

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

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

FORM 10-Q

(Mark One)

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

or

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from _____ to _____

Commission File No. 001-31446

CIMAREX ENERGY CO.

(Exact name of registrant as specified in its charter)

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No
Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

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

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

The number of shares of Cimarex Energy Co. common stock outstanding as of October 31, 2018 was 95,602,883.

Table of Contents

CIMAREX ENERGY CO.
Table of Contents

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

Table of Contents

GLOSSARY

Bbls—Barrels

Bcf—Billion cubic feet

BOE—Barrels of oil equivalent

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

MBbls—Thousand barrels

MBOE—Thousand barrels of oil equivalent

Mcf—Thousand cubic feet

MMBtu—Million British thermal units

MMcf—Million cubic feet

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

NGL or NGLs—Natural gas liquids

Energy equivalent is determined using the ratio of one barrel of crude oil, condensate, or NGL to six Mcf of natural gas.

CAUTIONARY INFORMATION ABOUT FORWARD-LOOKING STATEMENTS

Throughout this Form 10-Q, we make statements that may be deemed “forward-looking” statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities and Exchange Act of 1934, as amended. These forward-looking statements include, among others, statements concerning our outlook with regard to timing and amount of future production of oil and gas, price realizations, amounts, nature and timing of capital expenditures for exploration and development, plans for funding operations and capital expenditures, drilling of wells, operating costs and other expenses, marketing of oil, gas, and NGLs and other statements of expectations, beliefs, future plans and strategies, anticipated events or trends, and similar expressions concerning matters that are not historical facts. The forward-looking statements in this report are subject to risks and uncertainties that could cause actual results to differ materially from those expressed in or implied by the statements.

These risks and uncertainties include, but are not limited to, fluctuations in the price we receive for our oil and gas production, full cost ceiling test impairments to the carrying values of our oil and gas properties, reductions in the quantity of, and price received for, oil and gas sold due to decreased industry-wide demand and/or curtailments in production from specific properties or areas due to mechanical, transportation, marketing, weather or other problems, operating and capital expenditures that are either significantly higher or lower than anticipated because the actual cost of identified projects varied from original estimates and/or from the number of exploration and development opportunities being greater or fewer than currently anticipated, increased financing costs due to a significant increase in interest rates, availability of financing, and the effectiveness of our internal control over financial reporting and our ability to remediate a material weakness in our internal control over financial reporting. In addition, exploration and development opportunities that we pursue may not result in economic, productive oil and gas properties. There are also numerous uncertainties inherent in estimating quantities of proved reserves, projecting future rates of production and the timing of development expenditures. These and other risks and uncertainties affecting us are discussed in greater detail in this report and in our other filings with the Securities and Exchange Commission.

Table of Contents

PART I

ITEM 1. - Financial Statements

CIMAREX ENERGY CO.

Condensed Consolidated Balance Sheets

(in thousands, except share and per share information)

(Unaudited)

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

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Deferred income taxes	244,592	101,618
Asset retirement obligation	151,868	158,421
Derivative instruments	14,076	4,268
Other liabilities	48,585	43,560
Total liabilities	2,792,613	2,474,361
Commitments and contingencies (Note 10)		
Stockholders' equity:		
Preferred stock, \$0.01 par value, 15,000,000 shares authorized, no shares issued	—	—
Common stock, \$0.01 par value, 200,000,000 shares authorized, 95,602,550 and 95,437,434 shares issued, respectively	956	954
Additional paid-in capital	2,778,203	2,764,384
Retained earnings (accumulated deficit)	243,923	(199,259)
Accumulated other comprehensive income	2,740	2,199
Total stockholders' equity	3,025,822	2,568,278
	\$5,818,435	\$ 5,042,639

See accompanying Notes to Condensed Consolidated Financial Statements.

4

Table of Contents

CIMAREX ENERGY CO.

Condensed Consolidated Statements of Operations and Comprehensive Income

(in thousands, except per share information)

(Unaudited)

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

See accompanying Notes to Condensed Consolidated Financial Statements.

5

Table of Contents

CIMAREX ENERGY CO.

Condensed Consolidated Statements of Cash Flows

(in thousands)

(Unaudited)

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

See accompanying Notes to Condensed Consolidated Financial Statements.

Table of Contents

CIMAREX ENERGY CO.

Condensed Consolidated Statement of Stockholders' Equity

(in thousands)

(Unaudited)

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

See accompanying Notes to Condensed Consolidated Financial Statements.

7

Table of Contents

CIMAREX ENERGY CO.

Notes to Condensed Consolidated Financial Statements

September 30, 2018

(Unaudited)

1. BASIS OF PRESENTATION

The accompanying unaudited financial statements have been prepared by Cimarex Energy Co. (“Cimarex,” “we,” or “us”) pursuant to rules and regulations of the Securities and Exchange Commission (“SEC”). Accordingly, certain disclosures required by accounting principles generally accepted in the United States and normally included in Annual Reports on Form 10-K have been omitted. Although management believes that our disclosures in these interim financial statements are adequate, they should be read in conjunction with the financial statements, summary of significant accounting policies, and footnotes included in our Annual Report on Form 10-K for the year ended December 31, 2017.

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

Use of Estimates

Areas of significance requiring the use of management’s judgments include the estimation of proved oil and gas reserves used in calculating depletion, the estimation of future net revenues used in computing ceiling test limitations, the estimation of future abandonment obligations used in recording asset retirement obligations, and the assessment of goodwill. Estimates and judgments also are required in determining allowances for doubtful accounts, impairments of unproved properties and other assets, valuation of deferred tax assets, fair value measurements, and contingencies.

Oil and Gas Well Equipment and Supplies

Our oil and gas well equipment and supplies are valued at the lower of cost and net realizable value, where net realizable value is estimated selling prices in the ordinary course of business, less reasonably predictable costs of disposal and transportation. Declines in the price of oil and gas well equipment and supplies in future periods could cause us to recognize impairments on these assets. An impairment would not affect cash flow from operating activities, but would adversely affect our net income and stockholders’ equity.

Oil and Gas Properties

We use the full cost method of accounting for our oil and gas operations. All costs associated with property acquisition, exploration, and development activities are capitalized. Under the full cost method of accounting, we are required to perform a quarterly ceiling test calculation to test our oil and gas properties for possible impairment. If the net capitalized cost of our oil and gas properties, as adjusted for income taxes, exceeds the ceiling limitation, the excess is charged to expense. The ceiling limitation is equal to the sum of: (i) the present value discounted at 10% of estimated future net revenues from proved reserves, (ii) the cost of properties not being amortized, and (iii) the lower of cost or estimated fair value of unproven properties included in the costs being amortized, as adjusted for income taxes. We currently do not have any unproven properties that are being amortized. Estimated future net revenues are determined based on trailing twelve-month average commodity prices and estimated proved reserve quantities, operating costs, and capital expenditures. The calculated ceiling limitation is not intended to be indicative of the fair market value of our proved reserves or future results.

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

Table of Contents

CIMAREX ENERGY CO.

Notes to Condensed Consolidated Financial Statements

September 30, 2018

(Unaudited)

Revenue Recognition

Oil, Gas, and NGL Sales

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