CIMAREX ENERGY CO
Form 10-K
February 20, 2019
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-K
(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, 2018
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 3700, Denver, Colorado 80203
(Address of principal executive offices)
(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 ($0.01 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 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 such files). YES ý NO o
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) 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. ý
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 ý	Accelerated filer o	Non-accelerated filer o	Smaller reporting company o	Emerging growth company o

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. 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, 2018 was approximately $9.54 billion.

Number of shares of Cimarex Energy Co. common stock outstanding as of January 31, 2019 was 95,755,298.

Documents Incorporated by Reference: Portions of the Registrant’s Proxy Statement for its 2019 Annual Meeting of Stockholders are incorporated by reference into Part III of this Form 10-K.

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DESCRIPTION

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GLOSSARY
Bbls—Barrels (of oil or natural gas liquids)
Bcf—Billion cubic feet (of natural gas)
BOE—Barrels of oil equivalent
GAAP—Generally accepted accounting principles in the U.S.
Gross Acres or Gross Wells—The total acres or wells, as the case may be, in which a working interest is owned.
MBbls—Thousand barrels
MBOE—Thousand barrels of oil equivalent
Mcf—Thousand cubic feet
MMBbls—Million barrels
MMBtu—Million British thermal units
MMBOE—Million barrels of oil equivalent
MMcf—Million cubic feet
Net Acres or Net Wells—The sum of the fractional working interest owned in gross acres or gross wells expressed in whole numbers and fractions of whole numbers.
Net Production—Gross production multiplied by net revenue interest
NGL or NGLs—Natural gas liquids
PUD—Proved undeveloped
Tcf—Trillion cubic feet

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

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PART I

CAUTIONARY INFORMATION ABOUT 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. In particular, in our Management's Discussion and Analysis of Financial Condition and Results of Operations, we provide projections of our 2019 capital expenditures. 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:

- Fluctuations in the price we receive for our oil, gas, and NGL production, including local market price differentials;
- Operating costs and other expenses;
- Timing and amount of future production of oil, gas, and NGLs;
- Reductions in the quantity of oil, gas, and NGLs sold and prices received due to decreased industrywide demand and/or curtailments in production from specific properties or areas due to mechanical, transportation, marketing, weather, or other problems;
- Estimates of proved reserves, exploitation potential, or exploration prospect size;
- Our ability to complete our pending acquisition of Resolute Energy Corporation ("Resolute") and to successfully integrate the business of Resolute;
- Our hedging activities and viability of hedge counterparties;
- The effectiveness of our internal control over financial reporting;
- Cash flow and anticipated liquidity;
- Amount, nature, and timing of capital expenditures;
- Availability of financing and access to capital markets;
- Administrative, legislative, and regulatory changes;
- 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;
- Exploration and development opportunities that we pursue may not result in economic, productive oil and gas properties;
- Drilling of wells;
- Increased financing costs due to a significant increase in interest rates;
- Proving up undeveloped acreage; and
- Full cost ceiling test impairments to the carrying values of our oil and gas properties.

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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, gas, and NGLs.

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, production type curves, well spacing, 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.

Risk factors related to our pending acquisition of Resolute include, among others: the expected timing and likelihood of completion of the proposed transaction, the ability to successfully integrate the businesses, the occurrence of any event, change, or other circumstances that could give rise to the termination of the merger agreement, the possibility that stockholders of Resolute may not approve the merger agreement, the risk that the parties may not be able to satisfy the conditions to the proposed transaction in a timely manner or at all, risks related to disruption of management time from ongoing business operations due to the proposed transaction, the risk that any announcements relating to the proposed transaction could have adverse effects on the market price of Cimarex's common stock or Resolute's common stock, the risk of any unexpected costs or expenses resulting from the proposed transaction, the outcome of any litigation relating to the proposed transaction, the risk that the proposed transaction and its announcement could have an adverse effect on the ability of Cimarex and Resolute to retain customers and retain and hire key personnel and maintain relationships with their suppliers and customers and on their operating results and businesses generally, the risk the pending proposed transaction could distract management of both entities and they will incur substantial fees and costs, the risk that problems may arise in successfully integrating the businesses of the companies, which may result in the combined company not operating as effectively and efficiently as expected, the risk that the combined company may be unable to achieve synergies or other anticipated benefits of the proposed transaction or it may take longer than expected to achieve those synergies or benefits and other important factors, such as expenses related to integration, that could cause actual results to differ materially from those projected. The acquisition is subject to an agreement and plan of merger entered into November 18, 2018 among the parties.

Should one or more of the risks or uncertainties described 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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ITEMS 1 AND 2. BUSINESS AND PROPERTIES

General

Cimarex Energy Co., a Delaware corporation formed in 2002, is an independent oil and gas exploration and production company. Our operations are located mainly in Oklahoma, Texas, and New Mexico. On our website — www.cimarex.com — you will find our annual reports, proxy statements, and all of our Securities and Exchange Commission ("SEC") filings, which we make available free of charge. Information contained on our website is not incorporated by reference into this Annual Report. Throughout this Form 10-K we use the terms "Cimarex," "company," "we," "our," and "us" to refer to Cimarex Energy Co. and its subsidiaries.

Our principal business objective is to increase shareholder value through the profitable long-term growth of our proved reserves and production while seeking to minimize our impact on the communities in which we operate for the long-term. Our strategy centers on maximizing cash flow from producing properties so that we can reinvest in exploration and development opportunities and provide cash returns to shareholders through increasing dividends. We consider merger and acquisition opportunities that enhance our competitive position and we occasionally divest non-core assets. Key elements to our approach include:

- Maintain a strong financial position;
- Invest in a diversified portfolio of drilling opportunities;
- Evaluate projects based on rate-of-return and rank investment decisions;
- Track predicted versus actual results in a centralized exploration management system to provide feedback to improve results;
- Attract quality employees and maintain integrated teams of geoscientists, landmen, and engineers; and
- Maximize profitability.

Conservative use of leverage has long been the key to our financial strategy. We believe that low leverage coupled with strong full-cycle returns enables us to better withstand volatility in commodity prices and provide competitive returns and growth to shareholders. See Item 5 Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities — Stock Performance Graph and Item 6 Selected Financial Data for additional financial and operating information for fiscal years 2014 - 2018.

Proved Oil and Gas Reserves

Our December 31, 2018 total proved reserves grew 6% from prior year-end. Proved undeveloped reserves as a percentage of total proved reserves decreased to 15% from 17% a year ago. We added 158.5 MMBOE of new reserves through extensions and discoveries. Net negative revisions totaled 22.7 MMBOE, which consisted primarily of a decrease of 38.6 MMBOE for the removal of PUD reserves whose development will likely be delayed beyond five years of initial disclosure, partially offset by an increase of 20.9 MMBOE for technical revisions. The change in our proved reserves is as follows:

	Proved Reserves (MBOE)
Reserves at December 31, 2017	559,037
Revisions of previous estimates	(22,667)
Extensions and discoveries	158,512
Purchases of reserves	1
Production	(81,010)
Sales of reserves	(22,678)

Reserves at December 31, 2018	591,195

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A breakdown by commodity of our proved oil and gas reserves follows:

	December 31, 2018	2017	2016
Proved reserves:			
Gas (MMcf)	1,591,321	1,607,635	1,471,420
Oil (MBbls)	146,538	137,238	105,878
NGL (MBbls)	179,436	153,860	130,633
Total (MBOE)	591,195	559,037	481,748
Percent developed	85 %	83 %	79 %

The following table summarizes our estimated proved oil and gas reserves by region as of December 31, 2018.

	Gas (MMcf)	Oil (MBbls)	NGL (MBbls)	Total (MBOE)	% of Total Proved Reserves
Mid-Continent	861,440	29,908	82,826	256,307	43 %
Permian Basin	727,985	116,378	96,533	334,241	57 %
Other	1,896	252	77	647	— %
	1,591,321	146,538	179,436	591,195	100 %

See SUPPLEMENTAL INFORMATION ON OIL AND GAS PRODUCING ACTIVITIES (UNAUDITED) in Item 8 for further information regarding our reserves.

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Production Volumes, Prices, and Costs

All of our oil and gas assets are located in the United States. We have varying levels of ownership interests in our properties consisting of working, royalty, and overriding royalty interests. Operated wells account for approximately 83% of our proved reserves.

Our 2018 production volumes totaled 221.9 MBOE per day, a 17% increase from 2017, and were comprised of 42% gas, 31% oil, and 27% NGLs. The following table presents our total and average daily production volumes by region.

	Total Production Volumes				Average Daily Production Volumes			
Years Ended December 31,	Gas (MMcf)	Oil (MBbls)	NGL (MBbls)	Total (MBOE)	Gas (MMcf)	Oil (MBbls)	NGL (MBbls)	Total (MBOE)
2018								
Permian Basin	92,593	19,104	11,499	46,035	253.7	52.3	31.5	126.1
Mid-Continent	112,697	5,530	10,474	34,787	308.8	15.2	28.7	95.3
Other	547	76	21	188	1.4	0.2	0.1	0.5
Total company	205,837	24,710	21,994	81,010	563.9	67.7	60.3	221.9
2017								
Permian Basin	79,521	16,271	8,858	38,382	217.9	44.6	24.3	105.2
Mid-Continent	107,463	4,547	8,503	30,960	294.4	12.5	23.3	84.8
Other	484	43	13	137	1.3	0.1	—	0.4
Total company	187,468	20,861	17,374	69,479	513.6	57.2	47.6	190.4
2016								
Permian Basin	65,191	13,183	6,677	30,725	178.1	36.0	18.2	83.9
Mid-Continent	102,501	3,283	7,508	27,874	280.1	9.0	20.5	76.2
Other	535	62	15	166	1.4	0.2	0.1	0.5
Total company	168,227	16,528	14,200	58,765	459.6	45.2	38.8	160.6

At December 31, 2018, we had two fields that contained 15% or more of our total proved reserves. These fields are the Watonga-Chickasha in the Cana area of the Mid-Continent, which contained approximately 39% of our total proved reserves, and the Ford West in the Permian Basin, which contained approximately 16% of our total proved reserves. At December 31, 2017 and 2016, the Watonga-Chickasha was our only field that contained 15% or more of our total proved reserves. Production for these fields is presented in the following table.

	Total Production Volumes				Average Daily Production Volumes			
Years Ended December 31,	Gas (MMcf)	Oil (MBbls)	NGL (MBbls)	Total (MBOE)	Gas (MMcf)	Oil (MBbls)	NGL (MBbls)	Total (MBOE)
2018								
Watonga-Chickasha	96,373	5,094	9,774	30,930	264.0	14.0	26.8	84.7
Ford West	30,958	3,748	3,804	12,711	84.8	10.3	10.4	34.8
2017								
Watonga-Chickasha	88,557	4,156	7,829	26,744	242.6	11.4	21.4	73.3
Ford West	26,405	3,370	2,883	10,654	72.3	9.2	7.9	29.2
2016								

Watonga-Chickasha	81,757	2,823	6,764	23,213	223.4	7.7	18.5	63.4
Ford West	20,034	2,258	1,927	7,525	54.7	6.2	5.3	20.6

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The following table presents the average commodity prices received and production cost per unit of production by region.

Years Ended December 31,	Average Realized Price Gas (per Mcf)	Oil (per Bbl)	NGL (per Bbl)	Production Cost (per BOE)
2018				
Permian Basin	$1.69	$54.95	$22.84	$ 4.30
Mid-Continent	$2.23	$62.31	$21.67	$ 2.69
Other	$2.97	$58.40	$26.46	$ 7.63
Total Company	$1.99	$56.61	$22.28	$ 3.62
2017				
Permian Basin	$2.72	$46.96	$20.25	$ 4.70
Mid-Continent	$2.78	$47.42	$23.02	$ 2.60
Other	$2.74	$46.53	$23.11	$ 9.03
Total Company	$2.76	$47.06	$21.61	$ 3.77
2016				
Permian Basin	$2.35	$38.45	$12.32	$ 5.16
Mid-Continent	$2.29	$37.65	$15.59	$ 2.57
Other	$2.00	$38.86	$14.80	$ 9.56
Total Company	$2.31	$38.30	$14.05	$ 3.95

Acquisitions and Divestitures

We consider property acquisitions, divestitures, and occasional mergers to enhance our competitive position. Moreover, sales of non-core assets are a source of liquidity that we can use to supplement funding of capital expenditures and acquisitions of core assets.

In 2018, we sold interests in various non-core oil and gas properties for cash proceeds totaling $581 million. Included in these divestitures was a sale of oil and gas properties principally located in Ward County, Texas for which we have received, as of December 31, 2018, $534.6 million in net cash proceeds. Final settlement, which will reflect customary post-closing adjustments, is scheduled to occur by the end of first quarter 2019.

In 2018, we made various oil and gas property acquisitions for $26 million. Additionally, we entered into an agreement and plan of merger to acquire Resolute in a cash and stock transaction valued at a total purchase price of approximately $1.6 billion, including cash, stock, and the assumption of Resolute's long-term debt. This pending acquisition will expand our footprint in Reeves County, Texas by 21,100 net acres that are complementary to our existing Reeves County position. The transaction, which is expected to be completed by the end of the first quarter 2019, is subject to the approval of Resolute shareholders and the satisfaction of certain regulatory approvals and other customary closing conditions.

Exploration and Development Overview

Cimarex has one reportable segment, exploration and production ("E&P"). Our E&P activities take place primarily in two areas: the Permian Basin and the Mid-Continent region. Almost all of our exploration and development ("E&D")

capital is allocated between these two areas.

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A summary of our 2018 exploration and development activity by region is as follows:

	E&D Capital (in millions)	Gross Wells Completed	Net Wells Completed	% Completed As Producers	
Permian Basin	$ 1,092	129	79.9	100	%
Mid-Continent	472	220	42.2	100	%
Other	6	—	—	—	%
	$ 1,570	349	122.1	100	%

The Permian Basin encompasses west Texas and southeast New Mexico. Cimarex's Permian Basin efforts are located in the western half of the Permian Basin known as the Delaware Basin. In 2018, we focused on drilling horizontal wells that yielded oil and liquids-rich gas from the Wolfcamp shale and the Bone Spring formation. Cimarex saw improved results in its Wolfcamp shale wells, as measured by production and reserves, with the further implementation of long laterals and continued improvement in well completion design and in the Bone Spring wells via larger well completions.

The Permian Basin produced 126.1 MBOE per day in 2018, which was 57% of our total company production. Total production from the region increased 20% in 2018 over 2017. In 2018, we invested $1.09 billion, or 70% of our total E&D investment, in the Permian Basin.

Our Mid-Continent region consists of Oklahoma and the Texas Panhandle. Our activity in 2018 in the Mid-Continent was focused in the Woodford shale and the Meramec horizon, both in Oklahoma. We continued to refine well completions and spacing in the Woodford shale and the Meramec horizon.

During 2018, production from the Mid-Continent averaged 95.3 MBOE per day, or 43% of total company production. Total production from the region increased 12% in 2018 over 2017. In 2018, we invested $472 million, or 30% of our total E&D investment, in the Mid-Continent.

Drilling Activity

In 2018, we completed or participated in the completion of 349 gross (122.1 net) wells, of which we operated 146 gross (105.8 net) wells. At year-end, we were in the process of drilling or participating in 40 gross (12.6 net) wells and there were 83 gross (28.3 net) wells waiting on completion.

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We completed the following number of developmental wells in the years indicated in the table below. During these years, we completed no exploratory wells.

	Wells Completed					
	2018		2017		2016	
	Gross	Net	Gross	Net	Gross	Net
Developmental						
Productive	349	122.1	314	96.4	153	61.0
Dry	—	—	5	1.6	1	—
Total	349	122.1	319	98.0	154	61.0

At December 31, 2018, we owned an interest in 10,362 gross (2,902 net) productive oil and gas wells. We had working interests in the following number of productive wells by region as of December 31, 2018:

	Gas		Oil	
	Gross	Net	Gross	Net
Mid-Continent	3,992	1,513	791	197
Permian Basin	769	342	4,702	842
Other	93	6	15	2
	4,854	1,861	5,508	1,041

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Acreage

The following table sets forth the gross and net acres of both developed and undeveloped leases held by Cimarex as of December 31, 2018. Gross acres are the total number of acres in which we own a working interest. Net acres are the gross acres multiplied by our working interest.

	Acreage					
	Undeveloped		Developed		Total	
	Gross	Net	Gross	Net	Gross	Net
Mid-Continent						
Kansas	18,231	18,191	—	—	18,231	18,191
Oklahoma	97,203	65,250	687,246	305,702	784,449	370,952
Texas	17,975	12,302	128,956	54,255	146,931	66,557
	133,409	95,743	816,202	359,957	949,611	455,700
Permian Basin						
New Mexico	74,227	54,657	175,974	119,892	250,201	174,549
Texas	69,566	50,852	182,717	121,933	252,283	172,785
	143,793	105,509	358,691	241,825	502,484	347,334
Other						
Arizona	2,097,841	2,097,841	17,207	—	2,115,048	2,097,841
California	383,487	383,487	—	—	383,487	383,487
Colorado	40,232	18,867	41,384	1,642	81,616	20,509
Gulf of Mexico	25,000	13,000	28,848	6,381	53,848	19,381
Louisiana	132,842	129,792	2,868	168	135,710	129,960
Michigan	234	156	587	587	821	743
Montana	30,755	7,687	7,688	1,721	38,443	9,408
Nevada	1,007,167	1,007,167	440	1	1,007,607	1,007,168
New Mexico	1,641,126	1,633,819	18,331	2,436	1,659,457	1,636,255
Texas	8,888	2,696	23,549	4,784	32,437	7,480
Utah	80,527	59,433	31,912	1,495	112,439	60,928
Wyoming	96,454	13,944	41,629	3,829	138,083	17,773
Other	168,034	145,680	9,627	3,351	177,661	149,031
	5,712,587	5,513,569	224,070	26,395	5,936,657	5,539,964
Total	5,989,789	5,714,821	1,398,963	628,177	7,388,752	6,342,998

The table below summarizes by year and region our undeveloped acreage expirations in the next five years. In most cases, the drilling of a commercial well will hold the acreage beyond the expiration.

	Acreage									
	2019		2020		2021		2022		2023	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Mid-Continent	1,940	1,543	10,942	10,923	6,682	6,682	1,848	1,848	284	284
Permian Basin	15,224	15,224	10,154	10,154	4,290	4,290	2,148	2,148	960	960
Other	180,509	176,413	34,934	34,901	10,706	10,626	31,961	30,940	7,105	6,963
	197,673	193,180	56,030	55,978	21,678	21,598	35,957	34,936	8,349	8,207
% of undeveloped acreage	3.3	3.4	0.9	1.0	0.4	0.4	0.6	0.6	0.1	0.1

At December 31, 2018, we had no proved undeveloped reserves scheduled for development beyond the expiration dates of our undeveloped acreage.

Marketing

Our oil and gas production is sold under short-term arrangements at market-responsive prices. We sell our oil at prices tied directly or indirectly to field postings. Our gas is sold under price mechanisms related to either monthly or daily index prices on pipelines where we deliver our gas. We sell our NGLs at prices tied to monthly index prices where we deliver our NGLs.

We sell our oil, gas, and NGLs to a broad portfolio of customers, including major energy companies, pipeline companies, local distribution companies, and other end-users. In 2018, we made sales to two customers that each amounted to 10% or more of our consolidated revenues for 2018. Sales to those two customers accounted for 23% and 21%, respectively, of our consolidated revenues for 2018. If any one of our major customers were to stop purchasing our production, we believe there are a number of other purchasers to whom we could sell our production with some delay. If multiple significant customers were to discontinue purchasing our production, we believe there would be challenges initially, but ample markets to handle the disruption.

We regularly monitor the credit worthiness of all our customers and may require parent company guarantees, letters of credit, or prepayments when deemed necessary. Historically, losses associated with uncollectible receivables have not been significant.

Corporate Headquarters and Employees

Our corporate headquarters is located at 1700 Lincoln St., Suite 3700, Denver, Colorado 80203. On December 31, 2018 and 2017, Cimarex had 955 and 910 employees, respectively. None of our employees are subject to collective bargaining agreements.

Competition

The oil and gas industry is highly competitive, particularly for prospective undeveloped leases and purchases of proved reserves. There is also competition for rigs and related equipment used to drill for and produce oil and gas, however, to a lesser extent in the current market environment. Our competitive position also is highly dependent on our ability to recruit and retain geological, geophysical, and engineering expertise. We compete for prospects, proved reserves, oil-field services, and qualified oil and gas professionals with major and diversified energy companies and other independent operators that have larger financial, human, and technological resources than we do.

We compete with integrated, independent, and other energy companies for the sale and transportation of our oil, gas, and NGLs to marketing companies and end users. The oil and gas industry competes with other energy industries that supply fuel and power to industrial, commercial, and residential consumers. Many of these competitors have greater financial and human resources. The effect of these competitive factors cannot be predicted.

Proved Reserves Estimation Procedures

Proved oil and gas reserve quantities are based on estimates prepared by Cimarex in accordance with the SEC’s rules for reporting oil and gas reserves. Our reserve definitions conform with definitions of Rule 4-10(a) (1)-(32) of Regulation S-X of the SEC. All of our reserve estimates are maintained by our internal Corporate Reservoir Engineering group, which is comprised of reservoir engineers and engineering technicians. The objectives and management of this group are separate from and independent of the exploration and production functions of the company. The primary objective of our Corporate Reservoir Engineering group is to maintain accurate forecasts on all properties of the company through ongoing monitoring and timely updates of operating and economic parameters (production forecasts, prices and regional differentials, operating expenses, ownership, etc.) in accordance with guidelines established by the SEC. This separation of function and responsibility is a key internal control.

Cimarex engineers are responsible for estimates of proved reserves. Corporate engineers interact with the exploration and production departments to ensure all available engineering and geologic data is taken into account prior to establishing or revising an estimate. After preparing the reserves update, the corporate engineers review their recommendations with the Vice President of Corporate Engineering. After approval from the Vice President of Corporate Engineering, the revisions are entered into our reserves database by the engineering technician.

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During the course of the year, the Vice President of Corporate Engineering presents summary reserves information to senior management and to our Board of Directors for their review. From time to time, the Vice President of Corporate Engineering also will confer with the Vice President of Exploration, Chief Operating Officer, and the Chief Executive Officer regarding specific reserves-related issues. In addition, Corporate Reservoir Engineering maintains a set of basic guidelines and procedures to ensure that critical checks and reviews of the reserves database are performed on a regular basis.

Together, these internal controls are designed to promote a comprehensive, objective, and accurate reserves estimation process. As an additional confirmation of the reasonableness of our internal estimates, DeGolyer and MacNaughton, an independent petroleum engineering consulting firm, performed an independent evaluation of our estimated net reserves representing greater than 80% of the total future net revenue discounted at 10% attributable to the total interests owned by Cimarex as of December 31, 2018. The individual primarily responsible for overseeing the review is a Senior Vice President with DeGolyer and MacNaughton and a Registered Professional Engineer in the State of Texas with over 34 years of experience in oil and gas reservoir studies and reserves evaluations.

The technical employee primarily responsible for overseeing the oil and gas reserves estimation process is Cimarex's Vice President of Corporate Engineering. This individual graduated from the Colorado School of Mines with a Bachelor of Science degree in Engineering and has more than 24 years of practical experience in oil and gas reservoir evaluation. He has been directly involved in the annual reserves reporting process of Cimarex since 2002 and has served in his current role for the past 14 years.

Title to Oil and Gas Properties

We undertake title examination and perform curative work at the time we lease undeveloped acreage, prepare for the drilling of a prospect, or acquire proved properties. We believe title to our properties is good and defensible, and is in accordance with industry standards. Nevertheless, we are involved in title disputes from time to time that result in litigation. Our oil and gas properties are subject to customary royalty interests, liens incidental to operating agreements, tax liens, and other burdens and minor encumbrances, easements, and restrictions.

Government Regulation

Oil and gas production and transportation is subject to extensive federal, state, and local laws and regulations. Compliance with existing laws often is difficult and costly, but has not had a significant adverse effect on our operations or financial condition. In recent years, we have been most directly impacted by federal and state environmental regulations and energy conservation rules. We are also impacted by federal and state regulation of pipelines and other oil and gas transportation systems.

The states in which we conduct operations establish requirements for drilling permits, the method of developing fields, the size of well spacing units, drilling density within productive formations and the unitization or pooling of properties. In addition, state conservation laws include requirements for waste prevention, establish limits on the maximum rate of production from wells, generally prohibit the venting or flaring of natural gas, and impose certain requirements regarding the ratability of production.

Environmental Regulation. Various federal, state, and local laws regulating the discharge of materials into the environment, or otherwise relating to the protection of the environment, directly impact oil and gas exploration, development, and production operations, which consequently impact our operations and costs. These laws and regulations govern, among other things, emissions into the atmosphere, discharges of pollutants into waters, underground injection of waste water, the generation, storage, transportation, and disposal of waste materials, and protection of public health, natural resources, and wildlife. These laws and regulations may impose substantial liabilities for noncompliance and for any contamination resulting from our operations and may require the suspension or cessation of operations in affected areas.

Cimarex is committed to environmental protection and believes we are in material compliance with applicable environmental laws and regulations. We obtain permits for our facilities and operations in accordance with the applicable laws and regulations. There are no known issues that have a significant adverse effect on the permitting process or permit compliance status of any of our facilities or operations. Expenditures are required to comply with environmental regulations. These costs are a normal, recurring expense of operations and not an extraordinary cost of compliance with current government regulations.

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We do not anticipate that we will be required under current environmental laws and regulations to expend amounts that will have a material adverse effect on our financial position or operations. However, due to continuing changes in these laws and regulations, we are unable to predict with any reasonable degree of certainty any potential delays in development plans that could arise, or our future costs of complying with governmental requirements. We maintain levels of insurance customary in the industry to limit our financial exposure in the event of a substantial environmental claim resulting from sudden, unanticipated and accidental discharges of oil, produced water, or other substances as well as additional coverage for certain other pollution events.

Gas Gathering and Transportation. The Federal Energy Regulatory Commission ("FERC") requires interstate gas pipelines to provide open access transportation. FERC also enforces the prohibition of market manipulation by any entity, and the facilitation of the sale or transportation of natural gas in interstate commerce. Interstate pipelines have implemented these requirements, providing us with additional market access and more fairly applied transportation services and rates. FERC continues to review and modify its open access and other regulations applicable to interstate pipelines.

Under the Natural Gas Policy Act ("NGPA"), natural gas gathering facilities are expressly exempt from FERC jurisdiction. What constitutes "gathering" under the NGPA has evolved through FERC decisions and judicial review of such decisions. We believe that our gathering systems meet the test for non-jurisdictional "gathering" systems under the NGPA and that our facilities are not subject to federal regulations. Although exempt from FERC oversight, our natural gas gathering systems and services may receive regulatory scrutiny by state and federal agencies regarding the safety and operating aspects of the transportation and storage activities of these facilities.

In addition to using our own gathering facilities, we may use third-party gathering services or interstate transmission facilities (owned and operated by interstate pipelines) to ship our gas to markets.

Additional proposals and proceedings that might affect the oil and gas industry are pending before the U.S. Congress, FERC, Bureau of Land Management ("BLM"), U.S. Environmental Protection Agency ("EPA"), state legislatures, state agencies, local governments, and the courts. We cannot predict when or whether any such proposals may become effective and what effect they will have on our operations. We do not anticipate that compliance with existing federal, state, and local laws, rules, or regulations will have a material adverse effect upon our capital expenditures, earnings, or competitive position.

Federal and State Income and Other Local Taxation

Cimarex and the petroleum industry in general are affected by both federal and state income tax laws, as well as other local tax regulations involving ad valorem, personal property, franchise, severance, and other excise taxes. We have considered the effects of these provisions on our operations and do not anticipate that there will be any material undisclosed impact on our capital expenditures, earnings, or competitive position.

Executive Officers of the Registrant

See Part III, Item 10, Directors, Executive Officers and Corporate Governance for information regarding our executive officers as of February 20, 2019.

ITEM 1A. RISK FACTORS

The following risks and uncertainties, together with other information set forth in this Form 10-K, should be carefully considered by current and future investors in our securities. These risks and uncertainties are not the only ones we face. Additional risks and uncertainties presently unknown to us or currently deemed immaterial also may impair our business operations. The occurrence of one or more of these risks or uncertainties could materially and adversely affect our business, financial condition, and results of operations, which in turn could negatively impact the value of our securities.

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Risks Concerning Cimarex and its Operations

Oil, gas, and NGL prices fluctuate due to a number of factors beyond our control, creating a component of uncertainty in our development plans and overall operations. Declines in prices adversely affect our financial results and rate of growth in proved reserves and production.

Oil and gas markets are volatile. We cannot predict future prices. The prices we receive for our production heavily influence our revenue, profitability, access to capital, and future rate of growth. The prices we receive depend on numerous factors beyond our control. These factors include, but are not limited to, changes in domestic and global supply and demand for oil and gas, the level of domestic and global oil and gas exploration and production activity, geopolitical instability, the actions of the Organization of Petroleum Exporting Countries, weather conditions, technological advances affecting energy consumption, governmental regulations and taxes, and the price and technological advancement of alternative fuels.

Our proved oil and gas reserves and production volumes will decrease unless those reserves are replaced with new discoveries or acquisitions. Accordingly, for the foreseeable future, we expect to make substantial capital investments for the exploration and development of new oil and gas reserves. Historically, we have paid for these types of capital expenditures with cash flow provided by our production operations, our revolving credit facility, and proceeds from the sale of senior notes or equity. Low prices reduce our cash flow and the amount of oil and gas that we can economically produce and may cause us to curtail, delay, or defer certain exploration and development projects. Moreover, low prices may impact our abilities to borrow under our revolving credit facility and to raise additional debt or equity capital to fund acquisitions.

If prices decrease, we may be required to take write-downs of the carrying values of our oil and gas properties and/or our goodwill.

Accounting rules require that we periodically review the carrying value of our oil and gas properties and goodwill for possible impairment.

In 2016 we recognized a ceiling test impairment totaling $757.7 million ($481.4 million, net of tax). The impairment resulted primarily from the impact of decreases in the trailing twelve-month average prices for oil, gas, and NGLs utilized in determining the estimated future net cash flows from proved reserves. We did not recognize any ceiling test impairments in 2017 or 2018 since the calculated value of the ceiling limitation exceeded the carrying value of our oil and gas properties subject to the test. At December 31, 2018, a decline of approximately 24% or more in the value of the ceiling limitation would have resulted in an impairment. Because the ceiling calculation uses trailing twelve-month average commodity prices, the effect of increases and decreases in period-over-period prices can significantly impact the ceiling limitation calculation. Impairment charges do not affect cash flow from operating activities, but do adversely affect our net income and various components of our balance sheet.

We evaluate our goodwill for impairment annually and whenever events or changes in circumstances indicate the possibility that goodwill may be impaired. We have had no goodwill impairments during the years ended December 31, 2018, 2017, and 2016.

Ineffective internal controls could impact our business and financial results.

Our internal control over financial reporting may not prevent or detect misstatements because of its inherent limitations, including the possibility of human error, the circumvention or overriding of controls, or fraud. Even effective internal controls can provide only reasonable assurance with respect to the preparation and fair presentation of financial statements. If we fail to maintain the adequacy of our internal controls, including any failure to implement required new or improved controls, or if we experience difficulties in their implementation, our business and financial results could be harmed and we could fail to meet our financial reporting obligations. For example, at December 31, 2016, management concluded that a deficiency in the design of our internal controls related to the full cost ceiling test calculation represented a material weakness in our internal control over financial reporting and, therefore, that we did not maintain effective internal control over financial reporting as of December 31, 2016, as reported in our Form 10-K/A for that period. We have since remediated this material weakness, however, there is no guarantee that we won't experience material weaknesses in our internal control over financial reporting in the future or that we will be able to implement new controls to address such material weaknesses as necessary, which may result in untimely or inaccurate reporting of our financial statements.

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U.S. or global financial markets may impact our business and financial condition.

A credit crisis or other turmoil in the U.S. or global financial system may have a negative impact on our business and our financial condition. Our ability to access the capital markets may be restricted at a time when we would like, or need, to raise financing. This could have an impact on our flexibility to react to changing economic and business conditions. Deteriorating economic conditions could have a negative impact on our lenders, the purchasers of our oil and gas production, and the working interest owners in properties we operate, causing them to fail to meet their obligations to us.

Failure to economically replace oil and gas reserves could negatively affect our financial results and future rate of growth.

In order to replace the reserves depleted by production and to maintain or increase our total proved reserves and overall production levels, we must either locate and develop new oil and gas reserves or acquire producing properties from others. This requires significant capital expenditures and can impose reinvestment risk for us, as we may not be able to continue to replace our reserves economically. While we occasionally may seek to acquire proved reserves, our main business strategy is to grow through exploration and drilling. Without successful exploration and development, our reserves, production, and revenues could decline rapidly, which would negatively impact the results of our operations.

Exploration and development involves numerous risks, including new governmental regulations and the risk that we will not discover any commercially productive oil or gas reservoirs. Additionally, it can be unprofitable, not only from drilling dry holes, but also from drilling productive wells that do not return a profit because of insufficient reserves or declines in commodity prices.

Our drilling operations may be curtailed, delayed, or canceled for many reasons. Factors such as unforeseen poor drilling conditions, title problems, unexpected pressure irregularities, equipment failures, accidents, adverse weather conditions, compliance with environmental and other governmental requirements, bans, moratoria, or other restrictions implemented by local governments and the cost of, or shortages or delays in the availability of, drilling and completion services could negatively impact our drilling operations.

Our proved reserve estimates may be inaccurate and future net cash flows are uncertain.

Estimates of total proved oil and gas reserves (consisting of proved developed and proved undeveloped reserves) and associated future net cash flow depend on a number of variables and assumptions. Refer to CAUTIONARY INFORMATION ABOUT FORWARD-LOOKING STATEMENTS in Part I of this report. Among others, changes in any of the following factors may cause actual results to vary considerably from our estimates:

- oil, gas, and NGL prices;
- timing of development expenditures;
- amount of required capital expenditures and associated economics;
- recovery efficiencies, decline rates, drainage areas, and reservoir limits;
- anticipated reservoir and production characteristics and interpretations of geologic and geophysical data;
- production rates, reservoir pressure, unexpected water encroachment, and other subsurface conditions;
- governmental regulation;
- access to assets restricted by local government action;
- operating costs;
- property, severance, excise, and other taxes incidental to oil and gas operations;

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- workover and remediation costs; and
- federal and state income taxes.

Our proved oil and gas reserve estimates are prepared by Cimarex engineers in accordance with guidelines established by the SEC. DeGolyer and MacNaughton, independent petroleum engineers, performed an independent evaluation of our estimated net reserves representing greater than 80% of the total future net revenue discounted at 10%, as of December 31, 2018.

The cash flow amounts referred to in this filing should not be construed as the current market value of our proved reserves. In accordance with SEC guidelines, the estimated discounted net cash flow from proved reserves is based on the average of the previous twelve months' first-day-of-the-month prices and costs as of the date of the estimate, whereas actual future prices and costs may be materially different.

Our business depends on oil and gas pipeline and transportation facilities, some of which are owned by others.

In addition to the existence of adequate markets, our oil and gas production depends in large part on the proximity and capacity of pipeline systems, as well as storage, transportation, processing and fractionation facilities, most of which are owned by third parties. The inability to transport one commodity, such as gas, could also impair our ability to produce and sell other commodities, such as oil and NGLs, produced from the same wells. The lack of availability or the lack of capacity on these systems and facilities could result in the curtailment of production or the delay or discontinuance of drilling plans. This is more likely in remote areas with less established infrastructure, such as our Delaware Basin area where we and competitors have significant development activities. The lack of availability of or capacity in these facilities or the loss of these facilities due to construction delays, weather, fire, or other reasons, for an extended period of time could negatively affect our revenues.

A limited number of companies purchase a majority of our oil, gas, and NGLs. The loss of a significant purchaser could have a material adverse effect on our ability to sell production.

Federal and state regulation of oil and gas, local government activity, adverse court rulings, tax and energy policies, changes in supply and demand, pipeline pressures, damage to or destruction of pipelines, and general economic conditions could adversely affect our ability to produce and market oil and natural gas.

Commodity price derivative transactions may limit our potential gains and involve other risks.

To limit our exposure to price risk, we enter into derivative agreements from time to time. Commodity price derivatives limit volatility and increase the predictability of a portion of our cash flow. These transactions also limit our potential gains when oil and gas prices exceed the prices established by the derivatives.

In certain circumstances, derivative transactions may expose us to the risk of financial loss, including instances in which:

- the counterparties to our derivative agreements fail to perform;
- there is a sudden unexpected event that materially increases oil and gas prices; or
- there is a widening of price basis differentials between delivery points for our production and the delivery point assumed in the derivative agreement.

Because we account for derivative contracts under mark-to-market accounting, during periods we have derivative transactions in place we expect continued volatility in derivative gains and losses on our statement of operations as changes occur in the relevant price indexes.

The adoption of derivatives legislation could have an adverse effect on our ability to use derivative instruments as hedges against fluctuating commodity prices.

In July 2010, the Dodd-Frank Act was enacted, representing an extensive overhaul of the framework for regulation of U.S. financial markets. The Dodd-Frank Act called for various regulatory agencies, including the SEC

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and the Commodities Futures Trading Commission ("CFTC"), to establish regulations for implementation of many of its provisions. The Dodd-Frank Act contains significant derivatives regulations, including requirements that certain transactions be cleared on exchanges and that cash collateral (margin) be posted for such transactions. The Dodd-Frank Act provides for an exemption from the clearing and cash collateral requirements for commercial end-users, such as Cimarex, and it includes a number of defined terms used in determining how this exemption applies to particular derivative transactions and the parties to those transactions.

We have satisfied the requirements for the commercial end-user exception to the clearing requirement and intend to continue to engage in derivative transactions. In December 2015, the CFTC approved final rules on margin requirements that will have an impact on our derivative counterparties and an interim final rule exemption from the margin requirements for certain uncleared swaps with commercial end-users. The final rules did not impose additional requirements on commercial end-users. The ultimate effect of these new rules and any additional regulations is currently uncertain. New rules and regulations in this area may result in significant increased costs and disclosure obligations as well as decreased liquidity as entities that previously served as derivative counterparties exit the market.

We have been an early entrant into new or emerging resource plays. As a result, our drilling results in these areas are uncertain. The value of our undeveloped acreage may decline and we may incur impairment charges if drilling results are unsuccessful.

New or emerging oil and gas resource plays have limited or no production history. Consequently, in those areas it is difficult to predict our future drilling costs and results. Therefore, our cost of drilling, completing, and operating wells in these areas may be higher than initially expected. Similarly, our production may be lower than initially expected, and the value of our undeveloped acreage may decline if our results are unsuccessful. As a result, we may be required to impair the carrying value of our undeveloped acreage in new or emerging plays.

Furthermore, unless production is established during the primary term of certain of our undeveloped oil and gas leases, the leases will expire, and we will lose our right to develop those properties.

Competition in our industry is intense and many of our competitors have greater financial and technological resources.

We operate in the competitive area of oil and gas exploration and production. Many of our competitors are large, well-established companies that have larger operating staffs and greater capital resources. These competitors may be willing to pay more for exploratory prospects and productive oil and gas properties. They may also be able to define, evaluate, bid for, and purchase a greater number of properties and prospects than our financial or human resources permit.

Because our activity is also concentrated in areas of heavy industry competition, there is heightened demand for personnel, equipment, power, services, facilities, and resources, resulting in higher costs than in other areas. Such intense competition also could result in delays in securing, or the inability to secure, the personnel, equipment, power, services, resources, or facilities necessary for our development activities, which could negatively impact our production volumes. We also face higher costs in remote areas where vendors can charge higher rates due to that remoteness and the inability to attract employees to those areas, as well as the vendors' ability to deploy their resources in easier-to-access areas.

We are subject to complex laws and regulations that can adversely affect the cost, manner, and feasibility of doing business.

Exploration, production, and the sale of oil and gas are subject to extensive laws and regulations, including those implemented to protect the environment, human health and safety, and wildlife. Federal, state, and local regulatory agencies frequently require permitting and impose conditions on our activities. During the permitting process, these regulatory agencies often exercise considerable discretion in both the timing and scope of the permits, and the public, including special interest groups, often has an opportunity to influence the timing and outcome of the process. The requirements or conditions imposed by these agencies can be costly and can delay the commencement of our operations. In addition, a number of initiatives were put forth by the Obama administration in the form of Presidential or Secretarial Memoranda, which are still in effect, and have the potential to impact the cost of doing business or could result in substantial delays in permitting, drilling, and other oil and gas activities.

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Failing to comply with any of the applicable laws and regulations, or Presidential initiatives, could result in the suspension or termination of our operations and subject us to administrative, civil, and criminal liabilities and penalties. Such costs could have a material adverse effect on both our financial condition and operations.

Environmental matters and costs can be significant.

As an owner, lessee, or operator of oil and gas properties, we are subject to various complex, stringent, and constantly evolving environmental laws and regulations. Our operations inherently create the risk of environmental liability to the government and private parties stemming from our use, generation, handling, and disposal of water and waste materials, as well as the release of hydrocarbons or other substances into the air, soil, or water. The environmental laws and regulations to which we are subject impose numerous obligations applicable to our operations, including: the acquisition of permits before conducting regulated activities associated with drilling for and producing oil and gas; the restriction of types, quantities, and concentration of materials that can be released into the environment; the limitation or prohibition of drilling activities on certain lands lying within wilderness, wetlands, waters of the United States, and other protected areas; the application of specific health and safety criteria addressing worker protection; and the imposition of substantial liabilities for pollution resulting from our operations. Numerous governmental authorities, such as the EPA and analogous state agencies have the power to enforce compliance with these laws and regulations and the permits issued under them. Such enforcement actions often involve taking difficult and costly compliance measures or corrective actions. Failure to comply with these laws and regulations may result in the assessment of sanctions, including administrative, civil, or criminal penalties, the imposition of investigatory or remedial obligations, and the issuance of orders limiting or prohibiting some or all of our operations. In addition, we may experience delays in obtaining, or be unable to obtain, required permits, which may delay or interrupt our operations and limit our growth and revenue.

Liabilities under certain environmental laws can be joint and several and may in some cases be imposed regardless of fault on our part such as where we own a working interest in a property operated by another party. We also could be held liable for damages or remediating lands or facilities previously owned or operated by others regardless of whether such contamination resulted from our own actions and regardless if we were in compliance with all applicable law at the time. Further, claims for damages to persons or property, including natural resources, may result from the environmental, health, and safety impacts of our operations. Because these environmental risks generally are not fully insurable and can result in substantial costs, such liabilities could have a material adverse effect on both our financial condition and operations.

Our financial condition and results of operations may be materially adversely affected if we incur costs and liabilities due to a failure to comply with environmental regulations or a release of hazardous substances into the environment.

Our operations are subject to environmental laws and regulations relating to the management and release of hazardous substances, pollutants, solid and hazardous wastes, and petroleum hydrocarbons. These laws generally regulate the generation, storage, treatment, discharge, transportation, and disposal of pollutants and solid and hazardous waste and may impose strict and, in some cases, joint and several liability for the investigation and remediation of affected areas where hazardous substances may have been released or disposed. The most significant of these environmental laws are as follows:

- The Comprehensive Environmental Response, Compensation, and Liability Act, as amended, referred to as CERCLA or the Superfund law, and comparable state laws, which imposes liability on generators, transporters, and arrangers of hazardous substances at sites where hazardous substance releases have occurred or are threatening to occur;
- The Oil Pollution Act of 1990 (“OPA”), under which owners and operators of onshore facilities and pipelines, lessees or permittees of an area in which an offshore facility is located, and owners and operators of vessels are

liable for removal costs and damages that result from a discharge of oil into navigable waters of the United States;

- The Resource Conservation and Recovery Act (“RCRA”), as amended, and comparable state statutes, which governs the treatment, storage, and disposal of solid waste;
- The Federal Water Pollution Control Act, as amended, also known as the Clean Water Act (“CWA”), which governs the discharge of pollutants, including natural gas wastes, into federal and state waters;

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- The Safe Drinking Water Act (“SDWA”), which governs the disposal of wastewater in underground injection wells; and
- The Clean Air Act (“CAA”) which governs the emission of pollutants into the air.

We believe we are in substantial compliance with the requirements of CERCLA, OPA, RCRA, CWA, SDWA, CAA and related state and local laws and regulations. We also believe we hold all necessary and up-to-date permits, registrations, and other authorizations required under such laws and regulations. Although the current costs of managing our wastes as they presently are classified are reflected in our budget, any legislative or regulatory reclassification of oil and gas exploration and production wastes could increase our costs to manage and dispose of such wastes and have a material adverse effect on our financial condition and operations.

Federal regulatory initiatives relating to the protection of threatened or endangered species could result in increased costs and additional operating restrictions or delays.

The Federal Endangered Species Act (“ESA”) was established to protect endangered and threatened species. Pursuant to the ESA, if a species is listed as threatened or endangered, restrictions may be imposed on activities adversely affecting that species’ habitat. The U.S. Fish and Wildlife Service (“FWS”) may designate critical habitat and suitable habitat areas it believes are necessary for survival of a threatened or endangered species. A critical habitat or suitable habitat designation could result in further material restrictions to federal land use and may materially delay or prohibit land access for oil and gas development. Similar protections are offered to migratory birds under the Migratory Bird Treaty Act. We conduct operations on federal oil and gas leases in areas where certain species are currently listed as threatened or endangered, or could be listed as such, under the ESA. Operations in areas where threatened or endangered species or their habitat are known to exist may require us to incur increased costs to implement mitigation or protective measures and also may restrict or preclude our drilling activities in those areas or during certain seasons, such as breeding and nesting seasons. On March 27, 2014, the FWS announced the listing of the lesser prairie chicken, whose habitat is over a five-state region, including Texas, New Mexico, and Oklahoma, where we conduct operations, as a threatened species under the ESA. Listing of the lesser prairie chicken as a threatened species imposes restrictions on disturbances to critical habitat by landowners and drilling companies that would harass, harm, or otherwise result in a “taking” of this species. However, the FWS also announced a final rule that will limit regulatory impacts on landowners and businesses from the listing if those landowners and businesses have entered into certain range-wide conservation planning agreements, such as those developed by the Western Association of Fish and Wildlife Agencies (“WAFWA”), pursuant to which such parties agreed to take steps to protect the lesser prairie chicken’s habitat and to pay a mitigation fee if its actions harm the lesser prairie chicken’s habitat. We entered into a voluntary Candidate Conservation Agreement (“CCA”) with the WAFWA, whereby we agreed to take certain actions and limit certain activities, such as limiting drilling on certain portions of our acreage during nesting seasons, in an effort to protect the lesser prairie chicken. On February 9, 2018, the FWS announced the listing of the Texas Hornshell, a fresh water mussel species in areas including New Mexico and Texas where we operate in the Permian Basin, as an endangered species. We also intend to enter into a CCA concerning voluntary conservation actions with respect to the Texas Hornshell. Participating in CCAs could result in increased costs to us from species protection measures, time delays or limitations on drilling activities, which costs, delays or limitations may be significant. While a federal judge in Texas vacated the listing of the lesser prairie chicken in 2015, listing petitions continue to be filed with the FWS which could impact our operations. Many non-governmental organizations (“NGOs”) work closely with the FWS regarding the listing of many species, including species with broad and even nationwide ranges. The recent listing of the Mexican Long Nosed bat, whose habitat includes the Permian Basin where we operate, is an example of the NGOs’ influence on ESA listing decisions. The increase in endangered species listings may impact our ability to explore for or produce oil and gas in certain areas and increase our costs.

Our hydraulic fracturing activities are subject to risks that could negatively impact our operations and profitability.

We use hydraulic fracturing for the completion of almost all of our wells. Hydraulic fracturing is a process that involves pumping fluid and proppant at high pressure into a hydrocarbon bearing formation to create and hold open fractures. Those fractures enable gas or oil to move through the formation's pores to the well bore. Typically, the fluid used in this process is primarily water. In plays where hydraulic fracturing is necessary for successful development, the demand for water may exceed the supply. A lack of readily available water or a significant increase in the cost of water could cause delays or increased completion costs.

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While hydraulic fracturing historically has been regulated by state oil and gas commissions, the practice has become increasingly controversial in certain parts of the country, resulting in increased scrutiny and regulation from federal agencies. For example, the EPA has asserted federal regulatory authority over certain hydraulic fracturing activities under the SDWA involving the use of diesel fuels and published permitting guidance in February 2014 addressing the use of diesel in fracturing operations. Although the EPA has delegated the permitting authority for the SDWA's Underground Injection Control Class II programs in Oklahoma, Texas, and New Mexico where we maintain operational acreage, the EPA is encouraging state programs to review and consider the use of such draft guidance.

In addition, on March 26, 2015, the federal BLM published a final rule governing hydraulic fracturing on federal and Indian lands. The rule requires public disclosure of chemicals used in hydraulic fracturing on federal and Indian lands, confirmation that wells used in fracturing operations meet appropriate construction standards, development of appropriate plans for managing flowback water that returns to the surface, increased standards for interim storage of recovered waste fluids, and submission to the BLM of detailed information on the geology, depth, and location of preexisting wells. This rule originally was scheduled to take effect on June 24, 2015. However, the rule is the subject of several pending lawsuits filed by industry groups, two Indian tribes, and at least four states, alleging that federal law does not give the BLM authority to regulate hydraulic fracturing. The federal judge has enjoined the rule while the case is pending. The district court held that BLM did not have jurisdiction to promulgate the rule. The Obama Justice Department appealed and that appeal is pending.

There are also certain governmental reviews either underway or being proposed that focus on environmental aspects of hydraulic fracturing practices. The EPA prepared a study of the potential environmental effects of hydraulic fracturing on drinking water and groundwater. The EPA's draft report was released on June 4, 2015. The findings of the report suggest that hydraulic fracturing does not pose a systemic risk to groundwater although there are risks to both groundwater and soils posed by inadequate water handling practices in certain situations. A public comment period on the report was open until August 28, 2015, and a series of public hearings were conducted by the EPA's Scientific Advisory Board ("SAB") throughout the fall of 2015. The EPA issued its final report and has reached two different topline conclusions, although the content of the study itself remains unchanged. Other governmental agencies, including the U.S. Department of Energy and the U.S. Department of the Interior, have evaluated or are evaluating various other aspects of hydraulic fracturing. These ongoing or proposed studies could spur initiatives to further regulate hydraulic fracturing.

Additionally, Congress from time to time has considered the adoption of legislation to provide for federal regulation of hydraulic fracturing and to require disclosure of the chemicals used in the hydraulic fracturing process. Most producing states, including Texas and Colorado, have adopted, and other states are considering adopting, regulations that could impose more stringent permitting, public disclosure, and well construction requirements on hydraulic fracturing operations or otherwise seek to ban fracturing activities altogether.

Any of the above factors could have a material adverse effect on our financial position, results of operations, or cash flows and could make it more difficult or costly for us to perform fracturing to stimulate production from dense subsurface rock formations and, in the event of local prohibitions against commercial production of natural gas, may preclude our ability to drill wells. In addition, our fracturing activities could become subject to additional permitting requirements and result in permitting delays as well as potential increases in costs. Restrictions on hydraulic fracturing could also reduce the amount of oil and gas that we are ultimately able to produce from our reserves.

The adoption of climate change legislation or regulations restricting emission of greenhouse gases, investor pressure concerning climate-related disclosures, and lawsuits could result in increased operating costs and reduced demand for the oil and gas we produce as well as reductions in the availability of capital.

Studies have suggested that emission of certain gases, commonly referred to as greenhouse gases ("GHGs"), may be impacting the earth's climate. Methane, a primary component of natural gas, and carbon dioxide, also present in natural gas as a secondary product, sometimes considered an impurity or a by-product of the burning of oil and natural gas, are examples of GHGs. The U.S. Congress and various states have been evaluating, and in some cases implementing, climate-related legislation and other regulatory initiatives that restrict emissions of GHGs. In December 2009, the EPA published its findings that emissions of GHGs present an endangerment to public health and the environment because emissions of such gases are contributing to the warming of the earth's atmosphere and other climatic changes. Based on these findings, the EPA adopted regulations under existing provisions of the Federal Clean Air Act that establish Prevention of Significant Deterioration ("PSD") and Title V permit reviews for GHG emissions from certain large stationary sources. Facilities required to obtain PSD and/or Title V permits under EPA's GHG

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Tailoring Rule for their GHG emissions also may be required to meet "Best Available Control Technology" standards that will be established by the states or, in some cases, by the EPA on a case-by-case basis. The EPA has also adopted rules requiring the monitoring and reporting of GHG emissions from specified sources in the United States, including, among others, certain oil and gas production facilities on an annual basis, which includes certain of our operations. In recent proposed rulemaking, EPA is widening the scope of annual GHG reporting to include not only activities associated with completion and workover of gas wells with hydraulic fracturing and activities associated with oil and gas production operations, but also completions and workovers of oil wells with hydraulic fracturing, gathering and boosting systems, and transmission pipelines.

While Congress has from time to time considered legislation to reduce emissions of GHGs, there has not been significant activity in the form of adopted legislation to reduce GHG emissions at the federal level in recent years. In the absence of such federal climate legislation, a number of state and regional efforts have emerged that are aimed at tracking and/or reducing GHG emissions by means of cap and trade programs that typically require major sources of GHG emissions, such as electric power plants, to acquire and surrender emission allowances in return for emitting those GHGs. In January 2015, President Obama announced a series of administration actions to reduce methane emissions, including rulemaking by the EPA and the BLM as well as updating of standards by the Department of Transportation's Pipeline and Hazardous Materials Administration. The previous administration intended to promulgate proposed climate change rulemaking aimed at reducing GHG emissions by 45% by 2025 compared to 2012 levels. These proposals target both new and existing sources. On January 22, 2016, the Department of the Interior announced its proposed emissions mandate on oil and gas producers who operate on federal and Indian lands. While this rule was finalized in November of 2016, it is currently being challenged by several states and industry.

While we expect new legislation and regulations to increase the cost of business, at this time it is not possible to quantify the impact on our business. Any such future laws and final regulations that require reporting of GHGs or otherwise limit emissions of GHGs from our equipment and operations could require us to incur costs to develop and implement best management practices aimed at reducing GHG emissions, install and maintain emissions control technologies, as well as monitor and report on GHG emissions associated with our operations, which would increase our operating costs, and such requirements also could adversely affect demand for the oil and gas that we produce.

The following is a summary of potential climate-related risks that could adversely affect Cimarex:

Transition Risks. Transition risks are risks related to the transition to a lower-carbon economy and include policy, legal, technology, and market risks.

Policy and Legal Risks. Policy risks include policy actions that attempt to contract actions that contribute to adverse effects of climate change or policy actions that seek to promote adaptation to climate change. Examples include implementing carbon-pricing mechanisms to reduce GHG emissions (which would increase the costs of our doing business), shifting energy use toward lower emission sources (which could lower demand for our oil and gas production, resulting in lower prices and lower revenues), adopting energy-efficiency solutions (which also could lower demand for our oil and gas production, resulting in lower prices and lower revenues), encouraging greater water efficiency measures (which would increase our costs of production), and promoting more sustainable land-use practices (which also would increase our costs of production and could impact our ability to operate in certain areas). Policy actions also may include restrictions or bans on oil and gas activities, which could lead to write-downs or impairments of our assets. Legal and litigation risks include potential lawsuits claiming failure to mitigate impacts of climate change, failure to adapt to climate change, and the insufficiency of disclosure around material financial risks.

Technology Risk. Technological improvements or innovations that support the transition to a lower-carbon, more energy efficient economic system may have a significant impact on Cimarex. The development and use of emerging technologies such as renewable energy, battery storage, and energy efficiency may lower demand for oil and gas, resulting in lower prices and revenues, and increase our costs.

Market Risk. Markets could be affected by climate change through shifts in supply and demand for certain commodities, especially carbon-intensive commodities such as oil and gas and other products dependent on oil and gas, as climate-related risks and opportunities are increasingly taken into account. This could lower demand for our oil and gas production, resulting in lower prices and lower revenues. Market risk also may take the form of limited access to capital as investors shift investments to less carbon-intensive industries and alternative energy industries. In addition, there have also been efforts in recent years to influence the investment community, including investment advisers and certain sovereign wealth, pension, and endowment funds promoting divestment of fossil fuel equities and pressuring lenders to limit funding to companies engaged in the extraction of fossil fuel reserves. Such environmental activism and initiatives aimed at limiting climate change and reducing air pollution could interfere with our business activities, operations, and ability to access capital. Furthermore, claims have been made against certain energy companies alleging that GHG emissions from oil, NGL, and gas operations constitute a public nuisance under federal and/or state common law. As a result, private individuals or public entities may seek to enforce environmental laws and regulations against us and could allege personal injury, property damages, or other liabilities. While we are currently not a party to any such litigation, we could be named in actions making similar allegations. An unfavorable ruling in any such case could significantly impact our operations and could have an adverse impact on our financial condition.

Reputation Risk. Climate change has been identified as a potential source of reputational risk tied to changing customer or community perceptions of an organization's contribution to or detraction from the transition to a lower-carbon economy. This could lower demand for our oil and gas production, resulting in lower prices and lower revenues as consumers avoid carbon-intensive industries. This may also put pressure on investment managers to shift investments to less carbon-intensive industries and alternative energy industries, limiting our access to capital.

Physical Risks. Potential physical risks resulting from climate change may be event driven (including increased severity of extreme weather events, such as hurricanes or floods) or longer-term shifts in climate patterns that may cause sea level rise or chronic heat waves. Potential physical risks may cause direct damage to assets and indirect impacts such as supply chain disruption. Potential physical risks also include changes in water availability, sourcing, and quality, which could impact drilling and completions operations. These physical risks could cause increased costs, production disruptions, and lower revenues.

Legislation or regulatory initiatives intended to address seismic activity could restrict our ability to engage in hydraulic fracturing during completion operations and to dispose of saltwater produced in connection with our oil and gas production, which could limit our ability to produce oil and gas economically and have a material adverse effect on our business.

We dispose of large volumes of saltwater produced in connection with our drilling and production operations pursuant to permits issued to us or third-party operators of disposal wells by governmental authorities overseeing produced water disposal activities. While these permits are issued pursuant to existing laws and regulations, these legal requirements are subject to change, which could result in the imposition of more stringent operating constraints or new monitoring and reporting requirements, owing to, among other things, concerns of the public or governmental authorities regarding such gathering or disposal activities.

There exists a growing concern that hydraulic fracturing during well completion operations and the injection of produced water into underground disposal wells triggers seismic activity in certain areas, including Oklahoma and Texas, where we operate. In response to these concerns, regulators in some states are pursuing initiatives designed to impose additional requirements in connection with hydraulic fracturing and in the permitting of saltwater disposal wells or otherwise to assess any relationship between seismicity and these oil and gas operations. For example, in 2014, the Oklahoma Corporation Commission began adopting rules for operators of saltwater disposal wells in certain seismically-active areas, or Areas of Interest, in the Arbuckle formation, requiring operators to monitor and record well pressure and discharge volume on a daily basis and further requiring operators of wells permitted for disposal of 20,000 barrels per day or more of saltwater to conduct mechanical integrity testing. Throughout 2015 and 2016, the Oklahoma Corporation Commission's Oil and Gas Conservation Division, or OGCD, issued a series of directives, expanding the areas of interest for induced seismicity and enhanced disposal restrictions and limiting the depths at which produced water could be injected or, in the alternative, reducing disposal volumes. Additional regulations and restrictions are possible as more is understood about this issue. In addition to and separate from induced seismicity associated with injection, the OGCD has issued guidelines to operators to follow when engaged in well stimulation activities, which some studies now seem to correlate with a small number of low intensity seismic events.

In addition, in 2014 the Texas Railroad Commission, or TRC, published a new rule governing permitting or re-permitting of disposal wells in Texas that would require, among other things, the submission of information on seismic events occurring within a specified radius of the disposal well location, as well as logs, geologic cross sections, and structure maps relating to the disposal area in question. If a permittee or a prospective permittee fails to demonstrate that the saltwater or other fluids are confined to the disposal zone or if scientific data indicates such a disposal well is likely to be or determined to be contributing to seismic activity, then the TRC may deny, modify, suspend, or terminate the permit application or existing operating permit for that well.

The adoption and implementation of any new laws, regulations, or directives that restrict our ability to stimulate wells or to dispose of produced water, by changing the depths of disposal wells, reducing the volume of oil and gas wastewater disposed in such wells, restricting disposal well locations or otherwise, or by requiring us or third parties who dispose of our saltwater to shut down disposal wells, could increase disposal costs or require us to shut in a substantial number of our oil and gas wells or otherwise have a material adverse effect on our ability to produce oil and gas economically and, accordingly, could materially and adversely affect our business, financial condition, and results of operations. We could also face lawsuits alleging that seismic activity occurred as a result of completions or water disposal activities, resulting in damage to persons and property.

A substantial portion of our producing properties are located in limited geographic areas, making us vulnerable to risks associated with having geographically concentrated operations.

A substantial portion of our producing properties are geographically concentrated in the Permian Basin in Texas and New Mexico and our Cana area in the Mid-Continent region in Oklahoma, with these two areas comprising approximately 57% and 43%, respectively, of our oil, gas, and NGL production and approximately 64% and 36%, respectively, of our oil, gas, and NGL revenues for the year ended December 31, 2018. Approximately 57% of our estimated proved reserves were located in the Permian Basin and approximately 43% of our estimated proved reserves were located in the Mid-Continent region as of December 31, 2018.

Because of this concentration in limited geographic areas, the success and profitability of our operations may be disproportionately exposed to regional factors relative to our competitors that have more geographically dispersed operations. These factors include, among others: (i) the prices of oil and gas produced from wells in the regions and other regional supply and demand factors, including gathering, pipeline, and rail transportation capacity constraints; (ii) the availability of rigs, equipment, oil field services, supplies, and labor; (iii) the availability of processing and refining facilities; and (iv) infrastructure capacity. In addition, our operations in the Permian Basin and Mid-Continent region, as well as other areas, may be adversely affected by severe weather events such as floods, lightning, ice and other storms, and tornadoes, which can intensify competition for the items described above during months when drilling is possible and may result in periodic shortages. The concentration of our operations in limited geographic areas also increases our exposure to changes in local laws and regulations including concerning hydraulic fracturing and wastewater disposal as discussed above in "Legislation or regulatory initiatives intended to address seismic activity could restrict our ability to engage in hydraulic fracturing during completion operations and to dispose of saltwater produced in connection with our oil and gas production, which could limit our ability to produce oil and gas economically and have a material adverse effect on our business", certain lease stipulations designed to protect wildlife, and unexpected events that may occur in the regions such as natural disasters, seismic events, industrial accidents, or labor difficulties. Any one of these events has the potential to cause producing wells to be shut-in, delay operations, decrease cash flows, increase operating and capital costs and prevent development of lease inventory before expiration. Any of the risks described above could have a material adverse effect on our financial condition, results of operations, and cash flows.

We use some of the latest available horizontal drilling and completion techniques, which involve risk and uncertainty in their application.

Our horizontal drilling operations utilize some of the latest drilling and completion techniques. The risks of such techniques include, but are not limited to, the following:

- landing the wellbore in the desired drilling zone;
- staying in the desired drilling zone while drilling horizontally through the formation;
- running casing the entire length of the wellbore;

- being able to run tools and other equipment consistently through the horizontal wellbore;
- the ability to fracture stimulate the planned number of stages;
- the ability to run tools the entire length of the wellbore during completion operations; and
- the ability to successfully clean out the wellbore after completion of the final fracture stimulation stage.

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Any of the above factors could have a material adverse effect on our financial position, results of operations, or cash flows.

Many of our properties are in areas that may have been partially depleted or drained by offset wells and certain of our wells may be adversely affected by actions other operators may take when drilling, completing, or operating wells that they own.

Many of our properties are in areas that may have already been partially depleted or drained by earlier offset drilling. The owners of leasehold interests adjoining any of our properties could take actions, such as drilling and completing additional wells, which could adversely affect our operations. When a new well is completed and produced, the pressure differential in the vicinity of the well causes the migration of reservoir fluids toward the new wellbore (and potentially away from existing wellbores). As a result, the drilling and production of these potential locations could cause a depletion of our proved reserves and may inhibit our ability to further develop our proved reserves. In addition, completion operations and other activities conducted on adjacent or nearby wells could cause production from our wells to be shut in for indefinite periods of time, could result in increased lease operating expenses and could adversely affect the production and reserves from our wells after they re-commence production. We have no control over the operations or activities of offsetting operators.

We may be subject to information technology system failures, network disruptions, and breaches in data security and our business, financial position, results of operations, and cash flows could be negatively affected by such security threats and disruptions.

As an oil and gas producer, we face various security threats, including cybersecurity threats such as attempts to gain unauthorized access to sensitive information or to render data or systems unusable; threats to the security of our facilities and infrastructure or third-party facilities and infrastructure, such as gathering and processing facilities, pipelines and refineries; and threats from terrorist acts. Cybersecurity attacks are becoming more sophisticated and include, but are not limited to, malicious software, attempts to gain unauthorized access to data and systems, and other electronic security breaches that could lead to disruptions in critical systems, unauthorized release of confidential or otherwise protected information, and corruption of data, and “ransomware” attacks where data is locked unless a payment is made, any of which could have an adverse effect on our reputation, business, financial condition, results of operations, or cash flows. While we have not suffered any material losses relating to such attacks, there can be no assurance that we will not suffer such losses in the future.

We rely heavily on our information systems, and the availability and integrity of these systems are essential for us to conduct our business and operations. In addition to cybersecurity and data security threats, other information system failures and network disruptions could have a material adverse effect on our ability to conduct our business. We could experience system failures due to power or telecommunications failures, human error, natural disasters, fire, sabotage, hardware or software malfunction or defects, computer viruses, intentional acts of vandalism or terrorism and similar acts or occurrences. Such system failures could result in the unanticipated disruption of our operations, communications, or processing of transactions, as well as loss of, or damage to, sensitive information, facilities, infrastructure and systems essential to our business and operations, the failure to meet regulatory standards and the reporting of our financial results, and other disruptions to our operations, which, in turn, could have a material adverse effect on our business, financial position, results of operations, and cash flows.

A cyber attack involving our information systems and related infrastructure, or those of our business associates, could disrupt our business and negatively impact our operations in a variety of ways, including but not limited to:

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unauthorized access to seismic data, reserves information, strategic information, or other sensitive or proprietary information could have a negative impact on our ability to compete for oil and gas resources;

- data corruption or operational disruption of production-related infrastructure could result in a loss of production, or accidental discharge;
- a cyber attack on a vendor or service provider could result in supply chain disruptions, which could delay or halt our major development projects;
- a cyber attack on third-party gathering, pipeline, or rail transportation systems could delay or prevent us from transporting and marketing our production, resulting in a loss of revenues; and

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- a cyber attack on our accounting or accounts payable systems could expose us to liability to employees and third parties if their personal identifying information is obtained.

These events could damage our reputation and lead to financial losses from remedial actions, loss of business, or potential liability, which could have a material adverse effect on our financial condition, results of operations, or cash flows.

While management has taken steps to address these concerns by implementing network security and internal control measures to monitor and mitigate security threats and to increase security for our information, facilities, and infrastructure, our implementation of such procedures and controls may result in increased costs, and there can be no assurance that a system failure or data security breach will not occur and have a material adverse effect on our business, financial condition, and results of operations. In addition, as cybersecurity threats continue to evolve, we may be required to expend additional resources to continue to modify or enhance our protective measures or to investigate or remediate any cybersecurity or information technology infrastructure vulnerabilities.

Our limited ability to influence operations and associated costs on non-operated properties could result in economic losses that are partially beyond our control.

For the year ended December 31, 2018, other companies operated approximately 19% of our net production. Our success in properties operated by others depends upon a number of factors outside of our control. These factors include timing and amount of capital expenditures, the operator's expertise and financial resources, approval of other participants in drilling wells, selection of technology, and maintenance of safety and environmental standards. Our dependence on the operator and other working interest owners for these projects could prevent the realization of our targeted returns on capital in drilling or acquisition activities.

Our business involves many operating risks that may result in substantial losses for which insurance may be unavailable or inadequate.

Our operations are subject to hazards and risks inherent in drilling for oil and gas, such as fires, natural disasters, explosions, formations with abnormal pressures, casing collapses, uncontrollable flows of underground gas, blowouts, surface cratering, pipeline ruptures, or cement failures. Other such risks include theft, vandalism, and environmental hazards such as gas leaks, oil spills, and discharges of toxic gases. Any of these risks can cause substantial losses resulting from:

- injury or loss of life;
- damage to, loss of or destruction of, property, natural resources and equipment;
- pollution and other environmental damages;
- regulatory investigations, civil litigation, and penalties;
- damage to our reputation;
- suspension of our operations; and
- costs related to repair and remediation.

In addition, our liability for environmental hazards may include conditions created by the previous owners of properties that we purchase or lease.

We maintain insurance coverage against some, but not all, potential losses. We do not believe that insurance coverage for all environmental damages that could occur is available at a reasonable cost. Losses could occur for uninsurable or uninsured risks, or in amounts in excess of existing insurance coverage. The occurrence of an event that is not fully covered by insurance could harm our financial condition and results of operation.

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We may not be able to generate enough cash flow to meet our debt obligations.

At December 31, 2018, our long-term debt consisted of $750 million of 4.375% senior notes due in 2024 and $750 million of 3.90% senior notes due in 2027. In addition to interest expense and principal on our long-term debt, we have demands on our cash resources including, among others, capital expenditures, operating expenses, and contractual commitments, as well as the pending anticipated closing of the acquisition of Resolute in the first quarter of 2019.

Our ability to pay the principal and interest on our long-term debt and to satisfy our other liabilities will depend upon future performance and our ability to repay or refinance our debt as it becomes due. Our future operating performance and ability to refinance will be affected by economic and capital market conditions, results of operations, and other factors, many of which are beyond our control. Our ability to meet our debt service obligations also may be impacted by changes in prevailing interest rates, as borrowing under our existing revolving credit facility bears interest at floating rates.

We may not generate sufficient cash flow from operations. Without sufficient cash flow, there may not be adequate future sources of capital to enable us to service our indebtedness or to fund our other liquidity needs. If we are unable to service our indebtedness and fund our operating costs, we will be forced to adopt alternative strategies that may include:

- reducing or delaying capital expenditures;
- seeking additional debt financing or equity capital;
- selling assets; or
- restructuring or refinancing debt.

We may be unable to complete any such strategies on satisfactory terms, if at all. Our inability to generate sufficient cash flows to satisfy our debt obligations or contractual commitments, or to refinance our indebtedness on commercially reasonable terms, would materially and adversely affect our financial condition and results of operations.

The instruments governing our indebtedness contain various covenants limiting the discretion of our management in operating our business.

The indenture governing our senior notes and our credit agreement contain various restrictive covenants that may limit management’s discretion in certain respects. In particular, these agreements limit Cimarex’s and its subsidiaries’ ability to, among other things:

- create certain liens;
- consolidate, merge, or transfer all, or substantially all, of our assets and our restricted subsidiaries; or
- enter into sale and leaseback transactions.

In addition, our revolving credit agreement requires us to maintain a total debt to capitalization ratio (as defined in the credit agreement) of not more than 65%. See Note 3 to the Consolidated Financial Statements for further information.

If we fail to comply with the restrictions in the indenture governing our senior notes or the agreement governing our credit facility or any other subsequent financing agreements, a default may allow the creditors, if the agreements so provide, to accelerate the related indebtedness as well as any other indebtedness to which a cross-acceleration or cross-default provision applies. In addition, lenders may be able to terminate any commitments they had made to make available further funds.

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Our acquisition activities may not be successful, which may hinder our replacement of reserves and adversely affect our results of operations.

The successful acquisition of properties requires an assessment of several factors, including:

- geological risks and recoverable reserves;
- future oil and gas prices and their appropriate market differentials;
- operating costs; and
- potential environmental risks and other liabilities.

The accuracy of these assessments is inherently uncertain. In connection with these assessments, we perform a review of the subject properties we believe to be generally consistent with industry practices. Our review will not reveal all existing or potential problems nor will it permit us to become sufficiently familiar with the properties to fully assess their deficiencies and capabilities. Inspections will not likely be performed on every well or facility, and structural and environmental problems are not necessarily observable even when an inspection is undertaken. Furthermore, the seller may be unwilling or unable, such as in a corporate acquisition such as our acquisition of Resolute, to provide effective contractual protection against all or part of the identified problems. For additional risks related to our pending acquisition of Resolute, see below "Risks Concerning Cimarex's Pending Merger with Resolute Energy Corporation."

We may lose leases if production is not established within the time periods specified in the leases.

Unless production is established within the spacing units covering the undeveloped acres on which some of the locations are identified, the leases for such acreage will expire and the amounts spent for those leases will be lost. The combined net acreage expiring in the next three years represents approximately 4.7% of our total net undeveloped acreage at December 31, 2018. At that date, we had leases representing 193,180 net acres expiring in 2019, 55,978 net acres expiring in 2020, and 21,598 net acres expiring in 2021. Our actual drilling activities may materially differ from those presently identified, which could adversely affect our business.

Our disposition activities may be subject to factors beyond our control, and in certain cases we may retain unforeseen liabilities for certain matters.

We regularly sell non-core assets in order to increase capital resources available for other core assets and to create organizational and operational efficiencies. We also occasionally sell interests in core assets for the purpose of accelerating the development of and increasing efficiencies in such core assets. Various factors could materially affect our ability to dispose of such assets, including the approvals of governmental agencies or third parties, and the availability of purchasers willing to acquire the assets with terms we deem acceptable.

Sellers at times retain certain liabilities or agree to indemnify buyers for certain matters related to the sold assets. The magnitude of any such retained liability or indemnification obligation is difficult to quantify at the time of the transaction and ultimately could be material. Also, as is typical in divestiture transactions, third parties may be unwilling to release the company from guarantees or other credit support provided prior to the sale of the divested assets. As a result, after a divestiture, the company may remain secondarily liable for the obligations guaranteed or supported to the extent that the buyer of the assets fails to perform these obligations. In addition, with respect to offshore assets, if purchasers declare bankruptcy, the United States Department of Interior may pursue former owners for decommissioning expenses, which can be substantial. See Note 8 to the Consolidated Financial Statements for further discussion regarding our asset retirement obligations.

Competition for experienced technical personnel may negatively impact our operations.

Our exploratory and development drilling success depends, in part, on our ability to attract and retain experienced professional personnel. The loss of any key executives or other key personnel could have a material adverse effect on our operations. As we continue to develop our asset base and the scope of our operations, our future profitability will depend on our ability to attract and retain qualified personnel, particularly individuals with a strong background in geology, geophysics, engineering, and operations.

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We are involved in various legal proceedings, the outcome of which could have an adverse effect on our liquidity.

In the normal course of business, we are involved with various lawsuits and related disputed claims, including but not limited to claims concerning title, royalty payments, environmental issues, personal injuries, and contractual issues. Although we currently believe the resolution of these lawsuits and claims, individually or in the aggregate, would not have a material adverse effect on our financial condition or results of operations, our assessment of our current litigation and other legal proceedings could change in light of the discovery of facts with respect to legal actions or other proceedings pending against us not presently known to us or determinations by judges, juries, or other finders of fact that are not in accord with our evaluation of the possible liability or outcome of such proceedings. Therefore, there can be no assurance that outcomes of future legal proceedings would not have an adverse effect on our liquidity and capital resources. For litigation risks related to our pending acquisition of Resolute, see below "Risks Concerning Cimarex's Pending Merger with Resolute Energy Corporation."

Certain federal income tax deductions currently available with respect to oil and gas exploration and development may be limited or eliminated as a result of recently enacted or future legislation.

On December 22, 2017, the United States enacted H.R.1, commonly referred to as the Tax Cuts and Jobs Act or U.S. Tax Reform. H.R.1, among other things, includes changes to U.S. federal tax rates, imposes new limitations on the utilization of net operating losses and the deductibility of interest and executive compensation, temporarily allows for the expensing of capital expenditures, and eliminates the corporate Alternative Minimum Tax. Various proposed regulations have been issued regarding H.R.1. Until final regulations are issued the full impact of changes to the company is not known at this time. In addition, various proposals have been made recommending the elimination of certain key U.S. federal income tax incentives currently available to oil and gas exploration and production companies. Future legislation may be introduced in Congress which would implement many of these proposals. These changes include, but are not limited to: (i) the repeal of the percentage depletion allowance for oil and gas properties; (ii) the elimination of current deductions for intangible drilling and development costs; and (iii) an extension of the amortization period for certain geological and geophysical expenditures. It is unclear, however, whether any such changes will be enacted or how soon such changes could be effective.

The passage of this legislation or any other similar change in U.S. federal income tax law could eliminate or postpone certain tax deductions that are currently available with respect to oil and gas exploration and development, and any such change could have an adverse effect on our financial position, results of operations, and cash flows, including the payment of cash taxes earlier than expected.

Risks Concerning Cimarex's Pending Merger with Resolute Energy Corporation

The merger is subject to conditions, including certain conditions that may not be satisfied, or completed on a timely basis, if at all.

The merger is subject to a number of other conditions beyond Cimarex's and Resolute's control that may prevent, delay, or otherwise materially adversely affect its completion, including the approval of the merger proposal by Resolute's stockholders at its meeting currently scheduled for February 22, 2019. Neither Cimarex nor Resolute can predict whether and when these other conditions will be satisfied. Any delay in completing the merger could cause the combined company not to realize some or all of the synergies expected to be achieved if the merger is successfully completed within its expected time frame.

Cimarex and Resolute will incur substantial transaction fees and merger-related costs in connection with the merger.

Cimarex and Resolute have incurred and expect to continue to incur non-recurring transaction fees, which include legal and advisory fees and substantial merger-related costs associated with completing the merger, combining the operations of the two companies, and achieving desired synergies. Additional unanticipated costs may be incurred in the course of the integration of the businesses of Cimarex and Resolute. The companies cannot be certain that the realization of other benefits related to the integration of the two businesses will offset the transaction and merger-related costs in the near term, or at all.

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Completion of the merger may trigger change in control or other provisions in certain agreements to which Resolute is a party.

The completion of the merger may trigger change in control or other provisions in certain agreements to which Resolute is a party. If Cimarex and Resolute are unable to negotiate waivers of those provisions, the counterparties may exercise their rights and remedies under the agreements, potentially terminating the agreements or seeking monetary damages. Even if Cimarex and Resolute are able to negotiate waivers, the counterparties may require a fee for such waivers or seek to renegotiate the agreements on terms less favorable to Resolute or the combined company.

Lawsuits have been filed against Resolute, the directors of Resolute, Cimarex, and the subsidiaries of Cimarex created to effect the acquisition of Resolute challenging the adequacy of the disclosures made in the proxy statement/prospectus concerning the merger and an adverse ruling in one or more of these lawsuits may prevent the merger from being completed.

As of January 25, 2019, Resolute, the directors of Resolute, and in two of the cases, Cimarex, Merger Sub 1, and Merger Sub 2, have been named as defendants in five purported stockholder class actions challenging the adequacy of the disclosures to Resolute stockholders made in the proxy statement/prospectus concerning the merger. Three complaints were filed in the U.S. District Court for the District of Delaware, one complaint was filed in the U.S. District Court for the Southern District of New York, and one complaint was filed in U.S. District Court for the District of Colorado. Additional lawsuits arising out of the merger may be filed in the future. There can be no assurance that defendants will be successful in the outcome of the pending or any potential future lawsuits. A preliminary injunction could delay or jeopardize the completion of the merger.

Risks Relating to the Combined Company Following the Merger

If completed, the merger may not achieve its intended results, and Cimarex and Resolute may be unable to successfully integrate their operations.

Cimarex and Resolute entered into the merger agreement with the expectation that the merger will result in various benefits, including, among other things, expanding Cimarex’s asset base and creating synergies. Achieving the anticipated benefits of the merger is subject to a number of uncertainties, including whether the businesses of Cimarex and Resolute can be integrated in an efficient and effective manner.

It is possible that the integration process could take longer than anticipated and could result in the loss of valuable employees, the disruption of each company’s ongoing businesses, processes, and systems or inconsistencies in standards, controls, procedures, practices, policies, and compensation arrangements, any of which could adversely affect the combined company’s ability to achieve the anticipated benefits of the merger. The combined company’s results of operations could also be adversely affected by any issues attributable to either company’s operations that arise from or are based on events or actions that occur prior to the closing of the merger. The companies may have difficulty addressing possible differences in corporate cultures and management philosophies. The integration process is subject to a number of uncertainties, and no assurance can be given whether anticipated benefits will be realized or, if realized, the timing of their realization. Failure to achieve these anticipated benefits could result in increased costs or decreases in the amount of expected revenues and could adversely affect the combined company’s future business, financial condition, operating results, and prospects.

The combined company is expected to incur expenses related to the integration of Cimarex and Resolute.

The combined company is expected to incur expenses in connection with the integration of Cimarex and Resolute. There are a large number of processes, policies, procedures, operations, technologies, and systems that must be integrated, including purchasing, accounting and finance, sales, billing, payroll, pricing, revenue management, maintenance, marketing, and benefits. While Cimarex and Resolute have assumed that a certain level of expenses will be incurred, there are many factors beyond their control that could affect the total amount or the timing of the integration expenses. Moreover, many of the expenses that will be incurred are, by their nature, difficult to estimate accurately. These integration expenses likely will result in the combined company taking charges against earnings following the completion of the merger, and the amount and timing of such charges are uncertain at present.

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Uncertainties associated with the merger may cause a loss of management personnel and other key employees, which could adversely affect the future business and operations of the combined company.

Cimarex and Resolute are dependent on the experience and industry knowledge of their officers and other key employees to execute their business plans. Each company's success until the merger and the combined company's success after the merger will depend in part upon the ability of Cimarex and Resolute to retain key management personnel and other key employees. Current and prospective employees of Cimarex and Resolute may experience uncertainty about their roles within the combined company following the merger, which may have an adverse effect on the ability of Cimarex and Resolute to attract or retain key management and other key personnel. Accordingly, no assurance can be given that the combined company will be able to attract or retain key management personnel and other key employees of Cimarex and Resolute to the same extent that Cimarex and Resolute have previously been able to attract or retain their own employees.

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ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 3. LEGAL PROCEEDINGS

The information set forth under the heading “Litigation” in Note 10 to the Consolidated Financial Statements included in Part II, Item 8 of this Form 10-K, is incorporated by reference in response to this item. For information regarding litigation related to the pending acquisition of Resolute, which Cimarex believes is without merit and intends to defend vigorously, see “Risk Factors—Risks Concerning Cimarex’s Pending Merger with Resolute Energy Corporation.” Cimarex does not believe the ultimate resolution of the pending acquisition litigation will have a material adverse effect on our financial condition or results of operations.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

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PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our $0.01 par value common stock trades on the New York Stock Exchange ("NYSE") under the symbol XEC. A cash dividend was paid to stockholders in each quarter of 2018. Future dividend payments will depend on the company's level of earnings, financial requirements, and other factors considered relevant by the Board of Directors.

The closing price of Cimarex stock as reported on the NYSE on January 31, 2019, was $75.34. At January 31, 2019, Cimarex's 95,755,298 shares of outstanding common stock were held by approximately 1,618 stockholders of record.

Issuer Purchases of Equity Securities

The following table sets forth information regarding repurchases of our common stock during the year ended December 31, 2018. The shares repurchased represent shares of our common stock that employees elected to surrender to satisfy their tax withholding obligations upon the vesting of shares of restricted stock. Cimarex does not consider this a share buyback program.

Period	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
January 1-31, 2018	2,421	$126.16	—	—
April 1-30, 2018	3,527	98.86	—	—
May 1-31, 2018	2,970	98.37	—	—
July 1-31, 2018	49,241	99.80	—	—
September 1-30, 2018	6,123	89.73	—	—
November 1-30, 2018	1,174	91.37	—	—
December 1-31, 2018	74,790	75.22	—	—
Total	140,246	$86.58	—	—

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Stock Performance Graph

The following graph shows the cumulative five-year total return on Cimarex Energy Co.'s common stock relative to the cumulative total returns of the S&P 500 index, the Dow Jones US Exploration & Production index, and the S&P Oil & Gas Exploration & Production index. The graph tracks the performance of a $100 investment in our common stock and in each of the indexes (with the reinvestment of all dividends) from December 31, 2013 to December 31, 2018. The stock price performance included in this graph is not necessarily indicative of future stock price performance.

COMPARISON OF FIVE-YEAR CUMULATIVE TOTAL RETURN*
Among Cimarex Energy Co., the S&P 500 Index,
the Dow Jones US Exploration & Production Index, and the S&P Oil & Gas Exploration & Production Index
* $100 invested in 12/31/13 in stock or index, including reinvestment of dividends. Fiscal year ending December 31.

A tabular presentation of the data in the above graph is provided below.

	2013	2014	2015	2016	2017	2018
Cimarex Energy Co.	$100.00	$101.56	$86.11	$131.44	$118.33	$60.17
S&P 500	$100.00	$113.69	$115.26	$129.05	$157.22	$150.33
Dow Jones US Exploration & Production	$100.00	$89.23	$68.05	$84.71	$85.81	$70.57
S&P Oil & Gas Exploration & Production	$100.00	$89.41	$58.87	$78.22	$73.29	$58.99

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ITEM 6. SELECTED FINANCIAL DATA

The selected financial data set forth below should be read in conjunction with the Consolidated Financial Statements and accompanying notes thereto provided in Item 8 of this report.

	Years Ended December 31,				
	2018	2017	2016	2015	2014
	(in thousands, except per share amounts)				
Operating results:					
Oil, gas, and NGL sales	$2,297,645	$1,874,003	$1,221,218	$1,417,538	$2,372,829
Total revenues (1)	$2,339,017	$1,918,249	$1,257,345	$1,452,619	$2,424,176
Net income (loss) (2)	$791,851	$494,329	$(408,803)	$(2,579,604)	$526,498
Earnings (loss) per share to common stockholders:					
Basic	$8.32	$5.19	$(4.38)	$(27.75)	$6.01
Diluted	$8.32	$5.19	$(4.38)	$(27.75)	$6.00
Cash dividends declared per share	$0.68	$0.32	$0.32	$0.64	$0.64
Cash flow data:					
Net cash provided by operating activities (3)	$1,550,994	$1,096,564	$625,849	$725,728	$1,632,925
Net cash used by investing activities	$(1,085,618)	$(1,265,897)	$(692,410)	$(1,008,605)	$(1,740,467)
Net cash (used) provided by financing activities (3)	$(65,244)	$(83,009)	$(59,945)	$656,397	$508,873

	December 31,				
	2018	2017	2016	2015	2014
	(in thousands, except proved reserves amounts)				
Balance sheet data:					
Cash and cash equivalents	$800,666	$400,534	$652,876	$779,382	$405,862
Oil and gas properties, net (2)	$3,715,330	$3,241,530	$2,354,267	$2,741,282	$6,637,796
Goodwill	$620,232	$620,232	$620,232	$620,232	$620,232
Total assets (2) (4)	$6,062,084	$5,042,639	$4,237,724	$4,708,422	$8,442,554
Deferred income tax liability (asset)	$334,473	$101,618	$(55,835)	$157,162	$1,657,456
Long-term obligations:					
Long-term debt (principal)	$1,500,000	$1,500,000	$1,500,000	$1,500,000	$1,500,000
Other	$200,564	$206,249	$184,444	$197,216	$193,629
Stockholders' equity	$3,329,786	$2,568,278	$2,042,989	$2,458,357	