

CIMAREX ENERGY CO
Form 10-Q
August 07, 2018
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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
For the Quarterly Period ended June 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 of other jurisdiction of
incorporation or organization)

(I.R.S. Employer
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 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, 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 ☐
(Do not check if a 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 July 31, 2018 was 95,356,074.

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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 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.

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PART I

ITEM 1. - Financial Statements

CIMAREX ENERGY CO.

Condensed Consolidated Balance Sheets

(in thousands, except share and per share information)

(Unaudited)

	June 30, 2018	December 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	\$410,823	\$400,534
Accounts receivable, net of allowance:		
Trade	128,984	100,356
Oil and gas sales	304,255	344,552
Gas gathering, processing, and marketing	11,416	15,266
Oil and gas well equipment and supplies	53,375	49,722
Derivative instruments	72,943	15,151
Prepaid expenses	7,419	8,518
Other current assets	927	1,536
Total current assets	990,142	935,635
Oil and gas properties at cost, using the full cost method of accounting:		
Proved properties	18,112,548	17,513,460
Unproved properties and properties under development, not being amortized	532,715	476,903
	18,645,263	17,990,363
Less—accumulated depreciation, depletion, amortization, and impairment	(15,000,443)	(14,748,833)
Net oil and gas properties	3,644,820	3,241,530
Fixed assets, net of accumulated depreciation of \$312,927 and \$290,114, respectively	238,964	210,922
Goodwill	620,232	620,232
Derivative instruments	2,330	2,086
Other assets	34,905	32,234
	\$5,531,393	\$5,042,639
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable:		
Trade	\$74,596	\$68,883
Gas gathering, processing, and marketing	20,643	29,503
Accrued liabilities:		
Exploration and development	146,886	115,762
Taxes other than income	24,392	23,687
Other	199,093	212,400
Derivative instruments	90,480	42,066
Revenue payable	180,869	187,273
Total current liabilities	736,959	679,574
Long-term debt:		
Principal	1,500,000	1,500,000
Less—unamortized debt issuance costs and discount	(12,261)	(13,080)
Long-term debt, net	1,487,739	1,486,920
Deferred income taxes	201,350	101,618
Asset retirement obligation	159,568	158,421

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Derivative instruments	11,511	4,268
Other liabilities	47,768	43,560
Total liabilities	2,644,895	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, 95,392,547 and 95,437,434 shares issued, respectively	954	954
Additional paid-in capital	2,770,532	2,764,384
Retained earnings (accumulated deficit)	112,811	(199,259)
Accumulated other comprehensive income	2,201	2,199
Total stockholders' equity	2,886,498	2,568,278
	\$5,531,393	\$ 5,042,639

See accompanying Notes to Condensed Consolidated Financial Statements.

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CIMAREX ENERGY CO.

Condensed Consolidated Statements of Operations and Comprehensive Income

(in thousands, except per share information)

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Revenues:				
Oil sales	\$342,184	\$232,453	\$693,907	\$456,519
Gas and NGL sales	202,202	213,360	405,920	425,731
Gas gathering and other	11,810	10,735	23,262	21,360
Gas marketing	78	(96)	319	18
	556,274	456,452	1,123,408	903,628
Costs and expenses:				
Depreciation, depletion, and amortization	143,388	107,884	276,247	203,700
Asset retirement obligation	2,053	960	3,113	2,580
Production	79,215	62,578	150,486	124,999
Transportation, processing, and other operating	51,933	58,624	97,098	113,647
Gas gathering and other	9,467	8,647	19,290	17,074
Taxes other than income	27,930	17,477	58,118	38,790
General and administrative	19,739	19,762	43,060	37,796
Stock compensation	3,095	6,293	9,825	12,581
Loss (gain) on derivative instruments, net	21,699	(22,509)	17,540	(66,370)
Other operating expense, net	5,252	266	5,455	882
	363,771	259,982	680,232	485,679
Operating income	192,503	196,470	443,176	417,949
Other (income) and expense:				
Interest expense	16,895	20,095	33,678	41,147
Capitalized interest	(4,850)	(5,442)	(9,660)	(12,083)
Loss on early extinguishment of debt	—	28,169	—	28,169
Other, net	(2,605)	(2,231)	(7,172)	(4,441)
Income before income tax	183,063	155,879	426,330	365,157
Income tax expense	42,066	58,617	99,015	136,923
Net income	\$140,997	\$97,262	\$327,315	\$228,234
Earnings per share to common stockholders:				
Basic	\$1.48	\$1.02	\$3.44	\$2.40
Diluted	\$1.48	\$1.02	\$3.44	\$2.40
Dividends declared per share	\$0.16	\$0.08	\$0.32	\$0.16
Comprehensive income:				
Net income	\$140,997	\$97,262	\$327,315	\$228,234
Other comprehensive income:				
Change in fair value of investments, net of tax of \$57, \$128, \$1, and \$359, respectively	192	224	2	626
Total comprehensive income	\$141,189	\$97,486	\$327,317	