

CIMAREX ENERGY CO
Form 10-Q
November 02, 2012
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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, 2012

Commission File No. 001-31446

CIMAREX ENERGY CO.

1700 Lincoln Street, Suite 1800

Denver, Colorado 80203-4518

(303) 295-3995

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**Incorporated in the
State of Delaware**

**Employer Identification
No. 45-0466694**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer
(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, 2012 was 86,540,753.

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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

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 Cimarex's working interest percentage

Net Production Gross production multiplied by Cimarex's net revenue interest

NGL Natural gas liquids

Tcf Trillion cubic feet

Tcfe Trillion cubic feet equivalent

WTI West Texas Intermediate

One barrel of oil or NGL is the energy equivalent of 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 and Section 21E of the Securities and Exchange Act of 1934. 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 and gas 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, reductions in the quantity of oil and gas sold due to decreased industry-wide demand and/or curtailments in production from specific properties due to mechanical, marketing 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 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

| | September 30, 2012 (Unaudited) | December 31, 2011 |
|--|--------------------------------------|----------------------|
| | (In thousands, except share data) | |
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 5,411 | \$ 2,406 |
| Receivables, net | 335,011 | 359,409 |
| Oil and gas well equipment and supplies | 77,879 | 85,141 |
| Deferred income taxes | 2,126 | 2,723 |
| Derivative instruments | 416 | |
| Other current assets | 6,715 | 8,216 |
| Total current assets | 427,558 | 457,895 |
| Oil and gas properties at cost, using the full cost method of accounting: | | |
| Proved properties | 11,116,783 | 9,933,517 |
| Unproved properties and properties under development, not being amortized | 661,626 | 607,219 |
| | 11,778,409 | 10,540,736 |
| Less accumulated depreciation, depletion and amortization | (6,767,943) | (6,414,528) |
| Net oil and gas properties | 5,010,466 | 4,126,208 |
| Fixed assets, net | 134,776 | 118,215 |
| Goodwill | 691,432 | 691,432 |
| Other assets, net | 49,023 | 34,827 |
| | \$ 6,313,255 | \$ 5,428,577 |
| Liabilities and Stockholders Equity | | |
| Current liabilities: | | |
| Accounts payable | \$ 64,988 | \$ 79,788 |
| Accrued liabilities | 434,966 | 385,651 |
| Derivative instruments | | 245 |
| Revenue payable | 151,798 | 150,655 |
| Total current liabilities | 651,752 | 616,339 |
| Long-term debt | 830,000 | 405,000 |
| Deferred income taxes | 1,128,642 | 974,932 |
| Other liabilities | 324,914 | 301,693 |
| Total liabilities | 2,935,308 | 2,297,964 |
| 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, 86,540,753 and 85,774,084 shares issued, respectively | 865 | 858 |
| Paid-in capital | 1,931,583 | 1,908,506 |
| Retained earnings | 1,445,011 | 1,221,263 |
| Accumulated other comprehensive income (loss) | 488 | (14) |

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| | | | |
|----|-----------|----|-----------|
| | 3,377,947 | | 3,130,613 |
| \$ | 6,313,255 | \$ | 5,428,577 |

See accompanying notes to consolidated financial statements.

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Consolidated Statements of Income and Comprehensive Income

(Unaudited)

| | For the Three Months Ended September 30, | | For the Nine Months Ended September 30, | |
|---|---|-------------------|--|-------------------|
| | 2012 | 2011 | 2012 | 2011 |
| | (In thousands, except per share data) | | | |
| Revenues: | | | | |
| Gas sales | \$ 83,208 | \$ 138,631 | \$ 238,102 | \$ 410,331 |
| Oil sales | 263,315 | 211,928 | 759,609 | 675,239 |
| NGL sales | 50,860 | 69,169 | 154,160 | 200,428 |
| Gas gathering, processing and other | 10,054 | 13,762 | 31,940 | 40,823 |
| Gas marketing, net | (525) | 319 | (741) | 797 |
| | 406,912 | 433,809 | 1,183,070 | 1,327,618 |
| Costs and expenses: | | | | |
| Depreciation, depletion and amortization | 135,987 | 104,681 | 375,486 | 279,554 |
| Asset retirement obligation | 3,512 | 3,578 | 9,478 | 8,223 |
| Production | 62,699 | 62,333 | 192,818 | 181,558 |
| Transportation | 14,481 | 13,754 | 40,966 | 41,559 |
| Gas gathering and processing | 5,496 | 6,263 | 15,302 | 17,472 |
| Taxes other than income | 24,095 | 30,533 | 72,738 | 98,625 |
| General and administrative | 14,742 | 9,390 | 41,523 | 34,734 |
| Stock compensation, net | 8,301 | 4,595 | 17,519 | 13,962 |
| (Gain) loss on derivative instruments, net | 5,329 | (7,120) | (661) | (11,353) |
| Other operating, net | 2,236 | 2,379 | 7,295 | 8,095 |
| | 276,878 | 230,386 | 772,464 | 672,429 |
| Operating income | 130,034 | 203,423 | 410,606 | 655,189 |
| Other (income) and expense: | | | | |
| Interest expense | 13,223 | 9,279 | 35,570 | 27,599 |
| Capitalized interest | (9,231) | (7,253) | (26,154) | (21,830) |
| Loss on early extinguishment of debt | | | 16,214 | |
| Other, net | (6,159) | (3,604) | (18,714) | (7,226) |
| Income before income tax | 132,201 | 205,001 | 403,690 | 656,646 |
| Income tax expense | 47,939 | 76,849 | 149,019 | 243,583 |
| Net income | \$ 84,262 | \$ 128,152 | \$ 254,671 | \$ 413,063 |
| Earnings per share to common stockholders: | | | | |
| Basic | | | | |
| Distributed | \$ 0.12 | \$ 0.10 | \$ 0.36 | \$ 0.30 |
| Undistributed | 0.85 | 1.39 | 2.58 | 4.51 |
| | \$ 0.97 | \$ 1.49 | \$ 2.94 | \$ 4.81 |
| Diluted | | | | |
| Distributed | \$ 0.12 | \$ 0.10 | \$ 0.36 | \$ 0.30 |
| Undistributed | 0.85 | 1.39 | 2.57 | 4.49 |
| | \$ 0.97 | \$ 1.49 | \$ 2.93 | \$ 4.79 |
| Comprehensive income: | | | | |

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| | | | | | | | | |
|---|----|--------|----|---------|----|---------|----|---------|
| Net income | \$ | 84,262 | \$ | 128,152 | \$ | 254,671 | \$ | 413,063 |
| Other comprehensive income: | | | | | | | | |
| Change in fair value of investments, net of tax | | 238 | | (585) | | 502 | | (417) |
| Total comprehensive income | \$ | 84,500 | \$ | 127,567 | \$ | 255,173 | \$ | 412,646 |

See accompanying notes to consolidated financial statements.

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Condensed Consolidated Statements of Cash Flows

(Unaudited)

| | For the Nine Months Ended September 30, | |
|--|--|-------------|
| | 2012 | 2011 |
| | (In thousands) | |
| Cash flows from operating activities: | | |
| Net income | \$ 254,671 | \$ 413,063 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation, depletion and amortization | 375,486 | 279,554 |
| Asset retirement obligation | | |