CIMAREX ENERGY CO
Form 10-Q
November 03, 2009
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x Quarterly Report Pursuant To Section 13 or 15(d) of the Securities Exchange Act of 1934

o Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the Quarterly Period ended September 30, 2009

Commission File No. 001-31446

CIMAREX ENERGY CO.

1700 Lincoln Street, Suite 1800

Denver, Colorado 80203-4518

(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 x No o

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 x No o

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 x	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x.

The number of shares of Cimarex Energy Co. common stock outstanding as of September 30, 2009 was 83,511,991.

CIMAREX ENERGY CO.

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GLOSSARY

Bbl/d Barrels (of oil) per day

Bbls Barrels (of oil)

Bcf Billion cubic feet

Bcfe Billion cubic feet equivalent

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 working interest percentage

Net Production Gross production multiplied by net revenue interest

NGL Natural gas liquids

Tcf Trillion cubic feet

Tcfe Trillion cubic feet equivalent

One barrel of oil 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.

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PART I

ITEM 1 - Financial Statements

CIMAREX ENERGY CO.

Consolidated Balance Sheets

	September 30, 2009 (Unaudited)	December 31, 2008
	(In thousands, except share data)	
Assets		
Current assets:		
Cash and cash equivalents	$ 2,962	$ 1,213
Restricted cash	593	502
Short-term investments		2,502
Receivables, net	173,914	259,082
Oil and gas well equipment and supplies	166,021	186,062
Deferred income taxes	8,566	2,435
Derivative instruments	3,150	
Other current assets	26,303	63,148
Total current assets	381,509	514,944
Oil and gas properties at cost, using the full cost method of accounting:		
Proved properties	7,476,167	7,052,464
Unproved properties and properties under development, not being amortized	385,321	465,638
	7,861,488	7,518,102
Less accumulated depreciation, depletion and amortization	(5,696,671)	(4,709,597)
Net oil and gas properties	2,164,817	2,808,505
Fixed assets, net	122,984	119,616
Goodwill	691,432	691,432
Other assets, net	35,420	30,436
	$ 3,396,162	$ 4,164,933
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	$ 19,646	$ 101,157
Accrued liabilities	202,544	263,994
Derivative instruments	12,645	
Revenue payable	90,027	104,438
Total current liabilities	324,862	469,589
Long-term debt	523,753	587,630
Deferred income taxes	327,653	500,945
Other liabilities	286,711	255,122
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, 83,511,991 and 84,144,024 shares issued, respectively	835	841
Treasury stock, at cost, zero and 885,392 shares held, respectively		(33,344)
Paid-in capital	1,853,876	1,874,834

Retained earnings		78,546		510,271
Accumulated other comprehensive loss		(74)		(955)
		1,933,183		2,351,647
	$	3,396,162	$	4,164,933

See accompanying notes to consolidated financial statements.

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CIMAREX ENERGY CO.

Consolidated Statements of Operations

(Unaudited)

	For the Three Months Ended September 30, 2009	For the Three Months Ended September 30, 2008	For the Nine Months Ended September 30, 2009	For the Nine Months Ended September 30, 2008
	(In thousands, except per share data)			
Revenues:				
Gas sales	$ 107,275	$ 313,523	$ 324,438	$ 912,443
Oil sales	131,073	238,918	324,507	683,109
Gas gathering, processing and other	10,732	24,163	31,165	73,734
Gas marketing, net	54	654	888	2,225
	249,134	577,258	680,998	1,671,511
Costs and expenses:				
Impairment of oil and gas properties		657,146	791,137	657,146
Depreciation, depletion and amortization	59,240	147,432	205,791	406,189
Asset retirement obligation	4,024	1,978	8,665	5,434
Production	42,682	55,362	139,127	156,506
Transportation	8,760	10,621	25,233	29,551
Gas gathering and processing	4,830	12,591	14,347	35,787
Taxes other than income	19,728	39,097	50,525	109,453
General and administrative	12,522	12,377	29,803	37,837
Stock compensation, net	2,477	2,791	6,831	7,432
Loss on derivative instruments, net	17,357		17,613	
Other operating, net	2,911	11,871	19,094	12,992
	174,531	951,266	1,308,166	1,458,327
Operating income (loss)	74,603	(374,008)	(627,168)	213,184
Other (income) and expense:				
Interest expense	10,623	8,066	30,144	24,785
Capitalized interest	(5,295)	(5,671)	(16,230)	(14,930)
Other, net	3,737	(8,086)	11,627	(16,610)
Income (loss) before income tax	65,538	(368,317)	(652,709)	219,939
Income tax expense (benefit)	26,833	(135,894)	(236,121)	73,811
Net income (loss)	$ 38,705	$ (232,423)	$ (416,588)	$ 146,128
Earnings (loss) per share to common stockholders:				
Basic				
Distributed	$ 0.06	$ 0.06	$ 0.18	$ 0.18
Undistributed	0.40	(2.91)	(5.28)	1.56
	$ 0.46	$ (2.85)	$ (5.10)	$ 1.74
Diluted				
Distributed	$ 0.06	$ 0.06	$ 0.18	$ 0.18
Undistributed	0.40	(2.91)	(5.28)	1.53
	$ 0.46	$ (2.85)	$ (5.10)	$ 1.71

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, 2009	2008
	(In thousands)	
Cash flows from operating activities:		
Net income (loss)	$ (416,588)	$ 146,128
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Impairments	804,815	657,146
Depreciation, depletion and amortization	205,791	406,189
Asset retirement obligation	8,665	5,434
Deferred income taxes	(220,592)	(38,840)
Stock compensation, net	6,831	7,432
Derivative instruments, net	21,157	
Changes in non-current assets and liabilities	48,673	(94)
Other, net	13,682	1,019
Changes in operating assets and liabilities:		
(Increase) decrease in receivables, net	84,044	(20,762)
(Increase) decrease in other current assets	17,404	(59,669)
Increase (decrease) in accounts payable and accrued liabilities	(108,236)	36,726
Net cash provided by operating activities	465,646	1,140,709
Cash flows from investing activities:		
Oil and gas expenditures	(390,108)	(1,026,719)
Sales of oil and gas and other assets	38,556	434
Sales of short-term investments	3,328	9,288
Other expenditures	(21,131)	(43,253)
Net cash used by investing activities	(369,355)	(1,060,250)
Cash flows from financing activities:		
Net increase (decrease) in bank debt	(64,000)	
Financing costs incurred	(17,995)	(50)
Dividends paid	(15,123)	(15,007)
Issuance of common stock and other	2,576	12,931
Net cash used in financing activities	(94,542)	(2,126)
Net change in cash and cash equivalents	1,749	78,333
Cash and cash equivalents at beginning of period	1,213	123,050
Cash and cash equivalents at end of period	$ 2,962	$ 201,383

See accompanying notes to consolidated financial statements.

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CIMAREX ENERGY CO.

Notes to Consolidated Financial Statements

September 30, 2009

(Unaudited)

1. Basis of Presentation

The accompanying unaudited financial statements have been prepared by Cimarex Energy Co. 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 2008 Annual Report on Form 10-K, as amended by the Current Report on Form 8-K filed July 17, 2009 with the SEC.

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 shown.

Full Cost Accounting Method and Ceiling Limitation

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. Exploration and development costs include dry hole costs, geological and geophysical costs, direct overhead related to exploration and development activities, and other costs incurred for the purpose of finding oil and gas reserves. Salaries and benefits paid to employees directly involved in the exploration and development of properties, as well as other internal costs that can be directly identified with acquisition, exploration, and development activities, are also capitalized. Under the full cost method of accounting, no gain or loss is recognized upon the disposition of oil and gas properties unless such disposition would significantly alter the relationship between capitalized costs and proved reserves.

At the end of each quarter we make a full cost ceiling limitation calculation whereby net capitalized costs related to proved properties less associated deferred income taxes may not exceed the amount of the present value discounted at ten percent of estimated future net revenues from proved reserves less estimated future production and development costs and related income tax expense. Future net revenues used in the calculation of the full cost ceiling limitation are determined based on current oil and gas prices and are adjusted for designated cash flow hedges, if any. Changes in proved reserve estimates (whether based upon quantity revisions or oil and gas prices) will cause corresponding changes to the full cost ceiling limitation. If net capitalized costs subject to amortization exceed this limit, the excess would be charged to expense. However, if commodity prices increase after period end and before issuance of the financial statements, these higher commodity prices may be used to determine if the capital costs are in fact impaired as of the end of the period. Any recorded impairment of oil and gas properties is not reversible at a later date.

Due to the significant decrease in natural gas prices during the first quarter of 2009, our March 31, 2009 ceiling limitation calculation resulted in excess capitalized costs of $791 million ($502 million, net of tax) for which we recorded a non-cash impairment of oil and gas properties. During the second and third quarters of 2009, gas prices remained relatively constant, while oil prices increased significantly. Therefore, we have not had any further ceiling impairments in 2009. Our quarterly and annual ceiling tests are primarily impacted by period end commodity prices, reserve quantities added and produced, overall exploration and development costs and depletion expense. Holding all factors constant other than commodity prices, a 10% decline in commodity prices as of September 30, 2009 would not have resulted in a ceiling test impairment. Decreases in commodity prices can also impact our goodwill impairment analysis. Changes in actual reserve quantities added and produced along with our actual overall exploration and development costs wi ll determine the Company s actual ceiling test calculation and impairment analyses.

Depletion of proved oil and gas properties is computed on the units-of-production method, whereby capitalized costs, as adjusted for future development costs, asset retirement obligations, and impairments are amortized over the total estimated proved reserves. The costs of wells in progress, certain unevaluated properties, and oil and gas well equipment yet to be installed on wells are not being amortized. On a quarterly

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CIMAREX ENERGY CO.

Notes to Consolidated Financial Statements (Continued)

September 30, 2009

(Unaudited)

basis, we evaluate such costs for inclusion in the costs to be amortized resulting from the determination of proved reserves, impairments, or reductions in value. To the extent that the evaluation indicates these properties are impaired, the amount of the impairment is added to the capitalized costs to be amortized. Expenditures for maintenance and repairs are charged to production expense in the period incurred.

Goodwill

At September 30, 2009, we had $691.4 million of goodwill recorded in conjunction with past business combinations. Goodwill is subject to annual reviews for impairment, however, we continuously monitor the economic environment throughout the year to determine if additional impairment assessments are necessary. These assessments are based on a two-step accounting test. The first step is to compare the estimated fair value of the Company with the recorded net book value (including goodwill), after giving effect to any period impairment of oil and gas properties resulting from the ceiling limitation calculation. At September 30, 2009, the estimated fair value was higher than the recorded net book value. Therefore, no impairment was deemed to exist and no further testing was required.

If the estimated fair value is below the recorded net book value, a second step must be performed to determine the goodwill impairment required, if any. In this second step, the estimated fair value from the first step is used as the purchase price in a hypothetical acquisition of the Company. Purchase business combination accounting rules are followed to determine a hypothetical purchase price allocation to the Company s assets and liabilities. The residual amount of goodwill that results from this hypothetical purchase price allocation is compared to the recorded amount of goodwill and the recorded amount is written down to the hypothetical amount, if lower.

There have recently been severe disruptions in the credit markets and reductions in global economic activity which continue to impact stock markets and oil and gas commodity prices. Management must apply judgment in determining the estimated fair value of the Company for purposes of performing the goodwill impairment test. To estimate the fair value of the Company, we use all available information to make fair value determinations, including the present values of expected future cash flows using discount rates commensurate with the risks involved in the assets. Because of the significant volatility in the stock market, we do not consider the market value of our shares to be an accurate reflection of our net assets for impairment purposes. As of September 30, 2009, the market price per share of our common stock exceeded the book value by more than $20 per share.

Use of Estimates

We make certain estimates and assumptions to prepare our financial statements in conformity with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets, liabilities, revenues, and expenses during

the reporting period and in disclosures of commitments and contingencies. We analyze our estimates, including those related to oil and gas revenues, reserves and properties, as well as goodwill and contingencies, and base our estimates on historical experience and various other assumptions that we believe to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions.

The more significant areas requiring the use of management s estimates and judgments relate to the estimation of proved oil and gas reserves, the use of these oil and gas reserves in calculating depletion, depreciation, and amortization, the use of the estimates of future net revenues in computing ceiling test limitations, the assessment of goodwill and estimates of future abandonment obligations used in recording asset retirement obligations. Estimates and judgments are also required in determining reserves for bad debt, impairments of undeveloped properties and other assets, purchase price allocation, valuation of deferred tax assets, fair value measurements and commitments and contingencies.

Accounting Changes

Certain amounts in prior years financial statements have been reclassified to conform to the 2009 financial statement presentation. In addition, effective January 1, 2009, we adopted new rules promulgated by

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CIMAREX ENERGY CO.

Notes to Consolidated Financial Statements (Continued)

September 30, 2009

(Unaudited)

the Financial Accounting Standards Board (FASB) pertaining to the accounting treatment for certain convertible debt instruments (see Note 6) and to the calculation of earnings per share (see Note 9). Accordingly, prior periods have been adjusted retrospectively to conform to the applicable accounting pronouncements.

Recent Accounting Developments

In June 2009, the FASB approved the FASB Accounting Standards Codification (ASC), which after its launch on July 1, 2009 became the single source of authoritative, nongovernmental U.S. Generally Accepted Accounting Principles (GAAP). The Codification reorganizes all previous U.S. GAAP pronouncements into roughly 90 accounting topics and displays all topics using a consistent structure. All existing standards that were used to create the Codification are now superseded, replacing the previous references to specific Statements of Financial Accounting Standards with numbers used in the Codification s structural organization.

In May 2009, the FASB established general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. Although there is new terminology, the standard is based on the same principles as those that currently exist. This guidance, which includes a new required disclosure of the date through which an entity has evaluated subsequent events, is effective for interim or annual periods ending after June 15, 2009. Our adoption of these provisions beginning with the period ending June 30, 2009 did not have an impact on our financial position or results of operations.

In December 2008, the SEC issued revised reporting requirements for oil and gas reserves that a company holds. Included in the new rule entitled *Modernization of Oil and Gas Reporting Requirements,* are the following changes: 1) permitting use of new technologies to determine proved reserves, if those technologies have been demonstrated empirically to lead to reliable conclusions about reserve volumes; 2) enabling companies to additionally disclose their probable and possible reserves to investors, in addition to their proved reserves; 3) allowing previously excluded resources, such as oil sands, to be classified as oil and gas reserves rather than mining reserves; 4) requiring companies to report the independence and qualifications of a preparer or auditor, based on current Society of Petroleum Engineers criteria; 5) requiring the filing of reports for companies that rely on a third party to prepare reserve estimates or conduct a reserve audit; and 6) requiring companies to report oil and gas reserves using an average price based upon the prior 12-month period, rather than year-end prices. The new requirements are effective for registration statements filed on or after January 1, 2010, and for annual reports on Form 10K for fiscal years ending on or after December 31, 2009. Early adoption is not permitted.

In September 2009, the FASB issued an exposure draft of proposed Accounting Standards Update (ASU) entitled *Oil and Gas Reserve Estimation and Disclosures.* This proposed ASU would amend the FASB accounting standards to align the reserve calculation and disclosure requirements with the requirements in the new SEC Rule, *Modernization of Oil and Gas Reporting Requirements*. As proposed, the ASU would be effective for reporting periods ending on or after December 31, 2009. Public comment is sought on the proposed ASU by October 15, 2009.

Subsequent Events

As of November 2nd, 2009, the day prior to issuing these financial statements, we completed our evaluation of potential subsequent events for disclosure and none were identified.

2. Derivative Instruments/Hedging

We periodically enter into derivative instruments to mitigate a portion of our potential 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.

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Notes to Consolidated Financial Statements (Continued)

September 30, 2009

(Unaudited)

On January 1, 2009, we adopted provisions set forth by the FASB which requires qualitative and quantitative disclosures about objectives and strategies for using derivatives, how such derivatives are accounted for and how the derivative instruments affect an entity s financial position, results of operations, and cash flows.

At September 30, 2009, we had the following outstanding contracts relative to our future production. We have elected not to account for these derivatives as cash flow hedges.

Natural Gas Contracts

Period	Type	Volume/Day		Index(1)	Weighted Average Price Floor	Ceiling	Swap	Fair Value (000 s)
Oct 09 - Dec 09	Collar	143,370	MMBtu	PEPL	$ 3.00	$ 5.00		$ (4,762)
Jan 10 - Dec 10	Collar	100,000	MMBtu	PEPL	$ 5.00	$ 6.62		$ (4,556)
Jan 10 - Dec 10	Swap	40,000	MMBtu	PEPL			$ 5.18	$ (8,787)
Jan 10 - Dec 10	Collar	20,000	MMBtu	HSC	$ 5.00	$ 6.85		$ (2,347)

Oil Contracts

Period	Type	Volume/Day		Index(1)	Weighted Average Price Floor	Ceiling	Fair Value (000 s)
Jan 10 - Dec 10	Collar	10,000	Bbls	WTI	$ 60.03	$ 92.07	$ 1,612
Jan 10 - Dec 10	Put/Floor	1,000	Bbls	WTI	$ 60.00		$ 1,621

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(1) PEPL refers to Panhandle Eastern Pipe Line Company price and HSC refers to Houston Ship Channel price, both as quoted in Platt s Inside FERC on the first business day of each month. WTI refers to West Texas Intermediate price as quoted on the New York Mercantile Exchange.

The gas contracts that expire in 2009 represent approximately 47% of our total projected gas production (approximately 32% of our equivalent oil and gas production) for the remainder of 2009. We do not anticipate entering into further contracts related to our 2009 or 2010 production.

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 only 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 ceiling prices. Under a floor contract, if the settlement price for a settlement period is below the floor price, we receive the difference between the settlement price and the floor price. We are not required to make any payments in connection with the settlement of a floor contract. For a swap contract, the counterparty is required to make a payment to us if the settlement price for any settlement period is less than the swap price. We are required to make a payment to the counterparty if the settlement price for the settlement period is greater than the swap price.

Our derivative contracts are carried at their fair value on our balance sheet. We estimate the fair value using internal risk adjusted discounted cash flow calculations. Cash flows are based on the stated contract prices and current and projected published forward commodity price curves, adjusted for volatility. Due to the volatility of commodity prices, the estimated fair values of our derivative instruments are subject to fluctuation from period to period, which could result in significant differences between the current estimated fair value and the ultimate settlement price. The following table presents the estimated fair values of our derivative assets and liabilities as of September 30, 2009. At December 31, 2008, we had no derivative instruments outstanding.

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CIMAREX ENERGY CO.

Notes to Consolidated Financial Statements (Continued)

September 30, 2009

(Unaudited)

	Balance Sheet Location	Asset	Liability
		(In thousands)	
Derivatives not designated as hedging instruments:			
Natural gas contracts	Current assets Derivative instruments	$	$
Oil contracts	Current assets Derivative instruments	$ 3,150	$
Oil contracts	Noncurrent assets Other assets, net	$ 393	$
Natural gas contracts	Current liabilities Derivative instruments	$	$ 12,645
Natural gas contracts	Noncurrent liabilities Other liabilities	$	$ 7,807
Oil contracts	Noncurrent liabilities Other liabilities	$	$ 310

Because we have elected not to account for our current derivative contracts as cash flow hedges, we recognize all realized and unrealized changes in fair value in earnings. The derivative contracts that were outstanding in 2008 were treated as cash flow hedges. Accordingly, the realized gains or losses upon settlement of the 2008 contracts were reflected in gas revenue as an adjustment to the realized sales price. In 2008, unrealized gains and losses were recorded in accumulated other comprehensive income (which is included in shareholders equity). Cash settlements of our derivative contracts are included in cash flows from operating activities in our statements of cash flows.

The following table summarizes the realized and unrealized gains and losses from cash settlements and changes in fair value of our derivative contracts as presented in our accompanying financial statements.

	Three Months Ended September 30, 2009	Three Months Ended September 30, 2008	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
	(In thousands)			
Derivatives not designated as hedging instruments:				
Cash settlements gains:				
Natural gas contracts	$ 176	$	$ 3,544	$
Oil contracts				
Total cash settlements gains	176		3,544	
Unrealized gains (losses) on fair value change:				
Natural gas contracts	(20,289)		(22,602)	
Oil contracts	2,756		1,445	
Total net unrealized losses on fair value change	(17,533)		(21,157)	

Loss on derivative instruments, net	$ (17,357)	$	$ (17,613)	$
Derivatives designated as cash flow hedges:				
Natural gas contracts gains (losses)				
Cash payments included in gas sales	$	$ (1,064)	$	$ (72)
Unrealized gains (losses) on fair value change included in other comprehensive income (loss)	$	$ 22,095	$	$ (5,004)

We are exposed to financial risks associated with these contracts from non-performance by our counterparties. Counterparty risk is also a component of our estimated fair value calculations. We have mitigated our exposure to any single counterparty by contracting with eight financial institutions, each of which has a high credit rating and is a member of our bank credit facility. Our member banks have a secured interest in our oil and gas properties, and therefore do not require us to post collateral for our hedge liability positions.

3. Fair Value Measurements

Our short-term investments are reported at fair value in the accompanying balance sheets. 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 inputs are inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs for an asset or liability.

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CIMAREX ENERGY CO.

Notes to Consolidated Financial Statements (Continued)

September 30, 2009

(Unaudited)

The following tables provide fair value measurement information for certain assets and liabilities as of September 30, 2009 and December 31, 2008.

September 30, 2009:		**Carrying Amount**		**Fair Value**
		(In thousands)		
Financial Assets (Liabilities):				
Derivative instruments	$	3,543	$	3,543
Derivative instruments	$	(20,761)	$	(20,761)
7.125% Notes due 2017	$	(350,000)	$	(338,625)
Bank debt	$	(156,000)	$	(156,000)
Floating rate convertible notes due 2023	$	(17,753)	$	(19,450)

December 31, 2008:		**Carrying Amount**		**Fair Value**
		(In thousands)		
Financial Assets (Liabilities):				
Short-term investments	$	2,502	$	2,502
7.125% Notes due 2017	$	(350,000)	$	(267,750)
Bank debt	$	(220,000)	$	(220,000)
Floating rate convertible notes due 2023	$	(17,630)	$	(19,450)

Assessing the significance of a particular input to the fair value measurement requires judgment, considering factors specific to the asset or liability. The following methods and assumptions were used to estimate the fair values of the assets and liabilities in the table above.

Short-term Investments (Level 2)

In the fourth quarter of 2007, we invested $16 million in an asset-backed securities fund, which was liquidated in the third quarter of 2009. The investments were classified as available-for-sale, and at the end of each period, changes in the fair value of the investments were recorded in other comprehensive income. The fair values of these investments were based on a net asset valuation provided by the fund manager. During the nine months ended September 30, 2009, we liquidated the remaining investments for $3.3 million, with a realized gain of $280 thousand, which was included in earnings for the period.

Bank Debt and Notes

Debt

The fair value of our bank debt is estimated to approximate the carrying amount because we recently entered into a new revolving credit facility. Interest on the facility is a floating rate based on either (a) a London Interbank Offered Rate (LIBOR) plus 2 to 3 percent, based on borrowing base usage, or (b) the higher of (i) a prime rate, (ii) the federal funds effective rate plus 0.50 percent, or (iii) adjusted LIBOR, in each case, plus an additional 1.125 to 2.125 percent, based on borrowing base usage. Each of the floating rate interest options resets periodically.

Notes

The fair values for our 7.125% fixed rate notes were based on their last traded value before period end.

There is not an observable market for our convertible notes. The fair value of the notes is estimated to approximate the face value of the notes because the notes bear interest at LIBOR and reset quarterly. The conversion rate of $28.59 attributable to the conversion feature at September 30, 2009 and December 31, 2008 exceeded requirements for the closing price of our common stock; therefore, no value was attributed to the conversion feature at either date.

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Derivative Instruments (Level 2)

The fair values of our derivative instruments at September 30, 2009 were estimated using internal discounted cash flow calculations. Cash flows are based on the stated contract prices and current and published forward commodity price curves, adjusted for volatility. The cash flows are also risk adjusted relative to non-performance for both our counterparties and our liability positions. At December 31, 2008, we had no derivative instruments outstanding.

Other Financial Instruments

The carrying amounts of our cash, cash equivalents, restricted cash, accounts receivable, accounts payable, and accrued liabilities approximate fair value because of the short-term maturities of these assets and liabilities. At September 30, 2009 and December 31, 2008, the aggregate allowance for doubtful accounts for trade, oil and gas sales, and gas gathering, processing, and marketing receivables was $6.7 million and $5.8 million, respectively.

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.

4. Capital Stock

A summary of our common stock activity for the nine months ended September 30, 2009, follows:

		Number of Shares (in thousands)	
	Issued	**Treasury**	**Outstanding**
December 31, 2008	84,144	(885)	83,259
Restricted shares issued under compensation plans, net of cancellations	159		159
Option exercises, net of cancellations	94		94

Treasury shares cancelled	(885)	885	
September 30, 2009	83,512		83,512

Stock-based Compensation

Our 2002 Stock Incentive Plan was approved by stockholders in May 2003 and is effective until October 1, 2012. The plan provides for grants of stock options, restricted stock and restricted stock units to non-employee directors, officers and other eligible employees. A total of 12.7 million shares of common stock may be issued under the Plan.

Restricted Stock and Units

During the nine months ended September 30, 2009, we issued a total of 366,090 restricted shares to non-employee directors, officers, and other employees. Included in that amount are 228,000 shares issued to certain executives that are subject to market condition-based vesting determined by our stock price performance relative to a defined peer group s stock price performance. After three years of continued service, an executive will be entitled to vest in 50% to 100% of the award. The material terms of performance goals applicable to these awards were approved by stockholders in May 2006. The other shares granted in 2009 have service-based vesting schedules of three to five years.

The following table presents restricted stock as of September 30, 2009, and changes during the year:

Outstanding as of January 1, 2009	1,672,245
Vested	(166,725)
Granted	366,090
Canceled	(151,360)
Outstanding as of September 30, 2009	1,720,250

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The following table presents restricted units as of September 30, 2009 and changes during the year:

Outstanding as of January 1, 2009	655,205
Converted to Stock	(5,362)
Granted	
Canceled	
Outstanding as of September 30, 2009	649,843
Vested included in outstanding	605,559

Vesting of restricted stock and units granted in years before 2006 is exclusively related to continued service of the grantee for one to five years. In certain cases, a three-year required holding period following vesting also applies. A restricted unit represents a right to an unrestricted share of common stock upon completion of defined vesting and holding periods. The restricted stock and stock unit agreements provide that grantees are entitled to receive dividends on unvested shares.

Compensation expense for service-based vesting restricted shares or units is based upon amortization of the grant-date market value of the award. The fair value of the market condition-based restricted stock awards is based on the grant-date market value of the award utilizing a Monte Carlo simulation model to estimate the percentage of awards that will vest at the end of a three-year period. Compensation expense related to the restricted stock and unit awards is recognized ratably over the applicable vesting period. Compensation expense (including capitalized amounts) was $3.7 million and $4.0 million, respectively, for the quarters ended September 30, 2009 and 2008. Compensation expense (including capitalized amounts) for the nine months ended September 30, 2009 and 2008, totaled $9.6 million and $11.7 million, respectively,

Unamortized compensation costs related to unvested restricted shares and units at September 30, 2009 and 2008 was $30.3 million and $38.3 million, respectively.

Stock Options

Options granted under our plan expire ten years from the grant date and have service-based vesting schedules of three to five years. The plan provides that all grants have an exercise price of the average of the high and low prices of our common stock as reported by the New York Stock Exchange on the date of grant.

There were 228,175 stock options granted to employees during the nine months ended September 30, 2009. There were 483,500 stock options granted to employees during the nine months ended September 30, 2008.

Information about outstanding stock options is summarized below:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Term	Aggregate Intrinsic Value (000)
Outstanding as of January 1, 2009	1,532,016	$ 29.95		
Exercised	(105,970)	15.64		
Granted	228,175	27.74		
Canceled	(45,900)	55.48		
Outstanding as of September 30, 2009	1,608,321	$ 29.85	5.6 Years	$ 27,205
Exercisable as of September 30, 2009	1,041,159	$ 22.75	3.7 Years	$ 23,293

There were 105,970 and 404,449 stock options exercised during the nine months ended September 30, 2009 and September 30, 2008, respectively. Cash received from option exercises during the nine months ended September 30, 2009 and September 30, 2008 was $1.7 million and $6.3 million, respectively, and the related tax benefits realized from option exercises totaled $918 thousand and $6.7 million, respectively, and were recorded to paid-in capital. The total intrinsic value of stock options exercised during the three and nine months ended September 30, 2009 was $2.4 million and $2.5 million, respectively. The total intrinsic value of

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stock options exercised during the three and nine months ended September 30, 2008 was zero and $18.7 million, respectively.

We estimate the fair value of options as of the date of grant using the Black-Scholes option-pricing model. Expected volatilities are based on the historical volatility of our common stock. We also use historical data to estimate the probability of option exercise, expected years until exercise and potential forfeitures. The risk-free interest rate we use is the five-year U.S. Treasury bond in effect at the date of the grant. The following summary reflects the status of non-vested stock options as of September 30, 2009 and changes during the year:

	Shares	Weighted Average Grant Date Fair Value	Weighted Average Exercise Price
Non-vested as of January 1, 2009	529,620	$ 18.96	$ 54.15
Vested	(144,733)	19.35	56.17
Granted	228,175	11.11	27.74
Forfeited	(45,900)	19.07	55.48
Non-vested as of September 30, 2009	567,162	$ 15.70	$ 42.90

We recognize compensation cost related to stock options ratably over the vesting period. Historical amounts may not be representative of future amounts as additional options may be granted. Compensation cost (including capitalized amounts) for the quarters ended September 30, 2009 and 2008, totaled $988 thousand and $692 thousand, respectively. For the nine months ended September 30, 2009 and 2008, compensation cost (including capitalized amounts) totaled $2.4 million and $910 thousand, respectively. The increase in costs for the 2009 periods is primarily a result of 476 thousand options granted in the third quarter of 2008, when the average price of our common stock was approximately $56.00 per share.

As of September 30, 2009, there was $7.9 million of unrecognized compensation cost related to non-vested stock options granted under our stock incentive plan. We expect to recognize that cost pro rata over a weighted-average period of 2.1 years.

Stockholder Rights Plan

We have a stockholder rights plan. The plan is designed to improve the ability of our board to protect the interests of our stockholders in the event of an unsolicited takeover attempt. For every outstanding share of Cimarex common stock, there exists one purchase right (the Right). Each Right represents a right to purchase one one-hundredth of a share of Series A Junior Participating Preferred Stock, at a purchase price of $60.00 per share, subject to adjustment in certain cases, to prevent dilution. The Rights will become exercisable only in the event a person or

group acquires beneficial ownership of 15% or more of our common stock, or a person or group commences a tender offer or exchange offer that, if successfully consummated, would result in such person or group beneficially owning 15% or more of our common stock. In general, in either of these events, each holder of a right, other than the person or group initiating the acquisition or tender offer, will have the right to receive Cimarex common stock with a value equal to two times the exercise price of the right.

We generally will be entitled to redeem the Rights under certain circumstances at $0.01 per Right at any time before the close of business on the tenth business day after there has been a public announcement of the acquisition of beneficial ownership by any person or group of 15% or more of our common stock. The Rights may not be exercised until our Board s right to redeem the stock has expired. Unless redeemed earlier, the Rights expire on February 23, 2012.

Dividends and Stock Repurchases

In September 2009, the Board of Directors declared a cash dividend of $0.06 per share on our common stock. The dividend is payable December 1, 2009 to stockholders of record on November 13, 2009. The Board of Directors declared our first quarterly cash dividend of $0.04 per share in December 2005. A dividend has been declared in every quarter since then. Future dividend payments will depend on the Company s level of earnings, financial requirements, and other factors considered relevant by the Board of Directors.

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In December 2005, the Board of Directors authorized the repurchase of up to four million shares of our common stock. The authorization is currently set to expire on December 31, 2009. Through December 31, 2007, we had repurchased and cancelled a total of 1,364,300 shares at an overall average price of $39.05. Purchases may be made in both the open market and through negotiated transactions, and purchases may be increased, decreased or discontinued at any time without prior notice. There were no shares repurchased in the third quarter of 2009, or since the quarter ended September 30, 2007.

Issuer Purchases of Equity Securities for the Quarter Ended September 30, 2009

	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of shares that may yet be Purchased Under the Plans or Programs
July, 2009	None	NA	None	2,635,700
August, 2009	None	NA	None	2,635,700
September, 2009	None	NA	None	2,635,700

5. Asset Retirement Obligations

We recognize the fair value of a liability for an asset retirement obligation in the period in which it is incurred, if a reasonable estimate of fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset. Oil and gas producing companies incur this liability which includes costs related to the plugging of wells, the removal of facilities and equipment, and site restorations, upon acquiring or drilling a successful well. 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 depleted as a component of the full cost pool.

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, 2009 (in thousands):

Asset retirement obligation at January 1, 2009	$	139,948
Liabilities incurred		2,978

Liability settlements and disposals		(6,648)
Accretion expense		5,823
Revisions of estimated liabilities		13,714
Asset retirement obligation at September 30, 2009		155,815
Less current obligation		(21,306)
Long-term asset retirement obligation	$	134,509

6. Long-Term Debt

Debt at September 30, 2009 and December 31, 2008 consisted of the following (in thousands):

		September 30, 2009		**December 31, 2008**
Bank debt	$	156,000	$	220,000
7.125% Notes due 2017		350,000		350,000
Floating rate convertible notes due 2023 (face value $19,450)		17,753		17,630
Total long-term debt	$	523,753	$	587,630

Bank Debt

In April 2009, we entered into a new three-year senior secured revolving credit facility (credit facility). The new credit facility increases bank commitments from $500 million to $800 million, with a

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borrowing base of $1 billion. The credit facility is provided by a syndicate of banks led by JP Morgan Chase Bank, N.A., matures on April 14, 2012 and is secured by mortgages on certain of our oil and gas properties and the stock of certain wholly-owned operating subsidiaries.

The borrowing base under the credit agreement is determined at the discretion of the lenders, based on the collateral value of our proved reserves, and is subject to potential special and regular semi-annual redeterminations.

The credit facility contains covenants and restrictive provisions which may limit our ability to incur additional indebtedness, make investments or loans and create liens. The credit facility requires us to maintain a current ratio greater than 1 to 1 and a leverage ratio not to exceed 3.5 to 1. As of September 30, 2009, we were in compliance with all of the financial and non-financial covenants.

At Cimarex s option, borrowings under the credit facility may bear interest at either (a) a London Interbank Offered Rate (LIBOR) plus 2 to 3 percent, based on borrowing base usage, or (b) the higher of (i) a prime rate, (ii) the federal funds effective rate plus 0.50 percent, or (iii) adjusted LIBOR, in each case, plus an additional 1.125 to 2.125 percent, based on borrowing base usage.

At September 30, 2009, there was $156 million of borrowings outstanding under the credit facility at a weighted average interest rate of approximately 3.1%. We also had letters of credit outstanding of $17.7 million leaving an unused borrowing availability of $626.3 million.

7.125% Notes due 2017

In May, 2007, we issued $350 million of 7.125% senior unsecured notes that mature May 1, 2017 at par. Interest on the notes is payable May 1 and November 1 of each year. The notes are governed by an indenture containing covenants that could limit our ability to incur additional indebtedness; pay dividends or repurchase our common stock; make investments and other restricted payments; incur liens; enter into sale/leaseback transactions; engage in transactions with affiliates; sell assets; and consolidate, merge or transfer assets.

The notes are redeemable at our option, in whole or in part, at any time on and after May 1, 2012 at the following redemption prices (expressed as percentages of the principal amount) plus accrued interest, if any, thereon to the date of redemption.

Year	Percentage
2012	103.6%
2013	102.4%
2014	101.2%
2015 and thereafter	100.0%

At any time prior to May 1, 2010, we may redeem up to 35% of the original principal amount of the notes with the proceeds of certain equity offerings of our shares of common stock at a redemption price of 107.125% of the principal amount of the notes, together with accrued and unpaid interest, if any, to the date of redemption. At any time prior to May 1, 2012, we may also redeem all, but not part, of the notes at a price of 100% of the principal amount of the notes plus accrued and unpaid interest plus a make-whole premium.

If a specified change of control occurs, subject to certain conditions, we must make an offer to purchase the notes at a purchase price of 101% of the principal amount of the notes, plus accrued and unpaid interest to the date of the purchase.

Floating rate convertible notes due 2023

The floating rate convertible senior notes mature on December 15, 2023. The notes are senior unsecured obligations and bear interest at the three month LIBOR, reset quarterly. On September 30, 2009, the interest rate approximated 0.3%.

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In December 2008, holders of $105.5 million of the original $125 million issuance amount elected to submit their notes for repurchase. We repurchased the $105.5 million in notes with borrowings under our credit facility. Holders of the remaining $19.5 million of notes have optional repurchase dates of December 15, 2013, and 2018.

In addition to the repurchase rights, holders of the convertible notes may surrender their notes for conversion into a combination of cash and shares of our common stock upon the occurrence of certain circumstances, including if the price of our common stock has been trading above 110% of the conversion price of $28.59 per share for a defined period of time. As of September 30, 2009 and December 31, 2008, the notes were not convertible. However, based on the price of our common stock during September 2009, the notes became convertible effective October 1, 2009.

At our option, we may offer to redeem the notes at any time at par. In addition, if a change of control occurs, subject to certain conditions, we must make an offer to purchase the notes at a purchase price of 101% of the principal amount.

In May 2008, the FASB issued new guidance that changed the accounting for the components of convertible debt that can be settled wholly or partly in cash upon conversion. The new requirements are required to be applied to both new instruments and retrospectively to previously issued convertible instruments. The debt and equity components of the instruments are accounted for separately. The value assigned to the debt component is the estimated value of similar debt without a conversion feature as of the issuance date, with the remaining proceeds allocated to the equity component and recorded as additional paid-in capital. The debt component is recorded at a discount and is subsequently accreted to its par value, thereby reflecting an overall market rate of interest in the income statement. The effective interest rate for the quarters ended September 30, 2009 and 2008 was 1.5% and 4%, respectively. The effective interest rate for the nine months ended September 30, 2009 and 2008 was 2.3% and 4.7%, respectively.

We adopted this guidance on January 1, 2009. The following table reflects a comparison of certain financial statement line items affected by the retrospective application of this guidance.

Summary of the Retrospective Application of Changes (amounts in thousands):

	Three Months Ended September 30, 2008		Nine Months Ended September 30, 2008	
	After	As Previously Reported	After	As Previously Reported

	Adoption		Adoption	
Changes to the Consolidated Statements of Operations:				
Interest expense	$ 8,066	$ 7,795	$ 24,785	$ 23,963
Amortization of fair value of debt	$	$		