

CIMAREX ENERGY CO  
Form DEF 14A  
March 30, 2007

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

**SCHEDULE 14A**

Proxy Statement Pursuant to Section 14(a) of  
the Securities Exchange Act of 1934 (Amendment No. )

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
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**Cimarex Energy Co.**

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(Name of Registrant as Specified In Its Charter)

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**CIMAREX ENERGY CO.**

1700 Lincoln Street, Suite 1800  
Denver, Colorado 80203-4518

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**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS**

**To be Held on May 16, 2007**

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To the Stockholders of Cimarex Energy Co.:

The Annual Meeting of stockholders of Cimarex Energy Co. will be held on Wednesday, May 16, 2007, at 9:30 a.m., Mountain Time, at the Brown Palace Hotel, 321 Seventeenth Street, Denver, Colorado, for the following purposes:

1. Elect three directors for terms expiring in 2010.
2. Ratify the appointment of the independent auditors for 2007.
3. Transact any other business that may be properly brought before the Annual Meeting.

Stockholders of record at the close of business on March 21, 2007 are entitled to notice of and to vote at the meeting. During the period May 4 through May 15, 2007, you may examine the stockholders' list at our offices. The stockholders' list will also be available at the meeting.

**IMPORTANT**

**Your proxy is important to assure a quorum at the meeting. Whether or not you expect to attend the meeting, please vote in any one of the following ways:**

**By phone, call 1-866-894-0537**

**On the internet, log on to [www.continentalstock.com](http://www.continentalstock.com)**

**By mail, mark, sign, date and promptly return the proxy card in the postage-prepaid envelope.**

BY ORDER OF THE BOARD OF DIRECTORS

Mary Kay Rohrer  
Corporate Secretary

Date: April 6, 2007

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**CIMAREX ENERGY CO.  
PROXY STATEMENT**

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**CIMAREX ENERGY CO.**  
**1700 Lincoln Street, Suite 1800**  
**Denver, Colorado 80203-4518**

**PROXY STATEMENT**

**2007 ANNUAL MEETING OF STOCKHOLDERS May 16, 2007**

We provide you with this proxy statement to solicit your vote at our 2007 Annual Meeting of Stockholders. The Annual Meeting will be held at the Brown Palace Hotel, 321 Seventeenth Street, Denver, Colorado on Wednesday, May 16, 2007, at 9:30 a.m. (Mountain Time). The proxies also may be voted at any adjournments or postponements of the Annual Meeting.

The proxy materials will be mailed to stockholders on or about April 6, 2007. All properly executed and delivered written proxies will be voted at the Annual Meeting. If you are a stockholder of record at the close of business on March 21, 2007, the record date, you may vote at the Annual Meeting, or at adjournments or postponements of the Annual Meeting.

**GENERAL INFORMATION ABOUT THE ANNUAL MEETING AND VOTING**

**1. Who can vote?**

Stockholders holding shares of our common stock as of the close of business on the record date, March 21, 2007, may vote at the Annual Meeting, or any adjournments or postponements of the Annual Meeting. You have one vote for each share of common stock held as of the record date, that may be voted on each proposal presented at the Annual Meeting.

**2. What is the record date and what does it mean?**

The record date for the Annual Meeting is March 21, 2007. The record date was established by our Board of Directors as required by our By-laws and Delaware law. Owners of record of our common stock at the close of business on the record date are entitled to:

- A. Receive notice of the Annual Meeting; and
- B. Vote at the Annual Meeting, and any adjournments or postponements of the Annual Meeting.

**3. How many shares of Cimarex common stock were outstanding on the record date?**

At the close of business on the record date, there were 83,444,376 shares of common stock outstanding and entitled to vote at the Annual Meeting. Common stock is the only class of stock entitled to vote.

**4. How do I vote?**

You can vote in person at the Annual Meeting or by proxy. If you directly own your shares, you have three ways to vote by proxy:

- A. Connect to the Internet at [www.continentalstock.com](http://www.continentalstock.com);
- B. Call 1-866-894-0537; or
- C. Complete, sign and date the proxy card and mail it back to us.

Complete instructions for voting your shares can be found on your proxy card.

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If you change your mind on any issue, you may revoke your proxy at any time before the close of voting at the Annual Meeting.

There are four ways to revoke your proxy:

- A. Connect to the Internet at [www.continentalstock.com](http://www.continentalstock.com);
- B. Call 1-866-894-0537;
- C. Write our Corporate Secretary, Mary Kay Rohrer, Cimarex Energy Co., 1700 Lincoln Street, Suite 1800, Denver, Colorado 80203-4518; or
- D. Give notice of revocation to the Inspector of Election at the Annual Meeting.

**5. How do I vote if my shares are held in street name?**

If your shares are held in the name of your broker, a bank, or other nominee, only your broker, bank or other nominee may execute a proxy and vote your shares. Please sign, date and promptly return the instruction card you received from your broker, bank or other nominee, in accordance with the instructions on the card. You may vote by the Internet or telephone if your bank or broker makes those methods available, in which case you can follow the instructions on the card. If you wish to vote your "street name" shares directly, you will need to obtain a document known as a "legal proxy" from your broker, bank or other nominee. Please contact your bank, broker, or other nominee if you wish to do so.

**6. What happens if I do not specify a choice for a proposal when returning a proxy?**

You should specify your choice for each proposal on the proxy card. If you do not specify your choice and sign the proxy card, your shares will be voted "FOR" the election of Cimarex director nominees and ratification of independent auditors and "AGAINST" any stockholder proposal.

**7. How do I vote shares held in my 401(k) account?**

401(k) Plan participants who have shares of Cimarex stock credited to their Plan account as of March 21, 2007, will receive a proxy card that serves as a voting instruction card. You may instruct the Trustee how to vote your shares, and the Trustee will vote your shares in accordance with your instructions. If you do not sign and return the proxy card to indicate your instructions, the Trustee will vote your shares in the same proportion as shares were voted by other Plan participants.

**8. What happens if other matters come up at the Annual Meeting?**

We do not know of any other matters that will be voted on at the Annual Meeting. If other matters are properly presented, the proxy holders, F. H. Merelli, Cimarex's Chairman of the Board, Chief Executive Officer and President, and Paul Korus, Cimarex's Vice President, Chief Financial Officer and Treasurer, will vote your shares at their discretion.

**9. Who will count the votes?**

A representative of Continental Stock Transfer & Trust Company, an independent tabulator appointed by the Board of Directors, will count the votes and act as the Inspector of Election. The Inspector of Election will have the authority to receive, inspect, electronically tally and determine the validity of the proxies received.

**10. What is a "quorum"?**

A "quorum" is a majority of the outstanding shares of common stock and is required to hold the Annual Meeting. A quorum is determined by counting shares of common stock present in person at the Annual Meeting or represented by proxy. If you submit a properly executed proxy, you will be considered part of the quorum even if you abstain from voting. Shares that brokers do not have the





authority to vote in the absence of timely instructions from the beneficial owners ("broker non-votes") are treated as present for the purposes of determining a quorum.

**11. Who can attend the Annual Meeting?**

Admission to the Annual Meeting is limited to stockholders of Cimarex, persons holding validly executed proxies from stockholders who held Cimarex common stock on March 21, 2007, and invited guests of Cimarex.

**12. How many votes must each proposal receive to be adopted?**

With respect to Proposal 1, the election of directors, the three nominees who receive the most "FOR" votes at the Annual Meeting will be elected.

Proposal 2 for the ratification of independent auditors must receive the affirmative vote of a majority of the shares present and entitled to vote.

**13. How are votes counted?**

Votes are counted in accordance with Cimarex's By-laws and Delaware law. A broker non-vote counts in determining a quorum but does not count in electing the directors or on Proposal 2. If a stockholder returns an executed proxy card but does not indicate how his or her shares are to be voted, the shares covered by such proxy card will be included in determining if there is a quorum and will also be counted as votes "FOR" the election of Cimarex's director nominees and ratification of independent auditors and "AGAINST" any stockholder proposal. Shares will not be voted at the Annual Meeting if a properly executed proxy card covering those shares has not been received and the holder does not vote in person at the Annual Meeting.

**14. Do I have to vote?**

No. However, we strongly urge you to vote. You may vote for all, some or none of Cimarex's director nominees. You may abstain from voting or vote "FOR" or "AGAINST" Proposal 2.

**15. How can I view the stockholder list?**

You may view a stockholder list at the Annual Meeting or at our offices at 1700 Lincoln Street, Suite 1800, Denver, Colorado 80203 during ordinary business hours during the period May 4 through May 15, 2007.

**16. Who pays for the proxy solicitation related to the Annual Meeting?**

Cimarex does. In addition to sending you these materials, some of our directors and management may contact you by telephone, mail, e-mail or in person. We will also reimburse banks, nominees, fiduciaries, brokers and other custodians for their costs of sending the proxy materials.

**17. If I want to submit a stockholder proposal for the 2008 Annual Meeting, when is it due?**

If you want to submit a proposal for possible inclusion in next year's proxy statement, you must submit it *in writing* to the Corporate Secretary, Cimarex Energy Co., 1700 Lincoln Street, Suite 1800, Denver, Colorado 80203-4518, telephone (303) 295-3995 and facsimile (303) 295-3494. Cimarex must receive your proposal on or before December 18, 2007. Cimarex will consider only proposals meeting the requirements of the applicable rules of the SEC.

If a stockholder wants to bring any matter before the 2008 Annual Meeting that is not included in the 2008 Proxy Statement, the stockholder must provide written notice of a matter to be brought before

the 2008 Annual Meeting between February 6, 2008 and February 16, 2008. If the 2008 Annual Meeting is held more than 30 days before or after May 16, 2008, then the stockholder's written notice must be received not later than the close of business on the tenth day following the day on which the notice of the date of the 2008 Annual Meeting was mailed or public disclosure of the date of the Annual Meeting was made, whichever first occurs.

**18. How can I obtain a copy of the Annual Report on Form 10-K?**

A copy of Cimarex's 2006 Annual Report on Form 10-K is included in Cimarex's annual report to stockholders that is being mailed with this proxy statement. If you do not receive a copy, you may obtain one free of charge by writing or calling our Corporate Secretary, Cimarex Energy Co., 1700 Lincoln Street, Suite 1800, Denver, Colorado 80203-4518, telephone (303) 295-3995 and facsimile (303) 295-3494.

**I.**

**CORPORATE GOVERNANCE**

Prudent corporate governance is critical for the trust and confidence of investors, employees, suppliers, business partners, and stockholders. Cimarex corporate governance is based on high ethical standards and the awareness at all times that our actions must be based on the best interests of the stockholders.

**Corporate Governance Guidelines**

The Corporate Governance Guidelines and Board committee charters provide the framework for effective governance. The Corporate Governance Guidelines address matters such as qualifications of directors, standards for independence of directors, election of directors, responsibilities of directors, limitation of service on other public company boards, number and structure of Board committees, conduct and frequency of Board and committee meetings, Board evaluation, management succession, director access to management, counsel and advisors, and board orientation and education.

The Board of Directors, either directly or through the Compensation and Governance Committee, reviews and revises as necessary the Corporate Governance Guidelines. Our Corporate Governance Guidelines may be found on our website at [www.cimarex.com](http://www.cimarex.com). A printed copy may be obtained by contacting our Corporate Secretary, Cimarex Energy Co., 1700 Lincoln Street, Suite 1800, Denver, CO 80203-4518, telephone (303) 295-3995.

**Independence of Board Members**

Our Corporate Governance Guidelines require that a majority of our Board of Directors must be independent as defined by applicable laws, rules, regulations and listing standards. We comply with all criteria for independence established by the New York Stock Exchange (NYSE) listing requirements and other governing laws and regulations. Based upon NYSE standards, all Board members are independent, except the Chairman of the Board who is also our Chief Executive Officer and President.

Our Board annually reviews the status of each director to confirm that the director meets the independence standards. If any relationship exists that is not covered by these standards, the Board determines whether the relationship is material and whether the director should be deemed independent. The Board may determine independence if it finds that the director is independent of management and free from any relationship that would interfere with the director's independent judgment.

Our Code of Business Conduct includes provisions pertaining to conflicts of interest. The Code provides that no relationship involving a director that is disclosed to and affirmatively determined by the Board of Directors to be immaterial shall be a conflict of interest within the meaning of the Code.

The Board of Directors is aware of the contract drilling services provided to us by Helmerich & Payne, Inc. Hans Helmerich, one of our directors, is a director and Chief Executive Officer and President of Helmerich & Payne. Management obtains drilling services from Helmerich & Payne in the same manner as it obtains services from other companies that provide similar services. In 2006, the cost of the services provided by Helmerich & Payne when compared to our total drilling costs is not material. The Board is not involved in the selection and award of contract drilling services. The Board by resolution concluded that (i) the transactions with Helmerich & Payne, Inc. are proper and are not material when compared to Cimarex's total drilling costs, (ii) Mr. Helmerich does not have a material interest in the transactions and (iii) Mr. Helmerich's relationship with Helmerich & Payne, Inc. does not interfere with his independent judgment.

The Board has determined that Jerry Box, Glenn A. Cox, Cortlandt S. Dietler, Hans Helmerich, David A. Hentschel, Paul D. Holleman, Monroe W. Robertson Michael J. Sullivan and L. Paul Teague are independent. Thus, nine of ten (90%) of Cimarex's directors are independent. Cimarex's Audit and Compensation and Governance Committees are comprised entirely of independent directors.

#### **Executive Sessions of the Board of Directors**

Cimarex holds regular executive sessions of non-management directors, and each year the directors select a lead director to preside over executive sessions. Mr. Helmerich served as Lead Director during 2006. On December 12, 2006, the Board selected Mr. Hentschel to serve as Lead Director for 2007. During 2006, the non-management members of the Board met in executive session four times, and members of the Audit Committee met in executive session four times. The purpose of these executive sessions is to promote open and candid discussion among the non-management directors.

#### **Charters of Committees of the Board of Directors**

The Board of Directors has adopted charters for the Audit Committee and for the Compensation and Governance Committee that comply with the corporate governance rules adopted by the SEC and the NYSE listing standards. These charters may be found on our website at [www.cimarex.com](http://www.cimarex.com). A printed copy of each charter may be obtained by contacting our Corporate Secretary, Cimarex Energy Co., 1700 Lincoln Street, Suite 1800, Denver, CO 80203-4518, telephone (303) 295-3995.

#### **Board/Committee Evaluations**

During 2006, the Board of Directors and each committee participated in a self-assessment or evaluation of the effectiveness of the Board and its committees.

#### **Director Education**

Cimarex encourages director participation in seminars and conferences and other opportunities for director education. In 2006, a majority of its directors attended an educational program designed by National Association of Corporate Directors, a nationally recognized board educational organization. Each of our directors is a member of that organization. We subscribe and make available to our Committee members various informational and educational newsletters and online services.

#### **Service on Boards of Other Public Companies**

Cimarex does not prevent non-management directors from simultaneously serving on other public company boards. Our Corporate Governance Guidelines recommend that (i) the Chief Executive

Officer serve on the Board of no more than three public companies, including Cimarex, and (ii) all other directors serve on the Board of no more than five public companies, including Cimarex. All directors comply with this guideline.

#### **Code of Ethics**

Cimarex has adopted a code of ethics, known as the "Code of Business Conduct," that applies to all directors, officers and employees. The Code of Business Conduct affirms Cimarex's policy and is a guideline to the highest ethical standards and compliance with the law. The Code of Business Conduct is a guideline to promote honest and ethical conduct, maintain a corporate climate in which integrity and dignity of each individual is valued, assure compliance with laws and assure proper use of Cimarex's assets. A copy of our Code of Business Conduct is available on our website at [www.cimarex.com](http://www.cimarex.com). A printed copy may be obtained by contacting our Corporate Secretary, Cimarex Energy Co., 1700 Lincoln Street, Suite 1800, Denver, CO 80203-4518, telephone (303) 295-3995. Cimarex will post on its website all waivers to or amendments to its Code of Business Conduct that are required to be disclosed by applicable law and rules of the NYSE listing standards. Currently, Cimarex does not have nor does it anticipate any waivers to or amendments of its Code of Business Conduct.

#### **Web Access**

Cimarex provides access through its website ([www.cimarex.com](http://www.cimarex.com)) to current information relating to corporate governance, including a copy of each of the Board's standing committee charters, our Corporate Governance Guidelines, the Code of Business Conduct, biographical information regarding our directors and executive officers and complaint and reporting procedures.

#### **Process for Stockholder Communication with the Board**

Interested parties may communicate with our Board by mail directed to our Corporate Secretary or by calling our Confidential Hotline (1-866-519-1898). All communications will be forwarded to the lead director for his review. The lead director may take any action deemed appropriate or necessary, including retaining independent or outside counsel, accountants or other advisors. No adverse action will be taken against any individual making any such communication to the lead director.

#### **Director Attendance at Annual Meeting**

The Board encourages all directors to attend the Annual Meeting. Nine of Cimarex's ten directors attended Cimarex's 2006 Annual Meeting.

## **II.**

### **INFORMATION ABOUT THE BOARD OF DIRECTORS AND COMMITTEES**

The Board of Directors held four meetings during 2006. Each director attended at least 75 percent of the Board meetings and the meetings of each committee on which he served. The Board of Directors has established two standing committees to assist the Board in carrying out its duties: the Audit Committee and the Compensation and Governance Committee.

**Audit Committee**

**Members**

**Functions of Committee**

Monroe W. Robertson, Chairman  
 Glenn A. Cox  
 Cortlandt S. Dietler  
 Paul D. Holleman

Appoints independent auditors  
 Approves nature and scope of services of independent auditors and reviews range of fees for such services  
 Oversees Cimarex's internal audit function  
 Reviews qualification and independence of independent auditors  
 Monitors integrity of Cimarex's financial statements  
 Monitors compliance with legal and regulatory requirements

Financial Expert

The Audit Committee held eight meetings during 2006. The Audit Committee consists of four non-employee directors who meet the NYSE standards of independence. The Board of Directors has determined that each member of the Audit Committee meets the financial literacy standard required by the NYSE, and three of four members of the Committee qualify as a "financial expert" as defined by the Securities and Exchange Commission. No Audit Committee member serves on more than three audit committees of public companies, including Cimarex's Audit Committee. Cimarex maintains an Internal Audit Department to provide management and the Audit Committee with ongoing assessments of Cimarex's risk management processes and system of internal controls.

Cimarex's independent auditor reports directly to the Audit Committee. The Audit Committee provides an open avenue of communication between the internal auditors, the independent auditor and the Board. Interested parties may contact the Audit Committee members by following the process outlined in the Corporate Governance section of this proxy statement.

**Compensation and Governance Committee**

**Members**

**Functions of Committee**

L. Paul Teague, Chairman  
 Jerry Box  
 Hans Helmerich  
 David A. Hentschel  
 Michael J. Sullivan

*Compensation Functions*

Recommends CEO compensation for approval by Board  
 Recommends executive officer cash and incentive compensation for approval by Board  
 Recommends director compensation  
 Reviews and recommends Compensation Discussion and Analysis disclosures  
 Determines amount and terms of equity awards  
 Reviews and approves long-term incentive plans

*Nominating and Governance Functions*

Recommends individuals to Board for nomination, election or appointment as members of the Board and its committees  
 Oversees evaluation of performance of the Board, its committees and the CEO  
 Oversees corporate governance  
 Develops plans for managerial succession

The Compensation and Governance Committee held four meetings during 2006. The Committee consists of five independent, non-employee directors. The Chairman of the Committee regularly communicates and meets with the Vice President Human Resources and the Corporate Secretary regarding Committee matters.

Four of the five Committee members have extensive executive experience in administering compensation for oil and gas exploration and producing companies. The fifth member has managed compensation matters as a state governor, U.S. ambassador, and a law firm partner.

*Compensation Function.* The Committee establishes and administers our executive compensation program. The Committee recommends for approval by the independent directors compensation to be paid or delivered to the Chief Executive Officer (CEO) and the executive officers named in the *Summary Compensation Table* in this proxy statement (referred to throughout this document as the Named Executive Officers or NEOs). The outside directors of the Committee approve performance standards for the plans. From time to time, the Committee engages the services of Deloitte Consulting LLP, an independent compensation consultant, for research and advice regarding the form of executive officer and director compensation. In 2006, the Committee decided that Deloitte Consulting LLP would perform executive compensation services only at the request of the Committee and should not perform like services on behalf of management. Our Vice President Human Resources also reviews and analyzes the compensation practices of peer group companies and presents this information to the Committee. Our Chief Executive Officer communicates with the Committee regarding performance of the Named Executive Officers and makes recommendations regarding base pay and annual cash incentive awards (see *Compensation Discussion and Analysis*).

*Compensation and Governance Committee Interlocks and Insider Participation.* Hans Helmerich, a member of the Committee, was an executive officer of Cimarex from February 14, 2002 until September 30, 2002. Cimarex was formed on February 14, 2002 as a wholly owned subsidiary of Helmerich & Payne, Inc. for the purpose of facilitating the spinoff by Helmerich & Payne of its oil and

gas exploration and production business to Cimarex. Cimarex became a publicly-held company on September 30, 2002, at which time Mr. Helmerich resigned as an executive officer.

*Governance and Nominating Functions.* The Committee develops and recommends to the Board corporate governance principles. The Committee oversees the process of annual performance evaluations for the Board and each committee, reviews and makes recommendations regarding Cimarex's Corporate Governance Guidelines and provides recommendations regarding director educational programs.

The Committee identifies and reviews the qualifications of candidates for Board membership and determines the desired qualifications, including (a) high personal and professional ethics, (b) integrity and values, (c) commitment to the long-term interest of the stockholders, (d) a mix of characteristics and diverse experiences, perspectives and skills appropriate to our business and (e) familiarity or experience in the oil and gas exploration and production business. The Committee does not set specific, minimum qualifications that nominees must meet, but believes that each nominee should be evaluated based on his or her individual merits, taking into account the business and needs of Cimarex and the composition of the Board of Directors. All of our directors have extensive oil and gas exploration and production experience either as company executives or attorneys.

The Committee will consider nominees recommended by stockholders. For the 2007 Annual Meeting, the Committee did not receive nominations from a stockholder prior to the deadline for stockholder nominations. Stockholders who wish to nominate persons for election as directors at the 2008 Annual Meeting must submit *in writing* a timely notice complying with Cimarex's By-laws to Corporate Secretary, Cimarex Energy Co., 1700 Lincoln Street, Suite 1800, Denver, Colorado 80203-4518, facsimile (303) 295-3494. To be timely, the stockholder's written notice must be received between February 6, 2008 and February 16, 2008. If the 2008 Annual Meeting is held more than 30 days before or after May 16, 2008, the written notice must be received no later than the close of business on the tenth day after we mail Notice of the Annual Meeting to our stockholders.

### III.

#### PROPOSAL 1 ELECTION OF DIRECTORS

Our Board of Directors consists of ten members and is divided into three classes: Class I, Class II and Class III directors. At each Annual Meeting, a class of directors is elected for a term expiring at the Annual Meeting in the third year following the year of election. Each director holds office until his successor is elected and qualifies.

The terms of the three Class II directors, Cortlandt S. Dietler, Hans Helmerich and Monroe W. Robertson, will expire at the 2007 Annual Meeting. Messrs. Dietler, Helmerich and Robertson have each been nominated to stand for reelection at the meeting to hold office until our 2010 Annual Meeting. Each of the nominees standing for reelection has extensive experience in the oil and gas exploration and production business.



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Unless instructed otherwise, the proxies will be voted "FOR" the election of each of the Class II nominees named above to serve for three years or until his successor is elected and qualifies. If prior to the Annual Meeting one or more of the nominees becomes unavailable to serve as a director, any shares represented by a proxy directing a vote will be voted for the remaining nominees and for any substitute nominee or nominees designated by our Board of Directors or its Compensation and Governance Committee. As of the mailing of these proxy materials, the Board of Directors knows of no reason why any director nominee would not be available to serve as a director.

Information concerning the nominees selected by our Board of Directors, as well as each of our continuing directors, is set forth below:

### **Nominees for Election as Class II Directors for Three-Year Terms Expiring in 2010**

#### **Cortlandt S. Dietler**

Owner, Poison Spider Oil Company LLC  
Denver, Colorado  
Age 85

Director Since 2002

Member Audit Committee

Currently the owner of Poison Spider Oil Company LLC. From April 1995 through September 1, 2006, Chairman of the Board of TransMontaigne, Inc. Chief Executive Officer of TransMontaigne from April 1995 through September 1999. Director of Hallador Petroleum Company, a Denver, Colorado exploration and production company traded on the OTC Bulletin Board, and Forest Oil Corporation, a Denver, Colorado exploration and production company traded on the NYSE. Chairman of the nominating and corporate governance committee and the compensation committee of Forest Oil.

#### **Hans Helmerich**

President, CEO, Director  
Helmerich & Payne, Inc.  
Tulsa, Oklahoma  
Age 48

Director Since 2002

Member Compensation and Governance Committee

Director of Helmerich & Payne since 1987. President and Chief Executive Officer of Helmerich & Payne since 1989. Director of Atwood Oceanics, Inc., Houston, Texas, an international offshore drilling company, and Trustee of The Northwestern Mutual Life Insurance Company.

#### **Monroe W. Robertson**

Private investor  
Age 57

Director Since 2005

Chairman Audit Committee

Currently a private investor. Mr. Robertson was with Key Production Company, Inc., a company acquired by Cimarex in 2002, for 10 years until retirement in March 2002. He held the positions of President, Chief Operating Officer, Senior Vice President and Principal Financial Officer.

**Directors will be elected by a plurality of the votes. The Board of Directors recommends a vote "FOR" each of the nominees for election to the Board.**

**Directors Continuing in Office**

**Class III Directors Terms Expiring in 2008**

**Glenn A. Cox**

Retired President and COO  
Phillips Petroleum Company  
Age 77

Director Since 2002

Member Audit Committee

President and Chief Operating Officer of Phillips Petroleum Company from June 1985 until his retirement in 1991. Chief Financial Officer of Phillips Petroleum Company from June 1980 to May 1985. Director and chairman of audit committee of Helmerich & Payne, Tulsa, Oklahoma, and previous director and member of audit committees of The Williams Companies, a gas gathering and exploration and production company located in Tulsa, Oklahoma, and Union Texas Petroleum, an exploration and production company located in Houston, Texas.

**David A. Hentschel**

Retired Chairman and CEO  
Occidental Oil and Gas Corporation  
Age 73

Director Since 2002

Member Compensation and Governance Committee

Chairman and Chief Executive Officer of Occidental Oil and Gas Corporation from 1997 until 1999, when he retired. President and Chief Executive Officer of Canadian Occidental Petroleum, Ltd, now known as Nexen, from 1995 until 1997. Director of Nexen Inc., a global energy company located in Calgary, Alberta, Canada.

**L. Paul Teague**

Retired Executive  
Texaco USA  
Age 72

Director Since 2002

Member Compensation and Governance Committee

With Texaco Exploration & Producing Inc. for 35 years until retirement in 1994. Held the positions of Vice President, Western Region; Division Manager of the New Orleans Division, Eastern Producing Department; Vice President, New Orleans Producing Division of Texaco USA; and Vice President, Producing Department, Texaco USA in Houston.

**Class I Directors Terms Expiring in 2009**

**Jerry Box**

Retired President and COO  
Oryx Energy Company  
Age 68

Director Since 2005

Member Compensation and Governance Committee

Chairman of Magnum Hunter Resources, Inc. from October 2004 until June 2005, and a director of Magnum Hunter Resources from March 1999 to June 2005. Mr. Box served as President, COO and a director of Oryx Energy Company from February 1998 to March 1999. He had previously held a

number of managerial and executive positions with Oryx Energy and its predecessor company, Sun Oil Company. Currently, director and chairman of the compensation committee and member of the nominating and governance committee of Newpark Resources, Inc., a Houston, Texas based oilfield services company traded on the NYSE.

**Paul D. Holleman**

Retired Partner  
Holme Roberts & Owen LLP  
Age 75

Director Since 2002

Member Audit Committee

Senior partner of Holme Roberts & Owen LLP, a Denver law firm, until 2000, when he retired. At Holme Roberts, he served as legal counsel to Key Production Company, Inc. and other oil and gas companies. Other positions in his 40 years with Holme Roberts included Chairman of the Natural Resources Department and member of the executive committee.

**F. H. Merelli**

Chairman of the Board, CEO, President  
Cimarex Energy Co.  
Denver, Colorado  
Age 71

Director Since 2002

Chairman of the Board, Chief Executive Officer and President of Cimarex since September 30, 2002. Chairman and Chief Executive Officer of Key Production Company, Inc. from September 1992 to September 30, 2002 and President from March 2002 until September 30, 2002 and from September 1992 to September 1999. Director and member of audit committee of Apache Corporation, Houston, Texas, an exploration and production company traded on the NYSE.

**Michael J. Sullivan**

Partner  
Rothgerber, Johnson & Lyons LLP  
Casper, Wyoming  
Age 67

Director Since 2002

Member Compensation and Governance Committee

Member of the Denver law firm, Rothgerber Johnson & Lyons LLP, since 2001, most recently as partner of the Casper office. United States Ambassador to Ireland from 1998 until 2001. Practiced law with Brown, Drew, Apostolos, Massey & Sullivan from 1964 to 1986 and from 1995 until 1998. Governor of Wyoming from 1987 through 1995. Director of Kerry Group plc, a global food and food ingredients producer headquartered in Tralee, Ireland; director and member of audit committee and governance committee of Allied Irish Bank Group, Dublin, Ireland; director and member of the governance committee of First Interstate BancSystem, Billings, Montana and director and member of the governance and audit committee of Slatten Construction, Inc., Great Falls, Montana.

**IV.**

**COMPENSATION DISCUSSION AND ANALYSIS**

**Compensation Philosophy & Objectives**

Cimarex's principal business objective is to achieve consistent profitable growth in proved reserves and production. The objective of the compensation program is to protect and enhance stockholder value by encouraging and rewarding performance that supports this business objective.

The program seeks to align the interests of the stockholders and executives with a balance of short-and long-term incentives. Executive compensation is a mix of base pay, annual cash incentive award payments and long-term incentive awards, with minimal use of perquisites.

The compensation program rewards performance that results in growth in proved reserves and production, better-than-average relative stock price performance, and annual cash flow in excess of a pre-established target. A significant part of the annual cash incentive award and long-term incentive awards are "at risk" depending on the achievement of specific performance measures. The annual cash incentive awards are based on short-term and long-term performance incentive factors production, cash flow, reserve replacement and stock price performance. Production, cash flow and stock price are primarily indicative of current performance. Reserve replacement is an essential determinant of the long-term performance and success of Cimarex.

For the cash incentive awards, the stock price performance is based on a one-year period. The long-term incentive awards emphasize a three-year stock price performance period.

The compensation program is deliberately structured to focus only on performance that is relevant to the achievement of Cimarex's primary objectives. The program does not include factors that are not essential for the achievement of these objectives.

The compensation program is designed to attract, retain, and motivate executives in the competitive environment in which Cimarex operates. Management continuity is critical to achievement of Cimarex's long-term corporate objectives. Further, the program must encourage and reward performance that is consistent with the highest ethical standards.

The Compensation and Governance Committee establishes and administers the executive compensation program as a representative of the stockholders. The Committee recommends for approval by the full Board overall executive compensation that is competitive, reasonable, fair, and not excessive. The Committee supports the disclosure of all aspects of executive compensation so stockholders will clearly understand how much the Cimarex officers are paid and why.

The Committee reviews all components of compensation for the Chief Executive Officer and each Named Executive Officer. This review encompasses base salary, annual cash incentive awards, long-term equity compensation, realized and unrealized stock option and restricted stock gains, perquisites and other personal benefits, company matching contributions under Cimarex's 401(k) plan and supplemental savings plan, and possible payments under potential severance and change-in-control scenarios.

The Committee considers and compares Cimarex executive compensation and practices to those of peer companies. The Committee also reviews, evaluates and considers internal pay equity between its Chief Executive Officer and the other executive officers. The Committee may engage its independent compensation consultant, Deloitte Consulting LLP, to conduct research and provide advice on compensation matters.

See *Committees of the Board of Directors* for information regarding the composition of the Compensation and Governance Committee, qualifications of members and process and procedures.

### **Elements of Executive Compensation Program**

Our executive compensation program consists of three primary elements:

Base Pay

Annual Cash Incentive Awards

Long-Term Incentive Awards

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We routinely review total compensation for each executive. We do not designate specific percentages to be assigned to each element of compensation.

To ensure the integrity of our annual cash incentive awards and long-term incentive awards, we use performance measures that are objective, measurable and verifiable. Based on management's recommendation and the Compensation and Governance Committee's determination of relevance to stockholder interests, the program currently awards performance related to growth in proved reserves and production, relative stock price performance and actual versus forecasted cash flow.

We consider, and when appropriate, we attempt to maximize the tax deductibility of compensation paid to executives under Section 162(m) of the Internal Revenue Code. Our stockholders have approved our 2002 Stock Incentive Plan and the performance goals applicable to our long-term incentive awards.

### Base Pay

Our goal is to pay base salaries that are competitive with those paid for similar executive positions by other companies in our industry with revenue and market capitalizations comparable to ours. For retention and competitive reasons, the Committee has established a base pay target of the 75th percentile of base pay among peers. Because the public information on base salaries is historical, it is not reflective of actual current pay. That is why the Committee, with the assistance of its compensation consultant, adjusts the historical pay information based on forecasts of current actual compensation. The peer group data is also adjusted for the different compensation philosophies of companies in the peer group. The total compensation paid is also considered in evaluating the base pay of the competitive peer companies.

The base pay target is not an entitlement, nor is it a cap. Other factors such as performance and time in position may be considered in making the final base pay determination. In 2006, our peer group consisted of:

Cabot Oil & Gas Corp.	Denbury Resources, Inc.
Forest Oil Corp.	Houston Exploration Co.
Newfield Exploration Co.	Noble Energy Inc.
Pioneer Natural Resources Co.	Plains Exploration & Production Co.
Pogo Producing Co.	Range Resources Corp.
Southwest Energy Resources Inc.	St Mary Land & Exploration Co.
Whiting Petroleum Corp.	

The Committee reviews and recommends base salary adjustments for the Chief Executive Officer and each Named Executive Officer to the Board for final approval. The Chief Executive Officer does not participate in the review, discussion or recommendations with respect to his salary. The Chief Executive Officer provides the Committee with subjective executive performance information for the each Named Executive Officer. This information may include results achieved by the executives, their future potential, scope of responsibilities and experience.

### Cash Incentive Awards

The cash awards are intended to provide incentive to achieve specific performance targets. Cash incentives are awarded from a performance-based cash pool. The target cash incentive pool is equal to 100% of base salaries.

The actual performance-based cash incentive pool is calculated as described below and generally is based upon the relationship of our actual cash flow to a predetermined cash flow target, production growth, proved reserve growth and relative stock price performance among peers.

The entire cash incentive pool is at risk and is limited to 150% of the year-end base pay of the officers in the pool. There is no floor on the size of the pool; it can be zero. The entire cash incentive pool amount does not have to be awarded, and there is no carry-over of amounts to future years if the total pool is not awarded.

*Calculation of Cash Incentive Pool and Recommendation of Cash Incentive Award for the Chief Executive Officer.* The Committee calculates the cash incentive pool for the Chief Executive Officer and recommends a cash incentive award for approval by the Board of Directors. The method of calculation of the Chief Executive Officer's cash incentive pool is the same method used for the Named Executive Officers, except the cash incentive pool factor is based only on the Chief Executive Officer's base salary. The cash incentive award may not exceed 200% of the Chief Executive Officer's base salary. The cash incentive award must also be consistent with our internal pay guidelines.

*Calculation of Cash Incentive Pool and Recommendation of Cash Incentive Awards for Executive Officers.* The Committee calculates the total cash incentive pool available for awards. The Chief Executive Officer, based on subjective performance evaluations of each participant, recommends individual cash incentive awards within the limits of the total cash incentive pool. After consideration of the Chief Executive Officer's recommendations, the Committee submits its award recommendations for approval by the Board of Directors.

The actual cash incentive pool is determined as follows:

Management recommends for Committee consideration and approval an annual cash flow target based upon forecasts of production, revenues, expenses, capital investments and commodity prices. The monthly futures contract trading prices on the New York Mercantile Exchange at the time the target is set are used to forecast oil and gas prices. In 2006, the cash flow target was \$1 billion.

After year-end, management provides the Committee with actual cash flow (a non-GAAP financial measure that represents net cash provided by operating activities adjusted for changes in operating assets and liabilities). In 2006, actual cash flow was \$918 million.

The cash incentive pool factor is determined by dividing total year-end base pay of executive officers (not including CEO) by the cash flow target (See Table 1 below).

Calculate potential cash incentive pool by multiplying the cash incentive pool factor by actual cash flow. (See Table 2 below).

Determine the production growth factor. In 2006, production grew 27%, resulting in a production growth factor of 488%. (See Table 3 below)

Determine the reserve growth factor. In 2006, proved reserves grew 4%, resulting in a reserve growth factor of 90%. (See Table 4 below)

Determine the peer stock performance factor based on Cimarex's stock price performance relative to performance of our peer group. For purposes of determining peer group stock price performance, companies in the Dow Jones U.S. Exploration & Production Index with comparable revenue and market capitalization are used (See Table 5 below). In 2006, our stock price increased by 0%, and our performance rank was in the bottom quartile, resulting in a 0% peer stock performance factor (See Table 6 below).

Targets for production growth, reserve growth and peer stock price performance factors are reviewed by the Committee each year. In determining the factors, the Committee considers the

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size of the reserve base, production levels, past peer group stock price performance, capital budget, forecast production and reserve volumes, commodity price outlook, industry conditions, competitive outlook, effect on performance motivation, management retention, difficulty in achieving the target and other information. The factors used for 2006 were unchanged from the factors used in 2005.

In December 2005, the Committee established the following weighting for each performance factor for 2006 compensation, and the weights were unchanged from the prior year:

production growth factor:	50%
reserve growth factor:	20%
peer stock performance factor:	30%

Calculate the actual cash incentive pool by totaling the following (see Table 7):

potential cash incentive pool multiplied by weighted production growth factor

potential cash incentive pool multiplied by weighted reserve growth factor

potential cash incentive pool multiplied by weighted peer stock performance factor

If the actual cash incentive pool does not exceed either the potential cash incentive pool or 150% of the total year-end base pay of executive officers, then the Actual Cash Incentive Pool is available for awards to the participants.

The Chief Executive Officer provides the Committee with a performance evaluation and award recommendation for each officer, and the Committee then recommends individual awards for approval by the independent members of the Board.

Their cash incentive award is not limited to a specified percent of base salary for the individual, but the total cash awarded may not exceed the Actual Cash Incentive Pool.

The calculation of the 2006 Actual Cash Incentive Pool for the Chief Executive Officer was \$644,000. The Committee recommended and the Board approved a 2006 cash award for the Chief Executive Officer of \$140,000, representing 21.7% of the pool amount and 20% of current base pay.

The calculation of the 2006 Actual Cash Incentive Pool for the other executive officers, including the Named Executive Officers, equaled 92% of their aggregate base pay. The Committee recommended and the independent directors approved 2006 total cash awards to the Named Executive Officers of 28% of each Officer's current base pay. See the *Summary Compensation Table* for 2006 individual cash awards for each Named Executive Officer reported in the *Non-Equity Incentive Plan* column.

COMPUTATION OF CASH BONUS TABLES

**Table 1**  
**Cash Incentive Pool Factor**

CIPF =  $BPP \div CFT$   
 Where:  
 CIPF = Cash Incentive Pool Factor  
 BPP = Base Pay Pool defined as year-end base salary  
 CFT = Cash Flow Target

**Table 2**  
**Potential Cash Incentive Pool**

PCIP =  $CIPF \times ACF$   
 Where:  
 PCIP = Potential Cash Incentive Pool  
 CIPF = Cash Incentive Pool Factor  
 ACF = Actual Cash Flow

**Table 3**  
**Production Growth Factor**

AVERAGE DAILY PRODUCTION GROWTH %	% OF PRODUCTION GROWTH FACTOR EARNED
<0	0
0	12
3	65
6	118
9	171
12	224
15	276
18	329
21	382
24	435
27	488

**Table 4**  
**Reserve Growth Factor**

RESERVE GROWTH %	% OF RESERVE GROWTH FACTOR EARNED
<0	0
0	50
1	60
2	70
3	80
4	90
5	100
6	110
7	120
8	130
9	140
10	150
11	160
12	170

**Table 5**  
**Stock Performance Factor Peer Group**

Anadarko Petroleum Corporation  
 Apache Corporation  
 Cabot Oil & Gas Corporation  
 Chesapeake Energy Corporation  
 Devon Energy Corp.  
 EOG Resources Inc.  
 Forest Oil Corp.

Meridian Resource Corp.  
 Newfield Exploration Company  
 Occidental Petroleum Corporation  
 Pioneer Natural Resources Co.  
 Pogo Producing Company  
 Stone Energy Corporation  
 XTO Energy Inc.

**Table 6**  
**Peer Stock Performance Factor**



**Table 6**

**Peer Stock Performance Factor**

<b>CIMAREX QUARTILE RANK</b>	<b>% OF PEER GROUP PERFORMANCE FACTOR EARNED</b>
1st	100
2nd	75
3rd	0
4th	0

**Table 7**

**Actual Cash Incentive Pool**

**CALCULATION OF  
ACTUAL CASH INCENTIVE POOL**

$$\text{ACIP} = \text{PCIP} (0.50 \times \text{PGF}) + \text{PCIP} (0.20 \times \text{RGF}) + \text{PCIP} (0.30 \times \text{PSPF})$$

Where:

- ACIP = Actual Cash Incentive Pool
- PCIP = Potential Cash Incentive Pool
- PGF = Production Growth Factor
- RGF = Reserve Growth Factor
- PSPF = Peer Stock Performance Factor

**Long-Term Incentive Awards**