CIMAREX ENERGY CO
Form 10-Q
August 07, 2018
Table of Contents

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

FORM 10-Q

(Mark One)
ý Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the Quarterly Period ended June 30, 2018
or
o Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from _______________ to _______________

Commission File No. 001-31446
CIMAREX ENERGY CO.
(Exact name of registrant as specified in its charter)

Delaware	45-0466694
(State of other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1700 Lincoln Street, Suite 3700, Denver, Colorado	80203
(Address of principal executive offices)	(Zip Code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No o
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes ý No o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ý	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	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 Exchange Act).

Yes o No ý

The number of shares of Cimarex Energy Co. common stock outstanding as of July 31, 2018 was 95,356,074.

CIMAREX ENERGY CO.
Table of Contents

		Page
PART I — FINANCIAL INFORMATION		
Item 1.	Financial Statements	
	Condensed Consolidated Balance Sheets (Unaudited) as of June 30, 2018 and December 31, 2017	4
	Condensed Consolidated Statements of Operations and Comprehensive Income (Unaudited) for the three and six months ended June 30, 2018 and 2017	5
	Condensed Consolidated Statements of Cash Flows (Unaudited) for the six months ended June 30, 2018 and 2017	6
	Condensed Consolidated Statement of Stockholders' Equity (Unaudited) for the six months ended June 30, 2018	7
	Notes to Condensed Consolidated Financial Statements (Unaudited)	8
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	22
Item 3.	Quantitative and Qualitative Disclosures about Market Risk	38
Item 4.	Controls and Procedures	39
PART II — OTHER INFORMATION		
Item 1.	Legal Proceedings	40
Item 1A.	Risk Factors	40
Item 6.	Exhibits	40
Signatures		41

Table of Contents

GLOSSARY

Bbls—Barrels
Bcf—Billion cubic feet
BOE—Barrels of oil equivalent
Gross Wells—The total wells in which a working interest is owned.
MBbls—Thousand barrels
MBOE—Thousand barrels of oil equivalent
Mcf—Thousand cubic feet
MMBtu—Million British thermal units
MMcf—Million cubic feet
Net Wells—The sum of the fractional working interest owned in gross wells expressed in whole numbers and fractions of whole numbers.
NGL or NGLs—Natural gas liquids
Energy equivalent is determined using the ratio of one barrel of crude oil, condensate, or NGL to six Mcf of natural gas

CAUTIONARY INFORMATION ABOUT FORWARD-LOOKING STATEMENTS

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

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

Table of Contents

PART I
ITEM 1. - Financial Statements
CIMAREX ENERGY CO.
Condensed Consolidated Balance Sheets
(in thousands, except share and per share information)
(Unaudited)

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

Derivative instruments	11,511	4,268
Other liabilities	47,768	43,560
Total liabilities	2,644,895	2,474,361
Commitments and contingencies (Note 10)		
Stockholders’ equity:		
Preferred stock, $0.01 par value, 15,000,000 shares authorized, no shares issued	—	—
Common stock, $0.01 par value, 200,000,000 shares authorized, 95,392,547 and 95,437,434 shares issued, respectively	954	954
Additional paid-in capital	2,770,532	2,764,384
Retained earnings (accumulated deficit)	112,811	(199,259)
Accumulated other comprehensive income	2,201	2,199
Total stockholders’ equity	2,886,498	2,568,278
	$5,531,393	$5,042,639

See accompanying Notes to Condensed Consolidated Financial Statements.

4

Table of Contents

CIMAREX ENERGY CO.
Condensed Consolidated Statements of Operations and Comprehensive Income
(in thousands, except per share information)
(Unaudited)

	Three Months Ended June 30, 2018	Three Months Ended June 30, 2017	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017
Revenues:				
Oil sales	$342,184	$232,453	$693,907	$456,519
Gas and NGL sales	202,202	213,360	405,920	425,731
Gas gathering and other	11,810	10,735	23,262	21,360
Gas marketing	78	(96)	319	18
	556,274	456,452	1,123,408	903,628
Costs and expenses:				
Depreciation, depletion, and amortization	143,388	107,884	276,247	203,700
Asset retirement obligation	2,053	960	3,113	2,580
Production	79,215	62,578	150,486	124,999
Transportation, processing, and other operating	51,933	58,624	97,098	113,647
Gas gathering and other	9,467	8,647	19,290	17,074
Taxes other than income	27,930	17,477	58,118	38,790
General and administrative	19,739	19,762	43,060	37,796
Stock compensation	3,095	6,293	9,825	12,581
Loss (gain) on derivative instruments, net	21,699	(22,509)	17,540	(66,370)
Other operating expense, net	5,252	266	5,455	882
	363,771	259,982	680,232	485,679
Operating income	192,503	196,470	443,176	417,949
Other (income) and expense:				
Interest expense	16,895	20,095	33,678	41,147
Capitalized interest	(4,850)	(5,442)	(9,660)	(12,083)
Loss on early extinguishment of debt	—	28,169	—	28,169
Other, net	(2,605)	(2,231)	(7,172)	(4,441)
Income before income tax	183,063	155,879	426,330	365,157
Income tax expense	42,066	58,617	99,015	136,923
Net income	$140,997	$97,262	$327,315	$228,234
Earnings per share to common stockholders:				
Basic	$1.48	$1.02	$3.44	$2.40
Diluted	$1.48	$1.02	$3.44	$2.40
Dividends declared per share	$0.16	$0.08	$0.32	$0.16
Comprehensive income:				
Net income	$140,997	$97,262	$327,315	$228,234
Other comprehensive income:				
Change in fair value of investments, net of tax of $57, $128, $1, and $359, respectively	192	224	2	626
Total comprehensive income	$141,189	$97,486	$327,317	$228,860

See accompanying Notes to Condensed Consolidated Financial Statements.
5

Table of Contents

CIMAREX ENERGY CO.
Condensed Consolidated Statements of Cash Flows
(in thousands)
(Unaudited)

	Six Months Ended June 30,	
	2018	2017
Cash flows from operating activities:		
Net income	$327,315	$228,234
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion, and amortization	276,247	203,700
Asset retirement obligation	3,113	2,580
Deferred income taxes	99,732	136,929
Stock compensation	9,825	12,581
Loss (gain) on derivative instruments, net	17,540	(66,370)
Settlements on derivative instruments	(19,919)	(5,717)
Loss on early extinguishment of debt	—	28,169
Changes in non-current assets and liabilities	713	1,076
Other, net	2,179	3,445
Changes in operating assets and liabilities:		
Accounts receivable	15,012	(61,145)
Other current assets	1,886	(11,104)
Accounts payable and other current liabilities	(29,304)	32,422
Net cash provided by operating activities	704,339	504,800
Cash flows from investing activities:		
Oil and gas capital expenditures	(650,807)	(582,172)
Other capital expenditures	(56,112)	(18,209)
Sales of oil and gas assets	34,842	9,163
Sales of other assets	525	394
Net cash used by investing activities	(671,552)	(590,824)
Cash flows from financing activities:		
Borrowings of long-term debt	—	748,110
Repayments of long-term debt	—	(750,000)
Call premium, financing, and underwriting fees	—	(29,035)
Dividends paid	(22,801)	(15,153)
Employee withholding taxes paid upon the net settlement of equity-classified stock awards	(946)	(1,215)
Proceeds from exercise of stock options	1,249	36
Net cash used by financing activities	(22,498)	(47,257)
Net change in cash and cash equivalents	10,289	(133,281)
Cash and cash equivalents at beginning of period	400,534	652,876
Cash and cash equivalents at end of period	$410,823	$519,595

See accompanying Notes to Condensed Consolidated Financial Statements.
6

Table of Contents

CIMAREX ENERGY CO.
Condensed Consolidated Statement of Stockholders' Equity
(in thousands)
(Unaudited)

	Common Stock		Additional Paid-in	Retained Earnings (Accumulated	Accumulated Other Comprehensive	Total Stockholders'
	Shares	Amount	Capital	Deficit)	Income	Equity
Balance, December 31, 2017	95,437	$ 954	$ 2,764,384	$ (199,259)	$ 2,199	$ 2,568,278
Dividends paid on stock awards subsequently forfeited	—	—	29	17	—	46
Dividends	—	—	—	(15,262)	—	(15,262)
Dividends in excess of retained earnings	—	—	(15,250)	—	—	(15,250)
Net income	—	—	—	327,315	—	327,315
Unrealized change in fair value of investments, net of tax	—	—	—	—	2	2
Issuance of restricted stock awards	29	—	—	—	—	—
Common stock reacquired and retired	(8)	—	(946)	—	—	(946)
Restricted stock forfeited and retired	(82)	—	—	—	—	—
Exercise of stock options	17	—	1,249	—	—	1,249
Stock-based compensation	—	—	21,066	—	—	21,066
Balance, June 30, 2018	95,393	$ 954	$ 2,770,532	$ 112,811	$ 2,201	$ 2,886,498

See accompanying Notes to Condensed Consolidated Financial Statements.

1. BASIS OF PRESENTATION

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

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

Use of Estimates

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

Oil and Gas Well Equipment and Supplies

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

Oil and Gas Properties

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

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

8

Table of Contents
CIMAREX ENERGY CO.
Notes to Condensed Consolidated Financial Statements
June 30, 2018
(Unaudited)

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

	Three Months Ended June 30,			
	2018			2017
(in thousands)	Pre-ASC 606 Adoption	Impact of ASC 606	Post-ASC 606 Adoption	As Reported
Oil sales	$342,184	$—	$342,184	$232,453
Gas sales	84,727	(3,940)	80,787	132,474
NGL sales	125,126	(3,711)	121,415	80,886
Total oil, gas, and NGL sales	$552,037	$(7,651)	$544,386	$445,813
Transportation, processing, and other operating costs	$59,584	$(7,651)	$51,933	$58,624

	Six Months Ended June 30,			
	2018			2017
(in thousands)	Pre-ASC 606 Adoption	Impact of ASC 606	Post-ASC 606 Adoption	As Reported
Oil sales	$693,907	$—	$693,907	$456,519
Gas sales	197,404	(6,896)	190,508	264,419
NGL sales	230,739	(15,327)	215,412	161,312
Total oil, gas, and NGL sales	$1,122,050	$(22,223)	$1,099,827	$882,250
Transportation, processing, and other operating costs	$119,321	$(22,223)	$97,098	$113,647

Revenue is recognized from the sales of oil, gas, and NGLs when the customer obtains control of the product, when we have no further obligations to perform related to the sale, and when collectability is probable. All of our sales of oil, gas, and NGLs are made under contracts with customers, which typically include variable consideration based on monthly pricing tied to local indices and monthly volumes delivered. The nature of our contracts with customers does not require us to constrain that variable consideration or to estimate the amount of transaction price attributable to future performance obligations for accounting purposes. As of June 30, 2018, we had open contracts with customers with terms of one month to multiple years, as well as "evergreen" contracts that renew on a periodic basis if not canceled by us or the customer. Performance obligations under our contracts with customers are typically satisfied at a point-in-time through monthly delivery of oil, gas, and/or NGLs. Our contracts with customers typically require payment within one month of delivery.

Our gas and NGLs are sold under a limited number of contract structure types common in our industry. Under these contracts the gas and its components, including NGLs, may be sold to a single purchaser or the residue gas and NGLs may be sold to separate purchasers. Regardless of the contract structure type, the terms of these contracts compensate us for the value of the residue gas and NGLs at current market prices for each product, and are disaggregated in the tables above on that basis. Our oil typically is sold at specific delivery points under contract terms that also are common in our industry.

Gas Gathering

When we transport and/or process third-party gas associated with our equity gas, we recognize revenue for the fees charged to third-parties for such services.

Gas Marketing

When we market and sell gas for working interest owners, we act as agent under short-term sales and supply agreements and may earn a fee for such services. Revenues from such services are recognized as gas is delivered.

Gas Imbalances

Revenue from the sale of gas is recorded on the basis of gas actually sold by us. If our aggregate sales volumes for a well are greater (or less) than our proportionate share of production from the well, a liability (or receivable) is established to the extent there are insufficient proved reserves available to make-up the overproduced (or underproduced) imbalance. Imbalances have not been significant in the periods presented.

Recently Issued Accounting Standards

In February 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-02, Leases (Topic 842). The key provision of this ASU is that a lessee must recognize on its balance sheet: (i) liabilities to make lease payments and (ii) right-of-use assets. The ASU permits lessees to make a policy election to not recognize lease assets and liabilities for leases with terms of less than 12 months. Under current generally accepted accounting principles, a determination of whether a lease is a capital or operating lease is made at lease inception and no assets or liabilities are recognized for operating leases. Under this ASU, the determination to be made at the inception of a contract is whether the contract is, or contains, a lease. Leases convey the right to control the use of an identified asset in exchange for consideration. Only the lease components of a contract must be accounted for in accordance with this ASU. Non-lease components, such as activities that transfer a good or service to the customer, shall be accounted for under other applicable Topics. An entity may make a policy election to not separate lease and non-lease components and account for the non-lease components together with the lease components as a single lease component. This ASU retains a distinction between finance and operating leases concerning the recognition and presentation of the expense and payments related to leases in the statements of operations and comprehensive income and cash flows, however, both types of leases require the recognition of assets and liabilities on the balance sheet. This ASU is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years, with early adoption permitted. We are evaluating the potential impact of adopting this guidance, but believe the primary effect will be to record assets and liabilities for contracts currently accounted for as operating leases. We do not intend to adopt the standard early.

In January 2018, the FASB issued ASU 2018-01, Leases (Topic 842) Land Easement Practical Expedient for Transition to Topic 842. This ASU provides an optional transition practical expedient to not evaluate under Topic 842 (discussed above) existing or expired land easements that were not previously accounted for as leases under the current leases guidance in Topic 840. An entity that elects this practical expedient should evaluate new or modified land easements under Topic 842 beginning at the date that the entity adopts Topic 842. Under the full cost method of accounting, we capitalize to oil and gas properties all property acquisition, exploration, and development costs, which include the costs of land easements. We plan to elect this practical expedient and continue to apply our current accounting policy to account for land easements that existed before our adoption of Topic 842 and will evaluate new or modified land easements under Topic 842 upon our adoption of Topic 842. We are evaluating the potential impact of adopting this guidance and do not intend to adopt the standard early.

2. LONG-TERM DEBT

Long-term debt at June 30, 2018 and December 31, 2017 consisted of the following:

(in thousands)	June 30, 2018 Principal	June 30, 2018 Unamortized Debt Issuance Costs and Discount (1)	June 30, 2018 Long-term Debt, net	December 31, 2017 Principal	December 31, 2017 Unamortized Debt Issuance Costs and Discount (1)	December 31, 2017 Long-term Debt, net
4.375% Senior Notes	$750,000	$ (4,906)	$745,094	$750,000	$ (5,383)	$744,617
3.90% Senior Notes	750,000	(7,355)	742,645	750,000	(7,697)	742,303
Total long-term debt	$1,500,000	$ (12,261)	$1,487,739	$1,500,000	$ (13,080)	$1,486,920

(1) At June 30, 2018, the unamortized debt issuance costs and discount related to the 3.90% notes were $5.7 million and $1.7 million, respectively. At December 31, 2017, the unamortized debt issuance costs and discount related to the 3.90% notes were $5.9 million and $1.8 million, respectively. The 4.375% notes were issued at par.

Bank Debt

We have a senior unsecured revolving credit facility (“Credit Facility”) that matures October 16, 2020. The Credit Facility has aggregate commitments of $1.0 billion, with an option for us to increase the aggregate commitments to $1.25 billion at any time. There is no borrowing base subject to the discretion of the lenders based on the value of our proved reserves under the Credit Facility. As of June 30, 2018, we had no bank borrowings outstanding under the Credit Facility, but did have letters of credit of $2.5 million outstanding, leaving an unused borrowing availability of $997.5 million.

At our option, borrowings under the Credit Facility may bear interest at either (a) LIBOR plus 1.125 – 2.0% based on the credit rating for our senior unsecured long-term debt, or (b) a base rate (as defined in the credit agreement) plus 0.125 – 1.0%, based on the credit rating for our senior unsecured long-term debt. Unused borrowings are subject to a commitment fee of 0.125 – 0.35%, based on the credit rating for our senior unsecured long-term debt.

The Credit Facility contains representations, warranties, covenants, and events of default that are customary for investment grade, senior unsecured bank credit agreements, including a financial covenant for the maintenance of a defined total debt-to-capital ratio of no greater than 65%. As of June 30, 2018, we were in compliance with all of the financial covenants.

At June 30, 2018 and December 31, 2017, we had $2.7 million and $3.4 million, respectively, of unamortized debt issuance costs associated with our Credit Facility, which were recorded as assets and included in Other assets on our Condensed Consolidated Balance Sheets. These costs are being amortized to interest expense ratably over the life of the Credit Facility.

Senior Notes

In April 2017, we issued $750 million aggregate principal amount of 3.90% senior unsecured notes at 99.748% of par to yield 3.93% per annum. These notes are due May 15, 2027 and interest is payable semiannually on May 15 and November 15. The effective interest rate on these notes, including the amortization of debt issuance costs and discount, is 4.01%.

In June 2014, we issued $750 million aggregate principal amount of 4.375% senior unsecured notes at par. These notes are due June 1, 2024 and interest is payable semiannually on June 1 and December 1. The effective interest rate on these notes, including the amortization of debt issuance costs, is 4.50%.

Our senior unsecured notes are governed by indentures containing certain covenants, events of default, and other restrictive provisions with which we were in compliance as of June 30, 2018.

Table of Contents
CIMAREX ENERGY CO.
Notes to Condensed Consolidated Financial Statements
June 30, 2018
(Unaudited)

3. DERIVATIVE INSTRUMENTS

We periodically use derivative instruments to mitigate volatility in commodity prices. While the use of these instruments limits the downside risk of adverse price changes, their use may also limit future cash flow from favorable price changes. Depending on changes in oil and gas futures markets and management's view of underlying supply and demand trends, we may increase or decrease our derivative positions from current levels.

As of June 30, 2018, we have entered into oil and gas collars and oil basis swaps. Under our collars, we receive the difference between the published index price and a floor price if the index price is below the floor price or we pay the difference between the ceiling price and the index price if the index price is above the ceiling price. No amounts are paid or received if the index price is between the floor and the ceiling prices. By using a collar, we have fixed the minimum and maximum prices we can receive on the underlying production. Our basis swaps are settled based on the difference between a published index price minus a fixed differential and the applicable local index price under which the underlying production is sold. By using a basis swap, we have fixed the differential between the published index price and certain of our physical pricing points. For our Permian oil production, the basis swaps fix the price differential between the WTI NYMEX (Cushing Oklahoma) price and the WTI Midland price. For our Permian and Mid-Continent gas production, the contract prices in our collars are consistent with the index prices used to sell our production. The following tables summarize our outstanding derivative contracts as of June 30, 2018 (subsequent to June 30, 2018 through August 6, 2018, we have not entered into any additional derivative contracts):

Oil Collars	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
2018:					
WTI (1)					
Volume (Bbls)	—	—	3,220,000	2,668,000	5,888,000
Weighted Avg Price - Floor	$ —	$ —	$ 49.80	$ 51.03	$ 50.36
Weighted Avg Price - Ceiling	$ —	$ —	$ 60.49	$ 61.74	$ 61.06
2019:					
WTI (1)					
Volume (Bbls)	2,070,000	2,093,000	1,472,000	736,000	6,371,000
Weighted Avg Price - Floor	$ 51.83	$ 51.83	$ 53.50	$ 57.00	$ 52.81
Weighted Avg Price - Ceiling	$ 63.77	$ 63.77	$ 67.13	$ 68.04	$ 65.04

(1) The index price for these collars is West Texas Intermediate ("WTI") as quoted on the New York Mercantile Exchange ("NYMEX").

Gas Collars	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
2018:					
PEPL (1)					
Volume (MMBtu)	—	—	11,960,000	9,200,000	21,160,000
Weighted Avg Price - Floor	$ —	$ —	$ 2.19	$ 2.12	$ 2.16
Weighted Avg Price - Ceiling	$ —	$ —	$ 2.48	$ 2.42	$ 2.45
Perm EP (2)					
Volume (MMBtu)	—	—	9,200,000	7,360,000	16,560,000
Weighted Avg Price - Floor	$ —	$ —	$ 1.92	$ 1.81	$ 1.87
Weighted Avg Price - Ceiling	$ —	$ —	$ 2.14	$ 2.03	$ 2.09
Waha (3)					
Volume (MMBtu)	—	—	920,000	920,000	1,840,000
Weighted Avg Price - Floor	$ —	$ —	$ 1.35	$ 1.35	$ 1.35
Weighted Avg Price - Ceiling	$ —	$ —	$ 1.56	$ 1.56	$ 1.56
2019:					
PEPL (1)					
Volume (MMBtu)	8,100,000	8,190,000	5,520,000	2,760,000	24,570,000
Weighted Avg Price - Floor	$ 2.08	$ 2.08	$ 1.92	$ 1.90	$ 2.02
Weighted Avg Price - Ceiling	$ 2.39	$ 2.39	$ 2.26	$ 2.33	$ 2.36
Perm EP (2)					
Volume (MMBtu)	6,300,000	6,370,000	4,600,000	1,840,000	19,110,000
Weighted Avg Price - Floor	$ 1.73	$ 1.73	$ 1.50	$ 1.35	$ 1.64
Weighted Avg Price - Ceiling	$ 1.95	$ 1.95	$ 1.74	$ 1.55	$ 1.86
Waha (3)					
Volume (MMBtu)	900,000	910,000	920,000	920,000	3,650,000
Weighted Avg Price - Floor	$ 1.35	$ 1.35	$ 1.35	$ 1.35	$ 1.35
Weighted Avg Price - Ceiling	$ 1.56	$ 1.56	$ 1.56	$ 1.56	$ 1.56

(1) The index price for these collars is Panhandle Eastern Pipe Line, Tex/OK Mid-Continent Index (“PEPL”) as quoted in Platt’s Inside FERC.

(2) The index price for these collars is El Paso Natural Gas Company, Permian Basin Index (“Perm EP”) as quoted in Platt’s Inside FERC.

(3) The index price for these collars is Waha West Texas Natural Gas Index (“Waha”) as quoted in Platt’s Inside FERC.

Table of Contents
CIMAREX ENERGY CO.
Notes to Condensed Consolidated Financial Statements
June 30, 2018
(Unaudited)

Oil Basis Swaps	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
2018:					
WTI Midland (1)					
Volume (Bbls)	—	—	2,484,000	2,024,000	4,508,000
Weighted Avg Differential (2)	$ —	$ —	$ (3.89)		