CIMAREX ENERGY CO
Form 10-K/A
March 13, 2008

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D C 20549

Form 10-K/A-1

(Mark One)

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

For the fiscal year ended December 31, 2007

OR

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

Commission file number 001-31446

CIMAREX ENERGY CO.

(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES ý NO o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer (as defined in Rule 12b-2 of the Securities Exchage Act of 1934). (Check One):

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act. YES o NO ý

Aggregate market value of the voting stock held by non-affiliates of Cimarex Energy Co. as of June 30, 2007 was approximately $3,227,233,825.

Number of shares of Cimarex Energy Co. common stock outstanding as of February 15, 2008 was 82,779,666.

Documents Incorporated by Reference: Portions of the Registrant's Proxy Statement for its 2008 Annual Meeting of Stockholders are incorporated by reference into Part III of this Form 10-K.

EXPLANATORY NOTE

This Amendment on Form 10-K/A-1 is being filed to amend the tabular presentation of the proved reserve data shown in Footnote 17 of the Notes to the Consolidated Financial Statements. The changes to the proved reserve information are summarized below:

	December 31, 2007
	OIL
	(MBbl)
Reserve data as originally presented:	
Production	(8,812)
Sales of Properties	(7,446)
Reserve data as revised:	
Production	(7,446)
Sales of Properties	(8,812)

All other information contained in the Original Form 10-K remains unchanged, and the entire report with all Items is included in this Form 10-K/A-1 for the convenience of the reader. We have not updated the disclosures contained herein to reflect events that occurred after the date of the Original Form 10-K.

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DESCRIPTION

CIMAREX ENERGY CO.

GLOSSARY

Bbl/d Barrels (of oil) per day

Bbls Barrels (of oil)

Bcf Billion cubic feet

Bcfe Billion cubic feet equivalent

MBbls Thousand barrels

Mcf Thousand cubic feet (of natural gas)

Mcfe Thousand cubic feet equivalent

MMBbls Million barrels

MMBtu Million British Thermal Units

MMcf Million cubic feet

MMcf/d Million cubic feet per day

MMcfe Million cubic feet equivalent

MMcfe/d Million cubic feet equivalent per day

Net Acres Gross acreage multiplied by working interest percentage

Net Production Gross production multiplied by net revenue interest

NGL Natural gas liquids

Tcf Trillion cubic feet

Tcfe Trillion cubic feet equivalent

One barrel of oil is the energy equivalent of six Mcf of natural gas.

PART I

Forward-Looking Statements

Throughout this Form 10-K, we make statements that may be deemed "forward-looking" statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. All statements, other than statements of historical facts, that address activities, events, outcomes and other matters that Cimarex plans, expects, intends, assumes, believes, budgets, predicts, forecasts, projects, estimates or anticipates (and other similar expressions) will, should or may occur in the future are forward-looking statements. These forward-looking statements are based on management's current belief, based on currently available information, as to the outcome and timing of future events. When considering forward-looking statements, you should keep in mind the risk factors and other cautionary statements in this Form 10-K. Forward-looking statements include statements with respect to, among other things:

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

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

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

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

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

ITEM 1. BUSINESS

General

Cimarex Energy Co. is an independent oil and gas exploration and production company. Our operations are mainly located in Texas, Oklahoma, New Mexico, Kansas, Louisiana and Wyoming. Proved oil and gas reserves as of year-end 2007 totaled nearly 1.5 Tcfe, consisting of 1.1 Tcf of gas and 58.3 million barrels of oil and natural gas liquids. Of total proved reserves, 76 percent are gas and 79 percent are classified as proved developed. We operate the wells that account for 82 percent of our total proved reserves and approximately 79 percent of production.

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

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

During 2007 we accomplished the following highlights:

- Oil and gas sales increased 12 percent to a record $1.4 billion.
- Realized record net income of $346.5 million.
- Cash flow from operating activities increased 13 percent to an all-time high of $995 million.
- Production averaged 451 MMcfe per day in 2007, increasing throughout the year to a fourth-quarter peak of 471 MMcfe per day.
- Added 300 Bcfe of proved reserves from extensions, discoveries and improved recovery, replacing 182 percent of production.
- Sold non-core properties with 123 Bcfe of proved reserves for $177 million.
- Increased proved reserves 11 percent over year-end 2006 (adjusting for 2007 property sales) to 1.47 Tcfe.
- Sold $350 million of ten-year 7.125% senior unsecured notes, using the net proceeds to redeem our old 9.6% senior notes and reduce bank debt.
- Ended the year with a debt to total capitalization ratio of 13 percent.
- Repurchased 1,114,200 shares of our common stock.
- Increased our regular quarterly common stock cash dividend from $0.04 to $0.06 per share.

History

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

On June 7, 2005, we acquired Dallas-based Magnum Hunter Resources, Inc. in a $1.5 billion stock-for-stock merger plus assumption of liabilities. That transaction effectively tripled our proved reserves and doubled our production.

Business Strategy

Our principal business objective is to profitably grow our proved reserves and production for the long-term benefit of our investors. Our strategy centers on continually expanding our drilling program and maximizing cash flow from our production.

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

During 2007, we drilled 452 gross wells and invested $983 million on exploration and development. Our integrated teams of geoscientists, landmen and petroleum engineers continually generate new prospects to maintain a rolling portfolio of drilling opportunities in different basins with varying geologic characteristics. We have a centralized exploration management system that measures actual results and provides feedback to the originating exploration team in order to help them improve and refine future investment decisions. We believe that our detailed technical analysis and disciplined risk assessment is a competitive advantage and best positions us to continue to achieve attractive rates of return and consistent increases in proved reserves and production.

While our primary focus is drilling, we occasionally consider acquisition and merger opportunities that allow us to either enhance our competitive position in existing core areas or to add new areas. The 2005 Magnum Hunter acquisition significantly increased our presence in the Permian Basin and enhanced our Mid-Continent operations in the Texas Panhandle.

We also periodically divest selected assets that we no longer deem important to our ongoing operations. During 2007, we sold properties with estimated proved reserves of 123 Bcfe, or about eight percent of our beginning of the year reserves.

Conservative use of leverage has long been a part of our financial strategy. We believe that maintaining a strong balance sheet enables us to carry on a consistent drilling program and pursue acquisition and other opportunities, when conditions warrant. Our year-end 2007 debt to total capitalization ratio was 13 percent.

Business Segments

Cimarex has one reportable segment (exploration and production).

Exploration and Development Activity Overview

Our operations are currently focused in the Mid-Continent region which consists of Oklahoma, the Texas Panhandle and southwest Kansas; the Permian Basin region of west Texas and southeast New Mexico; and the Gulf Coast areas of Texas, south Louisiana, and offshore Louisiana. We also have operations in Michigan and Wyoming.

A summary of our 2007 exploration and development activity by region is as follows.

	Exploration and Development Capital (in millions)	Gross Wells Drilled	Net Wells Drilled	Completion Rate	12/31/07 Proved Reserves (Bcfe)
Mid-Continent	$ 385	237	134	95%	617
Permian Basin	368	172	118	91%	528
Gulf Coast	225	42	29	71%	125
Other	5	1		100%	202
	$ 983	452	281	91%	1,472

Company-wide, we participated in drilling 452 gross wells during 2007, with an overall completion rate of 91 percent. On a net basis, 256 of 281 total wells drilled during 2007 were completed as producers.

Our 2007 exploration and development expenditures (E&D) totaled $983 million and resulted in 242 Bcfe of proved reserve additions. Of total expenditures, 39 percent were invested in projects located in the Mid-Continent area; 37 percent in the Permian Basin; and 23 percent in the Gulf Coast.

Mid-Continent

Our Mid-Continent operations encompass broad areas in Oklahoma, southwest Kansas and the Texas Panhandle. We drilled 237 gross (134 net) Mid-Continent wells during 2007, completing 95 percent as producers. The bulk of this activity occurred in the Texas Panhandle and the Anadarko Basin of western Oklahoma. Full-year 2007 investment in this area was $385 million, or 39 percent of total E&D capital.

We drilled 106 gross (75 net) Texas Panhandle wells with 99 percent being completed as producers. Most of these wells targeted the Granite Wash formation in Roberts and Hemphill counties at depths ranging from 11,000-14,000 feet. Drilling activity in the Granite Wash remains active with 125-150 wells planned for 2008.

We drilled 70 gross (14 net) Anadarko Basin wells, of which 89 percent were completed as producers. Our drilling activity mainly targets the Red Fork and Clinton Lake/Atoka formations at depths ranging from 12,000-15,000 feet. We began in the fourth quarter of 2007 evaluating a potential horizontal drilling program targeting the Woodford Shale formation at 13,000 feet.

We also have a large inventory of recompletion, workover and in-fill drilling locations in southern Oklahoma and in the Texas Panhandle Panoma field. The Panoma field produces from the Brown Dolomite formation at depths of approximately 2,200 feet. In 2007 we drilled 27 gross (26 net) wells at Panoma with a 100 percent success rate, increasing field production by 2.7 MMcfe/d.

Permian Basin

Our Permian Basin operations cover both west Texas and southeast New Mexico. In total, we drilled 172 gross (118 net) wells in this area during 2007 completing 157 gross (106 net) as producers. Full-year 2007 investment in this area totaled $368 million, or 37 percent of total E&D capital.

Southeast New Mexico drilling totaled 67 gross (48 net) wells with 84 percent being completed as producers. The primary formations we target in this area are the Wolfcamp, Morrow, Atoka and Strawn at depths ranging from 9,000-14,000 feet.

In West Texas, a total of 71 gross (58 net) wells were drilled, of which 94 percent were successful. Geologic targets include the Devonian, Ellenburger and Bone Spring formations. In Ward and Reeves Counties drilling totaled 16 gross (9.5 net) horizontal wells in the Third Bone Spring formation.

Gulf Coast

Our onshore Gulf Coast focus area generally encompasses coastal Texas, south Louisiana and Mississippi. We also own interest offshore Louisiana on the Gulf of Mexico shelf (water depth less than 300 feet). We obtained all of our offshore position through the Magnum Hunter acquisition. Our Gulf Coast effort is generally characterized by a greater reliance on three-dimensional (3-D) seismic information for prospect generation, larger potential reserves per well, greater drilling depths and lower success rates. Full-year 2007 investment in this area was $225 million, or 23 percent of total E&D capital.

During 2007 we drilled 42 gross (29 net) Gulf Coast wells, realizing a 71 percent success rate. A significant portion of the drilling occurred in Liberty and Hardin Counties, Texas. Targeting the Yegua and Cook Mountain formations at approximately 10,500 feet, we drilled 19 gross (16 net) wells with a success rate of 79 percent.

Other

We are currently conducting exploration activity in Michigan and have a large gas development project in Sublette County, Wyoming.

Production and Pricing Information

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

	Years Ending December 31,		
	2007	**2006**	**2005**
Production Volumes			
Gas (MMcf)	119,937	124,733	100,272
Oil (MBbls)	7,445	6,529	4,804
Equivalent (MMcfe)	164,607	163,907	129,096
Net Average Daily Volumes:			
Gas (MMcf)	328.6	341.7	274.7
Oil (MBbl)	20.4	17.9	13.2
Equivalent (MMcfe)	451.0	449.1	353.7
Average Sales Price			
Gas ($/Mcf)	$ 7.05	$ 6.50	$ 8.05
Oil ($/Bbl)	$ 69.71	$ 61.96	$ 55.25

Total 2007 oil and gas production averaged 451 MMcfe per day versus 449 MMcfe per day in 2006. Gas production in 2007 decreased four percent to 328.6 MMcf per day and oil production increased 14 percent to 20,399 barrels per day. The decline in gas volumes resulted primarily from decreased investment in the Gulf of Mexico and property divestitures. The increase in oil volumes was principally a result of successful exploration and development drilling in the Permian Basin.

We sold our 2007 gas at an average price of $7.05 per Mcf, which was eight percent higher than the $6.50 per Mcf we received in 2006. Our annual average realized oil price during 2007 increased by 13 percent to $69.71 per barrel from $61.96 per barrel in 2006. Improved overall market conditions for oil, natural gas and natural gas liquids were the primary reason for the higher realized price in 2007 compared to 2006.

We had natural gas collars for calendar year 2007 covering 80,000 MMBtu per day. The collars increased our 2007 average realized gas price by $0.23 per Mcf. For 2008, we have collars that cover 40,000 MMBtu per day of Mid-Continent production with a floor price of $7.00 per MMBtu and a ceiling of $9.90

per MMBtu. For a discussion of derivatives, see Note 5 of Notes to Consolidated Financial Statements contained herein.

The following table summarizes Cimarex's daily production by region for 2007 and 2006.

	2007 Average Daily Production			2006 Average Daily Production		
	Oil (MBbl/d)	**Gas (MMcf/d)**	**Total (MMcfe/d)**	**Oil (MBbl/d)**	**Gas (MMcf/d)**	**Total (MMcfe/d)**
Mid-Continent	5.4	160.2	192.3	4.7	152.5	180.7
Permian Basin	9.5	87.2	144.3	8.1	83.8	132.4
Gulf Coast	5.3	75.0	106.9	4.8	98.0	126.6
Other	0.2	6.2	7.5	0.3	7.4	9.4
	20.4	328.6	451.0	17.9	341.7	449.1

Our largest producing area is the Mid-Continent region which averaged 192.3 MMcfe per day, or 43 percent of our total 2007 production. Successful drilling programs in the Texas Panhandle and the Anadarko Basin helped boost our Mid-Continent production by six percent in 2007. The Permian Basin contributed 144.3 MMcfe per day in 2007, which was 32 percent of our total production for this period. Production increased nine percent as a result of successful Morrow and Wolfcamp drilling programs in southeast New Mexico and new horizontal oil wells in the West Texas Bone Spring formation. Gulf Coast production averaged 106.9 MMcfe per day during 2007, or 24 percent of total production. Gulf Coast volumes decreased in 2007 as a result of natural production declines and no new drilling in the Gulf of Mexico.

Acquisitions and Divestitures

Cimarex acquired Magnum Hunter Resources, Inc, on June 7, 2005. Magnum Hunter was an independent oil and gas exploration and production company with operations concentrated in the Permian Basin and the Gulf of Mexico. Magnum's oil and gas properties were valued at $1.8 billion and resulted in the addition of 886.7 Bcfe of proved reserves (60 percent gas and 73 percent proved developed).

During 2007 we sold various interests in oil and gas properties located in West Texas, California and Gulf of Mexico. In total we sold 123 Bcfe of proved reserves for $177 million.

Marketing

Our oil and gas production is sold under various short-term arrangements at market-responsive prices. We sell our oil at various prices directly or indirectly tied to field postings and monthly futures contract prices on the New York Mercantile Exchange (NYMEX). Our gas is sold under pricing mechanisms related to either monthly index prices on pipelines where we deliver our gas or the daily spot market.

We sell our oil and gas to a broad portfolio of customers. Our largest customer accounted for eight percent of 2007 revenues. Because over two-thirds of our gas production is from wells in Kansas, Oklahoma, Texas and Louisiana, most of our customers are either from those states or nearby end-user market centers. We regularly monitor the credit worthiness of all our customers and may require parental guarantees, letters of credit or prepayments when we deem such security is necessary.

Employees

We employed 760 people on December 31, 2007. None of our employees are subject to collective bargaining agreements.

Competition

The oil and gas industry is highly competitive. Competition is particularly intense for prospective undeveloped leases and purchases of proved oil and gas reserves. There is also competition for rigs and related equipment we use to drill for and produce oil and gas. Our competitive position is also 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 oil and gas 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.

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 that the titles to our properties are good and defensible, and are in accordance with industry standards. Nevertheless, we are involved in title disputes from time to time which 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 significantly adverse effect upon our operations or financial condition. In recent years, we have been most directly affected by Federal and state environmental regulations and energy conservation rules. We are also indirectly affected 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 new 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. The effect of these regulations is to often limit the amounts of oil and natural gas that we can produce from our wells and to limit the number of wells or locations at which we can drill.

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, and consequently may impact our operations and costs. These laws and regulations govern, among other things, emissions to 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.

We are committed to environmental protection and believe we are in substantial compliance with applicable environmental laws and regulations. We routinely 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. We have made, and will continue to make, expenditures in our efforts to comply with environmental regulations and requirements. These costs are considered a normal, recurring cost of our ongoing operations and not an extraordinary cost of compliance with government regulations.

We do not aniticipate 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 these governmental requirements. We do 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.

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, state legislatures, state agencies 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 undisclosed impact on our capital expenditures, earnings or competitive position.

Certain Risks

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. If any of the following risks and uncertainties develop into actual events, this could have a material adverse affect on our business, financial condition or results of operations and could negatively impact the value of our common stock.

Oil and gas prices fluctuate due to a number of uncontrollable factors, creating a component of uncertainty in our development plans and overall operations. Any decline in prices could adversely affect our financial results and future rate of growth in proved reserves and production.

Our revenues and results of operations are highly dependent on oil and gas prices. The prices we receive for our production are based on prevailing market conditions and are influenced by many factors that are beyond our control. Historically, oil and gas prices have fluctuated widely. For example, in 2007 we sold our gas at an average price of $7.05 per Mcf, which was eight percent higher than our 2006 average sales price of $6.50 per Mcf. The 2006 average gas sales price was 19 percent lower than our 2005 average sales price of $8.05 per Mcf. Our average 2007 oil price of $69.71 per barrel was 13 percent higher than the price we received in 2006 of $61.96 per barrel, while the 2006 price was 12 percent higher than the price we received in 2005 of $55.25 per barrel.

The volatility in oil and gas prices limits the predictability of the prices, which directly impacts future development plans and operations. If prices decline, future earnings would be reduced and growth could be adversely affected.

In recent years, oil prices have responded to changes in supply and demand stemming from actions taken by the Organization of Petroleum Exporting Countries, worldwide economic conditions, growing transportation and power generation needs, and other events. Factors affecting gas prices have included domestic supplies; the level and price of natural gas imports into the U.S.; weather conditions; the economy and the price and level of alternative sources of energy such as renewable energy assets, nuclear power, hydroelectric power, coal, and other petroleum products.

Our proved oil and gas reserves and production volumes will decrease in quantity unless we successfully replace the reserves we produce with new discoveries or acquisitions. For the foreseeable future, we expect to make substantial capital investments for the exploration and development of new oil and gas reserves to replace the reserves we produce and to increase our total proved reserves. Historically, we have paid for these types of capital expenditures with cash flow provided by our production operations. To the extent we have not hedged our production, any decline in oil and gas prices would negatively affect the amount of cash flow available to fund these capital investments. Low prices may also reduce 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. We may be required under accounting rules to write down the carrying value of our properties or impair goodwill when gas and oil prices are low. Moreover, our ability to borrow under our bank credit facility and to raise additional debt or equity capital to fund acquisitions would also be impacted.

Our use of hedging arrangements could result in financial losses or reduce our income.

To reduce our exposure to fluctuations in natural gas prices, from time to time we enter into hedging arrangements for a portion of our natural gas production. These hedging arrangements could expose us to risk of financial loss in some circumstances, including when:

- production is less than expected;

- the counterparty to the hedging contract defaults on its contract obligations; or

- there is a change in the expected differential between the underlying price in the hedging agreement and actual prices received.

In July 2006, using zero-cost collars with Mid-Continent weighted average floor and ceiling prices of $7.00 to $10.17 for 2007 and $7.00 to $9.90 for 2008, we hedged 80,000 MMBtu per day for 2007 and 40,000 MMBtu per day for 2008. Though associated volumes for the existing contracts are significantly less than our overall production, hedging arrangements could limit the benefit we would otherwise receive from increases in natural gas prices.

Failure of our exploration and development program to find commercial quantities of new oil and gas reserves could negatively affect our financial results and future rate of growth.

Most of our wells produce from reservoirs characterized by high initial production rates which decline rapidly and stabilize within three to five years. In order to replace the reserves depleted by production and to maintain or grow our total proved reserves and overall production levels, we must locate and develop new oil and gas reserves or acquire producing properties from others. While we may from time to time seek to acquire proved reserves, our main business strategy is to grow through drilling. Without successful exploration and development, our reserves, production and revenues could decline rapidly, which would negatively impact our results of operations.

Exploration and development involves numerous risks, including the risk that no commercially productive oil or gas reservoirs will be discovered. Exploration and development can also be unprofitable, not only from dry wells, but from productive wells that do not produce sufficient reserves to return a profit.

Our drilling operations may be curtailed, delayed or canceled as a result of several factors, including unforeseen poor drilling conditions, title problems, unexpected pressure or irregularities in formations, equipment failures, accidents, adverse weather conditions, compliance with environmental and other governmental requirements, and the cost of, or shortages or delays in the availability of, drilling rigs and related equipment.

The high-rate production characteristics of our properties subject us to high reserve replacement needs and require significant capital expenditures to replace our reserves.

Unless we conduct successful development activities or acquire properties containing proved reserves, our proved reserves will decline as they are produced. Producing natural gas and oil reservoirs are generally characterized by declining production rates that vary depending on reservoir characteristics and other factors. Because of the high-rate production profiles of our properties, replacing produced reserves is more difficult for us than for companies whose reserves have longer-life production profiles. This imposes greater reinvestment risk for our company as we may not be able to continue to economically replace our reserves.

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. Among others, changes in any of the following factors may cause estimates to vary considerably from actual results:

- production rates, reservoir pressure, and other subsurface information;
- future oil and gas prices;
- assumed effects of governmental regulation;
- future operating costs;
- future property, severance, excise and other taxes incidental to oil and gas operations;
- capital expenditures;
- workover and remedial costs; and
- Federal and state income taxes.

The estimation of the category of proved undeveloped reserves can be subject to an even greater possibility of revision. At December 31, 2007, 21.4 percent of our total proved reserves are categorized as proved undeveloped. Of these proved undeveloped reserves, 62 percent are related to a project in Wyoming.

Our proved oil and gas reserve estimates are prepared by Cimarex engineers in accordance with guidelines established by the Securities and Exchange Commission (SEC). DeGolyer and MacNaughton, independent petroleum engineers, reviewed our reserve estimates for properties that comprised at least 80 percent of the discounted future net cash flows before income taxes, using a 10 percent discount rate, as of December 31, 2007.

The values referred to in this report 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 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 natural gas transportation facilities, most of which are owned by others.

The marketability of our oil and natural gas production depends in large part on the availability, proximity and capacity of pipeline systems owned by third parties. The lack of available capacity on these systems and facilities could result in the shut-in of producing wells or the delay or discontinuance of drilling plans for properties. The lack of availability of these facilities for an extended period of time could negatively affect our revenues. Federal and state regulation of oil and natural gas production and transportation, 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, gather and transport oil and natural gas.

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 than we do. These companies may be able to pay more for exploratory prospects and productive oil and gas properties and may be able to define, evaluate, bid for and purchase a greater number of properties and prospects than our financial or human resources permit.

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

Exploration, development, production and sale of oil and gas are subject to extensive Federal, state and local laws and regulations, including complex environmental laws. We may be required to make large expenditures to comply with environmental and other governmental regulations. Failure to comply with these laws and regulations may result in the suspension or termination of our operations and subject us to administrative, civil and criminal penalties. Matters subject to regulation include discharge permits for drilling operations, drilling bonds, spacing of wells, unitization and pooling of properties, environmental protection, and taxation. Our operations create the risk of environmental liabilities to the government or third parties for any unlawful discharge of oil, gas or other pollutants into the air, soil or water. In the event of environmental violations, we may be charged with remedial costs. Pollution and similar environmental risks generally are not fully insurable. Such liabilities and costs could have a material adverse effect on our financial condition and results of operations.

Our limited ability to influence operations and associated costs on properties not operated by us could result in economic losses that are partially beyond our control.

Other companies operate approximately 21 percent of our net production. Our success in properties operated by others depends upon a number of factors outside of our control, including 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, and environmental hazards such as natural 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 or destruction of property, natural resources and equipment, pollution and other environmental damages, regulatory investigations and penalties, suspension of our operations and repair and remediation costs. 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.

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

At December 31, 2007, we had total long-term debt of $487.2 million, consisting of $350 million of unsecured 7.125% Senior Notes and $137.2 million of Convertible Notes ($125 million face value). Subject to the limits contained in the agreements governing our senior revolving credit facility, we would have been able to incur up to $1 billion of debt as of December 31, 2007, only $500 million of which is currently committed. We have demands on our cash resources in addition to interest expense and principal on our long-term debt, including, among others, operating expenses and capital expenditures.

Our ability to pay the principal and interest on our long-term debt, and to satisfy our other liabilities will depend upon our 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, our financial condition, results of operations and prospects and other factors, many of which are beyond our control. Our ability to meet our debt service obligations may also be affected by changes in prevailing interest rates, as borrowing under our existing senior revolving credit facility and our Convertible Notes bear interest at floating rates.

We have outstanding $125 million of Convertible Notes (face value) that mature on December 15, 2023, and that are currently convertible into a combination of cash and our common stock. If the holders of our convertible notes choose to convert them, we might be required to borrow additional funds under our senior revolving credit facility in order to repay the required cash amount. Also, upon conversion of a Convertible Note, the holder would receive not only cash equal to the principal amount of the Convertible Note, but also Cimarex common stock for the Convertible Note's conversion value in excess of such principal amount. The number of Cimarex common shares into which the Convertible Notes are convertible is dependent upon the conversion value in excess of the principal amount of the Convertible Notes and our future common stock price. Any such conversion will be dilutive to our existing shareholders.

Our business may not generate sufficient cash flow from operations, nor could there 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 to refinance our indebtedness on commercially reasonable terms, would materially and adversely affect our financial condition and results of operations.

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

We evaluate opportunities and engage in bidding and negotiating for acquisitions, some of which are substantial. Under certain circumstances, we may pursue acquisitions of businesses that complement or expand our current business and acquisition and development of new exploration prospects that complement or expand our prospect inventory. We may not be successful in identifying or acquiring any material property interests, which could hinder us in replacing our reserves and adversely affect our financial results and rate of growth. Even if we do identify attractive opportunities, there is no assurance that we will be able to complete the acquisition of the business or prospect on commercially acceptable terms. If we do complete an acquisition, we must anticipate difficulties in integrating its operations, systems, technology, management and other personnel with our own. These difficulties may disrupt our ongoing operations, distract our management and employees and increase our expenses.

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. In particular, our Chairman and Chief Executive Officer, F.H. Merelli, has over 45 years of oil and gas experience and is well known in the industry. The loss of his services for any reason could adversely affect our business, revenues and results of operations. As we continue to grow 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.

There are inherent limitations in all control systems, and misstatements due to error or fraud may occur and not be detected.

While we have taken actions designed to address compliance with the internal control, disclosure control and other requirements of the Sarbanes-Oxley Act of 2002 and the rules and regulations promulgated by the SEC implementing these requirements, there are inherent limitations in its ability to control all circumstances. See Item 9A of this report for a complete discussion of controls and procedures. Our management, including our Chief Executive Officer and Chief Financial Officer, does not expect that our internal controls and disclosure controls will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. In addition, the design of a control system must reflect the fact that there are resource constraints and the benefit of controls must be relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, in our company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple errors or mistakes. Further, controls can be cir