CIMAREX ENERGY CO
Form 10-Q
November 04, 2015
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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 September 30, 2015

Commission File No. 001-31446

CIMAREX ENERGY CO.

1700 Lincoln Street, Suite 3700

Denver, Colorado 80203

(303) 295-3995

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 (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 .

The number of shares of Cimarex Energy Co. common stock outstanding as of September 30, 2015 was 94,559,630.

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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

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.

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PART I

ITEM 1 - Financial Statements

CIMAREX ENERGY CO.

Condensed Consolidated Balance Sheets

(Unaudited)

	September 30, 2015	December 31, 2014
	(in thousands, except share data)	
Assets		
Current assets:		
Cash and cash equivalents	$ 899,312	$ 405,862
Receivables, net	260,060	412,108
Oil and gas well equipment and supplies	65,096	89,780
Deferred income taxes	6,863	13,475
Derivative instruments	1,501	—
Prepaid expenses	4,229	9,356
Other current assets	1,400	1,223
Total current assets	1,238,461	931,804
Oil and gas properties at cost, using the full cost method of accounting:		
Proved properties	15,206,618	14,402,064
Unproved properties and properties under development, not being amortized	584,799	759,149
	15,791,417	15,161,213
Less — accumulated depreciation, depletion, amortization and impairment	(11,597,715)	(8,257,502)
Net oil and gas properties	4,193,702	6,903,711
Fixed assets, net	229,136	211,031
Goodwill	620,232	620,232
Derivative instruments	467	—
Other assets, net	54,364	58,515
	$ 6,336,362	$ 8,725,293
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 71,620	$ 138,051
Accrued liabilities	286,760	447,384
Revenue payable	122,728	190,892
Total current liabilities	481,108	776,327
Long-term debt	1,500,000	1,500,000
Deferred income taxes	733,371	1,754,706
Other liabilities	187,916	193,628
Total liabilities	2,902,395	4,224,661
Commitments and contingencies		
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, 94,559,630 and 87,592,535 shares issued, respectively	946	876
Paid-in capital	2,753,768	1,997,080
Retained earnings	678,950	2,501,574
Accumulated other comprehensive income	303	1,102
	3,433,967	4,500,632
	$ 6,336,362	$ 8,725,293

See accompanying notes to consolidated financial statements.

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CIMAREX ENERGY CO.

Consolidated Statements of Operations and Comprehensive Income (Loss)

(Unaudited)

	For the Three Months Ended September 30, 2015	For the Three Months Ended September 30, 2014	For the Nine Months Ended September 30, 2015	For the Nine Months Ended September 30, 2014
	(in thousands, except per share data)			
Revenues:				
Oil sales	$ 192,501	$ 348,276	$ 647,850	$ 1,028,229
Gas sales	114,649	176,539	331,985	519,139
NGL sales	40,159	111,701	135,236	297,128
Gas gathering and other	8,754	12,951	26,165	39,699
Gas marketing, net	(8)	273	104	1,430
	356,055	649,740	1,141,340	1,885,625
Costs and expenses:				
Impairment of oil and gas properties	1,180,649	—	2,751,535	—
Depreciation, depletion and amortization	185,654	219,359	619,883	588,279
Asset retirement obligation	2,615	1,420	6,393	8,288
Production	69,334	89,084	222,145	250,310
Transportation, processing, and other operating	46,290	54,573	129,645	145,299
Gas gathering and other	8,429	8,588	28,599	27,413
Taxes other than income	19,717	33,510	67,678	99,454
General and administrative	20,413	20,240	50,405	57,523
Stock compensation	4,737	3,603	14,880	10,875
(Gain) loss on derivative instruments, net	(1,968)	(9,229)	(1,968)	8,960
Other operating, net	60	(181)	844	34
	1,535,930	420,967	3,890,039	1,196,435
Operating income (loss)	(1,179,875)	228,773	(2,748,699)	689,190
Other (income) and expense:				
Interest expense	21,416	20,879	63,969	51,645
Capitalized interest	(7,100)	(10,005)	(25,087)	(25,870)
Other, net	(2,375)	(11,123)	(9,814)	(22,207)
Income (loss) before income tax	(1,191,816)	229,022	(2,777,767)	685,622
Income tax expense (benefit)	(428,532)	84,707	(999,327)	254,210
Net income (loss)	$ (763,284)	$ 144,315	$ (1,778,440)	$ 431,412
Earnings (loss) per share to common stockholders:				
Basic	$ (8.21)	$ 1.65	$ (19.14)	$ 4.94
Diluted	$ (8.21)	$ 1.65	$ (19.14)	$ 4.94
Dividends per share	$ 0.16	$ 0.16	$ 0.48	$ 0.48
Comprehensive income (loss):				

Net income (loss)	$ (763,284)	$ 144,315	$ (1,778,440)	$ 431,412
Other comprehensive income (loss):				
Change in fair value of investments, net of tax	(609)	(123)	(800)	(139)
Total comprehensive income (loss)	$ (763,893)	$ 144,192	$ (1,779,240)	$ 431,273

See accompanying notes to consolidated financial statements.

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CIMAREX ENERGY CO.

Condensed Consolidated Statements of Cash Flows

(Unaudited)

	For the Nine Months Ended September 30, 2015	2014
	(in thousands)	
Cash flows from operating activities:		
Net income (loss)	$ (1,778,440)	$ 431,412
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Impairment of oil and gas properties	2,751,535	—
Depreciation, depletion and amortization	619,883	588,279
Asset retirement obligation	6,393	8,288
Deferred income taxes	(1,014,264)	254,210
Stock compensation	14,880	10,875
(Gain) loss on derivative instruments	(1,968)	8,960
Settlements on derivative instruments	—	(6,015)
Changes in non-current assets and liabilities	16,343	(1,873)
Other, net	3,494	(2,384)
Changes in operating assets and liabilities:		
Receivables, net	151,783	(63,091)
Other current assets	29,634	(26,110)
Accounts payable and other current liabilities	(222,727)	69,419
Net cash provided by operating activities	576,546	1,271,970
Cash flows from investing activities:		
Oil and gas expenditures	(771,029)	(1,630,929)
Sales of oil and gas assets	38,343	451,710
Sales of other assets	1,057	8,178
Other capital expenditures	(58,085)	(76,784)
Net cash used by investing activities	(789,714)	(1,247,825)
Cash flows from financing activities:		
Net bank debt borrowings	—	(174,000)
Proceeds from other long-term debt	—	750,000
Proceeds from sale of common stock	752,100	—
Financing and underwriting fees	(22,663)	(11,616)
Dividends paid	(43,211)	(39,932)
Proceeds from exercise of stock options and other	20,392	10,529
Net cash provided by financing activities	706,618	534,981
Net change in cash and cash equivalents	493,450	559,126
Cash and cash equivalents at beginning of period	405,862	4,531
Cash and cash equivalents at end of period	$ 899,312	$ 563,657

See accompanying notes to consolidated financial statements.

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CIMAREX ENERGY CO.

Notes to Consolidated Financial Statements

September 30, 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 September 30, 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 $1.2 billion ($750.2 million, net of tax). We also recognized impairments in the first and second quarters of 2015. Year-to-date impairments totaled $2.8 billion ($1.7 billion, net of tax). These impairments resulted primarily 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 or future results. Impairment charges do not affect cash flow from operating activities, but do adversely affect our net income and stockholders' equity. Any recorded impairment of oil and gas properties is not reversible at a later date.

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Notes to Consolidated Financial Statements

September 30, 2015

(Unaudited)

Accounts Receivable, Accounts Payable and Accrued Liabilities

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

(in thousands)	September 30, 2015	December 31, 2014
Receivables, net of allowance		
Trade	$ 74,873	$ 134,443
Oil and gas sales	171,583	259,220
Gas gathering, processing, and marketing	13,377	18,009
Other	227	436
Receivables, net	$ 260,060	$ 412,108
Accounts payable		
Trade	$ 44,311	$ 102,276
Gas gathering, processing, and marketing	27,309	35,775
Accounts payable	$ 71,620	$ 138,051
Accrued liabilities		
Exploration and development	$ 74,263	$ 200,929
Taxes other than income	22,698	26,950
Other	189,799	219,505
Accrued liabilities	$ 286,760	$ 447,384

Recently Issued Accounting Standards

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers (Topic 606). In July 2015, the FASB deferred the effective date by one year to annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. Early adoption is permitted, but not before the original effective date of reporting periods beginning after December 15, 2016. We do not intend to adopt the standard early and are currently evaluating the potential impact of this guidance. At this time we do not expect that the adoption of this standard will have a material effect on our financial position or results of operation and related disclosures.

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CIMAREX ENERGY CO.

Notes to Consolidated Financial Statements

September 30, 2015

(Unaudited)

2.Capital Stock

Authorized capital stock consists of 200 million shares of common stock and 15 million shares of preferred stock. At September 30, 2015, there were no shares of preferred stock outstanding. A summary of our common stock activity for the nine months ended September 30, 2015 follows:

(in thousands)	
Issued and outstanding as of December 31, 2014	87,592
Issuance of common stock	6,900
Issuance of performance stock awards	10
Issuance of service-based restricted stock awards	191
Restricted stock forfeited and retired	(71)
Common stock reacquired and retired	(188)
Option exercises, net of cancellations	126
Issued and outstanding as of September 30, 2015	94,560

In May 2015, we completed an underwritten public offering of 6,900,000 shares of common stock, which included 900,000 shares of common stock issued pursuant to an overallotment option to purchase additional shares granted to the underwriters. The stock was sold to the public at $109.00 per share, with a par value of $0.01, and we received net proceeds of approximately $730 million from the sale of these shares of common stock, after deducting underwriting fees.

Dividends

In September 2015, the Board of Directors declared a cash dividend of $0.16 per share. The dividend is payable on December 1, 2015, to stockholders of record on November 13, 2015. Future dividend payments will depend on our level of earnings, financing requirements, and other factors considered relevant by the Board of Directors.

3.Stock-based Compensation

We have recognized stock-based compensation cost as shown below. Historical amounts may not be representative of future amounts as the value of future awards may vary from historical amounts.

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in thousands)	2015	2014	2015	2014
Restricted stock awards				
Performance stock awards	$ 4,984	$ 2,900	$ 14,627	$ 8,714
Service-based stock awards	1,902	2,925	10,700	9,541
	6,886	5,825	25,327	18,255
Stock option awards	855	847	2,141	2,402
	7,741	6,672	27,468	20,657
Less amounts capitalized to oil and gas properties	(3,004)	(3,069)	(12,588)	(9,782)
Compensation expense	$ 4,737	$ 3,603	$ 14,880	$ 10,875

The increase in compensation expense is primarily due to performance stock awards granted in December 2014, a portion of which were amortized during the 2015 periods.

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CIMAREX ENERGY CO.

Notes to Consolidated Financial Statements

September 30, 2015

(Unaudited)

4.Asset Retirement Obligations

We recognize 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 required to be accreted each period. If the fair value of a recorded asset retirement obligation changes, 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 DD&A 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, 2015:

(in thousands)		
Asset retirement obligation at January 1, 2015	$	173,008
Liabilities incurred		2,522
Liability settlements and disposals		(24,276)
Accretion expense		5,812
Revisions of estimated liabilities		4,038
Asset retirement obligation at September 30, 2015		161,104
Less current obligation		(9,756)
Long-term asset retirement obligation	$	151,348

During the first nine months of 2015, the liability settlements and disposals included $12.6 million related to properties that were sold.

5.Long-Term Debt

Debt at September 30, 2015 and December 31, 2014 consisted of the following:

(in thousands)	September 30, 2015	December 31, 2014
5.875% Senior Notes, due May 1, 2022	$ 750,000	$ 750,000
4.375% Senior Notes, due June 1, 2024	750,000	750,000
Total long-term debt	$ 1,500,000	$ 1,500,000

All of our long-term debt is senior unsecured debt and is pari passu with respect to the payment of both principal and interest.

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CIMAREX ENERGY CO.

Notes to Consolidated Financial Statements

September 30, 2015

(Unaudited)

Bank Debt

In October 2015, we entered into a new senior unsecured revolving credit facility (Credit Facility) which matures October 16, 2020. The Credit Facility replaced our previous senior unsecured revolving credit facility (Previous Credit Facility). The Credit Facility has aggregate commitments of $1.0 billion, with an option to increase aggregate commitments to $1.25 billion. The Credit Facility does not have a borrowing base subject to the discretion of the lenders based on the value of our proved reserves. Advances under the Credit Facility will accrue interest based on either LIBOR plus an applicable margin or the base rate (as defined in the Credit Facility) plus an applicable margin. 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 total debt-to-capital ratio of no greater than 65%.

Our Previous Credit Facility had a borrowing base of $2.5 billion and aggregate commitments of $1.0 billion. As of September 30, 2015, we had letters of credit outstanding under the Previous Credit Facility of $2.5 million, leaving an unused borrowing availability of $997.5 million. These letters of credit remain outstanding. The Previous Credit Facility also had customary covenants with which we were in compliance as of September 30, 2015.

Senior Notes

Each of our senior notes is governed by an indenture containing certain covenants, events of default and other restrictive provisions with which we were in compliance as of September 30, 2015. Interest on each of the senior notes is payable semi-annually.

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CIMAREX ENERGY CO.

Notes to Consolidated Financial Statements

September 30, 2015

(Unaudited)

6.Earnings (loss) per Share

The calculations of basic and diluted net earnings (loss) per common share under the two-class method are presented below:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in thousands, except per share data)	2015	2014	2015	2014
Basic:				
Net income (loss)	$ (763,284)	$ 144,315	$ (1,778,440)	$ 431,412
Participating securities' share in earnings (1)	—	(2,411)	—	(7,206)
Net income (loss) applicable to common stockholders	$ (763,284)	$ 141,904	$ (1,778,440)	$ 424,206
Diluted:				
Net income (loss)	$ (763,284)	$ 144,315	$ (1,778,440)	$ 431,412
Participating securities' share in earnings (1)	—	(2,407)	—	(7,194)
Net income (loss) applicable to common stockholders	$ (763,284)	$ 141,908	$ (1,778,440)	$ 424,218
Shares:				
Basic shares outstanding	92,969	85,643	92,969	85,643
Dilutive effect of stock options	—	136	—	145
Fully diluted common stock	92,969	85,779	92,969	85,788
Excluded (2)	1,915	83	1,915	87
Earnings (loss) per share to common stockholders (3):				
Basic	$ (8.21)	$ 1.65	$ (19.14)	$ 4.94
Diluted	$ (8.21)	$ 1.65	$ (19.14)	$ 4.94

(1) Participating securities are not included in undistributed earnings when a loss exists.
(2) Inclusion of certain shares would have an anti-dilutive effect.
(3) Earnings (loss) per share are based on actual figures rather than the rounded figures presented.

7.Income Taxes

The components of our provision for income taxes are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in thousands)	2015	2014	2015	2014
Current taxes (benefit)	$ 14,937	$ —	$ 14,937	$ —
Deferred taxes (benefit)	(443,469)	84,707	(1,014,264)	254,210
	$ (428,532)	$ 84,707	$ (999,327)	$ 254,210
Combined Federal and State effective income tax rate	36.0 %	37.0 %	36.0 %	37.1 %

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For tax year 2014, we had a U.S. net tax operating loss carryforward of approximately $518.0 million, which will expire in tax years 2031 through 2034. We believe that the carryforward will be utilized before it expires. The amount of U.S. net tax operating loss carryforward that will be recorded to equity when utilized to reduce taxes payable is $47.5 million, which relates to stock compensation deductions. We also had an alternative minimum tax credit carryforward of approximately $6.0 million.

At September 30, 2015, we had no unrecognized tax benefits that would impact our effective tax rate and have made no provisions for interest or penalties related to uncertain tax positions. The tax years 2012 through 2014 remain open to examination by the Internal Revenue Service of the United States. We file tax returns with various state taxing authorities, which remain open to examination for the 2011 through 2014 tax years.

Our provision for income taxes differed from the U.S. statutory rate of 35% primarily due to state income taxes and non-deductible expenses.

8.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.

The following tables provide fair value measurement information for certain assets and liabilities as of September 30, 2015 and December 31, 2014:

September 30, 2015: (in thousands)	Carrying Amount	Fair Value
Financial Assets (Liabilities):		
5.875% Notes due 2022	$ (750,000)	$ (797,565)
4.375% Notes due 2024	$ (750,000)	$ (726,953)
Derivative instruments — assets	$ 1,968	$ 1,968

December 31, 2014: (in thousands)	Carrying Amount	Fair Value
Financial Assets (Liabilities):		
5.875% Notes due 2022	$ (750,000)	$ (776,250)
4.375% Notes due 2024	$ (750,000)	$ (720,000)

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 4.375% and 5.875% 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 9 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.

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CIMAREX ENERGY CO.

Notes to Consolidated Financial Statements

September 30, 2015

(Unaudited)

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 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, 2015 and December 31, 2014, the allowance for doubtful accounts was $1.8 million and $1.5 million, respectively.

9.Derivative Instruments/Hedging

We periodically use derivative instruments to mitigate our exposure to a decline in commodity prices and the corresponding negative impact on cash flow available for reinvestment. While the use of these instruments limits the downside risk of adverse price changes, their use may also limit future revenues 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 hedging positions.

The following table summarizes our outstanding derivative contracts as of September 30, 2015:

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
Gas Collars:					
2016:					
PEPL (1)					
Volume (MMBtu)	910,000	910,000	920,000	920,000	3,660,000
Wtd Avg Price - Floor	$ 2.70	$ 2.70	$ 2.70	$ 2.70	$ 2.70
Wtd Avg Price - Ceiling	$ 2.85	$ 2.85	$ 2.85	$ 2.85	$ 2.85
Perm EP (1)					

Volume (MMBtu)	1,820,000	1,210,000	920,000	920,000	4,870,000
Wtd Avg Price - Floor	$ 2.75	$ 2.75	$ 2.75	$ 2.75	$ 2.75
Wtd Avg Price - Ceiling	$ 3.12	$ 3.09	$ 3.06	$ 3.06	$ 3.09
2017:					
Perm EP (1)					
Volume (MMBtu)	900,000	910,000	—	—	1,810,000
Wtd Avg Price - Floor	$ 2.75	$ 2.75	$ —	$ —	$ 2.75
Wtd Avg Price - Ceiling	$ 3.36	$ 3.36	$ —	$ —	$ 3.36

(1) PEPL refers to Panhandle Eastern Pipe Line, Tex/OK Mid-Continent Index as quoted in Platt's Inside FERC. Perm EP refers to El Paso Natural Gas Company, Permian Basin Index as quoted in Platt's Inside FERC.

Under a collar agreement, we receive the difference between the published index price and a floor price if the index price is below the floor. We pay the difference between the ceiling price and the index price if the index price is above the contracted ceiling price. No amounts are paid or received if the index price is between the floor and the ceiling price.

Subsequent to September 30, 2015, we hedged 3,000 barrels of oil per day for 2016 production using three-way costless collars with weighted average lower floor (sold put), upper floor (bought put) and ceiling (sold call) prices per barrel of $40, $50, and $60, respectively. Upon settlement of this hedge, if the index price is below the lower floor, we receive the difference between the two floors. If the index price is between the two floors, we receive the difference between the upper floor and the index price. If the index price is between the upper floor and

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(Unaudited)

the ceiling, we do not receive or pay any amounts. If the index price is above the ceiling, we pay the excess over the ceiling price.

We have elected not to account for our derivatives as cash flow hedges. Therefore, we recognize settlements and changes in the assets or liabilities relating to our open derivative contracts in earnings. Cash settlements of our contracts are included in cash flows from operating activities in our statements of cash flows.

The following table presents the aggregate net gain (loss) from settlements and changes in fair value of our derivative contracts, and the gains (losses) only from settlements during the periods shown below.

(in thousands)	Three Months Ended September 30, 2015	2014	Nine Months Ended September 30, 2015	2014
Gain (loss) on derivative instruments, net	$ 1,968	$ 9,229	$ 1,968	$ (8,960)
Settlement gains (losses)	$ —	$ (211)	$ —	$ (6,015)

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

The following table presents the amounts and classifications of our derivative assets and liabilities as of September 30, 2015, as well as the potential effect of netting arrangements on contracts with the same counterparty. We did not have any outstanding contracts as of December 31, 2014.

September 30, 2015:

(in thousands)	Balance Sheet Location	Asset	Liability
Natural gas contracts	Current assets — Derivative instruments	$ 1,501	$ —
Natural gas contracts	Non-current assets — Derivative instruments	467	—
Total gross amounts presented in accompanying balance sheet		1,968	—
Less: gross amounts not offset in the accompanying balance sheet		—	—
Net amount:		$ 1,968	$ —

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 have 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 hedge liability positions. Because some of the member banks have discontinued hedging activities, in the future we may hedge with counterparties outside our bank group to obtain competitive terms and to spread counterparty risk.

10.Commitments and Contingencies

Commitments

We have commitments of $163.3 million to finish drilling and completing wells in progress at September 30, 2015. We also have various commitments for drilling rigs. The total minimum expenditure commitments under these agreements are $29.6 million.

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(Unaudited)

At September 30, 2015, we had firm sales contracts to deliver approximately 44.3 Bcf of natural gas over the next 37 months. If this gas is not delivered, our financial commitment would be approximately $105.4 million. This commitment will fluctuate due to price volatility and actual volumes delivered. However, we believe no financial commitment will be due based on our current proved reserves and production levels from which we can fulfill these obligations.

In connection with gas gathering and processing agreements, we have volume commitments over the next ten years. If no gas is delivered, the maximum amount that would be payable under these commitments would be approximately $207.2 million. However, we believe no financial commitment will be due based on our current proved reserves and production levels from which we can fulfill these obligations.

We have other various transportation, delivery and facilities commitments in the normal course of business, which approximate $47.6 million.

We have various commitments for office space and equipment under operating lease arrangements totaling $99.2 million. Subsequent to September 30, 2015, we pledged to donate $5 million over ten years to a charitable organization in Tulsa, Oklahoma.

All of the noted commitments were routine and made in the ordinary course of our business.

Litigation

We have various litigation matters related to the ordinary course of our business. We assess the probability of estimable amounts related to those matters in accordance with guidance established by the FASB and adjust our accruals accordingly. Though some of the related claims may be significant, we believe the resolution of them, individually or in the aggregate, would not have a material adverse effect on our financial condition or results of operations after consideration of current accruals.

H.B. Krug, et al versus H&P

On April 1, 2014, Cimarex paid the plaintiffs $15.8 million for damages, post-judgment interest, and other expenses, all of which are now final and not appealable. On June 24, 2014, the trial court ruled the plaintiffs were not entitled to prejudgment interest but were entitled to attorney's fees and costs, the amount of which will be determined at a subsequent hearing. On July 31, 2014, the plaintiffs appealed the trial court's denial of prejudgment interest, which will be determined by the Oklahoma Supreme Court. The outcome of these remaining issues cannot be determined, and our current estimates and assessments will likely change as a result of future legal proceedings.

11.Supplemental Disclosure of Cash Flow Information

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in thousands)	2015	2014	2015	2014
Cash paid during the period for:				
Interest expense (including capitalized amounts)	$ 1,014	$ 835	$ 41,226	$ 27,125
Interest capitalized	$ 336	$ 30	$ 17,333	$ 13,587
Income taxes	$ 2	$ —	$ 558	$ 354
Cash received for income taxes	$ —	$ —	$ 409	$ 342

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ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

Cimarex is an independent oil and gas exploration and production company. Our operations are entirely located in the United States, mainly in Oklahoma, Texas and New Mexico. Currently our operations are focused in two main areas: the Permian Basin and the Mid-Continent region. Our Permian Basin region encompasses west Texas and southeast New Mexico. Our Mid-Continent region includes Oklahoma and the Texas Panhandle.

Our principal business objective is to profitably grow proved reserves and production for the long-term benefit of our stockholders through a diversified drilling portfolio. Our strategy centers on maximizing cash flow from producing properties and profitably reinvesting that cash flow in exploration and development. We consider property acquisitions, dispositions and occasional mergers to enhance our competitive position.

We believe that detailed technical analysis, operational focus and a disciplined capital investment process mitigates risk and positions us to continue to achieve increases in proved reserves and production. Our diversified drilling portfolio and limited long-term commitments provide the flexibility to respond quickly to industry volatility.

Our investments are generally funded with cash flow provided by operating activities together with bank borrowings, sales of non-strategic assets and public financing. Conservative use of leverage has long been a part of our financial strategy. We believe that maintaining a strong balance sheet mitigates financial risk and enables us to withstand low prices.

Market Conditions

The oil and gas industry is cyclical and commodity prices can be volatile. In the second half of 2014, oil prices began a rapid and significant decline as global supply outpaced demand. Thus far in 2015 oil prices have been erratic and it is likely that they will remain erratic due to the ongoing global supply and demand imbalance and geopolitical factors.

Prices for domestic natural gas and NGLs began to decline during the third quarter of 2014 and have continued to be weak into 2015. The decline in these prices is primarily due to an imbalance between supply and demand across North America, which could result in further declines.

Compared to the third quarter of 2014, our third quarter 2015 realized oil price fell 52% to $41.89/Bbl. Similarly, our realized natural gas price dropped 35% to $2.68/Mcf and our realized price for NGL declined 64% to $12.19/Bbl.

This dramatic decrease in commodity prices had a significant adverse impact on our results of operations and the amount of cash flow available to invest in our exploration and development (E&D) activities.

In the third quarter of 2015, the continued impact of lower prices on the present value of future cash flows from our proved reserves resulted in a non-cash full cost ceiling impairment to our oil and gas properties of $1.2 billion ($750.2 million, net of tax). For the nine months ended September 30, 2015, full cost ceiling impairments have totaled $2.8 billion ($1.7 billion, net of tax). See Operating costs and expenses below for a discussion of the ceiling impairment calculation.

Our 2015 E&D capital expenditures are expected to approximate $900.0 to $950.0 million, down from $1.88 billion in 2014.

See Part II, Item 1A, Risk Factors, in this report, and Item 1A, Risk Factors, in our Annual Report on Form 10-K/A for the year ended December 31, 2014, for a discussion of risk factors that affect our business, financial condition and results of operations. Also see CAUTIONARY INFORMATION ABOUT FORWARD-LOOKING STATEMENTS in this report for important information about these types of statements.

Third quarter 2015 summary of operating and financial results:

- Average daily production increased modestly to 978.9 MMcfe per day compared to 942.4 MMcfe per day in the prior year.
- Oil production grew 15% to 49,951 barrels per day, gas production and NGL volumes were relatively flat compared to the same period of 2014.
- Oil, natural gas and NGL sales totaled \$347.3 million, down 45% from \$636.5 million a year earlier.
- Exploration and development expenditures totaled \$184.3 million versus \$459.6 million in the same period of 2014.
- Cash flow provided by operating activities during the first nine months of 2015 was \$576.5 million compared to \$1.272 billion a year earlier.
- We incurred a net loss of \$763.3 million (\$8.21 per diluted share) versus net income of \$144.3 million (\$1.65 per diluted share) in 2014.
- Total debt at September 30, 2015 was \$1.5 billion, unchanged from year-end 2014.

Revenues

Almost all of our revenues are derived from the sales of oil, natural gas and NGL production. Increases or decreases in our revenue, profitability and future production growth are highly dependent on the commodity prices we receive. Prices are market driven and we expect that future prices will continue to fluctuate due to supply and demand factors, seasonality and geopolitical and economic factors.

Oil sales contributed 58% of our total production revenue for the first nine months of 2015. Gas sales accounted for 30% and NGL sales contributed 12%. A \$1.00 per barrel change in our realized oil price would have resulted in a \$14.3 million change in revenues. A \$0.10 per Mcf change in our realized gas price would have resulted in a \$12.5 million change in our gas revenues. A \$1.00 per barrel change in NGL prices would have changed revenues by \$9.6 million.

The following table presents our average realized commodity prices and certain major U.S. index prices. Our average realized prices do not include settlements of commodity derivative contracts.

	Three Months Ended September 30,	Nine Months Ended September 30,

	2015	2014	2015	2014
Oil Prices:				
Average realized sales price ($/Bbl)	$ 41.89	$ 87.27	$ 45.22	$ 90.87
Average WTI Midland price ($/Bbl)	$ 47.15	$ 87.30	$ 50.39	$ 92.35
Average WTI Cushing price ($/Bbl)	$ 46.43	$ 97.15	$ 51.00	$ 99.61
Gas Prices:				
Average realized sales price ($/Mcf)	$ 2.68	$ 4.10	$ 2.65	$ 4.62
Average Henry Hub price ($/Mcf)	$ 2.77	$ 4.07	$ 2.80	$ 4.57
NGL Prices:				
Average realized sales price ($/Bbl)	$ 12.19	$ 34.08	$ 14.13	$ 36.10

During 2015 and 2014, approximately 85% and 80%, respectively, of our oil production was in the Permian Basin, the sale of which is tied to the WTI Midland benchmark price. The impact of changes in realized prices is discussed below under RESULTS OF OPERATIONS.

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Operating costs and expenses

Costs associated with producing oil and gas are substantial. Some of these costs vary with commodity prices, some trend with the type and volume of production and some are a function of the number of wells we own.

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 September 30, 2015, the carrying value of our oil and gas properties subject to the ceiling test exceeded the calculated value of the ceiling limitation, and we recognized an impairment of $1.2 billion ($750.2 million, net of tax). For the nine months ended September 30, 2015, ceiling test impairments totaled $2.8 billion ($1.7 billion, net of tax). These impairments resulted primarily 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 we will likely incur full cost ceiling impairments in future quarters, the magnitude of which will be affected by one or more of the other components of the ceiling test calculations, until prices stabilize or improve over a twelve-month period.

At September 30, 2015, commodity prices used in the ceiling calculation, based on the required trailing twelve-month average, were $3.06 per Mcf of gas and $59.21 per barrel of oil. If the commodity prices had been calculated based on a 12-month simple average of the commodity prices on the first day of the month for the ten months ended October 2015 and the prices for October 2015 were used for the remaining two months in the 12-month average, the price would have averaged $2.66 per Mcf of gas and $50.37 per barrel of oil. Based solely on these lower prices and holding all other factors constant, our pre-tax ceiling test impairment would have been approximately $1.9 billion at September 30, 2015. This would have increased the third quarter impairment by approximately $700 million. This calculation of the impact of lower commodity prices is prepared based on the presumption that all other inputs and assumptions are held constant with the exception of oil and natural gas prices. Therefore, this calculation strictly isolates the potential impact of commodity prices on our ceiling test limitation and proved reserves. An amount of any future write-downs or impairment is difficult to reasonably predict and will depend upon not only commodity prices but also other factors that include, but are not limited to, incremental proved reserves that may be added each period, revisions to previous reserve estimates, capital expenditures, operating costs, and all related tax effects. There are numerous uncertainties inherent in the estimation of proved reserves and accounting for oil and natural gas properties in subsequent periods and the estimate described in this paragraph should not be construed as indicative of our development plans or future results.

The ceiling limitation calculation is not intended to be indicative of the fair market value of our proved reserves or future results. Impairment charges do not affect cash flow from operating activities, but do adversely affect our net income and stockholders' equity. Any recorded impairment of oil and gas properties is not reversible at a later date.

Depletion, depreciation and amortization (DD&A) of our producing properties is computed using the units-of-production method. The economic life of each producing well depends upon the estimated proved reserves for that well, which in turn depend upon the assumed realized sales price for future sales of production. Therefore, fluctuations in oil and gas prices will impact the level of proved reserves used in the calculation. Higher prices generally have the effect of increasing reserves, which reduces depletion expense. Conversely, lower prices generally have the effect of decreasing reserves, which increases depletion expense. The cost of replacing production also impacts our DD&A rate. In addition, changes in estimates of reserve quantities, estimates of operating and future development costs, reclassifications of properties from unproved to proved and impairments of oil and gas properties will also impact depletion expense. The first and second quarter impairments of our oil and gas properties, discussed above, have resulted in lower DD&A rates for the second and third quarters of 2015.

Production expense generally consists of costs for labor, equipment, maintenance, salt water disposal, compression, power, treating and miscellaneous other costs. Production expense also includes well workover activity necessary to maintain production from existing wells.

Transportation, processing and other operating costs principally consist of expenditures to prepare and gather production from the wellhead, as well as gas processing costs and costs to transport production to a specified sales point. Costs vary by region and will fluctuate with increases or decreases in production volumes, contractual fees and changes in fuel and compression costs.

General and administrative (G&A) expenses consist primarily of salaries and related benefits, office rent, legal fees, consultants, systems costs and other administrative costs incurred in our offices and not directly associated with exploration, development or production activities. Our G&A expense is reported net of amounts reimbursed to us by working interest owners of the oil and gas properties we operate and net of amounts capitalized pursuant to the full cost method of accounting.

A discussion of changes in operating costs and expenses is included in RESULTS OF OPERATIONS, below.

RESULTS OF OPERATIONS

Three Months and Nine Months Ended September 30, 2015 vs. September 30, 2014

In the third quarter of 2015 we had a net loss of $763.3 million ($8.21 per diluted share) compared to net income of $144.3 million ($1.65 per diluted share) for the same period of 2014. For the first nine months of 2015, we had a net loss of $1.8 billion ($19.14 per diluted share) versus net income of $431.4 million ($4.94 per diluted share) in 2014.

The decreases in 2015 net income were due primarily to significantly lower realized commodity prices, which also brought about impairments of our oil and gas properties. These changes are discussed further in the analysis that follows.

Production Revenue			Change Between 2015 / 2014	Price/Volume Change		
(in thousands or as indicated)	2015	2014		Price	Volume	Total
For the Three Months Ended September 30,						
Oil sales	$ 192,501	$ 348,276	(45) %	$ (208,566)	$ 52,791	$ (155,775)
Gas sales	114,649	176,539	(35) %	(60,660)	(1,230)	(61,890)
NGL sales	40,159	111,701	(64) %	(72,128)	586	(71,542)
	$ 347,309	$ 636,516	(45) %	$ (341,354)	$ 52,147	$ (289,207)
For the Nine Months Ended September 30,						
Oil sales	$ 647,850	$ 1,028,229	(37) %	$ (654,028)	$ 273,649	$ (380,379)
Gas sales	331,985	519,139	(36) %	(246,788)	59,634	(187,154)
NGL sales	135,236	297,128	(54) %	(210,253)	48,361	(161,892)
	$ 1,115,071	$ 1,844,496	(40) %	$ (1,111,069)	$ 381,644	$ (729,425)

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	For the Three Months Ended September 30,		Change Between 2015 / 2014	For the Nine Months Ended September 30,		Change Between 2015 / 2014
	2015	2014		2015	2014	
Total oil volume — thousand barrels	4,596	3,991	15 %	14,327	11,316	27 %
Oil volume — barrels per day	49,951	43,376	15 %	52,480	41,450	27 %
Percent of total equivalent production	31 %	28 %	3 %	32 %	30 %	2 %
Average oil price — per barrel	$ 41.89	$ 87.27	(52) %	$ 45.22	$ 90.87	(50) %
Total gas volume — MMcf	42,718	43,094	(1) %	125,273	112,385	11 %
Gas volume — MMcf per day	464.3	468.4	(1) %	458.9	411.7	11 %
Percent of total equivalent production	47 %	50 %	(3) %	47 %	49 %	(2) %
Average gas price — per Mcf	$ 2.68	$ 4.10	(35) %	$ 2.65	$ 4.62	(43) %
Total NGL volume — thousand barrels	3,295	3,278	1 %	9,570	8,231	16 %
NGL volume — barrels per day	35,815	35,627	1 %	35,056	30,151	16 %
Percent of total equivalent production	22 %	22 %	0 %	21 %	21 %	0 %
Average NGL price — per barrel	$ 12.19	$ 34.08	(64) %	$ 14.13	$ 36.10	(61) %
Total equivalent production — MMcfe	90,061	86,704	4 %	268,656	229,667	17 %
Equivalent production — MMcfe per day	978.9	942.4	4 %	984.1	841.3	17 %

As reflected in the tables above, for the third quarter and first nine months of 2015 our production revenues were 45% and 40%, respectively, lower than those in the same periods of 2014. Increased revenues from greater net production volumes were more than offset by decreased revenues from lower realized commodity prices. See Revenues above for a discussion regarding realized prices. For the nine months ended September 30, 2015, the growth in production volumes is due to our drilling programs in the Permian Basin and Mid-Continent region.

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The table below reflects our regional production volumes.

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2015	2014	2015	2014
Oil (Bbls per day)				
Permian Basin	42,367	34,299	44,632	33,090
Mid-Continent	6,981	8,158	7,197	7,166
Other	603	919	651	1,194
	49,951	43,376	52,480	41,450
Gas (MMcf per day)				
Permian Basin	197.6	126.6	179.3	117.6
Mid-Continent	260.8	333.3	272.6	284.9
Other	5.9	8.5	7.0	9.2
	464.3	468.4	458.9	411.7
NGL (Bbls per day)				
Permian Basin	18,430	12,634	16,938	11,144
Mid-Continent	17,093	22,604	17,823	18,475
Other	292	389	295	532
	35,815	35,627	35,056	30,151
Total Equivalent (MMcfe per day)				
Permian Basin	562.4	408.1	548.7	383.0
Mid-Continent	405.3	517.9	422.7	438.8
Other	11.2	16.4	12.7	19.5
	978.9	942.4	984.1	841.3

We sometimes transport, process and market third-party gas that is associated with our equity gas. The table below reflects our pre-tax operating margin (revenues less direct expenses) for third-party gas gathering and processing as well as the marketing margin (revenues less purchases) for marketing third-party gas.

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2015	2014	2015	2014
Gas Gathering and Marketing (in thousands):				
Gas gathering and other revenues	$ 8,754	$ 12,951	$ 26,165	$ 39,699
Gas gathering and other costs	(8,429)	(8,588)	(28,599)	(27,413)
Gas gathering and other margin	$ 325	$ 4,363	$ (2,434)	$ 12,286

Gas marketing revenues, net of related costs	$ (8)	$ 273	$ 104	$ 1,430

Fluctuations in net margins from gas gathering and gas marketing activities are a function of increases and decreases in volumes, prices and costs associated with third-party gas.

Analysis of Operating Costs and Expenses

Total operating costs and expenses (not including gas gathering and marketing costs, other income and expense or income tax expense) for the 2015 periods shown in the tables below were significantly higher than those for the same periods of 2014. The increases resulted because for each quarter of 2015 our ceiling limitation

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calculations resulted in impairments of our oil and gas properties. See Operating costs and expenses above for a discussion of the ceiling limitation calculation.

Excluding the effect of the impairment, our total quarter-over-quarter operating costs and expenses declined by $65.5 million (16%). Aggregate operating costs and expenses, excluding impairments, for the first nine months of 2015 decreased by $59.1 million (5%). Period-over-period differences are discussed below.

	For the Three Months Ended September 30,		Variance Between	Per Mcfe	
	2015	2014	2015 / 2014	2015	2014
Operating costs and expenses (in thousands, except per Mcfe):					
Impairment of oil and gas properties	$ 1,180,649	$ —	$ 1,180,649	N/A	N/A
Depletion, depreciation and amortization	185,654	219,359	(33,705)	$ 2.06	$ 2.53
Asset retirement obligation	2,615	1,420	1,195	$ 0.03	$ 0.02
Production	69,334	89,084	(19,750)	$ 0.77	$ 1.03
Transportation, processing and other operating	46,290	54,573	(8,283)	$ 0.51	$ 0.63
Taxes other than income	19,717	33,510	(13,793)	$ 0.22	$ 0.39
General and administrative	20,413	20,240	173	$ 0.23	$ 0.23
Stock compensation	4,737	3,603	1,134	$ 0.05	$ 0.04
(Gain) loss on derivative instruments, net	(1,968)	(9,229)			