

CIMAREX ENERGY CO
Form 10-K
February 25, 2015
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D C 20549

Form 10-K

(Mark One)

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

For the fiscal year ended December 31, 2014

OR

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

Commission file number 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 including ZIP code)

(303) 295-3995

(Registrant's telephone number)

Securities Registered Pursuant to Section 12(b) of the Act:

Title of Each Class	Name of each exchange on which registered
Common Stock (\$0.01 par value)	New York Stock Exchange

Securities Registered Pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES NO

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES NO

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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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 Act). YES NO

Aggregate market value of the voting stock held by non-affiliates of Cimarex Energy Co. as of June 30, 2014 was approximately \$12.3 billion.

Number of shares of Cimarex Energy Co. common stock outstanding as of February 13, 2015 was 87,597,134.
Documents Incorporated by Reference: Portions of the Registrant's Proxy Statement for its 2015 Annual Meeting of Stockholders are incorporated by reference into Part III of this Form 10-K.

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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

GAAP—Generally accepted accounting principles in the U.S.

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

PUD—Proved undeveloped

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

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PART I

Forward-Looking Statements

Throughout this Form 10-K, we make statements that may be deemed “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. In particular, in our Management’s Discussion and Analysis of Financial Condition, we are providing “2015 Outlook,” which contains projections for certain 2015 operational activities. All statements, other than statements of historical facts, that address activities, events, outcomes and other matters that Cimarex plans, expects, intends, assumes, believes, budgets, predicts, forecasts, projects, estimates or anticipates (and other similar expressions) will, should or may occur in the future are forward-looking statements. These forward-looking statements are based on management’s current belief, based on currently available information, as to the outcome and timing of future events. When considering forward-looking statements, you should keep in mind the risk factors and other cautionary statements in this Form 10-K. Forward-looking statements include statements with respect to, among other things:

- Fluctuations in the price we receive for our oil and gas production;
- Timing and amount of future production of oil and natural gas;
- Reductions in the quantity of oil and gas sold due to decreased industrywide demand and/or curtailments in production from specific properties or areas due to mechanical, transportation, marketing, weather or other problems;
- Reserve estimates;
- Cash flow and anticipated liquidity;
- Amount, nature and timing of capital expenditures;
- Access to capital markets;
- Legislation and regulatory changes;
- Operating costs and other expenses;
- 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;
- Exploration and development opportunities that we pursue may not result in economic, productive oil and gas properties;
- Drilling of wells;
- Estimates of proved reserves, exploitation potential or exploration prospect size;
- Increased financing costs due to a significant increase in interest rates;
- De-risking of acreage.

We caution you that these forward-looking statements are subject to all of the risks and uncertainties, many of which are beyond our control, incident to the exploration for and development, production and sale of oil and gas. These risks include, but are not limited to, commodity price volatility, inflation, lack of availability of goods and services,

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environmental risks, drilling and other operating risks, regulatory changes, the uncertainty inherent in estimating proved oil and natural gas reserves and in projecting future rates of production and timing of development expenditures and other risks described herein.

Reserve engineering is a subjective process of estimating underground accumulations of oil and natural gas that cannot be measured in an exact way. The accuracy of any reserve estimate depends on the quality of available data and the interpretation of such data by our engineers. As a result, estimates made by different engineers often vary from one another. In addition, the results of drilling, testing and production activities may justify revisions of estimates that were made previously. If significant, such revisions could change the timing of future production and development drilling. Accordingly, reserve estimates are generally different from the quantities of oil and natural gas that are ultimately recovered.

Should one or more of the risks or uncertainties described above or elsewhere in this Form 10-K cause our underlying assumptions to be incorrect, our actual results and plans could differ materially from those expressed in any forward-looking statements.

All forward-looking statements, express or implied, included in this Form 10-K and attributable to Cimarex are 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 Cimarex or persons acting on its behalf may issue. Cimarex does not undertake any obligation to update any forward-looking statements to reflect events or circumstances after the date of filing this Form 10-K with the Securities and Exchange Commission, except as required by law.

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ITEMS 1 AND 2. BUSINESS AND PROPERTIES

General

Cimarex Energy Co., a Delaware corporation formed in 2002, is an independent oil and gas exploration and production company. Our operations are located mainly in Oklahoma, Texas and New Mexico. On our website -- www.cimarex.com -- you will find our annual reports, proxy statements and all of our Securities and Exchange Commission (SEC) filings.

Our principal business objective is to profitably grow proved reserves and production for the long-term benefit of our shareholders. Our strategy centers on maximizing cash flow from producing properties to reinvest in exploration and development opportunities. We consider merger and acquisition opportunities that enhance our competitive position and we occasionally divest of non-core assets. Key elements to our approach include:

- Maintaining a strong financial position
- Investment in a diversified portfolio of drilling opportunities with varying geologic characteristics, in different geographic areas and with assorted exposure to oil, natural gas and NGLs
- Detailed evaluation and ranking of investment decisions based on rate of return
- Tracking predicted versus actual results in a centralized exploration management system, providing feedback to improve results
- Attracting quality employees and maintaining integrated teams of geoscientists, landmen and engineers
- Maximizing profitability by efficiently operating our properties

Conservative use of leverage has long been the key to our financial strategy. We believe that low leverage mitigates financial risk, which enables us to withstand volatility in commodity prices and provide competitive returns to shareholders. Cimarex looks to enhance shareholder returns through quarterly dividends which have increased 100% over the last five years. In June 2014, Cimarex was added to the S&P 500. See Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer purchases of Equity Securities – Stock Performance Graph and Item. 6 Selected Financial Data for additional financial and operating information for fiscal years 2010-2014.

Proved Oil and Gas Reserves

In 2014, our total proved reserves grew 25% to 3.1 Tcfe. Proved undeveloped reserves as a percentage of total proved reserves increased to 23% from 20% a year ago. We added 814 Bcfe of new reserves through extensions and discoveries and had upward revisions of 105 Bcfe. Organic growth, as represented by our reserve replacement ratio (excluding reserve purchases and sales) was 2.9 times. The change in our proved reserves is as follows (in Bcfe):

Proved Reserves at December 31, 2013	2,497.0
Revisions of previous estimates	104.8
Extensions and discoveries	813.9
Purchases of reserves	133.6
Production	(317.0)
Sales of reserves	(100.0)
Proved Reserves at December 31, 2014	3,132.3

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A breakdown by commodity of our proved oil and gas reserves follows:

	Years Ended December 31,		
	2014	2013	2012
Total Proved Reserves:			
Gas (Bcf)	1,666.7	1,293.5	1,251.9
Oil (MMBbls)	119.0	108.5	77.9
NGL (MMBbls)	125.3	92.0	89.9
Equivalent (Bcfe)	3,132.3	2,497.0	2,258.8
% Developed	77	80	80

See “Supplemental Oil and Gas Information” in Item 8 of this report for further information.

Production volumes totaled 869 MMcfe of natural gas equivalent per day, a 25% increase over 2013. Production volumes are comprised of 49% natural gas, 30% oil and 21% NGLs. The following tables show our production volumes by region, the average commodity prices received and production cost per unit of production (Mcfe). Separate data also is included for our Cana-Woodford project, which is part of our Mid-Continent region and is part of our largest producing field.

Years Ended December 31,	Production Volumes				Net Average Daily Volumes			
	Gas (MMcf)	Oil (MBbls)	NGL (MBbls)	Equivalent (MMcfe)	Gas (MMcf)	Oil (MBbls)	NGL (MBbls)	Equivalent (MMcfe)
2014								
Permian Basin	45,200	12,552	4,187	145,636	123.8	34.4	11.5	399.0
Mid-Continent	106,711	2,682	6,980	164,682	292.4	7.3	19.1	451.2
Other	3,217	405	176	6,704	8.8	1.1	0.5	18.4
Total Company	155,128	15,639	11,343	317,022	425.0	42.8	31.1	868.6
Cana-Woodford	76,915	1,903	5,937	123,952	210.7	5.2	16.3	339.6
2013								
Permian Basin	35,414	10,739	2,823	116,783	97.0	29.4	7.7	320.0
Mid-Continent	84,779	2,171	4,757	126,345	232.3	5.9	13.0	346.1
Other	5,055	470	296	9,659	13.8	1.4	0.9	26.5
Total Company	125,248	13,380	7,876	252,787	343.1	36.7	21.6	692.6
Cana-Woodford	50,919	1,150	3,863	81,000	139.5	3.2	10.6	221.9
2012								
Permian Basin	29,135	8,750	2,480	96,517	79.6	23.9	6.8	263.7
Mid-Continent	80,998	2,210	3,962	118,029	221.3	6.1	10.8	322.5
Other	8,362	556	510	14,754	22.9	1.5	1.4	40.3
Total Company	118,495	11,516	6,952	229,300	323.8	31.5	19.0	626.5
Cana-Woodford	43,222	898	2,830	65,593	118.1	2.5	7.7	179.2

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Years Ended December 31,	Average Realized Price			Production Cost (per Mcfe)
	Gas (per Mcf)	Oil (per Bbl)	NGL (per Bbl)	
2014				
Permian Basin	\$ 4.48	\$ 82.44	\$ 30.04	\$ 1.58
Mid-Continent	\$ 4.42	\$ 88.23	\$ 35.03	\$ 0.58
Other	\$ 4.40	\$ 92.82	\$ 32.09	\$ 2.31
Total Company	\$ 4.43	\$ 83.70	\$ 33.14	\$ 1.08
Cana-Woodford	\$ 4.32	\$ 88.21	\$ 34.89	\$ 0.24
2013				
Permian Basin	\$ 3.91	\$ 93.02	\$ 26.13	\$ 1.48
Mid-Continent	\$ 3.70	\$ 93.48	\$ 31.25	\$ 0.76
Other	\$ 3.74	\$ 102.67	\$ 29.81	\$ 1.85
Total Company	\$ 3.76	\$ 93.44	\$ 29.36	\$ 1.13
Cana-Woodford	\$ 3.57	\$ 94.33	\$ 30.64	\$ 0.27
2012				
Permian Basin	\$ 2.93	\$ 87.93	\$ 30.78	\$ 1.50
Mid-Continent	\$ 2.86	\$ 90.41	\$ 29.91	\$ 0.77
Other	\$ 2.88	\$ 105.37	\$ 35.95	\$ 1.55
Total Company	\$ 2.88	\$ 89.25	\$ 30.66	\$ 1.13
Cana-Woodford	\$ 2.69	\$ 90.64	\$ 29.67	\$ 0.25

Acquisitions and Divestitures

In 2014 we made property acquisitions totaling \$250 million, including a \$238 million acquisition of properties in our Cana-Woodford shale play where enhanced completion techniques along with new workover designs were used to increase returns. In addition, we sold interests in various non-core oil and gas properties for \$446 million, including non-strategic, high-value acreage in Reagan County, Texas, for \$242 million, and other producing properties in southwestern Kansas.

Exploration and Production Overview

Cimarex has one reportable segment, exploration and production (E&P). Our E&P activities take place primarily in two areas: the Permian Basin and the Mid-Continent region. Almost all of our exploration and development (E&D)

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capital is allocated between these two areas. In 2014, E&D investment totaled \$1.88 billion. Of that, 73% was invested in the Permian Basin and 25% in the Mid-Continent region.

In 2014, Cimarex drilled or participated in 312 gross (174.6 net) wells, of which we operated 185 gross (144.5 net) wells. At year-end, we were in the process of drilling or participating in 8 gross (4.0 net) wells and there were 54 gross (31.9 net) wells waiting on completion. A summary of our 2014 exploration and development activity by region is as follows:

	E&D Capital (in millions)	Gross Wells Drilled	Net Wells Drilled	% Completed As Producers
Permian Basin	\$ 1,377	171	117	99
Mid-Continent	463	139	57	100
Other	41	2	1	50