,000	637,000	—	—	1,274,000
Weighted Avg Differential (2)	\$(0.40)	\$(0.40)	\$	—\$	—\$ (0.40)

(1) The index price we pay under these basis swaps is WTI Midland as quoted by Argus Americas Crude.

(2) The index price we receive under these basis swaps is WTI as quoted on the NYMEX less the weighted average differential shown in the table.

Derivative Gains and Losses

Net gains and losses on our derivative instruments are a function of fluctuations in the underlying commodity index prices as compared to the contracted prices and the monthly cash settlements (if any) of the instruments. We have elected not to designate our derivatives as hedging instruments for accounting purposes and, therefore, we do not apply hedge accounting treatment to our derivative instruments. Consequently, changes in the fair value of our derivative instruments and cash settlements on the instruments are included as a component of operating costs and expenses as either a net gain or loss on derivative instruments. Cash settlements of our contracts are included in cash flows from operating activities in our statements of cash flows. The following table presents the components of Loss (gain) on derivative instruments, net for the periods indicated.

(in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Decrease (increase) in fair value of derivative instruments, net:				
Gas contracts	\$6,378	\$1,156	\$9,155	\$(26,783)
Oil contracts	47,129	17,929	41,973	(26,220)
	53,507	19,085	51,128	(53,003)
Cash (receipts) payments on derivative instruments, net:				
Gas contracts	(3,462)	(2,067)	(18,499)	(931)
Oil contracts	3,961	(909)	38,917	3,673
	499	(2,976)	20,418	2,742
Loss (gain) on derivative instruments, net	\$54,006	\$16,109	\$71,546	\$(50,261)

Derivative Fair Value

Our derivative contracts are carried at their fair value on our balance sheet using Level 2 inputs and are subject to master netting arrangements, which allow us to offset recognized asset and liability fair value amounts on contracts with the same counterparty. Our accounting policy is to not offset asset and liability positions in our balance sheets.

Table of Contents

CIMAREX ENERGY CO.

Notes to Condensed Consolidated Financial Statements

September 30, 2018

(Unaudited)

The following tables present the amounts and classifications of our derivative assets and liabilities as of September 30, 2018 and December 31, 2017, as well as the potential effect of netting arrangements on our recognized derivative asset and liability amounts.

(in thousands) Balance Sheet Location	September 30, 2018	
	Asset	Liability
Oil contracts Current assets — Derivative instruments	\$20,127	\$—
Gas contracts Current assets — Derivative instruments	11,049	—
Oil contracts Non-current assets — Derivative instruments	154	—
Oil contracts Current liabilities — Derivative instruments	—	96,240
Gas contracts Current liabilities — Derivative instruments	—	1,240
Oil contracts Non-current liabilities — Derivative instruments	—	12,348
Gas contracts Non-current liabilities — Derivative instruments	—	1,728
Total gross amounts presented in the balance sheet	31,330	111,556
Less: gross amounts not offset in the balance sheet	(31,330)	(31,330)
Net amount	\$—	\$80,226

(in thousands) Balance Sheet Location	December 31, 2017	
	Asset	Liability
Gas contracts Current assets — Derivative instruments	\$15,151	\$—
Gas contracts Non-current assets — Derivative instruments	2,086	—
Oil contracts Current liabilities — Derivative instruments	—	42,066
Oil contracts Non-current liabilities — Derivative instruments	—	4,268
Total gross amounts presented in the balance sheet	17,237	46,334
Less: gross amounts not offset in the balance sheet	(17,237)	(17,237)
Net amount	\$—	\$29,097

We are exposed to financial risks associated with our derivative contracts from non-performance by our counterparties. We mitigate our exposure to any single counterparty by contracting with a number of financial institutions, each of which has a high credit rating and is a member of our bank credit facility. Our member banks do not require us to post collateral for our derivative liability positions, nor do we require our counterparties to post collateral for our benefit. In the future we may enter into derivative instruments with counterparties outside our bank group to obtain competitive terms and to spread counterparty risk.

4. FAIR VALUE MEASUREMENTS

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). The FASB has established a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels. Level 1 inputs are the highest priority and consist of unadjusted quoted prices in active markets for identical assets and liabilities. Level 2 are inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly. Level 3 are unobservable inputs for an asset or liability.

Table of Contents

CIMAREX ENERGY CO.

Notes to Condensed Consolidated Financial Statements

September 30, 2018

(Unaudited)

The following table provides fair value measurement information for certain assets and liabilities as of September 30, 2018 and December 31, 2017:

(in thousands)	September 30, 2018		December 31, 2017	
	Book	Fair	Book	Fair
	Value	Value	Value	Value
Financial Assets (Liabilities):				
4.375% Notes due 2024	\$(750,000)	\$(756,915)	\$(750,000)	\$(797,010)
3.90% Notes due 2027	\$(750,000)	\$(716,318)	\$(750,000)	\$(767,813)
Derivative instruments — assets	\$31,330	\$31,330	\$17,237	\$17,237
Derivative instruments — liabilities	\$(111,556)	\$(111,556)	\$(46,334)	\$(46,334)

Assessing the significance of a particular input to the fair value measurement requires judgment, including the consideration of factors specific to the asset or liability. The fair value (Level 1) of our fixed rate notes was based on their last traded value before period end. The fair value of our derivative instruments (Level 2) was estimated using option pricing models. These models use certain variables including forward price and volatility curves and the strike prices for the instruments. The fair value estimates are adjusted relative to non-performance risk as appropriate. See Note 3 for further information on the fair value of our derivative instruments.

Other Financial Instruments

The carrying amounts of our cash, cash equivalents, accounts receivable, accounts payable, and accrued liabilities approximate fair value because of the short-term maturities and/or liquid nature of these assets and liabilities. Included in “Accrued liabilities — Other” at September 30, 2018 were accrued operating expenses of approximately \$69.7 million. Included in “Accrued liabilities — Other” at December 31, 2017 were: (i) accrued operating expenses of approximately \$61.3 million and (ii) accrued general and administrative, primarily payroll-related, costs of approximately \$54.6 million.

Most of our accounts receivable balances are uncollateralized and result from transactions with other companies in the oil and gas industry. Concentration of customers may impact our overall credit risk because our customers may be similarly affected by changes in economic or other conditions within the industry.

We conduct credit analyses prior to making any sales to new customers or increasing credit for existing customers and may require parent company guarantees, letters of credit, or prepayments when deemed necessary.

We routinely assess the recoverability of all material accounts receivable to determine their collectability. We accrue a reserve to the allowance for doubtful accounts when it is probable that a receivable will not be collected and the amount of the reserve may be reasonably estimated. At September 30, 2018 and December 31, 2017, the allowance for doubtful accounts was \$2.7 million and \$2.2 million, respectively.

5. CAPITAL STOCK

Authorized capital stock consists of 200 million shares of common stock and 15 million shares of preferred stock. At September 30, 2018, there were 95.6 million shares of common stock and no shares of preferred stock outstanding.

Dividends

In August 2018, our Board of Directors declared a cash dividend of \$0.18 per share. The dividend is payable on or before November 30, 2018 to stockholders of record on November 15, 2018. Dividends declared are recorded as a reduction of retained earnings to the extent retained earnings are available at the close of the period prior to the date of the declared dividend. Dividends in excess of retained earnings are recorded as a reduction of additional paid-in capital. During 2018, the \$15.3 million dividend declared during the first quarter was recorded as a reduction of additional paid-in capital, while the \$15.3 million and the \$17.2 million dividends declared during the second and third quarters, respectively, were recorded as a reduction of retained earnings.

Table of Contents

CIMAREX ENERGY CO.

Notes to Condensed Consolidated Financial Statements

September 30, 2018

(Unaudited)

Nonforfeitable dividends paid on stock awards that subsequently forfeit are reclassified out of retained earnings or additional paid-in capital, as applicable, to compensation expense in the period in which the forfeitures occur. Future dividend payments will depend on our level of earnings, financial requirements, and other factors considered relevant by our Board of Directors.

6. STOCK-BASED COMPENSATION

We have recognized stock-based compensation cost as shown below for the periods indicated.

(in thousands)	Three Months		Nine Months	
	Ended		Ended	
	September 30,	September 30,	September 30,	September 30,
	2018	2017	2018	2017
Restricted stock awards:				
Performance stock awards	\$6,364	\$6,508	\$16,902	\$19,348
Service-based stock awards	5,244	5,317	14,563	14,449
	11,608	11,825	31,465	33,797
Stock option awards	571	698	1,825	1,943
Total stock compensation cost	12,179	12,523	33,290	35,740
Less amounts capitalized to oil and gas properties	(5,742)	(5,485)	(17,028)	(16,121)
Stock compensation expense	\$6,437	\$7,038	\$16,262	\$19,619

Periodic stock compensation expense will fluctuate based on the grant-date fair value of awards, the number of awards, the requisite service period of the awards, employee forfeitures, and the timing of the awards. The decrease in total stock compensation cost in the nine months ended September 30, 2018 as compared to the nine months ended September 30, 2017 is primarily due to performance stock award forfeitures during the second quarter 2018. Our accounting policy is to account for forfeitures in compensation cost when they occur.

Table of Contents

CIMAREX ENERGY CO.

Notes to Condensed Consolidated Financial Statements

September 30, 2018

(Unaudited)

7. ASSET RETIREMENT OBLIGATIONS

We recognize the present value of the fair value of liabilities for retirement obligations associated with tangible long-lived assets in the period in which there is a legal obligation associated with the retirement of such assets and the amount can be reasonably estimated. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset. This liability includes costs related to the plugging and abandonment of wells, the removal of facilities and equipment, and site restorations. Subsequent to initial measurement, the asset retirement liability is accreted each period. If there is a change in the estimated cost or timing of retirement, a revision is recorded to both the asset retirement obligation and the asset retirement capitalized cost. Capitalized costs are included as a component of the depreciation and depletion calculations.

The following table reflects the components of the change in the carrying amount of the asset retirement obligation for the nine months ended September 30, 2018:

(in thousands)	Nine Months Ended September 30, 2018
Asset retirement obligation at January 1, 2018	\$169,469
Liabilities incurred	7,157
Liability settlements and disposals	(19,769)
Accretion expense	5,540
Revisions of estimated liabilities	1,055