CIMAREX ENERGY CO
Form 10-K/A
September 03, 2010

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA
PART IV

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D C 20549

Form 10-K/A

Amendment No. 1

(Mark One)

ý **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2009

OR

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission file number 001-31446

CIMAREX ENERGY CO.

(Exact name of registrant as specified in its charter)

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

1700 Lincoln Street, Suite 1800, Denver, Colorado 80203
(Address of principal executive offices including ZIP code)

(303) 295-3995
(Registrant's telephone number)

Securities Registered Pursuant to Section 12(b) of the Act:

Title of Each Class	Name of each exchange on which registered
Common Stock ($.01 par value)	New York Stock Exchange

Securities Registered Pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES ý NO o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES o NO ý

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 ý 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 ý NO o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. 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 ý	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 Act). YES o NO ý

Aggregate market value of the voting stock held by non-affiliates of Cimarex Energy Co. as of June 30, 2009 was approximately $2,319,938,473.

Number of shares of Cimarex Energy Co. common stock outstanding as of February 19, 2010 was 83,839,327.

Documents Incorporated by Reference: Portions of the Registrant's Proxy Statement for its 2010 Annual Meeting of Stockholders are incorporated by reference into Part III of this Form 10-K/A.

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EXPLANATORY NOTE

We are filing this Amendment No. 1 (this "Amendment") to our annual report on Form 10-K for the year ended December 31, 2009 to reflect changes made in response to comments received by us, from the Staff of the Securities and Exchange Commission (the "Staff"), in connection with the Staff's review of our report.

Our consolidated financial statements have not been restated from those presented in our original Form 10 K. For ease of reference, we are filing the annual report in its entirety with the following changes:

Our original Form 10-K noted reserve additions "from extensions, discoveries and improved recovery". All references to improved recovery in our reserve additions disclosures have been removed, as none of our additions were derived from improved recovery.

In Item 1 we added average production cost per unit of production to our tabular presentation of production and pricing information and renamed the table Production, Pricing and Cost Information.

In Item 2 we expanded our disclosure regarding the internal controls we apply in our reserve estimation effort.

In our Recently Issued Accounting Standards discussion of the revised rules for oil and gas disclosures, we expanded our discussion of "reasonable certainty" to include a cross reference to Regulation S-X, Rule 4-10(a)(24).

In the Unaudited Supplemental Oil and Gas Disclosures footnote we added explanations for the changes to the proved reserves for each of the three years presented. Further, we expanded the narrative disclosure regarding the 2009 increase in proved undeveloped reserves. In the tabular presentation of the changes in the standardized measure, we deleted the line item "Net change in future developments costs" and replaced it with separate line items for previously estimated development costs incurred and changes in estimated future development costs.

Except as identified above, no other items or disclosures in our Form 10-K have been amended. This Amendment does not reflect events occurring after February 26, 2010, the original filing date of our Form 10-K.

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DESCRIPTION

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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

PART I

Forward-Looking Statements

Throughout this Form 10-K, 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 Exchange Act of 1934. All statements, other than statements of historical facts, that address activities, events, outcomes and other matters that Cimarex plans, expects, intends, assumes, believes, budgets, predicts, forecasts, projects, estimates or anticipates (and other similar expressions) will, should or may occur in the future are forward-looking statements. These forward-looking statements are based on management's current belief, based on currently available information, as to the outcome and timing of future events. When considering forward-looking statements, you should keep in mind the risk factors and other cautionary statements in this Form 10-K. Forward-looking statements include statements with respect to, among other things:

- *amount, nature and timing of capital expenditures;*
- *drilling of wells;*
- *reserve estimates;*
- *timing and amount of future production of oil and natural gas;*
- *operating costs and other expenses;*
- *cash flow and anticipated liquidity;*
- *estimates of proved reserves, exploitation potential or exploration prospect size; and*
- *marketing of oil and natural gas.*

We caution you that these forward-looking statements are subject to all of the risks and uncertainties, many of which are beyond our control, incident to the exploration for and development, production and sale of oil and gas. These risks include, but are not limited to, commodity price volatility, inflation, lack of availability of goods and services, environmental risks, drilling and other operating risks, regulatory changes, the uncertainty inherent in estimating proved oil and natural gas reserves and in projecting future rates of production and timing of development expenditures and other risks described herein.

Reserve engineering is a subjective process of estimating underground accumulations of oil and natural gas that cannot be measured in an exact way. The accuracy of any reserve estimate depends on the quality of available data and the interpretation of such data by our engineers. As a result, estimates made by different engineers often vary from one another. In addition, the results of drilling, testing and production activities may justify revisions of estimates that were made previously. If significant, such revisions could change the timing of future production and development drilling. Accordingly, reserve estimates are generally different from the quantities of oil and natural gas that are ultimately recovered.

Should one or more of the risks or uncertainties above or elsewhere in this Form 10-K cause our underlying assumptions to be incorrect, our actual results and plans could differ materially from those expressed in any forward-looking statements.

All forward-looking statements, express or implied, included in this Form 10-K and attributable to Cimarex are qualified in their entirety by this cautionary statement. This cautionary statement should also be considered in connection with any subsequent written or oral forward-looking statements that Cimarex or persons acting on its behalf may issue. Cimarex does not undertake any obligation to update any forward-looking statements to reflect events or circumstances after the date of filing this Form 10-K with the Securities and Exchange Commission, except as required by law.

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ITEM 1. BUSINESS

General

Cimarex Energy Co. is an independent oil and gas exploration and production company. Our operations are mainly located in Texas, Oklahoma, New Mexico, Kansas and Wyoming. Proved oil and gas reserves as of year-end 2009 totaled 1.5 Tcfe, consisting of 1.2 Tcf of gas and 58.0 million barrels of oil and natural gas liquids. Of total proved reserves, 77 percent are gas and 77 percent are classified as proved developed. Our 2009 production averaged 462.9 MMcfe per day, comprised of 323.2 MMcf of gas per day and 23,283 barrels of oil per day. We operate the wells that account for 79 percent of our total proved reserves and approximately 82 percent of production.

Our corporate headquarters are located at 1700 Lincoln Street, Suite 1800, Denver, Colorado 80203 and our main telephone number at that location is (303) 295-3995. Cimarex is a Delaware corporation.

Our Web site address is *www.cimarex.com*. There you will find our news releases, annual reports, proxy statements, 10-Ks, 10-Qs, 8-Ks, insider (Section 16) filings and all other Securities and Exchange Commission ("SEC") filings. We have also posted our Code of Ethics, Code of Business Conduct, Corporate Governance Guidelines, Audit Committee Charter and Governance Committee Charter. Copies of these documents are also available in print upon a written or telephone request to our Corporate Secretary. Throughout this Form 10-K we use the terms "Cimarex," "Company," "we," "our," and "us" to refer to Cimarex Energy Co. and its subsidiaries.

History

Cimarex was formed in February 2002 as a wholly owned subsidiary of Tulsa-based Helmerich & Payne, Inc. On September 30, 2002, Cimarex was completely spun off to Helmerich and Payne shareholders and simultaneously merged with Denver-based Key Production Company, Inc. Our common stock began trading on the New York Stock Exchange on October 1, 2002 under the symbol XEC.

On June 7, 2005, we acquired Dallas-based Magnum Hunter Resources, Inc. in a $1.5 billion stock-for-stock merger including assumption of liabilities. That transaction effectively tripled our proved reserves and doubled our production. Since 2005, we have principally focused on exploration and development drilling and have funded these investments with cash flow provided by operating activities.

Market Conditions

Beginning in the fourth quarter of 2008, severe financial market disruptions and global economic contraction contributed to large decreases in the prices we received for our oil and gas production. Our oil price realizations for 2009 averaged $56 per barrel, 42% less than our 2008 average of $96 per barrel. Our average gas price dropped 51% to $4.12 per Mcf during 2009 from $8.43 per Mcf in 2008. The large decrease in price resulted in a significant decrease in the amount of cash flow available to invest in exploration and development. In response, we sharply reduced our drilling activity. In 2009 we drilled 76% fewer wells as compared to 2008. Our total capital investment in exploration and development during 2009 was just $524 million versus $1.4 billion in 2008.

In early 2010, oil and gas prices have improved and the cost to drill and complete our wells has decreased. We have begun to increase our drilling activity and our exploration and development capital investment for 2010 is presently expected to range from $700-$900 million.

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2009 Summary

During 2009 we accomplished the following positive highlights:

- Increased proved reserves 15% to 1.53 Tcfe
- Added 312 Bcfe of proved reserves from extensions and discoveries, replacing 185 percent of production.
- Reduced drilling costs and improved our well performance in our western Oklahoma, Cana-Woodford shale play ending the year with 225 Bcfe of proved reserves.
- By year-end, had brought on approximately 100 MMcfe/d of new production in southeast Texas.
- Reduced borrowings outstanding under our revolving credit facility by $195 million, exiting the year with a debt to total capitalization ratio of 16 percent.

However, largely as a result of low oil and gas prices we also:

- Recorded a first-quarter 2009 non-cash full-cost ceiling test write-down of oil and gas properties of $502 million after-tax.
- Had a net loss for 2009 of $311.9 million.

Business Strategy

Our principal business objective is to profitably grow our proved reserves and production for the long-term benefit of our shareholders. Our strategy centers on maximizing cash flow from our producing properties and profitably reinvesting that cash flow in exploration and development. During 2009, our cash flow from operating activities totaled approximately $675 million. Our 2009 investment in exploration and development was $524 million.

A cornerstone to our approach is a detailed evaluation of each drilling decision based on its risk-adjusted discounted cash flow rate of return on investment. Our analysis includes estimates and assessments of potential reserve size, geologic and mechanical risks, expected costs, future production profiles and future oil and gas prices.

Our integrated teams of geoscientists, landmen and petroleum engineers continually generate new prospects to maintain a rolling portfolio of drilling opportunities in different basins with varying geologic characteristics. We have a centralized exploration management system that measures actual results and provides feedback to the originating exploration team in order to help them improve and refine future investment decisions. We believe that our detailed technical analysis and disciplined capital investment process mitigates risk and positions us to continue to achieve consistent increases in proved reserves and production.

While our primary focus is drilling, we occasionally consider acquisition and merger opportunities that allow us to either enhance our competitive position in existing core areas or to add new areas. The 2005 Magnum Hunter acquisition significantly increased our presence in the Permian Basin and enhanced our Mid-Continent operations in the Texas Panhandle. In 2008, we acquired 38,000 net acres in our western Oklahoma Cana-Woodford shale play. The cost of that acquisition was $180.9 million.

Conservative use of leverage has long been a part of our financial strategy. We believe that maintaining a strong balance sheet mitigates financial risk and enables us to withstand low prices. At year-end 2009 we had $393 million of long-term debt and our debt to total capitalization ratio was 16 percent.

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Business Segments

Cimarex has one reportable segment (exploration and production).

Exploration and Development Overview

Our exploration and development activities are conducted within three main areas: the Mid-Continent region, the Permian Basin and the Gulf Coast. The Mid-Continent region consists of Oklahoma, the Texas Panhandle and southwest Kansas. The Permian Basin encompasses west Texas and southeast New Mexico. Our Gulf Coast operations are currently focused in southeast Texas. We also have a gas field development project underway in Wyoming.

A summary of our 2009 exploration and development (E&D) activity by region is as follows.

	Exploration and Development Capital (in millions)	Gross Wells Drilled	Net Wells Drilled	Completion Rate	12/31/09 Proved Reserves (Bcfe)
Mid-Continent	$ 251	51	22	98%	730.4
Permian Basin	155	49	36	90%	487.3
Gulf Coast	106	9	8	89%	106.0
Wyoming/Other	12	1	1	0%	211.0
	$ 524	110	67	93%	1,534.7

Company-wide, we participated in drilling 110 gross wells during 2009, with an overall completion rate of 93 percent. On a net basis, 60 of 67 total wells drilled during 2009 were completed as producers.

Our 2009 E&D investment totaled $524 million and resulted in 312 Bcfe of proved reserve additions. Of total expenditures, 48 percent were invested in projects located in the Mid-Continent area; 30 percent in the Permian Basin; and 20 percent in the Gulf Coast.

Mid-Continent

Our Mid-Continent region encompasses operations in Oklahoma, southwest Kansas and the Texas Panhandle. We drilled 51 gross (22 net) Mid-Continent wells during 2009, completing 98 percent as producers. The bulk of this drilling activity is directed at gas-bearing geological formations in the Anadarko Basin of western Oklahoma. Full-year 2009 investment in this area was $251 million, or 48 percent of total E&D capital.

We drilled 44 gross (17 net) Anadarko Basin wells, of which 98 percent were completed as producers. Our largest investment in this area is in the western Oklahoma, Cana-Woodford shale play. We have approximately 94,000 net acres in the play.

The Cana-Woodford formation is a shale interval that varies in thickness from 120-280 feet at depths of 12,000-16,000 feet throughout our acreage. During 2009, we drilled and completed 35 gross (13.6 net) horizontal Cana-Woodford wells. At year-end there were 11 gross (6.3 net) wells waiting on completion.

Since the Cana play began in late 2007, Cimarex has participated in a total of 75 gross (32.8 net) wells. Of which, 58 gross (23.7 net) wells have been brought on production and the remainder were either in the process of being drilled or awaiting completion at year-end 2009. For the 58 producing wells, average estimated gross ultimate recovery exceeds 6.5 Bcfe per well. Our acreage positions have multiple years of drilling opportunity.

In the Texas Panhandle, we drilled 2 gross (2 net) successful Granite Wash wells. Our land position in the Texas Panhandle is primarily in Roberts and Hemphill counties.

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Permian Basin

Our Permian Basin operations cover both west Texas and southeast New Mexico. In total, we drilled 49 gross (36 net) wells in this area during 2009 completing 44 gross (32 net) as producers. Full-year 2009 investment in this area totaled $155 million, or 30 percent of total E&D capital. Our 2009 drilling focused on horizontal oil plays.

Southeast New Mexico drilling, mainly targeting the Bone Spring, Cherry Canyon, Abo, Paddock and Wolfcamp formations, totaled 38 gross (30 net) wells with 87% being completed as producers.

Gulf Coast

Our current Gulf Coast exploration drilling is primarily in southeast Texas. This effort is generally characterized by reliance on three-dimensional (3-D) seismic information for prospect generation. We also experience larger potential reserves per well, greater drilling depths and lower success rates. Full-year 2009 investment in the Gulf Coast area was $106 million, or 20 percent of total E&D capital. During 2009 we drilled 9 gross (8.1 net) Gulf Coast wells, realizing an 89 percent success rate. The majority of the activity occurred near Beaumont in Jefferson County, Texas, where seven gross (6.9 net) Yegua/Cook Mountain wells were drilled.

We also own interests offshore Louisiana on the Gulf of Mexico shelf (water depth less than 300 feet). We obtained all of our offshore position through the Magnum Hunter acquisition. Our 2009 activity in this area consisted primarily of workovers and recompletions.

Other

We have a large development project in Sublette County, Wyoming where we are developing the deep Madison gas formation and constructing a gas processing plant. During 2009 we invested a total of $20.1 million in this project and our cumulative investment in this project is $70.9 million. We presently expect that we will initiate gas sales from this project in 2011. Our total investment, including planned expansion, will approximate $200 million.

Production, Pricing and Cost Information

The following table sets forth certain information regarding the company's production volumes and the average oil and gas prices received:

	Years Ending December 31,		
	2009	**2008**	**2007**
Production Volumes:			
Gas (MMcf)	117,968	127,444	119,937
Oil (MBbls)	8,498	8,395	7,445
Equivalent (MMcfe)	168,956	177,814	164,607
Net Average Daily Volumes:			
Gas (MMcf)	323.2	348.2	328.6
Oil (MBbls)	23.3	22.9	20.4
Equivalent (MMcfe)	462.9	485.8	451.0
Average Sales Price:			
Gas ($/Mcf)	$ 4.12	$ 8.43	$ 7.05
Oil ($/Bbl)	$ 56.13	$ 96.03	$ 69.71
Production Cost ($/Mcfe)	$ 1.05	$ 1.23	$ 1.22

Total 2009 oil and gas production fell five percent averaging 462.9 MMcfe per day as compared to 485.8 MMcfe per day in 2008. Gas production in 2009 decreased seven percent to 323.2 MMcf per day and oil production grew one percent to 23,283 barrels per day.

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Production changes reflect the early-2009 reduction in company-operated drilling rigs and number of wells drilled. During the fourth quarter of 2008, we were running an average of 31 operated rigs. By the end of March 2009, we were operating only 3 rigs. In the second half of 2009 we began to pick up our drilling activity and had 12 rigs running during the fourth quarter. In total, we drilled and completed 110 gross (67 net) wells during 2009 compared to 450 gross (276.9 net) in 2008. Partially offsetting the impact of the sharp reduction in drilling were four new highly productive wells in southeast Texas that contributed 70 MMcfe/d to our average fourth quarter volumes.

Reflecting weaker overall U.S. gas markets, we sold our 2009 gas at an average price of $4.12 per Mcf, which was 51 percent lower than the $8.43 per Mcf we received in 2008. Declining global oil prices negatively impacted the oil prices we received. Our annual average realized oil price during 2009 dropped 42 percent to $56.13 per barrel from $96.03 per barrel in 2008.

The following table summarizes Cimarex's daily production by region for 2009 and 2008.

	2009 Average Daily Production			**2008 Average Daily Production**		
	Oil (MBbl/d)	**Gas (MMcf/d)**	**Total (MMcfe/d)**	**Oil (MBbl/d)**	**Gas (MMcf/d)**	**Total (MMcfe/d)**
Mid-Continent	5.1	187.8	218.5	5.6	190.3	223.9
Permian Basin	13.8	78.9	161.4	12.9	88.6	166.2
Gulf Coast	4.3	54.2	80.2	4.3	65.8	91.3
Other	0.1	2.3	2.8	0.1	3.5	4.4
	23.3	323.2	462.9	22.9	348.2	485.8

Our largest producing area is the Mid-Continent region. During 2009 our Mid-Continent production averaged 218.5 MMcfe per day, or 47 percent of our total 2009 production. Limited drilling activity outside of the western Oklahoma Cana-Woodford resulted in Mid-Continent production decreasing two percent in 2009.

The Permian Basin contributed 161.4 MMcfe per day in 2009, which was 35 percent of our total production. Oil production increased seven percent as a result of successful drilling in Bone Spring, Cherry Canyon, Abo, Paddock and Wolfcamp formations in southeast New Mexico and West Texas.

Gulf Coast production averaged 80.2 MMcfe per day during 2009, or 17 percent of total production. Full-year 2009 Gulf Coast volumes decreased 12 percent as compared to 2008 as a result of natural production declines and the timing of exploration success. Successful exploration drilling in the second-half of 2009 near Beaumont Texas, resulted in production volumes increasing to 116.2 MMcfe/d, a 54 percent increase over fourth-quarter 2008 average of 75.7 MMcfe/d.

Acquisitions and Divestitures

During 2009, we sold various oil and gas properties for a total of $109.4 million. Associated proved reserves were 25 Bcfe. The largest transaction was $79 million for an interest in a West Texas secondary oil field. There were no significant acquisitions during 2009. Subsequent to year end we acquired additional interests in our Western Oklahoma Cana-Woodford shale play for approximately $23 million.

During 2008 we sold interests in various oil and gas properties primarily located in South Texas for $38.1 million. Also during 2008, we purchased 38,000 undeveloped acres in western Oklahoma for $180.9 million.

In 2005, Cimarex acquired Magnum Hunter Resources, Inc, an independent oil and gas exploration and production company with operations concentrated in the Permian Basin and the Gulf of Mexico. Magnum's oil and gas properties were valued at $1.8 billion and resulted in the addition of 886.7 Bcfe of proved reserves (60 percent gas and 73 percent proved developed).

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Marketing

Our oil and gas production is sold under various short-term arrangements at market-responsive prices. We sell our oil at various prices directly or indirectly tied to field postings and monthly futures contract prices on the New York Mercantile Exchange (NYMEX)