Time Inc.
Form 10-K
February 27, 2017

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

FORM 10-K

(Mark One)
x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the year ended December 31, 2016
or
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____
Commission File Number: 001-36218

TIME INC.
(Exact Name of Registrant as Specified in its Charter)

Delaware	13-3486363
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

225 Liberty Street, New York, N.Y.	10281
(Address of Principal Executive Offices)	(Zip Code)

(212) 522-1212
(Registrant's telephone number, including area code)
Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common stock, par value $0.01 per share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:
None
(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act of 1933. Yes x No ¨
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Securities Exchange Act of 1934. Yes ¨ No x
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 x No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

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 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. ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.
Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨ Smaller reporting company ¨
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes ¨ No x
As of June 30, 2016, the last business day of the registrant's most recently completed second fiscal quarter, the aggregate market value of the registrant's Common Stock, par value $0.01 per share, held by non-affiliates (without admitting that any person whose shares are not included in such calculation is an affiliate) was approximately $1.7 billion based upon the closing price of $16.46 per share on The New York Stock Exchange on that date.
As of February 10, 2017, 99,194,661 shares of Common Stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE
Portions of the Registrant's Proxy Statement to be filed with the Securities and Exchange Commission in connection with the Registrant's 2017 Annual Meeting of Stockholders are incorporated by reference into Part III of this Form 10-K.

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Cautionary Statement Regarding Forward-Looking Statements

This annual report on Form 10-K contains certain “forward-looking statements,” as such term is defined in Section 21E of the Securities Exchange Act of 1934 (the “Exchange Act”). They are based on management’s current expectations and assumptions regarding our business and performance, the economy and other future conditions and forecasts of future events, circumstances and results. These statements can be identified by the fact that they do not relate strictly to historical or current facts. Forward-looking statements often include words such as “anticipates,” “estimates,” “expects,” “projects,” “intends,” “plans,” “believes” and words and terms of similar substance in connection with discussions of future operating or financial performance. Such forward-looking statements include, but are not limited to, statements regarding future actions, business plans and prospects, prospective products, trends, future performance or results of current and anticipated products, sales efforts, expenses, interest rates, the outcome of contingencies, such as legal proceedings, plans relating to dividends, stock repurchases and debt repayments, government regulations, the adequacy of our liquidity to meet our needs for the foreseeable future, our expectations regarding market conditions, and our anticipated contributions to international defined benefits plans.

As with any projection or forecast, forward-looking statements are inherently susceptible to uncertainty and changes in circumstances. Our actual results may vary materially from those expressed or implied in our forward-looking statements. Should known or unknown risks or uncertainties materialize, or should underlying assumptions prove inaccurate, actual results could vary materially from past results and those anticipated, estimated or projected. Investors should bear this in mind as they consider forward-looking statements.

We undertake no obligation to update forward-looking statements, whether as a result of new information, future events or otherwise. You are advised, however, to consult any further disclosures we make on related subjects in our quarterly reports on Form 10-Q and current reports on Form 8-K. We provide in Item 1A, “Risk Factors,” a cautionary discussion of certain risks and uncertainties related to our businesses. These are factors that we believe, individually or in the aggregate, could cause our actual results to differ materially from expected and historical results. We note these factors for investors as permitted by Section 21E of the Exchange Act. In addition, the operation and results of our business are subject to risks and uncertainties identified elsewhere in this annual report on Form 10-K as well as general risks and uncertainties such as those relating to general economic conditions. You should understand that it is not possible to predict or identify all such risks. Consequently, you should not consider such discussion to be a complete discussion of all potential risks or uncertainties.

Industry and Market Data

This annual report on Form 10-K includes publishing industry data, rankings, circulation information, Internet user data and other industry and market information that we obtained from public filings, internal company sources and various third-party sources. These third-party sources include, but are not limited to, Publishers Information Bureau as provided by Kantar Media ("PIB"), the Alliance for Audited Media ("AAM"), the Audit Bureau of Circulations ("ABC"), comScore Media Metrix ("comScore") and GfK Mediamark Research and Intelligence ("MRI"). While we are not aware of any misstatements regarding any industry data presented in this annual report on Form 10-K and believe such data are accurate, we have not independently verified any data obtained from third-party sources and cannot assure you of the accuracy or completeness of such data. Such data may involve uncertainties and are subject to change based on various factors.

Unless otherwise stated herein, all U.S. circulation data in this annual report on Form 10-K are sourced from AAM reports and all U.K. circulation data, including statements as to our position in the U.K. print publishing industry and ranking based on print newsstand revenues in the United Kingdom (the industry-standard metric for magazine rankings in the United Kingdom), are sourced from ABC reports. All Internet user data in this annual report on Form 10-K are sourced from comScore reports. All print advertising revenue data, including statements as to our position in the print publishing industry and ranking based on print advertising revenues in the United States, are sourced from PIB reports. Magazine readership and audience statistics presented in this annual report on Form 10-K are based on surveys conducted by MRI.

Part I

ITEM 1. BUSINESS

Overview

Time Inc., together with its subsidiaries (collectively, the "Company," "we," "us" or "our"), is a leading multi-platform media and content company that engages over 150 million consumers every month through its portfolio of premium news and lifestyle brands across a diverse set of interest areas. The Company's influential brands include People, Time, Fortune, Sports Illustrated, InStyle, Real Simple, Southern Living, Entertainment Weekly, Food & Wine, Travel + Leisure and Essence, as well as approximately 50 diverse titles in the United Kingdom. Time Inc. was in the top ten in U.S. multi-platform unique digital audience in December 2016 according to comScore with approximately 130 million monthly unique visitors. Its social footprint reaches approximately 250 million followers. Time Inc. offers marketers a differentiated proposition in the media marketplace by combining our distinctive content, large-scale audiences and proprietary data and people-based targeting capabilities. Time Inc. extends the power of its brands through other media and platforms including licensing, video and television, live events and paid products and services. With approximately 30 million paid subscribers, Time Inc. is one of the largest direct marketers in the U.S. media industry. The Company has extended its assets into related areas through various acquisitions, including Viant, an advertising technology firm with a people-based marketing platform, Adelphic, a mobile-first self-service programmatic ad buying platform, and Bizrate Insights, a consumer insights company. Time Inc. is also home to celebrated events, such as the Time 100, Fortune Most Powerful Women, People's Sexiest Man Alive, Sports Illustrated's Sportsperson of the Year, the Essence Festival and the Food & Wine Classic in Aspen.
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Since our founding in 1922, we have developed a worldwide reputation for quality, integrity and innovation in journalism. Today, we reach large, diverse audiences through our printed magazines, websites, on computers and mobile devices and through social media. We have a marketing database that includes approximately 160 million U.S. adults, which represents a majority of the adult U.S. population. We publish paid digital versions of a large majority of our magazines for the major tablet platforms. In total, we publish approximately 75 magazine titles worldwide.
People magazine is currently our largest print magazine title, generating almost 17% of our Revenues in 2016. The following table lists our major magazine titles as of December 31, 2016, as well as related websites and related magazine titles for each:

Magazine title	Rate base[(a)]	Frequency[(b)]	Category	Related magazine titles	Related websites
People	3,400,000	53	Celebrity Weekly	People en Español (U.S.) People StyleWatch (U.S.)	People.com PeopleenEspanol.com
Time	3,000,000	44	Weekly Newsmagazine	Time for Kids (U.S.) Time (Europe) Time (Asia) Time (South Pacific)	Time.com Life.com TimeforKids.com
Sports Illustrated	3,000,000	45	Sports: General	Sports Illustrated Kids (U.S.)	SI.com FanNation.com SIKids.com
Southern Living	2,800,000	12	Regional	Coastal Living	SouthernLiving.com
Real Simple	1,975,000	12	Women's Lifestyle		RealSimple.com
Cooking Light	1,775,000	11	Epicurean		MyRecipes.com CookingLight.com
InStyle	1,700,000	13	Women's Fashion		InStyle.com
Money	1,550,000	11	Personal Finance		Money.com
Entertainment Weekly	1,500,000	39	Entertainment		EW.com
Golf	1,400,000	12	Sports: Golf		Golf.com
Health	1,350,000	10	Women's Health & Fitness		Health.com
Sunset	1,250,000	12	Regional		Sunset.com
Essence	1,050,000	12	African American		Essence.com
What's On TV (U.K.)	1,013,702	52	Entertainment		WhatsOnTV.co.uk
Travel + Leisure	950,000	12	Travel		TravelandLeisure.com
Food & Wine	925,000	12	Epicurean		FoodandWine.com
Fortune	830,000	16	Business: Corporate	Fortune (Europe) Fortune (Asia) Executive Travel	Fortune.com

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(a) Circulation level guaranteed to advertisers for regular issue U.S. magazines in second-half 2016 or ABC reported first-half 2016 circulation for U.K. magazines, as applicable.
(b) Number of physical issues, including regularly published special issues, delivered to subscribers in 2016.

For a discussion of certain business dispositions and acquisitions we completed in 2016, see Note 3, "Acquisitions and Dispositions," to our consolidated financial statements included in this annual report on Form 10-K.

The Separation

On March 6, 2013, Time Warner Inc. ("Time Warner") announced plans for the complete legal and structural separation of its magazine publishing and related business from Time Warner (the "Spin-Off"). On June 6, 2014 (the

"Distribution

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Date"), the Spin-Off was completed by way of a pro rata dividend of Time Inc. shares held by Time Warner to its stockholders as of May 23, 2014 based on a distribution ratio of one share of Time Inc. common stock for every eight shares of Time Warner common stock held (the "Distribution"). Following the Spin-Off, Time Warner stockholders became the owners of 100% of the outstanding shares of common stock of Time Inc. and Time Inc. began operating as an independent, publicly-traded company with its common stock trading on The New York Stock Exchange ("NYSE") under the symbol "TIME". In connection with the Spin-Off, we and Time Warner entered into the Separation and Distribution Agreement dated June 4, 2014 (the "Separation and Distribution Agreement") and certain other related agreements which govern our relationship with Time Warner following the Spin-Off. (See Note 16, "Related Party Transactions and Relationship with Time Warner," to our consolidated financial statements included in this annual report on Form 10-K.)

Our Strategy

For several years, Time Inc. has been making the transition from print publisher to multi-platform media company. We have migrated away from a decentralized holding company model of siloed brands to integrated platforms built for scale. We now operate as a set of platforms across editorial, advertising, consumer marketing and technology that we believe will enable us to more effectively pursue our key growth drivers, as well as efficiencies.

Our platform strategy is aimed at leveraging the power of our world-class brands and content, large-scale and growing audiences, advertising capabilities, advanced data/targeting and subscription marketing to drive monetization of our advertising, subscription and other revenues.

The key components of our platform strategy are as follows:

- Content and edit platform
- Advertising platform
- Consumer marketing and revenue platform
- Expanding revenues through brand extensions

Content and Edit Platform. Time Inc. is a premier global multi-platform media company with particular strengths in the United States and the United Kingdom. Our editorial operation is pursuing opportunities to extend our content across platforms and create new monetization opportunities from our audiences and for our advertisers.

- We have made significant changes to our editorial and production operations to position ourselves for cross-platform success. In 2016, we centralized our U.S. editorial reporting structure and created 10 digital desks covering topics where we have particular strength as a company, namely Celebrity, Entertainment, Food, Health, Home, News, Sports, Style & Beauty, Technology and Travel & Luxury. We believe the benefits of centralization and our platform approach to content creation include content sharing, implementing best practices across the organization and enterprise-level content initiatives.

- We believe our content platform positions us for success in digital video because of our trusted and well-known brands, existing infrastructure (including state-of-the-art facilities that allow for lower-cost video production) and marketing/promotional reach across print and digital media. In 2016, Time Inc.'s digital video grew significantly, with 4.6 billion video starts, up nearly 150% from 2015, while our digital video unique visitors grew 82% year-over-year.

- We have unified our content management system to more rapidly create, share and syndicate content across our entire U.S. portfolio and develop product features. In 2016, we consolidated multiple U.S. content management systems down to two core platforms that will work as one. We believe that this platform approach will enable us to more effectively and efficiently implement changes and share content more rapidly across our digital sites. For example, we can now quickly and efficiently introduce new ad tech capabilities, ad units and e-commerce features across all sites.

Advertising Platform. We believe we occupy a differentiated space in the media and advertising world by bringing together our world-class storytelling capabilities, large-scale and growing audiences, native advertising capabilities and advanced people-based targeting through our proprietary dataset. In 2016, we made key structural changes, invested in our core advertising sales organization, and we acquired new capabilities with the acquisition of Viant, a people-based advertising technology company. As we move forward, we believe our key growth drivers will be native advertising and brand content, people-based targeting, video and programmatic sales.

Our platform approach to advertising offers an "end-to-end" solution for marketers through the path-to-purchase cycle, along with unique return on investment measurement capabilities.

- In 2016, we centralized our advertising sales reporting structure in the U.S. We established a category sales approach that offers cross-brand solutions to advertisers on a category-by-category basis (e.g., pharmaceutical, food, autos). These actions are transforming the way our advertising sales organization goes to market; it is enabling us to have more expansive and deeper relationships with our advertiser and agency partners, helping us leverage our scale and the full suite of our advertising products, brands and data/targeting capabilities.

- In 2016, we also launched The Foundry, our creative lab and content studio located in Brooklyn, New York, and doubled our native advertising revenues from the previous year. Our native studio has added substantial native capabilities and has been well received by our clients.

- In early 2017, we acquired Adelphic Inc., a mobile-first self-serve demand-side platform. With this acquisition, Viant is enabled to provide advertisers with a self-serve buying process through Adelphic's mobile-first, cross-channel programmatic advertising platform. Adelphic's self-service media planning and execution tools, including its ability to reach consumers across all screens and formats, are expected to bolster Viant's people-based data and analytics offerings.

Consumer Marketing and Revenue Platform. Time Inc. is one of the largest subscription marketers in the U.S. media industry, with approximately 30 million active subscribers. We see opportunities to leverage our consumer marketing engine to drive sales of other products and services.

- In 2016, we realigned our consumer marketing organization to integrate functions across our brands. This platform approach is aimed at creating efficiencies and providing support across our key growth drivers.

- We are also working to transform our data architecture to enable us to gain a cross-portfolio, 360-degree view of our customers and prospects. By better understanding their needs and wants, we believe we can create stickier relationships and can introduce them to other non-print products and services.

- We have been introducing advanced analytical techniques and methods including new marketing technology—this includes consumer-centric micro-targeting and segmentation.

- In 2016, we acquired Bizrate Insights Inc. ("Bizrate Insights"), a consumer data company that specializes in developing consumer insights by extending its online and mobile surveys across partner sites. The acquisition of Bizrate Insights is expected to enable Time Inc. to enhance and expand our data capabilities, and generate incremental consumer subscription revenue.

Expanding Revenues Through Brand Extensions. Given the power and diversity of our brand portfolio, we see opportunities to continue to invest in and build out adjacencies and other extensions of our brands into non-print and non-advertising revenues. Areas of focus include high-margin brand licensing revenues, TV and long-form video, and live media.

- We believe brand licensing is an area with large-scale potential. Two of our larger licensing programs are Real Simple's partnership with Bed, Bath & Beyond, where we currently have hundreds of products, and our partnership with Dillard's, which carries a line of Southern Living products. We intend to focus more closely on this potentially high-margin area, particularly by pursuing opportunities across more of our brands.

- In over-the-top (OTT) video, in 2016, we launched the People/Entertainment Weekly Network (PEN). We have programmed more than 100 hours of original content since launch, and in 2017 we expect to expand PEN's programming slate by producing over 300 hours of original content.

- In the area of television production, in early 2017, we launched Time Inc. Productions which has over 75 projects in production and development. We believe there is strong and growing demand from broadcast, cable and digital networks for distinctive original content. Our strong brands and editorial content provide source material that we believe is well-suited for TV programming. We estimate that we will produce nearly 40 hours of long-form programming across our portfolio in 2017 for 11 different networks, up from five hours in 2014.

- In live media, Time Inc. expects to host or manage many celebrated events in 2017, including the Essence Festival, Fortune's Most Powerful Women Conferences and the Food & Wine Classic. In addition to launching new events, we intend to expand certain of these franchises internationally; we extended the Essence Festival to Durban, South Africa in 2016 and we expect to do so again in 2017. In 2016, we hosted the Fortune/Time Global Forum in Rome in partnership with the Vatican, and in late 2017, our Fortune brand is planning to bring the next Fortune Global Forum to Guangzhou, China.

How We Generate Revenues

The sale of advertising generates approximately half of our Revenues. Circulation (or the sale of magazines to consumers) generates approximately one-third of our Revenues. The balance of our Revenues is generated by our other operations related to magazine publishing and live events. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Consolidated Results of Operations." A significant majority of our Revenues are generated in the United States. See Note 18, "Segment Information," to our consolidated financial statements included in this annual report on Form 10-K for certain financial information by geographic area.

Advertising Revenues

We derive approximately half our Revenues from the sale of advertising, primarily from our print magazines, digital platforms and marketing services. In 2016, according to PIB, our U.S. magazines accounted for 25.7% of the total U.S. advertising revenues generated across the industry by consumer magazines, excluding newspaper supplements. Our U.S. magazines accounted for 24.9% and 24.6% of such total industry revenues in 2015 and 2014, respectively. In 2016, People, Sports Illustrated and InStyle were ranked 1, 5 and 6, respectively, among all U.S. magazines in U.S. advertising revenues, and we had six of the top 25 magazines based on the same measure. We have generated significant digital advertising growth and we continue to invest in technology that will allow us to more effectively manage the delivery of both content and advertisements to our audiences. As mentioned above, in March 2016, we acquired certain assets of Viant, a business that specializes in data-driven, people-based marketing. With Viant’s platform, we are combining our premium content, subscriber and visitor data, and advertising inventory with first-party data and targeting capabilities to bring substantial value to our advertisers and increase our revenue. In addition, we are growing video extensions of our brands including the People/Entertainment Weekly Network and numerous digital video productions.

Advertising in our print edition and on our websites is predominantly consumer advertising, including beauty, food, fashion and retail, pharmaceutical, financial services, entertainment, travel, auto, technology/telecommunication and home. We have a diverse pool of advertisers, and no single advertising category accounted for more than 17% of our aggregate domestic advertising revenues in 2016. None of our advertising clients accounted for more than 5% of our aggregate domestic advertising revenues in 2016.

We conduct our advertising sales through centralized category-based sales and marketing teams that are supported by brand sales and product sales teams. These teams have depth of expertise on specific Time Inc. brands or products. Additionally, we sell advertising programmatically through ad exchanges and our private programmatic marketplace. Through The Foundry, we provide content marketing and advertising services to clients across a broad range of industries. These services include using our content creation expertise to develop content marketing programs across multiple platforms, including native advertising that enable clients to engage new consumers and build long-term relationships with existing customers. Additionally, through MNI Targeted Media Inc., we provide clients with a single point of contact for a range of targeted print and digital advertising programs. We offer these clients both digital and print products. Our digital products include programmatic offerings and custom display advertising on local and national websites. Our print products include customized geographic and demographic-targeted advertising programs in approximately 35 top U.S. magazines, including our own magazines and those of other leading magazine publishers. In addition, we offer “cover wraps” and other add-ons to magazines, allowing advertisers to distribute direct marketing messages to specific locations such as medical offices.

The rates at which we sell print advertising depend on each magazine's rate base, which is the circulation of the magazine that we guarantee to our advertisers, as well as our audience size. If we are not able to meet our committed rate base, the price paid by advertisers is generally subject to downward adjustments, including in the form of future credits or discounts. Our published rates for each of our magazines are subject to negotiation with each of our advertisers. We sell digital advertising primarily on a flat rate/sponsorship basis or on a cost per impression, or CPM, basis. Flat rate/sponsorship deals are sold on an exclusive basis to advertisers giving them access to our major events. CPM deals are sold on an impression basis with a guarantee that we will deliver the negotiated volume commitment.

If we are not able to meet the impression goal, we will extend the campaign or provide alternative placements.

Circulation

Circulation generates approximately one-third of our Revenues. Circulation is an important component in determining our Advertising revenues because advertising rates depend on circulation and audience. Most of our U.S. magazines are sold primarily by subscription and delivered to subscribers through the mail. For the year ended December 31, 2016, we had an average of approximately 30 million active subscriptions worldwide. Most of our international magazines are sold primarily at newsstands and other retail locations. Subscriptions are sold primarily through direct mail, subscription sales agents, marketing agreements with other companies, our owned websites, online advertising and email solicitations, and insert cards in our magazines and other publications. Additionally, digital-only subscriptions and single-copy digital issues of our magazines are sold or distributed through various app stores and other digital storefronts across multiple platforms. We also sell bundled subscriptions that combine print delivery with cross-platform digital access. In 2016, subscription sales generated approximately two-thirds of our Circulation revenues, while sales at newsstands and other retail outlets accounted for the remainder.

Subscription Sales and Fulfillment

Our consumer marketing efforts include centralized direct-to-consumer marketing services for our titles, including customer acquisition and retention, consumer research, data analytics, financial analysis and other ancillary services by employing a variety of advertising and marketing strategies. These include targeted direct mail, email, digital and social media solicitation campaigns, conducted using consumer information drawn from our internal marketing databases or our branded digital platforms, or leased or purchased from third parties. Overall brand marketing activities are also conducted for our titles via other print, television, online and social media. Other consumer marketing functions include fulfillment, customer service and database management services, including order and payment processing and call-center support. We also provide fulfillment and related services for certain other publishers' magazines.

Newsstand Sales

Newsstand sales include sales through traditional newsstands as well as supermarkets, convenience stores, pharmacies and other retail outlets. Through our retail distribution operations, we market and arrange for the distribution of our magazines and certain other publishers' magazines to retailers through third-party wholesalers.

Our retail distribution operations, Time Inc. Retail ("TIR") and Marketforce (UK) Ltd. ("Marketforce"), provide services relating to wholesale and retail distribution, billing and marketing. Under arrangements with TIR and Marketforce, third-party wholesalers purchase our magazines and the magazines of our publisher clients, and those wholesalers sell and deliver copies of those magazines to individual retailers. TIR and Marketforce are paid by the wholesalers for magazines they purchase, less credit for returns of unsold magazines. TIR generally advances funds to our publisher clients based on anticipated sales. Marketforce generally remits funds to its publisher clients when it has been paid. Under the contractual arrangements with our publisher clients, in the United States our publisher clients generally bear the risk of loss for non-payment of any amounts due from wholesalers with respect to their magazines, while in the United Kingdom we generally bear this risk. TIR and Marketforce also administer payments from our publisher clients to retailers for promotional allowances, including for the placement of magazines at retail locations.

Newsstand sales are highly sensitive to cover selection, retail placement and other factors. Our retail distribution operations coordinate with our consumer marketing, fulfillment and content creation groups to implement retail marketing plans and analyze expected demand for individual issues of our magazine titles.

We rely on wholesalers for retail distribution of our magazines. A small number of wholesalers are responsible for a substantial percentage of the wholesale magazine distribution business. In the United States, declines in magazine sales at newsstands and other retail outlets have increased the financial instability of magazine wholesalers. Several of our smaller wholesalers ceased operations in early 2014. In May 2014, we informed the then second-largest wholesaler of our publications (the "Discontinued Wholesaler") that effective immediately we would discontinue sales of publications to that wholesaler. This action was taken after the Discontinued Wholesaler's failure to pay amounts due to us and after discussions with the Discontinued Wholesaler. The Discontinued Wholesaler filed for protection under Chapter 11 of the U.S. Bankruptcy Code in June 2014. Additionally, we amended the terms of our existing agreements with the largest wholesaler of our publications (the "Selected Wholesaler") to expand the retail locations serviced by the Selected Wholesaler to include the vast majority of those that had been serviced by the Discontinued Wholesaler prior to the discontinuation. The change in distribution arrangements did not have a material impact on the distribution of our magazines. Our amended agreement with the Selected Wholesaler extends through May 2019. See Item 1A, “Risk Factors—Risks Relating to Our Business—We could face increased costs and business disruption from instability in our wholesaler distribution channels.”

We believe the action we took has improved the strength and stability of our retail distribution network. However, we will continue to closely monitor industry-wide trends and the implications they may have on our relationships with our wholesalers.

Related Operations

We have a number of other operations related to publishing. Our subsidiary, Synapse Group, Inc. (“Synapse”), is an affinity marketing company that partners with brick and mortar retailers, websites, airline frequent flier programs and customer service and direct response call centers. It is a robust marketer of magazine subscriptions in the United States. Building on its continuity marketing expertise, Synapse has diversified its business to also market other products and services. For example, Synapse manages several branded continuity membership programs and is developing continuity programs for product partners.

We also offer our advertisers a broad range of analytics and research services, including consumer insights, audience measurement and accountability reporting. In September 2016, we acquired Bizrate Insights, a consumer data company that specializes in developing consumer insights by extending its online and mobile surveys across partner sites.

We also publish branded books, including soft-cover “bookazines,” through Time Inc. Books. These are distributed through magazine-style “check-out pockets” at retail outlets and traditional trade book channels. We publish books on a diverse range of topics aligned with our brands, including special commemorative and biographical books. We also publish books under various licensed third-party brands and a number of original titles. Under our Oxmoor House imprint, we also publish a variety of home, cooking and health books under our lifestyle-oriented brands as well as under licensed third-party brands.

As of December 31, 2016, we licensed nearly 50 editions of our magazines, including the use of our trademarks and certain copyrighted content, for print or digital publication to publishers in over 30 countries. We also license to third parties the rights to our various brands and properties, including editions of our magazines and the use of our trademarks, individual articles, photos and other copyrighted content.

We also host hundreds of live events each year, including the Essence Festival, Fortune’s Most Powerful Women Conferences and the Food & Wine Classic. In December 2016, we hosted the Fortune/Time Global Forum in Rome in partnership with the Vatican. We believe that live events are a natural extension of our brands and can help build growth opportunities for our marketing partners.

In addition, we own SI Play, an online league management solution that provides digital tools to participants in youth sports for player registration, scheduling, communication and scorekeeping.

Production

Our paper procurement and printing functions are centrally managed across all our U.S. and U.K. magazines. This allows us to obtain volume discounts with our third-party suppliers and to achieve other efficiencies in our production operations. The final imaging and layout stage of our editorial production process is also centralized across all of our U.S. magazines, facilitating the adaptation of our magazines from print to digital form.

Coated and uncoated papers of various grades and weights are the principal raw materials used in the production of our magazines. A variety of factors affect paper prices and availability, including demand, capacity, raw material and energy costs and general economic conditions. Our current paper supply arrangements are based on an annual request-for-proposal process establishing a non-binding pricing framework for the year. Price and volume adjustments are negotiated from time to time under this pricing framework, typically on a quarterly basis. We believe we will continue to have access to an adequate supply of paper for our future needs. Should disruptions affect our current suppliers, alternative sources of paper are generally available at competitive prices.

Printing is a significant component in the production of our print magazines. The bulk of our U.S. printing is consolidated under multi-year contracts with a single printer. In April 2016, our sole printing supplier in the U.K. announced a liquidation bankruptcy proceeding. In order to secure U.K.-based printing resources for our titles, we extended a loan to the purchaser of the printing site where our U.K. titles were printed and entered into a new printing agreement with that purchaser to print all our U.K. titles.

Subscription copies of our U.S. magazines are delivered through the United States Postal Service ("USPS") as periodicals mail. We coordinate with our printers and local USPS distribution centers to achieve efficiencies in our production and distribution processes and to minimize mail processing costs and delays. However, we are subject to postal rate increases

that affect delivery costs associated with our magazines, as well as our promotional and billing mailings. In April 2016, the USPS announced a 4.3% rate decrease for all classes of mail as a result of the removal of the exigent surcharge that was imposed in December 2013, effective April 10, 2016. See Item 1A, “Risk Factors-Risks Relating to Our Business-Our results of operations could be adversely affected as a result of increases in postal rates, and our business and results of operations could be negatively affected by postal service changes.” In addition, the financial condition of the USPS continues to decline with large net annual losses despite revenue gains and a moderating decline in the volume of mail delivered.

Competition

We compete with other magazine publishers for market share and for the time and attention of consumers of magazine media content. We also compete with digital publishers and other forms of media, including, among others, social media platforms, search platforms, portals and digital marketing services. In addition, we compete to some extent with national newspapers.

Competition among print magazine and digital publishers for advertising is primarily based on the circulation and readership of magazines and the number of visitors to websites, respectively, the demographics of customer bases, advertising rates, the effectiveness of advertising sales teams and the results observed by advertisers. The shift in consumer preference from print media to digital media, as well as growing consumer engagement with digital media, such as online and mobile social networking, have introduced significant new competition for advertising.

Competition among print magazine publishers for magazine readership is primarily based on brand perception, magazine content, quality and price. Competition for subscription-based readership is also based on subscriber acquisition and retention, and competition for newsstand-based readership is also based on magazine cover selection and the placement and display of magazines in retail outlets. Technological advances and the growing popularity of digitally-delivered content and mobile consumer devices, such as smartphones and tablets, have introduced significant new competition for circulation in the form of readily available free or low-priced digital content.

Our magazine publishing and digital operations compete with numerous other magazine, digital publishers, social media platforms, search platforms, portals and digital marketing services for audience and for advertising directed at the general public and at more focused demographic groups. The use of digital devices as distribution platforms for content has lowered the barriers to entry for launching digital products that compete with our business. See Item 1A, “Risk Factors—Risks Relating to Our Business—We face significant competition across the media landscape, including from magazine publishers, digital publishers, social media platforms, search platforms, portals and digital marketing services, among others, which we expect will continue, and as a result we may not be able to maintain or improve our operating results.” Nonetheless, we believe that our quality brands, reputation, scale and integrated publishing operations provide us with significant competitive advantages.

Intellectual Property

We are a leading creator, owner and distributor of intellectual property. Our intellectual property assets include:

- trademarks in product and service names and logos, including our key brands and trade names, such as “People,” “Sports Illustrated,” “InStyle,” “Time,” “Fortune” and “Travel + Leisure”;
- copyrights in magazines, software, books, videos, websites and mobile apps, as well as in text and photos created or commissioned by us as “works made for hire”;
- domain names;
- licenses of intellectual property rights, including rights to many of the photos appearing in our magazines and third-party content appearing in our products; and
- patents for inventions related to our products, business methods and/or services (although none of our patents are material to the financial condition or operation of our business).

We derive value and revenues from these intellectual property assets through a range of business activities, including the sale or distribution of print magazines and books, the distribution of mobile apps and the operation of websites and other digital properties. We also derive revenues related to our intellectual property through advertising in our print magazines, events and conferences, websites, mobile apps and other digital properties and from various types of licensing activities, including licensing and syndication of our trademarks and copyrights in the United States and internationally.

Our intellectual property assets are, collectively, among our most valuable assets and are important to our continued success and our competitive position. To protect our intellectual property assets, we rely on a combination of copyright, trademark, unfair competition, patent and trade secret laws and contractual provisions. The duration of the protection afforded to our intellectual property depends on the type of property in question and the laws and regulations of the relevant jurisdiction. In the case of licenses, our intellectual property rights also depend on contractual provisions. With respect to our trademarks and trade names, trademark laws and rights are generally territorial in scope and limited to those countries or regions where a mark has been registered, protected or used. While trademark registrations may generally be maintained in effect for as long as the mark is in use in the respective jurisdictions, there may be occasions where a mark, name or title is not registrable or protectable and may be barred from use in a particular country or region for either substantive or technical reasons. Even if registration for a mark has been obtained, a trademark registration may be subject to cancellation or invalidation based on certain use requirements and third-party challenges, or on other grounds. With respect to our copyrights, the usual copyright term for authored works in the United States is the life of the author plus 70 years, and for "works made for hire," the copyright term is the shorter of 95 years from the first publication or 120 years from creation. With respect to our patents, patent laws and rights are generally territorial in scope and limited to those countries or regions where a patent has been obtained. In the United States, in general, for patents based on applications filed before June 8, 1995, patents are valid until the later of 17 years from the date of issue or 20 years from the date of the earliest filed application in its chain of parentage. For patents based on applications filed on or after June 8, 1995, patents are valid until 20 years from the date of the earliest filed application in its chain of parentage. In some instances, where appropriate, we may choose not to seek patent protection for a developed technology and instead undertake measures to protect such technology as a trade secret. There also may be occasions where a technology is not patentable or protectable under the laws of a particular jurisdiction, or barred from use in a particular country or region for either substantive or technical reasons. Even where a patent has been obtained, it may be subject to invalidation based on statutory interpretation or third-party challenges, or on other grounds. With respect to our domain names, the term for each domain name is dictated by the rules and terms agreed upon with the registrar for each particular domain name.

We actively protect, police and enforce our proprietary rights in our intellectual property in the U.S. and abroad based on our legal and business judgment under the circumstances. Our license agreements and other third-party user agreements contain provisions regarding the proper use and protection of our content and trademarks. With respect to trademarks, we seek registration for our marks, as appropriate, in countries or regions where our use of the marks may be planned or anticipated or where registration is otherwise warranted. We police our trademark rights through certain third-party vendors and in-house trademark watching mechanisms, and, where appropriate, we challenge third-party uses of trademarks, or applications to register trademarks, of which we become aware. Where necessary, we take appropriate legal action against such uses based on our legal and business judgment. We also engage in online enforcement of our brands and challenge domain name registrations and uses that we deem to undermine or conflict with our trademark rights. The Internet Corporation for Assigned Names and Numbers (ICANN) continues to expand the supply of domain names on the Internet and so far has designated more than 1,500 generic Top Level Domains (i.e., the characters that appear to the right of the period in domain names, such as .com, .net and .org) ("gTLDs"), which could significantly change the structure of the Internet and make it significantly more expensive for us to protect our intellectual property on the Internet. Policing unauthorized use of our products, content and related intellectual property is often difficult, and the steps taken may not in every case prevent infringement by unauthorized third parties of our intellectual property rights.

Outside the United States, laws and regulations relating to intellectual property protection and the effective enforcement of these laws and regulations vary greatly from jurisdiction to jurisdiction. Judicial, legislative and administrative developments are taking place in certain jurisdictions that may have the impact of limiting the ability of rights holders to exploit and enforce certain of their exclusive intellectual property rights outside the United States.

Regulatory Matters

Our business is subject to and affected by laws, regulations and policies of U.S. federal, state and local governmental authorities as well as the laws and regulations of international countries and bodies such as the European Union (the "EU"), and these laws and regulations are subject to change. The following descriptions of significant U.S. federal, state, local and international laws, regulations, regulatory agency inquiries, rulemaking proceedings and other developments are not intended to substitute for the full texts of the respective laws, regulations, inquiries, rulemaking proceedings and other related materials.

Regulation Relating to Data Privacy, Data Security and Cybersecurity

Our business is subject to existing laws and regulations governing data privacy, data security and cybersecurity in the United States and internationally. For example, in the United States, we are subject to: (1) the Children’s Online Privacy Protection Act (“COPPA”), which affects certain of our websites, mobile apps and other online business activities and restricts the collection, maintenance and use of persistent identifiers (such as IP addresses or device serial numbers), location information, images, recordings and other personal information regarding children; (2) the Privacy and Security Rules under the Health Insurance Portability and Accountability Act, which imposes privacy and security requirements on our health plans for employees and on service providers under those plans; (3) state statutes requiring notice to individuals when a data breach results in the release of personally identifiable information; and (4) privacy and security rules imposed by the payment card industry, as well as other regulations designed to protect against identity theft and fraud in connection with the collection of credit and debit card payments from consumers.

Moreover, new laws and regulations have been adopted or are being considered in the United States and internationally that could affect how we collect, use and protect data. New or expanded laws and regulations regarding information security, online and behavioral advertising, geolocation tracking, cloud computing and data collection, sharing and use could increase our compliance costs. Additionally, increased enforcement actions could also increase our costs, and enforcement has been increasing. Since 2002, the Federal Trade Commission (the "FTC") has brought over 50 cases citing companies for failure to either design or implement an appropriately comprehensive privacy or data security program. Since 2014, the Federal Communications Commission (the “FCC”) has also become increasingly involved in privacy and data security enforcement actions. These trends with the FTC and FCC appear to be continuing, as indicated by the Consumer Protection Memorandum of Understanding (“MOU”) entered into by the FTC and FCC on November 16, 2015. Under the MOU, the FTC and FCC will work together in bringing data privacy and security enforcement actions against certain companies and will share data privacy and security compliance information between each other. Additionally, on October 27, 2016, the FCC announced the adoption of new privacy regulations for Internet Service Providers in order to better protect consumer privacy.

Many state legislatures have also adopted legislation that regulates how businesses operate online, including measures relating to privacy, data security and data breaches. For example, laws in 47 states require businesses to provide notice to customers whose personally identifiable information has been disclosed as a result of a data breach. The laws are not consistent, and compliance in the event of a widespread data breach is costly. Further, states are constantly amending existing laws, requiring attention to regulatory requirements. Recently, states have been broadening those notification laws and increasing the requirements of companies who suffer a data breach. For example, in April 2015, Washington passed a new law that strengthened its data breach notification requirements. The new law includes content requirements for notification letters provided to Washington consumers who are affected by a data breach. The new law also requires companies suffering a data breach to notify the Washington attorney general if the breach affects more than 500 state residents. In June 2015, Connecticut also revised its data security laws. The new law requires companies who suffer a data breach involving Social Security numbers to offer at least one year of free identity theft prevention services to affected Connecticut consumers. The new Connecticut law also requires consumer notification within 90 days for all data breaches. In September 2016, California amended and broadened its data breach notification statute to require consumer notification when there has been an unauthorized acquisition of a consumer’s encrypted personal information along with the applicable encryption key. Similarly, Nebraska, Nevada, Rhode Island and Tennessee also amended and broadened their data breach notification statutes in 2016 to strengthen data breach notification requirements, broaden the scope of the definition of personal information and impose new requirements on content and notification. Late in 2016, Illinois enacted a sweeping revision of its Personal Information Protection Act that took effect on January 1, 2017.

States are also active in other areas of data privacy. For example, on January 1, 2016, the Delaware Online Privacy and Protection Act took effect. This new law includes prohibitions against certain advertising to children (defined as those under the age of 18), including prohibitions against advertising related to firearms, tobacco and alcohol. The law also mandates privacy policies for websites and apps that collect personal information from Delaware residents.

Foreign governments are also focusing on similar data privacy and security concerns. In 2015, two major developments occurred in the European Union. First, in October 2015, the European Court of Justice invalidated the U.S.-E.U. Safe Harbor framework, which thousands of U.S. companies had been relying upon in order to legally transfer personal data from the E.U. to the U.S. While the Safe Harbor was important to a significant number of U.S. companies, there are other ways for companies to comply with the E.U. restrictions and requirements for transferring personal data. For example, companies could enter into model contracts, which contain pre-approved standardized contractual clauses (the “Standard Clauses”) related to data privacy and security. On February 2, 2016, the European Commission and the U.S. Department of Commerce announced the Privacy Shield program, an agreement on a new framework for transatlantic data flows to replace the invalidated U.S.-E.U. Safe Harbor framework. The Privacy Shield program requires U.S. companies to comply with stronger and more robust privacy requirements than were required under the old U.S.-E.U. Safe Harbor framework. The Privacy Shield program went into effect on August 1, 2016, but is subject to annual review by the European Commission and could be withdrawn by the Commission or invalidated by European Court of Justice. Furthermore, the validity of personal data transfers under the Standard Clauses has been challenged in Ireland and is widely expected to be appealed eventually before the European Court of Justice, possibly before the end of 2017. If the Standard Clauses are invalidated by the European Court of Justice, transatlantic data flows could be disrupted.

Second, on December 15, 2015, the European Commission announced that it has reached agreement upon the text of the General Data Protection Regulation (the "GDPR"). The official text of the GDPR was published on May 4, 2016 and will go into effect on May 25, 2018, replacing the Data Protection Directive (95/46/EC), which was adopted in 1995. The GDPR will introduce numerous privacy-related changes for companies operating in the E.U., including greater control for data subjects (e.g., the "right to be forgotten"), increased data portability for EU consumers, data breach notification requirements, and increased fines, with potential fines for violations of certain provisions of GDPR reaching as high as 4% of a company's annual total revenue, potentially including the revenue of its international affiliates. The GDPR also has certain benefits for companies operating in the E.U., including the fact that the GDPR, which applies uniformly throughout the E.U., reduces the range of situations in which companies will need to consider different laws of each member nation of the E.U.

Additionally, foreign governments outside of the E.U. are also taking steps to fortify their data privacy laws and regulations. For example, Turkey's new Data Protection Law came into effect on April 7, 2016 and is modeled after the data privacy laws in the E.U. In Argentina, the Argentina Data Protection Agency issued a new regulation on November 18, 2016, that includes new requirements on international transfers of personal data.

As the privacy laws and regulations around the world continue to evolve, these changes could adversely affect our business operations, websites and mobile applications that are accessed by residents in the applicable countries.

Marketing Regulation

Our U.S. magazine subscription, direct marketing and advertising sales activities are subject to regulation by the FTC and each of the states under general consumer protection statutes prohibiting unfair or deceptive acts or practices. Certain marketing activities are also subject to specific state and federal statutes and rules, such as the Telephone Consumer Protection Act, COPPA, the Gramm-Leach-Bliley Act (relating to financial privacy), the Electronic Fund Transfer Act, the Controlling the Assault of Non-Solicited Pornography and Marketing Act of 2003 (CAN SPAM), the FTC Mail or Telephone Order Merchandise Rule and the Restore Online Shoppers' Confidence Act. The FTC has also published a number of proposed rules, which, if enacted, could have an adverse impact on our marketing and subscription activities. For example, in 2009, the FTC proposed a rule that would regulate consumer offers that include a trial period (for free or at a reduced cost) for a specified period after which consumers would continue to receive products at a specified price until the offer is canceled. The rulemaking proceeding is still pending. The FTC also publishes guidelines from time to time that generally explain how to make disclosures in connection with various direct marketing and advertising activities to avoid unfair or deceptive acts or practices. For example, in December 2015, the FTC issued an Enforcement Policy Statement and accompanying Guide for Businesses addressing the use of native advertising by publishers and advertisers. In these documents the FTC lays out the general principles it will consider in determining whether any particular native advertising is deceptive and violates the FTC Act. We believe our native advertising practices are generally consistent with the FTC's Enforcement Policy Statement, but it is uncertain as to how the FTC will interpret its guidelines and how aggressive it will be in enforcing its position. We also regularly receive and resolve routine inquiries from state Attorneys General. Further, we are subject to agreements with state Attorneys General addressing some of our marketing activities, such as magazine subscription renewals. Since we entered into those agreements, many states have adopted regulations addressing the marketing activities that are the subject of our agreements with the state Attorneys General. For example, in 2010, California enacted a law requiring specific disclosures in automatic renewal offers similar to those required under our agreements with state Attorneys General. Other federal and state statutes and rules also regulate conduct in areas such as telemarketing.

In connection with our magazine subscription and marketing activities outside the United States, we are subject to local laws and regulations relating to consumer protection and electronic marketing, especially across Europe and the Asia Pacific region and in Canada. In Canada, our marketing activities are subject to the Canadian Anti-Spam Law, which is generally broader than the U.S. CAN SPAM law. In the United Kingdom, these laws and regulations include the Data Protection Act of 1998, the Privacy and Electronic Communications (EC Directive) Regulations 2003 (SI 2003/2426) (Privacy Regulations) as amended by the Privacy and Electronic Communications (EC Directive) (Amendment) Regulations 2011 (SI 2011/1208), the Consumer Contracts Regulations 2013, the Consumer Rights Act 2015 and, beginning in May 2018, the GDPR. In addition, there are various international codes, directives, laws and regulations relating to the nature of content and advertising, including content restriction laws and consumer

protection laws (such as laws relating to political advertisements, electronic commerce and the marketing of pharmaceutical and tobacco products and alcoholic beverages).
Postal Regulation
Our U.S. magazine subscription, direct marketing and book publishing businesses are affected by laws and regulations relating to the USPS. Current federal law requires the USPS to prefund most of its projected future liabilities under its retiree health benefit system. The prefunding requirements included annual payments to the Department of Treasury in amounts

of as much as $5.8 billion per year during the period through 2016. The USPS has lacked the funds to make most of these payments, and defaults on future prefunding payments that will be due under current law are also likely. In addition, both the USPS and its regulator, the Postal Regulatory Commission (“PRC”), have reported in recent years that the rates for several products of mail used to distribute the Company’s publications, including Periodicals Mail and Standard Mail Flats, do not cover the costs attributable to those products.

As a result of these and other issues, members of Congress are considering the need for postal reform legislation. If postal reform legislation is enacted, it could result in, among other things, increases in postal rates, local post office closures and the elimination of Saturday mail delivery. The elimination of current protections against significant and unpredictable rate increases or other changes to the USPS as a result of the enactment of postal reform legislation could have an adverse effect on our businesses.

Additionally, as mandated by current law, the PRC began a review in December 2016 of how well the existing postal regulatory system is meeting the objectives of current postal law. The PRC could implement a new or modified system for setting postage rates as early as 2018. The changes, if upheld in court, could lead to significant increases in the postal rates we pay, and other changes in the terms and conditions of postal service that could have an adverse effect on our business.

For more information, see Item 1A, "Risk Factors-Risks Relating to Our Business-Our results of operations could be adversely affected as a result of increases in postal rates, and our business and results of operations could be negatively affected by postal service changes."

Employees

As of December 31, 2016, we had approximately 7,450 employees, of whom approximately 4,950 were located in the United States, approximately 1,500 were located in the United Kingdom, approximately 800 were located in India and approximately 200 were located in various other locations throughout Europe and Asia. Approximately 170 full-time, 20 part-time and 80 temporary editorial employees in the United States at five of our magazine titles are covered by a collective bargaining agreement with the NewsGuild of New York, TNG/CWA Local 31003, which is scheduled to expire on March 31, 2019. In our international operations, we have various arrangements with our employees that we believe to be customary for multinational corporations. We have had no strikes or work stoppages during the last five years. We believe that our employee relations are generally good.

Available Information and Website

Our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and any amendment to such reports filed with or furnished to the Securities and Exchange Commission (the “SEC”) pursuant to Section 13(a) or 15(d) of the Exchange Act are available free of charge on our website at www.timeinc.com as soon as reasonably practicable after such reports are electronically filed with or furnished to the SEC. We are providing the address to our website solely for the information of investors. We do not intend the address to be an active link or to incorporate any information included on or accessible through the website into this report.

Seasonality

Our quarterly performance typically experiences moderate seasonal fluctuations. Advertising revenues from our magazines and other digital properties are typically higher in the fourth quarter of the year due to higher consumer spending activity and corresponding higher advertiser demand to reach our audiences during this period.

Executive Officers of the Company

The following sets forth certain information concerning our executive officers.

Mr. Joseph A. Ripp

Mr. Ripp, age 65, our Executive Chairman, has been a Director since November 2013 and Chairman since April 2014. Mr. Ripp served as our Chief Executive Officer from September 2013 to September 2016. Prior to that, Mr. Ripp served as Chief Executive Officer of OneSource Information Services, Inc., a leading provider of online business information and sales intelligence solutions, beginning shortly after the 2012 acquisition of OneSource by Cannondale Investments, Inc., a joint venture formed in 2010 between Mr. Ripp and GTCR, a leading private equity firm. Mr. Ripp served as Chief Executive Officer of Cannondale from 2010 to 2012. From 2008 to 2010, Mr. Ripp served as Chairman of Journal Register Company (now known as 21st Century Media). Prior to that, Mr. Ripp served as President and Chief Operating Officer of Dendrite International Inc., a leading provider of sales, marketing, clinical and compliance solutions for the global pharmaceutical

industry. Mr. Ripp began his media career at Time Inc. in 1985 and held several executive level positions at Time Inc. and Time Warner, including Senior Vice President, Chief Financial Officer and Treasurer of Time Inc. from 1993 to 1999, Executive Vice President and Chief Financial Officer of Time Warner from 1999 to January 2001, Executive Vice President and Chief Financial Officer of America Online from January 2001 to 2002 and Vice Chairman of America Online from 2002 to 2004.

Mr. Richard Battista

Mr. Battista, age 52, has served as a member of the Board and as our President and Chief Executive Officer since September 2016. Prior to that, he was Executive Vice President and President, Brands, from July 2016 to September 2016, Executive Vice President and President, Entertainment & Sports Group and Video from January 2016 to July 2016, and President, People and Entertainment Weekly from April 2015 to December 2015. Before joining us, Mr. Battista served as Chief Executive Officer of Mandalay Sports Media, a sports-focused content and media company from January 2013 to March 2015. He served as President and Chief Executive Officer of LodgeNet Interactive Corp. from September 2012 through January 2013. From January 2011 to September 2012, Mr. Battista invested in digitally-focused media properties through Pontiac Digital Media, an investment vehicle that he formed. From 2008 to 2010, Mr. Battista served as President of Fox's National Cable Networks. From 2004 to 2008, Mr. Battista served as Chief Executive Officer of Gemstar-TV Guide, a publicly-traded company that provided television program guidance and operated media properties. Earlier, Mr. Battista held leadership positions at the Fox media organization over the course of 12 years.

Ms. Susana D'Emic

Ms. D'Emic, age 53, has served as our Executive Vice President and Chief Financial Officer of the Company since November 2016; previously, Ms. D'Emic was Senior Vice President and Controller since October 2013. Prior to that, Ms. D'Emic was with Frontier Communications, a NASDAQ-traded company and the largest provider of phone, internet and video services to rural towns and cities across the country, where she served as Senior Vice President, Controller and Chief Accounting Officer from April 2011 until October 2013. Ms. D'Emic served as Senior Vice President, Controller and Chief Accounting Officer at Trusted Media Brands (formerly Reader's Digest) where she served in a number of finance roles from January 1998 until April 2011. Before joining Reader's Digest, she held various positions with Kraft Foods Corp., Colgate Palmolive Company and was an audit manager with KPMG (then KPMG Peat Marwick). Ms. D'Emic is a Certified Public Accountant.

Ms. Leslie Dukker Doty

Ms. Doty, age 62, has served as our Executive Vice President, Consumer Marketing and Revenue since June 2016. Prior to joining the Company, she was Chief Marketing Officer of Trusted Media Brands (formerly Reader's Digest) from 2013 to 2015 and, from 2012 to 2013, served as Corporate Vice President, Member Engagement at CVS Health, a Fortune 7 health and retail business. Ms. Doty also served as Managing Partner, Marketing Strategy and Brand Loyalty at DiMassimo Goldstein, a brand advertising agency, from 2010 to 2012 and earlier, she held various senior marketing leadership positions in the financial services and payments industry at Mastercard Worldwide, SunTrust Bank and Citibank.

Mr. Brad Elders

Mr. Elders, age 49, has served as our Executive Vice President and Chief Revenue Officer since January 2017. Mr. Elders began his media sales career at Sports Illustrated in 1994 and re-joined the Company in April 2016 as Group Publisher of Sports Illustrated Group before becoming President of Digital Sales in July 2016. He previously was at AOL from October 2010 to July 2011 and again from May 2012 to December 2015, where he was Senior Vice President of Sales. Throughout his career, Mr. Elders has held senior positions at various media companies and start-ups, including Yahoo!, MTV, Live Nation, Videology and Joost.

Mr. Gregory Giangrande

Mr. Giangrande, age 54, has served as our Executive Vice President, Chief Human Resources and Communications Officer since October 2016; previously, Mr. Giangrande served as Executive Vice President of Human Resources from April 2012 to October 2016. Prior to that, Mr. Giangrande served as Executive Vice President and Chief Human Resources Officer for Dow Jones & Company/The Wall Street Journal beginning in February 2008. From 1999 to

2008, Mr. Giangrande served as Senior Vice President and Chief Human Resources Officer at HarperCollins publishing group. Earlier, Mr. Giangrande held leadership positions in human resources at Hearst Corporation, Condé Nast and Random House LLC.

Ms. Lauren Ezrol Klein
Ms. Klein, age 50, has served as our Executive Vice President, General Counsel and Corporate Secretary since September 2016; prior to that Ms. Klein served as Senior Vice President and Deputy General Counsel from September 2014 to September 2016. Ms. Klein joined the Company in 1996 and has been practicing law for 25 years, beginning her career as an associate at the New York law firm Simpson Thacher & Bartlett LLP.
Mr. Erik Moreno
Mr. Moreno, age 42, has served as our Executive Vice President and President, Corporate Development, New Ventures and Investments since October 2016; previously, Mr. Moreno was Executive Vice President of Business Development from September 2015 to October 2016. Prior to that, Mr. Moreno served as Senior Vice President of Corporate Development for Fox Networks Group, a unit of 21st Century Fox, from 2008 to 2015. During his tenure at Fox, he also served as co-General Manager of Mobile Content Venture from 2011 to 2015 and led 21st Century Fox's efforts relating to the FCC's spectrum auction and other digital initiatives. Previously, he served as Director of Corporate Development for eBay Inc. from 2006 to 2008 and was Vice President of Corporate Development and Strategy for Level 3 Communications Ltd., a global wholesale telecommunications company, from 2000 to 2006. Mr. Moreno began his career at Gleacher & Co., a boutique investment bank specializing in mergers and acquisitions.

Mr. Alan Murray
Mr. Murray, age 62, has served as our Chief Content Officer, Time Inc. since July 2016 and Editor In Chief, Fortune since August 2014. Prior to that, he served as President of the Pew Research Center from January 2013 to July 2014, where he tripled the center's digital footprint. Mr. Murray served as Deputy Managing Editor and Executive Editor, Online at the Wall Street Journal from 2007 to 2012, with editorial responsibility for the Journal's websites, mobile products, television, video, books and conferences. He also spent a decade as the Journal's Washington Bureau Chief, from 1993 to 2002, during which time the bureau won three Pulitzer Prizes. Between his stints at the Journal, Alan served as CNBC's Washington Bureau Chief from 2002 to 2005, co-hosting, Capital Report with Alan Murray and Gloria Borger. Mr. Murray is also the author of four books.
Ms. Jennifer Wong
Ms. Wong, age 41, has served as our Chief Operating Officer and President, Digital since September 2016; previously, she was Executive Vice President, President of Digital from January 2016 to September 2016. Prior to that, Ms. Wong served as Chief Business Officer of PopSugar Media, Inc. from 2011 to 2015, where she led business operations, business development, and growth strategy across all content and commerce platforms. From 2010 to 2011, Ms. Wong served as Senior Vice President/General Manager for AOL Media Lifestyle at AOL Inc., as well as global head of business operations and head of operations for AOL Media. Prior to that, she served as Senior Vice President and General Manager of Premium Network Display Products at AOL, where she led the development and go-to-market strategies for the company's premium network display products. Previously she held management roles at The Huffington Post Media Group and AOL Advertising. Ms. Wong's earlier experience includes a role as Associate Partner, Media and Entertainment Practice for McKinsey & Company.
ITEM 1A. RISK FACTORS
We believe the risks described below are the principal risks that we face. Some of the risks relate to our business; others relate principally to the securities markets and ownership of our common stock. Any of the following risks could materially and adversely affect our business, financial condition and results of operations and the actual outcome of matters as to which forward-looking statements are made in this annual report on Form 10-K. While we believe we have identified and discussed below the material risks affecting our business, there may be additional risks and uncertainties that we do not presently know or that we do not currently believe to be material that may adversely affect our business, financial condition and results of operations in the future.
We face significant competition across the media landscape, including from magazine publishers, digital publishers, social media platforms, search platforms, portals and digital marketing services, among others, which we expect will continue, and as a result we may not be able to maintain or improve our operating results.
We compete with other magazine publishers for market share and for the time and attention of consumers of print magazine content. The proliferation of choices available to consumers for information and entertainment has

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resulted in audience fragmentation and has negatively affected overall consumer demand for print magazines and intensified competition with other magazine publishers for share of print magazine readership.
We also compete with digital publishers and other forms of media, including, among others, social media platforms, search platforms, portals and digital marketing services. The competition we face has intensified as a result of the growing popularity of mobile devices, such as smartphones and social-media platforms, and the shift in consumer preference from print media to digital media for the delivery and consumption of content, including video content. Social media and other platforms such as Facebook, Twitter, Snapchat, Google and Yahoo! are successful in gathering national, local and entertainment news and information from multiple sources and attracting a broad readership base. News aggregation websites and customized news feeds (often free to users) may reduce our traffic levels by minimizing the need for the audience to visit our websites or use our digital applications directly. Given the ever-growing and rapidly changing number of digital media options available on the Internet, we may not be able to increase our online traffic sufficiently and retain or grow a base of frequent visitors to our websites and applications on mobile devices. In addition, the ever-growing and rapidly changing number of digital media options available on the Internet may lead to technologies and alternatives that we are not able to offer.
These new platforms have reduced the cost of producing and distributing content on a wide scale, allowing new free or low-priced digital content providers to compete with us and other magazine publishers. The ability of our paid print and digital content to compete successfully with free and low-priced digital content, including video content, depends on several factors, including our ability to differentiate and distinguish our content from free or low-priced digital content, as well as our ability to increase the value of paid subscriptions to our customers by offering a different, deeper and richer digital experience. If we are unable to distinguish our content from that of our competitors or adapt to new distribution methods, our business, financial condition and results of operations may be adversely affected.
We derive approximately half of our Revenues from advertising. The continuing shift in consumer preference from print media to digital media, as well as growing consumer engagement with digital media and social platforms, has introduced significant new competition for advertising. The proliferation of new platforms available to advertisers, combined with continuing strong competition from print platforms, has affected both the amount of advertising we are able to sell as well as the rates advertisers are willing to pay. Our ability to compete successfully for advertising also depends on our ability to drive scale, engage digital audiences and prove the value of our advertising and the effectiveness of our print and digital platforms, including the value of advertising adjacent to high quality content, and on our ability to use our brands to continue to offer advertisers unique, multi-platform advertising programs and franchises. If we are unable to demonstrate to advertisers the continuing value of our print and digital platforms or offer advertisers unique advertising programs tied to our brands, our business, financial condition and results of operations may be adversely affected.
We are exposed to risks associated with the current challenging conditions in the magazine publishing industry.
We have experienced declines in our Print and other advertising revenues and Circulation revenues due to challenging conditions in the magazine publishing industry. For the years ended December 31, 2016, 2015 and 2014, our Print and other advertising revenues declined 9%, 10% and 3%, respectively, as compared to the preceding year despite our having maintained or gained market share in advertising revenues in each of 2016, 2015, and 2014, and our Circulation revenues declined 9%, 5% and 3%, respectively, as compared to the preceding year. The challenging conditions and our declining revenues may limit our ability to invest in our brands and pursue new business strategies, including acquisitions, and make it more difficult to attract and retain talented employees and management. Moreover, while we have reduced our costs significantly in recent years to address these challenges, we will need to reduce costs further and such reductions are subject to risks. See "—We may experience financial and strategic difficulties and delays or unexpected costs in completing our various restructuring plans and cost-saving initiatives, including not achieving the anticipated savings and benefits of these plans and initiatives."
Our profits may be affected by our ability to respond to recent and future changes in technology and consumer behavior.
Technology used in the publishing industry continues to evolve rapidly, and advances in that technology have led to alternative methods for the delivery and consumption of content, including via mobile devices such as smartphones.

These technological developments have driven changes in consumer behavior, especially among younger demographics. Shifts to digital platforms present several challenges to our historical business model, which is based on the production and distribution of print magazines. In order to remain successful, we must continue to attract readers and advertisers to our print products while also continuing to adapt our business model to address changing consumer demand for digital content across a wide variety of devices and platforms.

This adaptation poses certain risks. First, advertising models and pricing for digital platforms may not be as economically attractive to us as in print magazines, and our ability to continue to package print and digital audiences for advertisers could change in the future. Second, it is unclear whether it will be economically feasible for us to grow paid digital circulation to scale. Further, our practice of offering certain content on our websites for free may reduce demand for our paid content. In addition, the increasing adoption of ad-blocking tools could negatively impact the revenues that we generate on our digital platforms.

The transition from print to digital platforms may also reduce the benefit of important economies of scale we have established in our print production and distribution operations. The scale of our print operations has allowed us to support significant vertical integration in our production, consumer marketing and retail distribution operations, among others, as well as to secure attractive terms with our third-party suppliers, all of which have provided us with significant economic and competitive advantages. As the size of our print operations declines, the advantages of the economies of scale in our print operations may also decline.

Also, the shift to digital distribution platforms, many of which are controlled by third parties, may lead to pricing restrictions, the loss of distribution control, further loss of a direct relationship with advertisers and consumers and greater susceptibility to technological problems or failures in third-party systems as compared to our existing print distribution operations. Further, we may be required to incur significant costs as we continue to acquire new expertise and infrastructure to accommodate the shift to digital platforms, including additional consumer software and digital and mobile content development expertise, and we may not be able to economically adapt existing print production and distribution assets to support our digital operations. If we are unable to successfully manage the transition to a greater emphasis on digital platforms, continue to negotiate mutually agreeable arrangements with digital distributors or otherwise respond to changes in technology and consumer behavior, our business, financial condition and results of operations may be adversely affected.

In addition, the advertising industry continues to experience a shift toward digital advertising. Because rates for digital advertising are generally lower than for traditional print advertising, our digital advertising revenue may not fully replace print advertising revenue lost as a result of the shift. Growing consumer reliance on mobile devices adds additional pressure, as advertising rates are generally lower on mobile devices than on personal computers. If we are unable to effectively grow digital advertising revenues through the development of advertising products that are compelling to both marketers and consumers, our business, financial condition and results of operations may be adversely affected.

If we fail to develop or acquire technologies that adequately serve changing consumer behaviors and support our evolving business needs, our business, financial condition and prospects may be adversely affected.

In order to respond to changing consumer behaviors, we need to invest in new technologies and platforms to deliver content and provide products and services where consumers demand it. If we fail to develop or acquire the necessary consumer-facing technologies or if the technologies we develop or acquire are not received favorably by consumers, our business, financial condition and prospects may be adversely affected. In addition, as our business evolves and we develop new revenue streams, we must develop or invest in new technology and infrastructure that satisfy the needs of the changing business. If we fail to do so, our business, financial condition and prospects may suffer. Further, if we fail to update our current technology and infrastructure to minimize the potential for business disruption, our business, financial condition and prospects may be adversely affected.

We are exposed to risks associated with weak economic conditions.

We have been adversely affected by weak economic conditions in the past and have experienced declines in our Advertising and Circulation revenues as a result. Factors that affect economic conditions include the rate of unemployment, the level of consumer confidence and changes in consumer spending habits. Because magazines are generally discretionary purchases for consumers, our Circulation revenues are sensitive to general economic conditions and economic cycles. Certain economic conditions such as general economic downturns, including periods of increased inflation, unemployment levels, tax rates, interest rates, gasoline and other energy prices or declining consumer confidence, negatively impact consumer spending. Reduced consumer spending or a shift in consumer spending patterns away from discretionary items will likely result in reduced demand for our products and may also require us to incur increased selling and marketing expenses.

We also face risks associated with the impact of weak economic conditions on third parties with which we do business, such as advertisers, suppliers, wholesale distributors, retailers and other parties. For example, if retailers file for reorganization under bankruptcy laws or otherwise experience negative effects on their businesses due to volatile or weak economic conditions, it could reduce the number of outlets for our magazines, which in turn could reduce the attractiveness of our magazines to advertisers. In addition, any financial instability of the wholesalers that distribute our print magazines to retailers could have various negative effects on us. See "—We could face increased costs and business disruption from instability in our wholesaler distribution channels."

We derive substantial revenues from the sale of advertising, and a decrease in overall advertising expenditures could lead to a reduction in the amount of advertising that companies are willing to purchase from us and the price at which they purchase it. Expenditures by advertisers tend to be cyclical and have become less predictable in recent years, reflecting domestic and global economic conditions. If the economic prospects of advertisers or current economic conditions worsen, such conditions could alter current or prospective advertisers' spending priorities. In particular, advertisers in certain industries that are more susceptible to weakness in domestic and global economic conditions, such as beauty, fashion and retail and food, account for a significant portion of our Advertising revenues, and weakness in these industries could have a disproportionate negative impact on our Advertising revenues. Declines in consumer spending on advertisers' products due to weak economic conditions could also indirectly negatively impact our Advertising revenues, as advertisers may not perceive as much value from advertising if consumers are purchasing fewer of their products or services. Further, since the economic crisis of 2008-2010, advertisers have been less willing to commit funds upfront to advertising initiatives than in the past. As a result, our Advertising revenues are less predictable.

If we are unable to successfully develop and execute our strategic growth initiatives, or if they do not adequately address the challenges or opportunities we face, our business, financial condition and prospects may be adversely affected.

Our success is dependent in part on our ability to identify, develop and execute appropriate strategic growth initiatives that will enable us to achieve sustainable growth in the long-term. The implementation of our strategic initiatives is subject to both the risks affecting our business generally and the inherent risks associated with implementing new strategies. These strategic initiatives may not be successful in generating revenues or improving operating profit and, if they are, they may take longer than anticipated. Activities of activist shareholders, including proxy contests or other efforts to change the board of directors, could also be a distraction to management in executing its plans, and may even cause us to change our strategic initiatives. As a result and depending on evolving conditions and opportunities, we may need to adjust our strategic initiatives and such changes could be substantial, including modifying or terminating one or more of such initiatives. Termination of such initiatives may require us to write down or write off the value of our investments in them. Transition and changes in our strategic initiatives may also create uncertainty in our employees, customers and partners that could adversely affect our business and revenues. In addition, we may incur higher than expected or unanticipated costs in implementing our strategic initiatives, attempting to attract revenue opportunities or changing our strategies. There is no assurance that the implementation of any strategic growth initiative will be successful, and we may not realize anticipated benefits at levels we project or at all, which would adversely affect our business, financial condition and prospects.

Changes to U.S. or international regulation or policies affecting our business or the businesses of our advertisers could cause us to incur additional costs or liabilities, negatively impact our revenues or disrupt our business practices.

Our business is subject to a variety of U.S. and international laws, regulations and policies. See Item 1, "Business–Regulatory Matters" for a description of the significant laws, regulations and policies affecting our business, including,

among others, new data privacy laws in the E.U. We could incur substantial costs to comply with new laws, regulations or policies or substantial penalties or other liabilities if we fail to comply with them. Compliance with new laws, regulations or policies could also cause us to change or limit our business practices in a manner that is adverse to our business. In addition, if there are changes in laws, regulations or policies that provide protections that we rely on in conducting our business, they could subject us to greater risk of liability and could increase compliance costs or limit our ability to operate our business.

Our business performance is also indirectly affected by the laws, regulations and policies that govern the businesses of our advertisers. For example, the pharmaceutical industry, which accounts for a significant portion of our Advertising revenues, is subject to regulations of the Food and Drug Administration in the United States requiring pharmaceutical advertisers to communicate certain disclosures to consumers about advertised pharmaceutical products, typically through the purchase of print media advertising. We face the risk that the Food and Drug Administration could change pharmaceutical marketing regulations in a way that is detrimental to the sale of advertising.

Additionally, changes in laws and regulations that currently allow us to retain customer credit card information and other customer data and to engage in certain forms of consumer marketing, such as automatic renewal of subscriptions for our magazines and negative option offers via direct mail, email, online or telephone solicitation, could have a negative impact on our Circulation revenues and adversely affect our financial condition and operating performance.

Our results of operations could be adversely affected as a result of increases in postal rates, and our business and results of operations could be negatively affected by postal service changes.

Due in large part to the current statutory requirement that the USPS make large annual payments to the Department of the Treasury to prefund the USPS' retiree health benefits fund, the USPS continues to report large net annual losses despite revenue gains and a leveling off in the volume of mail delivered. In 2015, the USPS introduced new service standards that slowed the delivery of periodical mail and resulted in a portion of our weekly magazines being delivered a day later. We cannot predict how the USPS will address its fiscal condition in the future, but changes to delivery, reduction in staff or additional closings of processing centers may lead to changes in our internal production schedules or other changes in order to continue to meet our subscribers' expectations.

Other measures taken to reduce or eliminate the USPS' reported losses could include above-inflation (i.e., greater-than-CPI) increases in the rates of postage for periodicals mail and other market-dominant mail products that we use. Congress has been considering comprehensive postal reform legislation, some of which would remove or modify the current restrictions on rate increases. The PRC is likely to consider similar changes in its statutorily-mandated review of the current regulatory system that began in December 2016. Postage is a significant operating expense for us, and if increases in postal rates occur and we are not able to offset the increases, the results of our operations could be harmed.

We could face increased costs and business disruption from instability in our wholesaler distribution channels.

We operate a distribution network that relies on wholesalers to distribute our magazines to newsstands and other retail outlets. A small number of wholesalers are responsible for a substantial percentage of wholesale magazine distribution in the United States and the United Kingdom. We are experiencing significant declines in magazine sales at newsstands and other retail outlets. In light of these declines and the challenging industry conditions, there may be further consolidation among the wholesalers and one or more may become insolvent or unable to pay amounts due in a timely manner. For example, in June 2014, our then second-largest wholesaler of our publications filed for protection under Chapter 11 of the U.S. Bankruptcy Code, requiring us to transition the distribution of our products and increase our use of other distributors. (See Item 1, "Business—How We Generate Revenues—Circulation—Newsstand Sales.") Distribution channel disruptions can impede our ability to distribute magazines to the retail marketplace, which could, among other things, negatively affect the ability of certain magazines to meet the rate base established with advertisers. Disruption in the wholesaler channel, an increase in wholesale distribution costs or the failure of wholesalers to pay amounts due could adversely affect our business, financial condition and results of operations.

A significant increase in the price of paper or significant disruptions in our supply of paper or printing services would have an adverse effect on our business, financial condition and results of operations.

Paper represents a significant component of our total costs to produce print magazines. While the price of paper is currently close to a 10-year low after adjusting for inflation, paper prices have historically been volatile and may increase as a result of various factors, including:

- a reduction in the number of suppliers due to restructurings, bankruptcies and consolidations;
- declining paper supply due to paper mill closures; and
- other factors that generally adversely impact supplier profitability, including increases in operating expenses caused by rising raw material and energy costs.

If paper prices increase significantly or we experience significant supply channel disruptions, our business, financial condition and results of operations would be adversely affected.

In addition, printing is a significant component in the production of our print magazines. While occasional disruptions in the services provided by our current printers can be addressed by shifting production to other suppliers, a prolonged interruption of services by either of our printers could have an adverse impact on our business, financial condition and results of operations. In this connection, in April 2016, our sole printing supplier in the U.K. announced a liquidation bankruptcy proceeding. In order to secure U.K.-based printing resources for our titles, we extended a loan to the purchaser of the printing site where our U.K. titles were printed and entered into a new printing agreement with that purchaser to print all our U.K. titles.

We have substantial indebtedness and the ability to incur significant additional indebtedness, which could adversely affect our business, financial condition and results of operations.

In connection with the Spin-Off, on April 29, 2014, we issued $700 million aggregate principal amount of 5.75% senior notes (the "Senior Notes"). On April 24, 2014, we also entered into senior credit facilities (the "Senior Credit Facilities") providing for a term loan (the "Term Loan") in an initial principal amount of $700 million and a $500 million revolving credit facility (the "Revolving Credit Facility"), of which up to $100 million is available for the issuance of letters of credit. As of December 31, 2016, the only utilization under the Revolving Credit Facility was letters of credit in the face amount of approximately $3 million. As of December 31, 2016, we had total consolidated indebtedness, net of discounts, of approximately $1.24 billion.

In November 2015, our Board of Directors authorized principal debt repayments and/or repurchases of up to $200 million on both the Term Loan and the Senior Notes. The authorization expires on December 31, 2017, subject to extension or earlier termination by the Board of Directors. The extent to which we repurchase or repay our debt, and the timing of such transactions, will depend upon a variety of factors, including market and industry conditions, regulatory requirements and other corporate considerations, as determined by us from time to time. The authorization may be suspended or discontinued at any time without notice. Of the up to $200 million for debt repayments and/or repurchases authorized by our Board of Directors, $75 million remained unused as of February 10, 2017.

We may incur additional borrowings from the financial institutions under the Revolving Credit Facility, subject to the satisfaction of customary borrowing conditions. Additionally, the terms of the Senior Notes and Senior Credit Facilities permit us to incur significant additional indebtedness, subject to obtaining commitments from lenders.

Our level of indebtedness could have important consequences. For example, it could:

- increase our vulnerability to general adverse economic and industry conditions;
- limit our ability to obtain additional financing to fund future working capital, capital expenditures and other general corporate requirements or to carry out other aspects of our business;
- increase our cost of borrowing;

- require us to dedicate a substantial portion of our cash flow from operations to payments on indebtedness, thereby reducing the availability of such cash flow to fund working capital, capital expenditures and other general corporate requirements or to carry out other aspects of our business;
- limit our ability to make material acquisitions or take advantage of business opportunities that may arise;
- expose us to fluctuations in interest rates, to the extent our borrowings bear variable rates of interest;
- limit our flexibility in planning for, or reacting to, changes in our business and industry; and
- place us at a potential disadvantage compared to our competitors that have less debt.

Our ability to make scheduled payments on and to refinance our indebtedness will depend on and be subject to our future financial and operating performance, which in turn is affected by general economic, financial, competitive, business and other factors beyond our control, including the availability of financing in the banking and capital markets. Our business may fail to generate sufficient cash flow from operations or we may be unable to efficiently repatriate the portion of our cash flow that is derived from our foreign operations or borrow funds in an amount sufficient to enable us to make payments on our debt, to refinance our debt, to pay dividends to our stockholders at the historical rate or at all or to fund our other liquidity needs. If we were unable to make payments on or refinance our debt or obtain new financing under these circumstances, we would have to consider other options, such as asset sales, equity issuances or negotiations with our lenders to restructure the applicable debt. The terms of our debt agreements and market or business conditions may limit our ability to take some or all of these actions. In addition, if we incur additional debt, the related risks described above could be exacerbated.

The terms of the credit agreement that governs the Senior Credit Facilities and the indenture that governs the Senior Notes restrict our current and future operations, particularly our ability to incur debt that we may need to fund initiatives in response to changes in our business, the industries in which we operate, the economy and governmental regulations.

The credit agreement that governs the Senior Credit Facilities and the indenture that governs the Senior Notes contain a number of restrictive covenants that impose significant operating and financial restrictions on us and our subsidiaries and limit our ability to engage in actions that may be in our long-term best interests, including restrictions on our and our subsidiaries' ability to:

- incur or guarantee additional indebtedness or sell disqualified or preferred stock;
- pay dividends on, make distributions in respect of, repurchase or redeem, capital stock;
- make investments or acquisitions;
- sell, transfer or otherwise dispose of assets out of the ordinary course of business, including restrictions on the use of proceeds of such sales;
- create liens;
- enter into sale/leaseback transactions;
- enter into agreements restricting the ability to pay dividends or make other intercompany transfers;
- consolidate, merge, sell or otherwise dispose of all or substantially all of our or our subsidiaries' assets;
- enter into transactions with affiliates;
- prepay, repurchase or redeem certain kinds of indebtedness;
- issue or sell stock of our subsidiaries; and
- significantly change the nature of our business.

In addition, the credit agreement that governs the Revolving Credit Facility has a financial covenant that requires us to maintain a consolidated secured net leverage ratio (as defined in the credit agreement that governs the Senior Credit Facilities) of 2.75x to 1.00x or less. Our ability to meet this financial covenant may be affected by events beyond our control.

As a result of all of these restrictions, we may be:
- limited in how we conduct our business and pursue our strategy;
- unable to raise additional debt or equity financing to operate during general economic or business downturns; or
- unable to compete effectively or to take advantage of new business opportunities.

A breach of the covenants under the indenture that governs the Senior Notes or under the credit agreement that governs the Senior Credit Facilities could result in an event of default under the applicable agreement. If such an event of default occurs, the lenders under the Senior Credit Facilities and holders of the Senior Notes, as applicable, would have the right to accelerate the repayment of such debt and the event of default or acceleration may result in the acceleration of the repayment of any other debt to which a cross-default or cross-acceleration provision applies. In addition, an event of default under the credit agreement that governs the Senior Credit Facilities would also permit the lenders under the Revolving Credit Facility to terminate all other commitments to extend additional credit under the Revolving Credit Facility.

Furthermore, if we were unable to repay the amounts due and payable under the Senior Credit Facilities, the lenders under the Senior Credit Facilities could proceed against the collateral that secures the indebtedness. In the event our creditors accelerate the repayment of our borrowings, we may not have sufficient assets to repay such indebtedness and we may not be able to access the capital markets to refinance such indebtedness on terms we find acceptable or at all.

Our indebtedness subjects us to interest rate risk, which could cause our debt service obligations to increase significantly or could prevent us from taking advantage of lower rates.

As discussed under “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources,” a portion of our indebtedness consists of term loans and revolving credit facility borrowings with variable rates of interest that expose us to interest rate risk. If interest rates increase, our debt service obligations on the variable rate indebtedness will increase even though the amount borrowed remains the same, and our net income and cash flows will correspondingly decrease. Our Term Loan is subject to variable interest rates but includes a eurocurrency "floor" that is higher than the prevailing market rate. A hypothetical 100 basis point increase in current interest rates would increase our annual interest expense by approximately $5 million, and a hypothetical 200 basis point increase in interest rates would increase our annual interest expense by approximately $12 million. We will be exposed to the risk of rising interest rates to the extent that we fund our operations with short-term or variable-rate borrowings. Even if we enter into interest rate swaps in the future in order to reduce future interest rate volatility, we may not elect to maintain such interest rate swaps with respect to any of our variable rate indebtedness, and any swaps we enter into may not fully mitigate our interest rate risk. In addition, we have significant fixed rate indebtedness that includes prepayment penalties which could prevent us from taking advantage of any future decrease in interest rates that may otherwise be applicable to us.

We may need to raise additional capital, and we cannot be sure that additional financing will be available.

We will fund our ongoing working capital, capital expenditure and financing requirements through cash flows from operations, our Revolving Credit Facility (which is scheduled to expire in 2019) and new sources of capital, including additional financing. Our ability to obtain future financing will depend, among other things, on our financial condition and results of operations as well as on the financial condition of the lenders under our Revolving Credit Facility (whose obligations are several and not joint) and the condition of the capital markets or other credit markets at the time we seek financing. Increased volatility and disruptions in the financial markets could make it more difficult and more expensive for us to obtain financing. In addition, the adoption of new statutes and regulations, the implementation of recently enacted laws or new interpretations or the enforcement of older laws and regulations applicable to the financial markets or the financial services industry could result in a reduction in the amount of available credit or an increase in the cost of credit. If we should require external financing for any reason, there can be no assurance that we will have access to the capital markets on terms we find acceptable or at all.

Adverse changes in the equity markets, interest rates or our credit ratings, changes in actuarial assumptions and legislative or other regulatory actions could substantially increase our U.K. pension costs and could result in a material adverse effect on our business, financial condition and results of operations.

Through one of our U.K. subsidiaries, we sponsor the IPC Media Pension Scheme (the “IPC Plan”), a defined benefit pension plan that is closed to new participants and accrual of additional benefits for current participants other than certain enhanced benefits - most notably in connection with increases in certain participants' final compensation. In addition, the majority of pensions and deferred benefits in excess of the guaranteed minimum pension are increased annually in line with the increase in the retail price index up to a maximum of 5%.

In connection with the Spin-Off, we and the IPC Plan’s trustee (the "IPC Plan Trustee") entered into a binding agreement covering the actions that we would take, including an increase in the funding contribution to the IPC Plan to £11 million annually from April 2014 to 2020 and additional assurances and commitments regarding the business and assets that support the IPC Plan, including the Blue Fin Building. Such agreement has been superseded as described below.

The most recent triennial valuation of the IPC Plan under U.K. pension regulations was conducted as of April 5, 2015. Under the assumptions used in such valuation, which are more conservative than the assumptions used to determine a pension plan’s funded status in accordance with generally accepted accounting principles in the United States, the IPC Plan was deemed to be underfunded by approximately £156 million. We sold the Blue Fin Building on November 24, 2015 (the “Blue Fin Sale Closing”), and as part of that sale a new pension funding agreement (the “New Pension Support Agreement”) was reached among the IPC Plan Trustee, Time Inc. and Time Inc. (UK) Ltd. (“Time Inc. UK”). Pursuant to the New Pension Support Agreement, the Company was no longer subject to any restrictions on the use of proceeds from the sale of the Blue Fin Building, but agreed to make the following cash contributions to the IPC Plan: (1) £50 million to be contributed within 30 days of the Blue Fin Sale Closing (which contribution was made in November 2015); (2) £11 million to be contributed annually until the sixth anniversary of the Blue Fin Sale Closing; (3) contributions on the sixth, seventh and eighth anniversaries of the Blue Fin Sale Closing calculated so as to eliminate the “self-sufficiency deficit”, if any, of the IPC Plan as of the eighth anniversary of the Blue Fin Sale Closing, determined assuming that the discount rate on the IPC Plan’s liabilities would be equivalent to 0.5% in excess of the then-prevailing rate on bonds issued by the UK Government (“gilts”); and (4) contributions between the eighth and 15th anniversaries of the Blue Fin Sale Closing calculated so as to eliminate the “risk-free self-sufficiency deficit”, if any, of the IPC Plan as of the 15th anniversary of the Blue Fin Sale Closing, determined assuming that the discount rate on the plan’s liabilities would be equivalent to the then-prevailing gilts rate. The “self-sufficiency deficit,” which is calculated using more conservative assumptions than those used in the triennial valuation performed for purposes of determining an appropriate annual funding obligation for the IPC Plan, is an estimate of the amount of a hypothetical one-time contribution that would provide a high level of assurance that the IPC Plan could fund all future benefit obligations as they come due with no further contributions using a discount rate that is 50 basis points higher than the expected return on gilts. The "risk-free self-sufficiency basis" uses a discount rate that is the same as the expected return on gilts.

The New Pension Support Agreement provides that Time Inc. will guarantee all of Time Inc. UK’s obligations under the IPC Plan and the New Pension Support Agreement, including the above-described payment obligations, as well as the obligation to fund the IPC Plan’s “buyout deficit” (i.e., the amount that would be needed to purchase annuities to discharge the benefits under the plan) under certain circumstances. Specifically, Time Inc. would be required to deposit the buyout deficit into escrow or provide a surety bond or other suitable credit support if we were to experience a drop in our credit ratings to certain stipulated levels or if our debt in excess of $50 million were not to be paid when due or were to come due prior to its stated maturity as a result of a default (a “Major Debt Acceleration”). This could have a material adverse effect on our business, financial condition and results of operations. We would be permitted to recoup the escrowed funds under certain circumstances after a recovery in our credit ratings. However, if the Company or Time Inc. UK were to become insolvent, or if a Major Debt Acceleration were to occur (without being promptly cured and accompanied by a recovery in the Company’s credit ratings), any escrowed funds would be immediately contributed into the IPC Plan and we would be obligated to immediately contribute into the IPC Plan any shortfall in the buyout deficit amount. Had the Company been required to fund the buyout deficit on December 31, 2016, the

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amount would have been approximately £360 million. The amount of the buyout deficit changes daily and is determined by many factors, including but not limited, to changes in the fair value of the plan assets and liabilities and interest rate.

It is possible that, following future valuations of the IPC Plan's assets and liabilities or following future discussions with the trustee, the annual funding obligation will change. The future valuations under the IPC Plan can be affected by a number of assumptions and factors, including legislative changes, assumptions regarding interest rates, inflation, mortality, compensation increases and retirement rates, the investment strategy and performance of the IPC Plan assets, the strength of our U.K. business, and (in certain limited circumstances) actions by the U.K. pensions regulator. Volatile economic conditions, including as a result of Brexit, could increase the risk that the funding requirements increase following the next triennial valuation, which is expected to commence in April 2018. A significant increase in our funding requirements for the IPC Plan or in the calculated "self-sufficiency deficit" or the calculated "risk-free self-sufficiency deficit" could result in a material adverse effect on our business, financial condition and results of operations.

We face risks relating to doing business internationally that could adversely affect our business, financial condition and operating results.

Our business operates internationally. There are risks inherent in doing business internationally, including:

- issues related to managing international operations, including our ability to hire and retain talented personnel;
- potentially adverse changes in tax laws and regulations;
- lack of sufficient protection for intellectual property in some countries;
- government policies that restrict the print and digital flow of information;
- complying with international laws and regulations, including those governing the collection, use, retention, sharing and security of consumer data;
- currency exchange and export controls;
- fluctuation in currency exchange rates;
- local labor laws and regulations;
- political or social instability; and
- limitations on our ability to efficiently repatriate cash from our foreign operations.

One or more of these factors could harm our international operations and operating results. These risks will be heightened if we expand the international scope of our operations. In addition, some of our operations are conducted in foreign currencies, and the value of each of these currencies fluctuates relative to the U.S. dollar. As a result, we are exposed to exchange rate fluctuations, which in the past have had, and in the future could have, an adverse effect on our results of operations in a given period. For example, as a result of the June 23, 2016 referendum by British voters to exit the European Union ("Brexit"), global markets and foreign currencies have been adversely impacted. In particular, the value of the British pound has sharply declined as compared to the U.S. dollar and other currencies. A weaker British pound compared to the U.S. dollar during a reporting period would cause local currency results of our U.K. operations to be translated into fewer U.S. dollars. This volatility in foreign currencies is expected to continue as the U.K. negotiates and executes its exit from the European Union, but it is uncertain over what time period this will occur. A significantly weaker British pound compared to the U.S. dollar could have an adverse effect on the Company's business, financial condition and results of operations.

Our business may suffer if we cannot continue to enforce the intellectual property rights on which our business depends.

Our business relies on a combination of trademarks, trade names, copyrights, domain names and other proprietary rights, as well as contractual arrangements, including licenses, to establish, maintain and protect our intellectual property rights and brands. Our proprietary trademarks and other intellectual property rights are important to our continued success and our competitive position. See Item 1, "Business—Intellectual Property" for a description of our intellectual property assets and the measures we take to protect them. Effective intellectual property protection may not be available in every country or region in which we operate or where our products are available. We also may not be able to acquire

or maintain appropriate domain names or trademarks in all countries or regions in which we do business. The Internet Corporation for Assigned Names and Numbers (ICANN) continues to expand the supply of domain names on the Internet and so far has designated more than 1,500 generic gTLDs, which could significantly change the structure of the Internet and make it significantly more expensive for us to protect our intellectual property on the Internet. We may be unable to prevent third parties from acquiring domain names, including generic top level domain names, that are similar to, infringe or diminish the value of our trademarks and other proprietary rights. Any impairment of our intellectual property or brands, including due to changes in U.S. or foreign intellectual property laws or the absence of effective legal protections or enforcement measures, could adversely impact our business, financial condition and results of operations.

We have been, and may be in the future, subject to claims of intellectual property infringement, which could subject us to liability or require us to change our business practices.

Successful claims that we infringe the intellectual property of others could require us to enter into royalty or licensing agreements on unfavorable terms, incur substantial monetary liability or be enjoined preliminarily or permanently from further use of the intellectual property in question. In addition, due to advancements in technology and the fast paced dissemination of digital content there is an increased risk of copyright and trademark infringement. From time to time, we could be the subject of infringement claims or legal proceedings by third parties due to inadvertent infringement from our digital content. This could require us to change our business practices and limit our ability to compete effectively. Even if we believe that claims of intellectual property infringement are without merit, defending against the claims can be time-consuming and costly and divert management’s attention and resources away from our business.

Service disruptions or failures of our or our vendors’ information systems and networks as a result of computer viruses, misappropriation of data or other malfeasance, natural disasters (including extreme weather), accidental releases of information or other similar events, may disrupt our business, damage our reputation or have a negative impact on our results of operations.

Because information systems, networks and other technologies are critical to many of our operating activities, shutdowns or service disruptions at our company or vendors that provide information systems, networks, printing or other services to us pose increasing risks. Such disruptions may be caused by events such as computer hacking, phishing attacks, dissemination of computer viruses, malware, worms and other destructive or disruptive software, denial of service attacks and other malicious activity, as well as power outages, natural disasters (including extreme weather), terrorist attacks or other similar events. Such events could have an adverse impact on us and our customers, including degradation or disruption of service, loss of data and damage to equipment and data. In addition, system redundancy may be ineffective or inadequate, and our disaster recovery planning may not be sufficient to cover all eventualities. Significant events could result in a disruption of our operations, customer or advertiser dissatisfaction, damage to our reputation or brands or a loss of customers or revenues. In addition, we may not have adequate insurance coverage to compensate for any losses associated with such events.

We could be subject to risks caused by misappropriation, misuse, leakage, falsification or intentional or accidental release or loss of information maintained in the information systems and networks of our company and our vendors, including personal information of our employees and customers, and company and vendor confidential data. In addition, outside parties may attempt to penetrate our systems or those of our vendors or fraudulently induce our employees or customers or employees of our vendors to disclose sensitive information in order to gain access to our data, or to take control of our sites in order to publish false information or otherwise mislead our users. Like other companies, we have on occasion experienced, and will continue to experience, threats to our data and systems, including malicious codes and viruses, and other cyber-attacks. The number and complexity of these threats continue to increase over time. If a material breach of our security or that of our vendors occurs, the market perception of the effectiveness of our security measures could be harmed, we could lose customers, audience and advertisers and our reputation, brands and credibility could be damaged. We could be required to expend significant amounts of money and other resources to repair or replace information systems or networks. In addition, we could be subject to regulatory actions and claims made by consumers and groups in private litigation involving privacy issues related to consumer data collection and use practices and other data privacy laws and regulations, including claims for misuse or inappropriate disclosure of data, as well as unfair or deceptive practices. Although we develop and maintain systems and controls designed to prevent these events from occurring, and we have a process to identify and mitigate threats, the development and maintenance of these systems, controls and processes is costly and requires ongoing monitoring and updating as technologies change and efforts to overcome security measures become more sophisticated. Moreover, despite our efforts, the possibility of these events occurring cannot be eliminated entirely. As we distribute more of our content digitally, outsource more of our information systems to vendors, engage in more electronic transactions with consumers and rely more on cloud-based information systems, the related security risks will increase and we will need to expend additional resources to protect our technology and information systems. Additionally, a growing portion of our Subscription revenues, both through our Synapse subsidiary and direct-to-publisher subscriptions, is dependent on the continuous service model and our ability to automatically renew customers (with proper notifications and authorizations) using credit or debit cards that customers provide at the time of purchase. Significant credit card breaches at major retailers have resulted in a number of banks re-issuing credit cards. This creates a break in our relationship with customers whose cards are reissued and results in lost renewal revenue. A continuation or increase in such breaches and resulting re-issuances could adversely impact our business, financial condition and results of operations.

We are also subject to payment card association rules and obligations under our contracts with payment card processors. Under these rules and obligations, if information is compromised, we could be liable to payment card issuers for the cost of associated expenses and penalties. In addition, if we fail to follow payment card industry security standards, even if no customer information is compromised, we could incur significant fines or experience a significant increase in payment card transaction costs. Furthermore, if we fail to comply with the chargeback policies established by a payment card processor, it could result in us incurring significant fines or even the termination of our contract with that payment card processor.

We could be required to record significant impairment charges in the future.

Under U.S. generally accepted accounting principles, goodwill and indefinite-lived intangible assets are required to be tested for impairment annually or earlier upon the occurrence of certain events or substantive changes in circumstances, and long-lived assets, including finite-lived intangible assets, are required to be tested for impairment upon the occurrence of a triggering event. Factors that could lead to impairment of goodwill and indefinite-lived intangible assets include significant adverse changes in the business climate and declines in the value of our business. As part of our annual impairment test, we assessed our goodwill for impairment as of December 31, 2016. The test resulted in an impairment of $1 million. We also recognized asset impairment charges of $192 million in 2016 primarily related to an impairment of a domestic tradename intangible. In 2015, we recognized a goodwill impairment charge of $952 million as a result of the sale of the Blue Fin Building, a decline in our publicly traded share price and trends in our Advertising and Circulation revenues.

Market conditions in the publishing industry remain challenging, and we continue to experience declines in print advertising revenues and circulation revenues as a result of the continuing shift in consumer preference from print media to digital media and how consumers engage with digital media. If market conditions worsen, if the market price of our publicly traded common stock declines, or if our performance fails to meet current expectations, it is possible that the carrying value of our reporting unit, even after the impairment of goodwill discussed above, will exceed its fair value, which could result in further recognition of a noncash impairment of goodwill that could be material.

We have made and expect to continue to make acquisitions and investments, which involve inherent risks and uncertainties.

We have made and expect to continue to make acquisitions and investments, which involve inherent risks and uncertainties, including:

- the difficulty in integrating newly acquired businesses and operations in an efficient and effective manner;
- the challenge in achieving strategic objectives, cost savings and other anticipated benefits;
- the potential loss of key employees of the acquired businesses;
- the potential diversion of senior management’s attention from our operations;
- the risks associated with integrating financial reporting and internal control systems;

- the risks associated with the computing environment in which the acquired business operates, including security risks;
- the difficulty in expanding information technology systems and other business processes to incorporate the acquired businesses;
- potential future impairments of goodwill associated with the acquired businesses; and
- in some cases, the potential for increased regulation.

If an acquired business fails to operate as anticipated or generate anticipated returns, cannot be successfully integrated with our existing business or is not a good fit with our overall strategy, or one or more of the other risks and uncertainties identified occur in connection with our acquisitions, our business, results of operations and financial condition could be adversely affected.

If it becomes more difficult to attract and retain key personnel, our business could be adversely affected.

We are dependent on our ability to hire and retain talented employees and management. We underwent significant changes over the past year, including several changes in executive leadership and various restructuring and cost management initiatives in several functions, which were disruptive to our business. As a result of these disruptions or other factors, it may become more difficult to attract and retain the key employees we need to meet our strategic objectives.

Our operating results are subject to seasonal variations.

Our business has experienced, and is expected to continue to experience, seasonality due to, among other things, seasonal advertising patterns and seasonal influences on people's reading habits. Typically, our revenues from advertising are highest in the fourth quarter. The effects of such seasonality make it difficult to estimate future operating results based on the previous results of any specific quarter.

We may experience financial and strategic difficulties and delays or unexpected costs in completing our various restructuring plans and cost-saving initiatives, including not achieving the anticipated savings and benefits of these plans and initiatives.

In the past few years, we initiated restructuring plans and realignment programs that included streamlining our organizational structure to enhance operational flexibility, speed decision making, and spur the development of new cross-brand products and services. We expect to continue to actively manage our costs and may undertake additional restructuring plans and cost-savings initiatives. Our cost savings initiatives include moving some of our business operations and corporate functions to outsourced arrangements or off-shore locations. Identifying and implementing additional cost reductions, however, may become increasingly difficult to do in an operationally effective manner. We may not realize the anticipated savings or benefits from one or more of these restructuring plans or cost-savings initiatives in full or in part, and we may encounter financial and strategic difficulties and delays or unexpected costs in our efforts to do so. In addition, our cost savings initiatives may adversely affect the quality of our products and brands and further limit our ability to attract and retain talent. Our cost savings initiatives are also subject to execution risk, including business disruptions, diversion of management attention, inadequate knowledge transfer, cultural differences, incurring greater than anticipated expenses and risks associated with providing services and functions in outsourced and off-shore locations. In addition, our plan to invest these savings and benefits ahead of future growth means that such costs will be incurred whether or not we realize these savings and benefits. If we fail to realize anticipated savings or benefits or fail to better align our cost structure in a timely manner, or fail to reduce business expenditures through our restructuring plans and cost-savings initiatives, our ability to continue to fund growth initiatives and our business, financial condition and results of operations may be adversely affected.

We are subject to credit risk with respect to our bank deposits and investments in certain short-term securities.

We maintain a portion of our cash in bank accounts with several financial institutions. Although the Federal Deposit Insurance Corporation provides deposit insurance guaranteeing the safety of a depositor's accounts in the

United States, such insurance is limited to an immaterial portion of our deposits. In addition, we invest a portion of our cash in securities that include Treasury money funds, government money funds and prime money funds. The value of these investments is subject to credit risk from the issuers and/or guarantors of the securities and other counterparties in certain transactions. Defaults by the issuer and, where applicable, an issuer’s guarantor or other counterparties with regard to any such investments could reduce our net realized investment gains or result in investment losses.

We could have an indemnification obligation to Time Warner if the Distribution were determined not to qualify for non-recognition tax treatment, which could materially adversely affect our financial condition.

If, due to any of our representations being untrue or our covenants being breached, it were determined that the Distribution did not qualify for non-recognition of gain and loss under Section 355 of the Internal Revenue Code (the "Code"), or that an excess loss account existed at the date of the Spin-Off, we could be required to indemnify Time Warner for the resulting taxes and related expenses. Any such indemnification obligation could materially adversely affect our financial condition.

In addition, Section 355(e) of the Code generally creates a presumption that the Distribution would be taxable to Time Warner, but not to stockholders, if we or our stockholders were to engage in transactions that result in a 50% or greater change by vote or value in the ownership of our stock during the four-year period beginning on the date that begins two years before the date of the Distribution, unless it were established that such transactions and the Distribution were not part of a plan or series of related transactions giving effect to such a change in ownership. If the Distribution were taxable to Time Warner due to such a 50% or greater change in ownership of our stock, Time Warner would recognize a gain in an amount up to the fair market value of our common stock held by it immediately before the Distribution, increased by the amount of the special dividend that we paid Time Warner in connection with the Spin-Off, and we generally would be required to indemnify Time Warner for the tax on such gain and any related expenses. Any such indemnification obligation could materially adversely affect our financial condition. See Note 16, "Related Party Transactions and Relationship with Time Warner," to our consolidated financial statements included in this annual report on Form 10-K.

We agreed to numerous restrictions to preserve the non-recognition tax treatment of the Distribution, which may reduce our strategic and operating flexibility.

In connection with the Spin-Off, we entered into a Tax Matters Agreement with Time Warner pursuant to which we agreed to covenants and indemnification obligations that address compliance with Section 355(e) of the Code. These covenants and indemnification obligations may limit our ability to pursue strategic transactions or engage in new businesses or other transactions that may maximize the value of our business, and might discourage or delay a strategic transaction that our stockholders may consider favorable. See Note 16, "Related Party Transactions and Relationship with Time Warner," to our consolidated financial statements included in this annual report on Form 10-K.

Our historical financial information is not necessarily representative of the results we would have achieved as an independent publicly-traded company and may not be a reliable indicator of our future results.

We derived the historical financial information for periods prior to the Spin-Off from Time Warner’s consolidated financial statements, and this information does not necessarily reflect the results of operations and financial position we would have achieved as an independent publicly-traded company during the periods presented, or those that we will achieve in the future. This is primarily because of the following factors:

- Prior to the Spin-Off, we operated as part of Time Warner’s broader corporate organization and Time Warner performed various corporate functions for us, including information technology, tax administration, treasury activities, accounting, benefits administration, procurement, legal and ethics and compliance program administration. Our historical financial information for periods prior to the Spin-Off reflects allocations of corporate expenses from Time Warner for these and similar functions. These allocations may not reflect the costs we would have incurred or will incur as an independent publicly-traded company.
- We entered into agreements with Time Warner that either did not exist prior to the Spin-Off or that have different terms than terms of arrangements or agreements that existed prior to the Spin-Off.

- Our historical financial information for periods prior to the Spin-Off does not reflect changes that we have experienced or may experience as a result of our separation from Time Warner, including changes in the financing, operations, cost structure and personnel needs of our business. As part of Time Warner, we enjoyed certain benefits from Time Warner's operating diversity, size, purchasing power, borrowing leverage and available capital for investments, and we lost these benefits after the Spin-Off. As an independent entity, we may be unable to purchase goods, services and technologies, such as insurance and health care benefits and computer software licenses, or access capital markets on terms as favorable to us as those we obtained as part of Time Warner prior to the Spin-Off. In addition, subject to the discretion of our Board and other factors, we have made and expect to continue to make quarterly dividend payments to our stockholders.

In addition, our pre-Spin-Off financial data does not include an allocation of interest expense comparable to the interest expense we incur as a result of the Senior Notes and the Senior Credit Facilities. Our interest expense for the year ended December 31, 2016 was $63 million exclusive of fees and discounts, which is significantly higher than the amount reflected in our historical financial statements for the years before 2015.

Following the Spin-Off, we became responsible for the additional costs associated with being an independent publicly-traded company, including costs related to corporate governance, investor and public relations and public reporting. Therefore, our financial statements for the years before 2015 may not be indicative of our performance as an independent publicly-traded company. For additional information about our past financial performance and the basis of presentation of our financial statements, see Item 6., "Selected Financial Data," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our historical financial statements and the notes thereto included elsewhere in this annual report on Form 10-K.

Our stock price may fluctuate significantly.

The market price of our common stock may fluctuate widely, depending on many factors, some of which may be beyond our control, including:

- actual or anticipated fluctuations in our operating results due to factors related to our business;
- success or failure of our business strategies;
- our quarterly or annual earnings, or those of other companies in our industry;
- our ability to obtain financing as needed;
- announcements by us or our competitors of significant acquisitions or dispositions;
- changes in accounting standards, policies, guidance, interpretations or principles;
- the failure of securities analysts to continue to cover our common stock;
- changes in earnings estimates by securities analysts or our ability to meet those estimates;
- the operating and stock price performance of other comparable companies;
- changes in the digital advertising and technology industry;
- investor perception of our company and the magazine publishing industry;
- overall market fluctuations;
- results from any material litigation or government investigation;
- changes in laws and regulations (including tax laws and regulations) affecting our business;
- speculation about third party interest in an acquisition of our company;
- changes in capital gains taxes and taxes on dividends affecting stockholders; and
- general economic conditions and other external factors.

Stock markets in general have experienced volatility that has often been unrelated to the operating performance of a particular company. These broad market fluctuations could adversely affect the trading price of our common stock.

Provisions in our Amended and Restated Certificate of Incorporation and Amended and Restated By-laws and of Delaware law may prevent or delay an acquisition of our company, which could decrease the trading price of our common stock.

Several provisions of our Amended and Restated Certificate of Incorporation, Amended and Restated By-laws and Delaware law may discourage, delay or prevent a merger or acquisition that stockholders may consider favorable. These include provisions that:

- permit us to issue blank check preferred stock;
- do not permit our stockholders to act by written consent and require that stockholder action must take place at an annual or special meeting of our stockholders;
- provide that only our Chief Executive Officer, Board of Directors or any record holders of shares representing at least 25% of the combined voting power of the outstanding shares of all classes and series of our capital stock entitled generally to vote in the election of directors, voting as a single class, are entitled to call a special meeting of our stockholders; and
- limit the ability of certain stockholders to enter into business combination transactions with the Company without the approval of our Board of Directors.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

The following table sets forth certain information concerning our principal properties as of December 31, 2016:

Description / Location	Principal Use	Approximate Square Footage	Leased or Owned	Expiration Date
225 Liberty Street New York, New York	Executive, business, administrative and editorial offices	696,000[(a)]	Leased	2032
3102 Queen Palm Drive Tampa, Florida	Warehouse, mail processing and distribution facility	230,000[(b)]	Leased	2020
Blue Fin Building 110 Southwark Street London, United Kingdom	Executive, business, administrative and editorial offices	186,000[(c)]	Leased	2025
2100 Lakeshore Drive Birmingham, Alabama	Executive, business, administrative and editorial offices	156,000[(d)]	Leased	2030
3000 University Center Drive/10419 N 30th Street Tampa, Florida	Business offices, call center and distribution facility	133,000	Leased	2026
225 High Ridge Road Stamford, Connecticut	Business offices	77,000[(e)]	Leased	2027
241 37th Street Brooklyn, New York	Business offices	58,000[(f)]	Leased	2031

(a) The lease at 225 Liberty Street commenced on February 11, 2015 and extends through December 31, 2032, although cash payments for rent obligations under the lease are not expected to begin until January 1, 2018. We have two five-year renewal options under this lease that are exercisable in December 2030 and 2035, respectively. We have an option to reduce the amount of space under this lease that is exercisable in June 2026.

(b) We have two five-year renewal options under this lease that are exercisable in June 2019 and 2024.

(c) Approximately 105,000 square feet are subleased to unaffiliated third-party tenants.

(d) We have four five-year renewal options under this lease that are exercisable in December 2029, 2034, 2039, and 2044, respectively.

(e) Our lease for 11,000 square feet of the space will expire in December 2017.

(f) We have one five-year renewal option under this lease that is exercisable in July 2030. We have two expansion options under this lease that are both exercisable between June 2017 and December 2018.

We completed the relocation of our headquarters from Time & Life Building at 1271 Avenue of the Americas, New York, New York, to Brookfield Place at 225 Liberty Street in late 2015. The lease for our remaining space in the Time & Life Building expires in December 2017. We have sublet all such space to unaffiliated third-party tenants.

We moved out of our facilities at 135 West 50th Street in New York, New York in December 2016. We continue to have a lease for approximately 135,000 square feet at that location through 2017, of which approximately 95,000 square feet has been subleased to unaffiliated third-party tenants and the remaining space is available for sublease.

In addition to the properties listed above, we lease approximately 75 facilities for use as offices, technology centers, warehouses and other operational facilities in Alabama, Arizona, Arkansas, California, Florida, Georgia, Illinois, Iowa, Massachusetts, Michigan, Minnesota, New Jersey, New York, Ohio, Pennsylvania, Texas, Washington and Washington, DC, and in the countries of Canada, China, Hong Kong, India, Japan, the Netherlands, the Philippines, Singapore, Switzerland and the United Kingdom.

We continually review and update our real estate portfolio to meet changing business needs. We believe that our facilities are well maintained and are sufficient to meet our current and projected needs.

ITEM 3. LEGAL PROCEEDINGS

In the ordinary course of business, we are defendants in or parties to various legal claims, actions and proceedings. These claims, actions and proceedings are at varying stages of investigation, arbitration or adjudication, and involve a variety of areas of law.

On March 10, 2009, Anderson News L.L.C. and Anderson Services L.L.C. (collectively, "Anderson News") filed an antitrust lawsuit in the U.S. District Court for the Southern District of New York (the "District Court") against several magazine publishers, distributors and wholesalers, including Time Inc. and one of its subsidiaries, Time Inc. Retail (formerly Time/Warner Retail Sales & Marketing, Inc.) ("TIR"). Plaintiffs allege that defendants violated Section 1 of the Sherman Antitrust Act by engaging in an antitrust conspiracy against Anderson News, as well as other related state law claims. Specifically, plaintiffs allege that defendants conspired to reduce competition in the wholesale market for single-copy magazines by rejecting the magazine distribution surcharge proposed by Anderson News and another magazine wholesaler and refusing to distribute magazines to them. Plaintiffs are seeking (among other things) an unspecified award of treble monetary damages against defendants, jointly and severally. On August 2, 2010, the District Court granted defendants' motions to dismiss the complaint with prejudice and, on October 25, 2010, the District Court denied Anderson News' motion for reconsideration of that dismissal. On November 8, 2010, Anderson News appealed and, on April 3, 2012, the U.S. Court of Appeals for the Second Circuit (the "Circuit Court") vacated the District Court's dismissal of the complaint and remanded the case to the District Court. On January 7, 2013, the U.S. Supreme Court denied defendants' petition for writ of certiorari to review the judgment of the Circuit Court vacating the District Court's dismissal of the complaint. In February 2014, Time Inc. and several other defendants amended their answers to assert antitrust counterclaims against plaintiffs. On December 19, 2014, the defendants filed a motion for summary judgment on Anderson News' claims and Anderson News filed a motion for summary judgment on the antitrust counterclaim. On August 20, 2015, the District Court granted the defendants' motion for summary judgment on Anderson News' claims and granted Anderson News' motion for summary judgment on the defendants' antitrust counterclaim. On August 25, 2015, Anderson News filed a notice with the Circuit Court appealing the District Court's dismissal of Anderson News' claims, and on September 14, 2015, the defendants filed a notice with the Circuit Court appealing the District Court's dismissal of the defendants' antitrust counterclaim. On December 8, 2015, Anderson News filed its appellate brief with the Circuit Court and on March 8, 2016, the defendants filed their appellate briefs with the Circuit Court. Anderson's reply brief was filed on May 9, 2016 and the defendants' sur-reply brief was filed on May 23, 2016. Oral argument on the appeal was held on December 2, 2016. We are awaiting the court's decision.

On November 14, 2011, TIR and several other magazine publishers and distributors filed a complaint in the U.S. Bankruptcy Court for the District of Delaware against Anderson Media Corporation, the parent company of Anderson News, and several Anderson News affiliates. Plaintiffs, acting on behalf of the Anderson News bankruptcy estate, seek to avoid and recover in excess of $70 million that they allege Anderson News transferred to the Anderson News-affiliated insider defendants in violation of the United States Bankruptcy Code and Delaware state law prior to the involuntary bankruptcy petition filed against Anderson News by certain of its creditors. On December 28, 2011, the defendants moved to dismiss the complaint. On June 5, 2012, the court denied defendants' motion. On November 6, 2013, the bankruptcy court lifted the automatic stay barring claims against the debtor, allowing Time Inc. and others to pursue an antitrust counterclaim against Anderson News in the antitrust action brought by Anderson News in the U.S. District Court for the Southern District of New York (described above).

On October 26, 2010, the Canadian Minister of National Revenue denied the claims by TIR for input tax credits in respect of goods and services tax that TIR had paid on magazines it imported into, and had displayed at retail locations in, Canada during the years 2006 to 2008, on the basis that TIR did not own those magazines, and issued Notices of Reassessment in the amount of approximately C$52 million. On January 21, 2011, TIR filed an objection to the Notices of Reassessment with the Chief of Appeals of the Canada Revenue Agency ("CRA"), arguing that TIR claimed input tax credits only in respect of goods and services tax it actually paid and, regardless of whether its payment of the goods and services tax was appropriate or in error, it is entitled to a rebate for such payments. On September 13, 2013, TIR received Notices of Reassessment in the amount of C$26.9 million relating to the disallowance of input tax credits

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claimed by TIR for goods and services tax that TIR had paid on magazines it imported into, and had displayed at retail locations in, Canada during the years 2009 to 2010. On October 22, 2013, TIR filed an objection to the Notices of Reassessment received on September 13, 2013 with the Chief of Appeals of the CRA, asserting the same arguments made in the objection TIR filed on January 21, 2011. Beginning in 2015, the collections department of the CRA requested payment of both assessments plus accrued interest or the posting of sufficient security. In each instance, TIR responded by stating that collection should remain stayed pending resolution of t;">$

12,645

Natural gas contracts

Noncurrent liabilities Other liabilities

$

$

7,807

Oil contracts

Noncurrent liabilities Other liabilities

$

$

310

Because we have elected not to account for our current derivative contracts as cash flow hedges, we recognize all realized and unrealized changes in fair value in earnings. The derivative contracts that were outstanding in 2008 were treated as cash flow hedges. Accordingly, the realized gains or losses upon settlement of the 2008 contracts were reflected in gas revenue as an adjustment to the realized sales price. In 2008, unrealized gains and losses were recorded in accumulated other comprehensive income (which is included in shareholders equity). Cash settlements of our derivative contracts are included in cash flows from operating activities in our statements of cash flows.

The following table summarizes the realized and unrealized gains and losses from cash settlements and changes in fair value of our derivative contracts as presented in our accompanying financial statements.

	Three Months Ended September 30, 2009	Three Months Ended September 30, 2008	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
	(In thousands)			
Derivatives not designated as hedging instruments:				
Cash settlements gains:				
Natural gas contracts	$ 176	$	$ 3,544	$
Oil contracts				
Total cash settlements gains	176		3,544	
Unrealized gains (losses) on fair value change:				
Natural gas contracts	(20,289)		(22,602)	
Oil contracts	2,756		1,445	
Total net unrealized losses on fair value change	(17,533)		(21,157)	
Loss on derivative instruments, net	$ (17,357)	$	$ (17,613)	$
Derivatives designated as cash flow hedges:				
Natural gas contracts gains (losses)				
Cash payments included in gas sales	$	$ (1,064)	$	$ (72)
Unrealized gains (losses) on fair value change included in other comprehensive income (loss)	$	$ 22,095	$	$ (5,004)

We are exposed to financial risks associated with these contracts from non-performance by our counterparties. Counterparty risk is also a component of our estimated fair value calculations. We have mitigated our exposure to any single counterparty by contracting with eight financial institutions, each of which has a high credit rating and is a member of our bank credit facility. Our member banks have a secured interest in our oil and gas properties, and therefore do not require us to post collateral for our hedge liability positions.

3. Fair Value Measurements

Our short-term investments are reported at fair value in the accompanying balance sheets. The FASB has established a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels. Level 1 inputs are the highest priority and consist of unadjusted quoted prices in active markets for identical assets and liabilities. Level 2 inputs are inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs for an asset or liability.

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CIMAREX ENERGY CO.

Notes to Consolidated Financial Statements (Continued)

September 30, 2009

(Unaudited)

The following tables provide fair value measurement information for certain assets and liabilities as of September 30, 2009 and December 31, 2008.

September 30, 2009:		Carrying Amount		Fair Value
		(In thousands)		
Financial Assets (Liabilities):				
Derivative instruments	$	3,543	$	3,543
Derivative instruments	$	(20,761)	$	(20,761)
7.125% Notes due 2017	$	(350,000)	$	(338,625)
Bank debt	$	(156,000)	$	(156,000)
Floating rate convertible notes due 2023	$	(17,753)	$	(19,450)

December 31, 2008:		Carrying Amount		Fair Value
		(In thousands)		
Financial Assets (Liabilities):				
Short-term investments	$	2,502	$	2,502
7.125% Notes due 2017	$	(350,000)	$	(267,750)
Bank debt	$	(220,000)	$	(220,000)
Floating rate convertible notes due 2023	$	(17,630)	$	(19,450)

Assessing the significance of a particular input to the fair value measurement requires judgment, considering factors specific to the asset or liability. The following methods and assumptions were used to estimate the fair values of the assets and liabilities in the table above.

Short-term Investments (Level 2)

In the fourth quarter of 2007, we invested $16 million in an asset-backed securities fund, which was liquidated in the third quarter of 2009. The investments were classified as available-for-sale, and at the end of each period, changes in the fair value of the investments were recorded in other comprehensive income. The fair values of these investments were based on a net asset valuation provided by the fund manager. During the nine months ended September 30, 2009, we liquidated the remaining investments for $3.3 million, with a realized gain of $280 thousand, which was included in earnings for the period.

Bank Debt and Notes

Debt

The fair value of our bank debt is estimated to approximate the carrying amount because we recently entered into a new revolving credit facility. Interest on the facility is a floating rate based on either (a) a London Interbank Offered Rate (LIBOR) plus 2 to 3 percent, based on borrowing base usage, or (b) the higher of (i) a prime rate, (ii) the federal funds effective rate plus 0.50 percent, or (iii) adjusted LIBOR, in each case, plus an additional 1.125 to 2.125 percent, based on borrowing base usage. Each of the floating rate interest options resets periodically.

Notes

The fair values for our 7.125% fixed rate notes were based on their last traded value before period end.

There is not an observable market for our convertible notes. The fair value of the notes is estimated to approximate the face value of the notes because the notes bear interest at LIBOR and reset quarterly. The conversion rate of $28.59 attributable to the conversion feature at September 30, 2009 and December 31, 2008 exceeded requirements for the closing price of our common stock; therefore, no value was attributed to the conversion feature at either date.

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CIMAREX ENERGY CO.

Notes to Consolidated Financial Statements (Continued)

September 30, 2009

(Unaudited)

Derivative Instruments (Level 2)

The fair values of our derivative instruments at September 30, 2009 were estimated using internal discounted cash flow calculations. Cash flows are based on the stated contract prices and current and published forward commodity price curves, adjusted for volatility. The cash flows are also risk adjusted relative to non-performance for both our counterparties and our liability positions. At December 31, 2008, we had no derivative instruments outstanding.

Other Financial Instruments

The carrying amounts of our cash, cash equivalents, restricted cash, accounts receivable, accounts payable, and accrued liabilities approximate fair value because of the short-term maturities of these assets and liabilities. At September 30, 2009 and December 31, 2008, the aggregate allowance for doubtful accounts for trade, oil and gas sales, and gas gathering, processing, and marketing receivables was $6.7 million and $5.8 million, respectively.

Most of our accounts receivable balances are uncollateralized and result from transactions with other companies in the oil and gas industry. Concentration of customers may impact our overall credit risk because our customers may be similarly affected by changes in economic or other conditions within the industry.

4. Capital Stock

A summary of our common stock activity for the nine months ended September 30, 2009, follows:

	Number of Shares (in thousands)		
	Issued	**Treasury**	**Outstanding**
December 31, 2008	84,144	(885)	83,259
Restricted shares issued under compensation plans, net of cancellations	159		159
Option exercises, net of cancellations	94		94

Treasury shares cancelled	(885)	885	
September 30, 2009	83,512		83,512

Stock-based Compensation

Our 2002 Stock Incentive Plan was approved by stockholders in May 2003 and is effective until October 1, 2012. The plan provides for grants of stock options, restricted stock and restricted stock units to non-employee directors, officers and other eligible employees. A total of 12.7 million shares of common stock may be issued under the Plan.

Restricted Stock and Units

During the nine months ended September 30, 2009, we issued a total of 366,090 restricted shares to non-employee directors, officers, and other employees. Included in that amount are 228,000 shares issued to certain executives that are subject to market condition-based vesting determined by our stock price performance relative to a defined peer group s stock price performance. After three years of continued service, an executive will be entitled to vest in 50% to 100% of the award. The material terms of performance goals applicable to these awards were approved by stockholders in May 2006. The other shares granted in 2009 have service-based vesting schedules of three to five years.

The following table presents restricted stock as of September 30, 2009, and changes during the year:

Outstanding as of January 1, 2009	1,672,245
Vested	(166,725)
Granted	366,090
Canceled	(151,360)
Outstanding as of September 30, 2009	1,720,250

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Notes to Consolidated Financial Statements (Continued)

September 30, 2009

(Unaudited)

The following table presents restricted units as of September 30, 2009 and changes during the year:

Outstanding as of January 1, 2009	655,205
Converted to Stock	(5,362)
Granted	
Canceled	
Outstanding as of September 30, 2009	649,843
Vested included in outstanding	605,559

Vesting of restricted stock and units granted in years before 2006 is exclusively related to continued service of the grantee for one to five years. In certain cases, a three-year required holding period following vesting also applies. A restricted unit represents a right to an unrestricted share of common stock upon completion of defined vesting and holding periods. The restricted stock and stock unit agreements provide that grantees are entitled to receive dividends on unvested shares.

Compensation expense for service-based vesting restricted shares or units is based upon amortization of the grant-date market value of the award. The fair value of the market condition-based restricted stock awards is based on the grant-date market value of the award utilizing a Monte Carlo simulation model to estimate the percentage of awards that will vest at the end of a three-year period. Compensation expense related to the restricted stock and unit awards is recognized ratably over the applicable vesting period. Compensation expense (including capitalized amounts) was $3.7 million and $4.0 million, respectively, for the quarters ended September 30, 2009 and 2008. Compensation expense (including capitalized amounts) for the nine months ended September 30, 2009 and 2008, totaled $9.6 million and $11.7 million, respectively,

Unamortized compensation costs related to unvested restricted shares and units at September 30, 2009 and 2008 was $30.3 million and $38.3 million, respectively.

Stock Options

Options granted under our plan expire ten years from the grant date and have service-based vesting schedules of three to five years. The plan provides that all grants have an exercise price of the average of the high and low prices of our common stock as reported by the New York Stock Exchange on the date of grant.

There were 228,175 stock options granted to employees during the nine months ended September 30, 2009. There were 483,500 stock options granted to employees during the nine months ended September 30, 2008.

Information about outstanding stock options is summarized below:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Term	Aggregate Intrinsic Value (000)
Outstanding as of January 1, 2009	1,532,016	$ 29.95		
Exercised	(105,970)	15.64		
Granted	228,175	27.74		
Canceled	(45,900)	55.48		
Outstanding as of September 30, 2009	1,608,321	$ 29.85	5.6 Years	$ 27,205
Exercisable as of September 30, 2009	1,041,159	$ 22.75	3.7 Years	$ 23,293

There were 105,970 and 404,449 stock options exercised during the nine months ended September 30, 2009 and September 30, 2008, respectively. Cash received from option exercises during the nine months ended September 30, 2009 and September 30, 2008 was $1.7 million and $6.3 million, respectively, and the related tax benefits realized from option exercises totaled $918 thousand and $6.7 million, respectively, and were recorded to paid-in capital. The total intrinsic value of stock options exercised during the three and nine months ended September 30, 2009 was $2.4 million and $2.5 million, respectively. The total intrinsic value of

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September 30, 2009

(Unaudited)

stock options exercised during the three and nine months ended September 30, 2008 was zero and $18.7 million, respectively.

We estimate the fair value of options as of the date of grant using the Black-Scholes option-pricing model. Expected volatilities are based on the historical volatility of our common stock. We also use historical data to estimate the probability of option exercise, expected years until exercise and potential forfeitures. The risk-free interest rate we use is the five-year U.S. Treasury bond in effect at the date of the grant. The following summary reflects the status of non-vested stock options as of September 30, 2009 and changes during the year:

	Shares	Weighted Average Grant Date Fair Value	Weighted Average Exercise Price
Non-vested as of January 1, 2009	529,620	$ 18.96	$ 54.15
Vested	(144,733)	19.35	56.17
Granted	228,175	11.11	27.74
Forfeited	(45,900)	19.07	55.48
Non-vested as of September 30, 2009	567,162	$ 15.70	$ 42.90

We recognize compensation cost related to stock options ratably over the vesting period. Historical amounts may not be representative of future amounts as additional options may be granted. Compensation cost (including capitalized amounts) for the quarters ended September 30, 2009 and 2008, totaled $988 thousand and $692 thousand, respectively. For the nine months ended September 30, 2009 and 2008, compensation cost (including capitalized amounts) totaled $2.4 million and $910 thousand, respectively. The increase in costs for the 2009 periods is primarily a result of 476 thousand options granted in the third quarter of 2008, when the average price of our common stock was approximately $56.00 per share.

As of September 30, 2009, there was $7.9 million of unrecognized compensation cost related to non-vested stock options granted under our stock incentive plan. We expect to recognize that cost pro rata over a weighted-average period of 2.1 years.

Stockholder Rights Plan

We have a stockholder rights plan. The plan is designed to improve the ability of our board to protect the interests of our stockholders in the event of an unsolicited takeover attempt. For every outstanding share of Cimarex common stock, there exists one purchase right (the Right). Each Right represents a right to purchase one one-hundredth of a share of Series A Junior Participating Preferred Stock, at a purchase price of $60.00 per share, subject to adjustment in certain cases, to prevent dilution. The Rights will become exercisable only in the event a person or group acquires beneficial ownership of 15% or more of our common stock, or a person or group commences a tender offer or exchange offer that, if successfully consummated, would result in such person or group beneficially owning 15% or more of our common stock. In general, in either of these events, each holder of a right, other than the person or group initiating the acquisition or tender offer, will have the right to receive Cimarex common stock with a value equal to two times the exercise price of the right.

We generally will be entitled to redeem the Rights under certain circumstances at $0.01 per Right at any time before the close of business on the tenth business day after there has been a public announcement of the acquisition of beneficial ownership by any person or group of 15% or more of our common stock. The Rights may not be exercised until our Board s right to redeem the stock has expired. Unless redeemed earlier, the Rights expire on February 23, 2012.

Dividends and Stock Repurchases

In September 2009, the Board of Directors declared a cash dividend of $0.06 per share on our common stock. The dividend is payable December 1, 2009 to stockholders of record on November 13, 2009. The Board of Directors declared our first quarterly cash dividend of $0.04 per share in December 2005. A dividend has been declared in every quarter since then. Future dividend payments will depend on the Company s level of earnings, financial requirements, and other factors considered relevant by the Board of Directors.

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(Unaudited)

In December 2005, the Board of Directors authorized the repurchase of up to four million shares of our common stock. The authorization is currently set to expire on December 31, 2009. Through December 31, 2007, we had repurchased and cancelled a total of 1,364,300 shares at an overall average price of $39.05. Purchases may be made in both the open market and through negotiated transactions, and purchases may be increased, decreased or discontinued at any time without prior notice. There were no shares repurchased in the third quarter of 2009, or since the quarter ended September 30, 2007.

Issuer Purchases of Equity Securities for the Quarter Ended September 30, 2009

	Total Number of Shares Purchased	**Average Price Paid per Share**	**Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs**	**Maximum Number of shares that may yet be Purchased Under the Plans or Programs**
July, 2009	None	NA	None	2,635,700
August, 2009	None	NA	None	2,635,700
September, 2009	None	NA	None	2,635,700

5. Asset Retirement Obligations

We recognize the fair value of a liability for an asset retirement obligation in the period in which it is incurred, if a reasonable estimate of fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset. Oil and gas producing companies incur this liability which includes costs related to the plugging of wells, the removal of facilities and equipment, and site restorations, upon acquiring or drilling a successful well. Subsequent to initial measurement, the asset retirement liability is required to be accreted each period. If the fair value of a recorded asset retirement obligation changes, a revision is recorded to both the asset retirement obligation and the asset retirement capitalized cost. Capitalized costs are depleted as a component of the full cost pool.

The following table reflects the components of the change in the carrying amount of the asset retirement obligation for the nine months ended September 30, 2009 (in thousands):

Asset retirement obligation at January 1, 2009	$	139,948
Liabilities incurred		2,978

Liability settlements and disposals		(6,648)
Accretion expense		5,823
Revisions of estimated liabilities		13,714
Asset retirement obligation at September 30, 2009		155,815
Less current obligation		(21,306)
Long-term asset retirement obligation	$	134,509

6. Long-Term Debt

Debt at September 30, 2009 and December 31, 2008 consisted of the following (in thousands):

		September 30, 2009		December 31, 2008
Bank debt	$	156,000	$	220,000
7.125% Notes due 2017		350,000		350,000
Floating rate convertible notes due 2023 (face value $19,450)		17,753		17,630
Total long-term debt	$	523,753	$	587,630

Bank Debt

In April 2009, we entered into a new three-year senior secured revolving credit facility (credit facility). The new credit facility increases bank commitments from $500 million to $800 million, with a

CIMAREX ENERGY CO.

Notes to Consolidated Financial Statements (Continued)

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borrowing base of $1 billion. The credit facility is provided by a syndicate of banks led by JP Morgan Chase Bank, N.A., matures on April 14, 2012 and is secured by mortgages on certain of our oil and gas properties and the stock of certain wholly-owned operating subsidiaries.

The borrowing base under the credit agreement is determined at the discretion of the lenders, based on the collateral value of our proved reserves, and is subject to potential special and regular semi-annual redeterminations.

The credit facility contains covenants and restrictive provisions which may limit our ability to incur additional indebtedness, make investments or loans and create liens. The credit facility requires us to maintain a current ratio greater than 1 to 1 and a leverage ratio not to exceed 3.5 to 1. As of September 30, 2009, we were in compliance with all of the financial and non-financial covenants.

At Cimarex s option, borrowings under the credit facility may bear interest at either (a) a London Interbank Offered Rate (LIBOR) plus 2 to 3 percent, based on borrowing base usage, or (b) the higher of (i) a prime rate, (ii) the federal funds effective rate plus 0.50 percent, or (iii) adjusted LIBOR, in each case, plus an additional 1.125 to 2.125 percent, based on borrowing base usage.

At September 30, 2009, there was $156 million of borrowings outstanding under the credit facility at a weighted average interest rate of approximately 3.1%. We also had letters of credit outstanding of $17.7 million leaving an unused borrowing availability of $626.3 million.

7.125% Notes due 2017

In May, 2007, we issued $350 million of 7.125% senior unsecured notes that mature May 1, 2017 at par. Interest on the notes is payable May 1 and November 1 of each year. The notes are governed by an indenture containing covenants that could limit our ability to incur additional indebtedness; pay dividends or repurchase our common stock; make investments and other restricted payments; incur liens; enter into sale/leaseback transactions; engage in transactions with affiliates; sell assets; and consolidate, merge or transfer assets.

The notes are redeemable at our option, in whole or in part, at any time on and after May 1, 2012 at the following redemption prices (expressed as percentages of the principal amount) plus accrued interest, if any, thereon to the date of redemption.

Year	Percentage
2012	103.6%
2013	102.4%
2014	101.2%
2015 and thereafter	100.0%

At any time prior to May 1, 2010, we may redeem up to 35% of the original principal amount of the notes with the proceeds of certain equity offerings of our shares of common stock at a redemption price of 107.125% of the principal amount of the notes, together with accrued and unpaid interest, if any, to the date of redemption. At any time prior to May 1, 2012, we may also redeem all, but not part, of the notes at a price of 100% of the principal amount of the notes plus accrued and unpaid interest plus a make-whole premium.

If a specified change of control occurs, subject to certain conditions, we must make an offer to purchase the notes at a purchase price of 101% of the principal amount of the notes, plus accrued and unpaid interest to the date of the purchase.

Floating rate convertible notes due 2023

The floating rate convertible senior notes mature on December 15, 2023. The notes are senior unsecured obligations and bear interest at the three month LIBOR, reset quarterly. On September 30, 2009, the interest rate approximated 0.3%.

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(Unaudited)

In December 2008, holders of $105.5 million of the original $125 million issuance amount elected to submit their notes for repurchase. We repurchased the $105.5 million in notes with borrowings under our credit facility. Holders of the remaining $19.5 million of notes have optional repurchase dates of December 15, 2013, and 2018.

In addition to the repurchase rights, holders of the convertible notes may surrender their notes for conversion into a combination of cash and shares of our common stock upon the occurrence of certain circumstances, including if the price of our common stock has been trading above 110% of the conversion price of $28.59 per share for a defined period of time. As of September 30, 2009 and December 31, 2008, the notes were not convertible. However, based on the price of our common stock during September 2009, the notes became convertible effective October 1, 2009.

At our option, we may offer to redeem the notes at any time at par. In addition, if a change of control occurs, subject to certain conditions, we must make an offer to purchase the notes at a purchase price of 101% of the principal amount.

In May 2008, the FASB issued new guidance that changed the accounting for the components of convertible debt that can be settled wholly or partly in cash upon conversion. The new requirements are required to be applied to both new instruments and retrospectively to previously issued convertible instruments. The debt and equity components of the instruments are accounted for separately. The value assigned to the debt component is the estimated value of similar debt without a conversion feature as of the issuance date, with the remaining proceeds allocated to the equity component and recorded as additional paid-in capital. The debt component is recorded at a discount and is subsequently accreted to its par value, thereby reflecting an overall market rate of interest in the income statement. The effective interest rate for the quarters ended September 30, 2009 and 2008 was 1.5% and 4%, respectively. The effective interest rate for the nine months ended September 30, 2009 and 2008 was 2.3% and 4.7%, respectively.

We adopted this guidance on January 1, 2009. The following table reflects a comparison of certain financial statement line items affected by the retrospective application of this guidance.

Summary of the Retrospective Application of Changes (amounts in thousands):

	Three Months Ended September 30, 2008		Nine Months Ended September 30, 2008	
	After	**As Previously Reported**	**After**	**As Previously Reported**

	Adoption		Adoption	
Changes to the Consolidated Statements of Operations:				
Interest expense	$ 8,066	$ 7,795	$ 24,785	$ 23,963
Amortization of fair value of debt	$	$ (191)	$	$ (572)
Income before income tax expense (benefit)	$ (368,317)	$ (367,855)	$ 219,939	$ 221,133
Income tax expense (benefit)	$ (135,894)	$ (135,726)	$ 73,811	$ 74,319
Net income (loss)	$ (232,423)	$ (232,129)	$ 146,128	$ 147,014

	At December 31, 2008	
	After Adoption	As Previously Reported
Changes to the Consolidated Balance Sheets:		
Long-term debt	$ 587,630	$ 591,223
Deferred income taxes	$ 500,945	$ 499,634
Paid-in capital	$ 1,874,834	$ 1,855,825
Retained earnings	$ 510,271	$ 526,998

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September 30, 2009

(Unaudited)

7. *Income Taxes*

The components of our provision for income taxes are as follows (in thousands):

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2009		2008		2009		2008	
Current provision (benefits)	$	13,305	$	27,068	$	(15,529)	$	112,651
Deferred tax (benefit)		13,528		(162,962)		(220,592)		(38,840)
	$	26,833	$	(135,894)	$	(236,121)	$	73,811

We account for uncertainty in our income tax provisions in accordance with rules promulgated by the FASB. At September 30, 2009 we have no unrecognized tax benefits that would impact our effective rate and we have made no provisions for interest or penalties related to uncertain tax positions. The tax years 2005 2008 remain open to examination by the Internal Revenue Service of the United States. We file tax returns with various state taxing authorities which remain open for tax years 2004 2008 for examination.

Our provision for income taxes differed from the U.S. statutory rate of 35% primarily due to state income taxes, non-deductible expenses, and special deductions. The effective income tax rates for the nine months ended September 30, 2009 and September 30, 2008 was 36.2% and 33.6%, respectively.

8. *Supplemental Disclosure of Cash Flow Information (in thousands):*

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2009		2008		2009		2008	
Cash paid during the period for:								
Interest expense (net of amounts capitalized)	$	(2,499)	$	(4,390)	$	3,916	$	2,263
Interest capitalized		5,295		5,671		16,230		14,930
Income taxes				1,457		1,670		128,318
Cash received for income taxes		49,936		2,121		91,918		4,185

9. Earnings (Loss) per Share and Comprehensive Income

Earnings (Loss) per Share

In 2008, the FASB issued new guidance which holds that unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents are participating securities (as defined as securities that may participate in undistributed earnings with common stock, whether that participation is conditioned upon the occurrence of a specified event or not, regardless of the form of participation), and therefore should be included in computing earnings per share using the two-class earnings allocation method. The two-class method is an earnings allocation formula that determines earnings per share for each class of common stock and participating security according to dividends declared (or accumulated) and participation rights in undistributed earnings. The guidance became effective for financial statements issued in fiscal years beginning after December 15, 2008, and for interim periods within those years. The requirements are to be applied by recasting previously reported earnings per share data. Under this guidance, our unvested share based payment awards, consisting of restricted stock and restricted stock units, qualify as participating securities. We adopted this guidance in the first quarter of 2009.

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Notes to Consolidated Financial Statements (Continued)

September 30, 2009

(Unaudited)

The calculations of basic and diluted net earnings (loss) per common share under the two-class method are presented below (in thousands, except per share data):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	**2008**	**2009**	**2008**
Net income (loss)	$ 38,705	$ (232,423)	$ (416,588)	$ 146,128
Less distributed earnings (dividends declared during the period)	(5,050)	(5,035)	(15,127)	(15,073)
Undistributed earnings (loss) for the period	$ 33,655	$ (237,458)	$ (431,715)	$ 131,055
Allocation of undistributed earnings(loss):				
Basic allocation to unrestricted common stockholders	$ 32,707	$ (237,458)	$ (431,715)	$ 127,384
Basic allocation to participating securities	$ 948	$ (2)	$ (2)	$ 3,671
Diluted allocation to unrestricted common stockholders	$ 32,712	$ (237,458)	$ (431,715)	$ 127,457
Diluted allocation to participating securities	$ 943	$ (2)	$ (2)	$ 3,598
Basic Shares Outstanding				
Unrestricted outstanding common shares	81,792	81,576	81,792	81,576
Add Participating securities:				
Restricted stock outstanding	1,720	1,696	1,720	1,696
Restricted stock units outstanding	650	655	650	655
Total participating securities	2,370	2,351	2,370	2,351
Total Basic Shares Outstanding	84,162	83,927	84,162	83,927
Fully Diluted Shares				
Unrestricted outstanding common shares	81,792	81,576	81,792	81,576
Incremental shares from assumed exercise of stock options	385	(1)	(1)	574
Incremental shares from assumed conversion of the convertible senior notes	(3)	(1)	(1)	1,125
Fully diluted common stock	82,177	81,576	81,792	83,275
Participating securities	2,370(2)	2,351(2)	2,370(2)	2,351
Total Fully Diluted Shares	84,547	83,927	84,162	85,626
Basic earnings (loss) per share				
Unrestricted common stockholders:				
Distributed earnings	$ 0.06	$ 0.06	$ 0.18	$ 0.18
Undistributed earnings (loss)	0.40	(2.91)	(5.28)	1.56
	$ 0.46	$ (2.85)	$ (5.10)	$ 1.74
Participating securities:				
Distributed earnings	$ 0.06	$ 0.06	$ 0.18	$ 0.18
Undistributed earnings (loss)	0.40	0.00	0.00	1.56
	$ 0.46	$ 0.06	$ 0.18	$ 1.74

Fully diluted earnings (loss) per share

Unrestricted common stockholders:								
Distributed earnings	$	0.06	$	0.06	$	0.18	$	0.18
Undistributed earnings (loss)		0.40		(2.91)		(5.28)		1.53
	$	0.46	$	(2.85)	$	(5.10)	$	1.71
Participating securities:								
Distributed earnings	$	0.06	$	0.06	$	0.18	$	0.18
Undistributed earnings (loss)		0.40		0.00		0.00		1.53
	$	0.46	$	0.06	$	0.18	$	1.71

(1) No potential common shares or securities are included in the diluted share computation when a loss from continuing operations exists.

(2) Participating securities are included in distributed earnings and not in undistributed earnings when a loss from continuing operations exists.

(3) Based on the price of our common stock during June 2009, the notes were not convertible during the third quarter of 2009. However, the notes became convertible on October 1, 2009, based on the price of our common stock during September 2009.

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Notes to Consolidated Financial Statements (Continued)

September 30, 2009

(Unaudited)

The following table presents the amounts of outstanding stock options, restricted stock and units as follows:

	September 30, 2009	September 30, 2008
Stock options	1,608,321	1,566,516
Restricted stock	1,720,250	1,695,523
Restricted units	649,843	655,205

All stock options and restricted units and shares were considered potentially dilutive securities for each of the periods presented except for those determined to be anti-dilutive as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	**2008**	**2009**	**2008**
Stock options	762,429	1,566,516	1,608,321	121,394
Restricted stock		1,695,523	1,720,250	
Restricted stock units		655,205	649,843	
Convertible notes		1,125,000		
	762,429	5,042,244	3,978,414	121,394

Comprehensive Income (Loss)

Comprehensive income is a term used to refer to net income (loss) plus other comprehensive income (loss). Other comprehensive income (loss) is comprised of revenues, expenses, gains and losses that under generally accepted accounting principles are reported as separate components of stockholders equity instead of net income (loss).

The components of comprehensive income (loss) are as follows (in thousands):

Three Months Ended September 30,	Nine Months Ended September 30,

		2009		2008		2009		2008
Net Income (loss)	$	38,705	$	(232,423)	$	(416,588)	$	146,128
Other comprehensive income (loss):								
Cash flow hedges								
Increase (decrease) in fair value				22,095				(5,004)
Settlements reflected in gas sales				1,064				72
Sub-total				23,159				(4,932)
Related income tax effect				(8,282)				1,885
Total cash flow hedges				14,877				(3,047)
Change in fair value of short-term investments and other, net of tax		366		(213)		882		(413)
Total comprehensive income (loss)	$	39,071	$	(217,759)	$	(415,706)	$	142,668

10. Commitments and Contingencies

Litigation

In January 2009, the Tulsa County District Court issued a judgment in the H.B. Krug, et al versus Helmerich & Payne, Inc. (H&P) case. This lawsuit was originally filed in 1998 and addressed H&P s conduct pertaining to a 1989 take-or-pay settlement, along with potential drainage issues and other related matters. Damages of $6.9 million, plus $119.5 million for disgorgement of H&P s estimated potential compounded profit since 1989 resulting from the noted damages, were awarded to plaintiff royalty owners for

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Notes to Consolidated Financial Statements (Continued)

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(Unaudited)

a total of $126.4 million. This amount was subsequently adjusted by the court to a total of $119.6 million. Pursuant to the 2002 spin-off transaction to shareholders of H&P by which Cimarex became a publicly traded entity, Cimarex assumed the assets and liabilities of H&P s exploration and production business. In 2008 we had accrued litigation expense of $119.6 million for this lawsuit. During the nine months ended September 30, 2009, we have accrued an additional $7.6 million. We have appealed the District Court s judgments, but do not expect this matter to be resolved in 2009.

In the normal course of business, we have other various litigation related matters. We assess the probability of estimable amounts related to litigation matters in accordance with guidance established by the FASB and adjust our accruals accordingly. Though some of the related claims may be significant, the resolution of them we believe, individually or in the aggregate, would not have a material adverse effect on our financial condition or results of operations.

Other

We have a large development project in Sublette County, Wyoming where we are developing the deep Madison gas formation and constructing a gas processing plant. At September 30, 2009, we had commitments of $163.1 million relating to construction of the gas processing plant of which $102.6 million is subject to a construction contract. The total cost of the project will approximate $354 million. Pursuant to the terms of our operating agreement with our partners in this project, we will be reimbursed by them for 42.5% of the costs. The gas processing plant is subject to a delivery commitment agreement over a 20 year period, commencing December, 2011. If no deliveries were made, the maximum amount that would be payable under the agreement would be approximately $43 million.

We have drilling commitments of approximately $69.1 million consisting of obligations to complete drilling wells in progress at September 30, 2009. We also have minimum expenditure contractual commitments of $46.8 million to secure the use of drilling rigs.

At September 30, 2009, we had firm sales contracts to deliver approximately 5.6 Bcf of natural gas over the next six months. If this gas is not delivered, our financial commitment would be approximately $19.6 million. This commitment will fluctuate due to price volatility and actual volumes delivered. However, we believe no significant financial commitment will be due based on our reserves and current production levels.

In connection with a gas gathering and processing agreement, we have commitments to deliver 58.5 Bcf of gas over the next five years. If no gas was delivered, the maximum amount that would be payable under these commitments would be approximately $43.5 million.

We have other various delivery commitments in the normal course of business, none of which are individually material. In aggregate, these commitments have a maximum amount that would be payable, if no gas is delivered, of approximately $5 million.

All of the noted commitments were routine and were made in the normal course of our business.

11. Property Sales

Various interests in oil and gas properties were sold during the first nine months of 2009 for $28.3 million. These were recorded as a reduction to oil and gas properties. In October 2009, we completed the sale of our interest in a Texas secondary recovery oil field for approximately $81 million.

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ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

BUSINESS OVERVIEW

We are an independent oil and gas exploration and production company with operations entirely located in the United States. We have determined that our business is comprised of only one segment because our gathering, processing and marketing activities are ancillary to our production operations and are not separately managed.

The downward pressure in natural gas prices that began in the last half of 2008 has continued during the first nine months of 2009. Our average realized natural gas price for the first nine months of 2009 decreased 61% from the same period of 2008. Additionally, although oil prices have improved since the end of 2008, the September 2009 price of West Texas Intermediate oil is down 33% from September 2008.

As a result, our earnings for the first nine months of 2009 were negatively impacted. During the third quarter, we generated net income of $38.7 million, or $0.46 per diluted share, and for the first nine months of the year we reported a net loss of $416.6 million, or $5.10 per share. The year to date loss in 2009 was primarily the result of a first quarter noncash impairment of our oil and gas properties of $501.8 million, net of income taxes. Substantially all of this noncash charge was the result of the continuing drop in commodity prices in the first quarter.

In response to the lower oil and gas prices we significantly reduced our planned 2009 capital expenditures from our record high in 2008. Total planned capital expenditures for 2009 are approximately $525 million, down from 2008 capital expenditures of $1.4 billion. We have also entered into derivative contracts to reduce a portion of our potential exposure to continued weakness in commodity prices. During the third quarter we continued to enter into Calendar 2010 hedges. To date we have hedged an average of 11,000 barrels of oil per day and 160,000 MMBtu of gas per day. These contracts cover a portion of our anticipated production through December 2010.

In October our bank group, as part of the regularly scheduled fall review, reaffirmed our $1.0 billion borrowing base related to our credit facility maturing in April 2012. Bank group commitments of $800 million also remain unchanged. As of September 30, 2009, we had borrowings outstanding of $156 million, which is $183 million less than the second quarter balance of $339 million. The reduction in borrowings was funded from non-core property sales, tax refunds, lower capital spending relative to cash flow and a net positive working capital change.

Also in October, we completed the sale of our interest in a Texas secondary recovery oil field for approximately $81 million. Including this sale, year-to-date proved property sales total $106.3 million, with associated proved reserves of 28 Bcfe and 8 MMcfe/d of production.

Third quarter 2009 summary financial and operating results:

- Oil and gas sales declined 57% to $238.3 million from $552.4 million a year earlier.

- Average realized gas price fell 61% to $3.80 per Mcf versus $9.76 per Mcf.

- Average realized oil price dropped 45% to $63.49 per barrel from $114.87 per barrel.

- Oil and gas production volumes averaged 441.5 MMcfe/d, down from 484.9 MMcfe/d for third quarter 2008.

- Net income of $38.7 million, or $0.46 per diluted share, versus a loss of $232.4 million, or $2.85 per share.

- Cash flow from operating activities was $271.3 million, down from $443.2 million.

- Debt totaled $523.8 million at September 30, 2009, down from $587.6 million at year end 2008.

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Oil and Gas Prices

	Three Months Ended September 30, 2009		Three Months Ended September 30, 2008		Nine Months Ended September 30, 2009		Nine Months Ended September 30, 2008	
Gas Prices:								
Average Henry Hub price ($/Mcf)	$	3.39	$	10.25	$	3.93	$	9.74
Average realized sales price excluding hedge effect ($/Mcf)	$	3.80	$	9.76	$	3.70	$	9.58
Effect of hedges ($/Mcf)	$		$	(.03)	$		$	
Oil Prices:								
Average WTI Cushing price ($/Bbl)	$	68.33	$	117.95	$	57.01	$	113.28
Average realized sales price ($/Bbl)	$	63.49	$	114.87	$	50.80	$	110.26

On an energy equivalent basis, 70% of our 2009 aggregate production was natural gas. A $0.10 per Mcf change in our average realized gas sales price would have resulted in approximately an $8.8 million change in our gas revenues. Similarly 30% of our production was crude oil. A $1.00 per barrel change in our average realized crude oil sales price would have resulted in approximately a $6.4 million change in our oil revenues.

Hedging

To mitigate a portion of our exposure to a decrease in funds from operations stemming from falling oil and gas prices we periodically use derivative contracts to provide downside risk protection on a portion of our production.

During the first nine months of 2008 we had 40,000 MMBtu per day of Mid-Continent gas production hedged through the use of collars accounted for as cash flow hedges. As of December 31, 2008 all of our cash flow effective hedge contracts had expired.

In March 2009 we entered into derivative gas contracts covering the period April 2009 through December 2009. The collars set a floor of $3.00 and ceiling of $5.00 and cover approximately 148,000 MMBtu per day of our Mid-Continent gas production during the contract period. As of September 30, 2009 the remaining contracts will cover approximately 47% of our estimated October through December 2009 gas volumes.

During the second and third quarters of 2009 we entered into derivative contracts for a portion of our 2010 production. We do not anticipate entering into further contracts related to our 2009 or 2010 production.

At September 30, 2009, we had the following outstanding contracts:

Natural Gas Contracts

Period		Type	Volume/Day		Index(1)	Weighted Average Price Floor		Ceiling		Swap	
Oct 09	Dec 09	Collar	143,370	MMBtu	PEPL	$	3.00	$	5.00		
Jan 10	Dec 10	Collar	100,000	MMBtu	PEPL	$	5.00	$	6.62		
Jan 10	Dec 10	Swap	40,000	MMBtu	PEPL					$	5.18
Jan 10	Dec 10	Collar	20,000	MMBtu	HSC	$	5.00	$	6.85		

Oil Contracts

Period		Type	Volume/Day		Index(1)	Weighted Average Price Floor		Ceiling	
Jan 10	Dec 10	Collar	10,000	Bbls	WTI	$	60.03	$	92.07
Jan 10	Dec 10	Put/Floor	1,000	Bbls	WTI	$	60.00		

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(1) PEPL refers to Panhandle Eastern Pipe Line Company price and HSC refers to Houston Ship Channel price, both as quoted in Platt s Inside FERC on the first business day of each month. WTI refers to West Texas Intermediate price as quoted on the New York Mercantile Exchange.

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We did not choose to apply hedge accounting treatment to any of the contracts we have entered into in the current year. As such, settlements on these contracts will not impact our realized commodity prices during the periods they cover. Instead, any settlements on these contracts will be shown as a component of operating costs and expenses as a realized (gain) loss on derivative instruments. See Note 2 to the Consolidated Financial Statements and Item 3 of this report for additional information regarding our derivative instruments.

Production and other operating expenses

The costs associated with finding and producing oil and gas are substantial. Some of these costs vary with oil and gas prices, some trend with production volume and some are a function of the number of wells we own. At the end of 2008, we owned interests in 12,980 wells.

Production expense generally consists of the cost of power and fuel, direct labor, third-party field services, compression, water disposal, and certain maintenance activity necessary to produce oil and gas from existing wells.

Transportation expense is comprised of costs paid to move oil and gas from the wellhead to a specified sales point. In some cases we receive a payment from purchasers which is net of transportation costs, and in other instances we separately pay for transportation. If costs are netted in the proceeds received, both the gross revenues and gross costs are shown in sales and expenses, respectively.

Depreciation, depletion and amortization (DD&A) of our producing properties is computed using the units-of-production method. Because the economic life of each producing well depends upon the assumed price for future sales of production, fluctuations in oil and gas prices may impact the level of proved reserves used in the calculation. Higher prices generally have the effect of increasing reserves, which reduces depletion expense, while lower prices generally have the effect of decreasing reserves, which increases depletion expense. In addition, changes in estimates of reserve quantities and estimates of future development costs or reclassifications from unproved properties to proved properties will impact depletion expense.

General and administrative expenses consist primarily of salaries and related benefits, office rent, legal fees, consultants, systems costs and other administrative costs incurred in our offices and not directly associated with exploration, development or production activities. While we expect these costs to increase with our growth, we also expect such increases to be proportionately smaller than our production growth.

Production taxes are assessed by state and local taxing authorities pertaining to production, revenues or the value of properties. These typically include production severance, ad valorem and excise taxes.

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RESULTS OF OPERATIONS

Three months and nine months ended September 30, 2009 vs. September 30, 2008

Net income for the third quarter of 2009 was $38.7 million, or $0.46 per diluted share. This compares to a net loss of $232.4 million, or $2.85 per share for the same period in 2008. For the nine months ended September 30, 2009, we recognized a net loss of $416.6 million, or $5.10 per share, compared to net income of $146.1 million, or $1.71 per diluted share, for the first nine months of 2008. The change in net income for both the quarter and nine months ended is primarily the result of non-cash full cost ceiling write-downs that were recorded in the third quarter of 2008 and the first quarter of 2009. These impairments are discussed further in the operating costs and expenses section below.

Oil and Gas Sales (In thousands or as indicated)	2009	2008	Percent Change Between 2009/2008	Price/Volume Analysis Price	Volume	Variance
For the Three Months Ended September 30,						
Gas sales	$ 107,275	$ 313,523	(66)%	$ (168,245)	$ (38,003)	$ (206,248)
Oil sales	131,073	238,918	(45)%	(106,048)	(1,797)	(107,845)
Total oil and gas sales	$ 238,348	$ 552,441		$ (274,293)	$ (39,800)	$ (314,093)
For the Nine Months Ended September 30,						
Gas sales	$ 324,438	$ 912,443	(64)%	$ (515,117)	$ (72,888)	$ (588,005)
Oil sales	324,507	683,109	(52)%	(379,830)	21,228	(358,602)
Total oil and gas sales	$ 648,945	$ 1,595,552		$ (894,947)	$ (51,660)	$ (946,607)

	For the Three Months Ended September 30, 2009	2008	Percent Change Between 2009/2008	For the Nine Months Ended September 30, 2009	2008	Percent Change Between 2009/2008
Total gas volume MMcf	28,229	32,136	(12)%	87,605	95,218	(8)%
Gas volume MMcf per day	306.8	349.3		320.9	347.5	
Average gas price per Mcf	$ 3.80	$ 9.76	(61)%	$ 3.70	$ 9.58	(61)%
Effect of hedges per Mcf	$	$ (.03)		$		
Total oil volume thousand barrels	2,064	2,080	(1)%	6,388	6,196	3%
Oil volume barrels per day	22,439	22,607		23,400	22,611	
Average oil price per barrel	$ 63.49	$ 114.87	(45)%	$ 50.80	$ 110.26	(54)%

Oil and gas sales for the third quarter of 2009 totaled $238.3 million, compared to $552.4 million in 2008. Of the $314.1 million decrease in sales between the two periods, $39.8 million related to lower production volumes and $274.3 million resulted from lower prices. For the nine months ended September 30, 2009, oil and gas sales decreased by $946.6 million, from $1.6 billion to $649.0 million during the first nine months of 2009. Decreased commodity prices resulted in a $895.0 million decrease in oil and gas sales and lower production volumes resulted in a $51.7 million decrease between the two nine-month periods.

When compared to the third quarter of 2008, our third quarter 2009 oil production decreased by one percent to an average of 22,439 barrels per day. This change resulted in $1.8 million decrease in revenues. Third quarter gas volumes averaged 306.8 MMcf per day in 2009 compared to 349.3 MMcf per day in the third quarter of 2008, resulting in a decrease in revenues of $38.0 million. For the first nine months of 2009, gas volumes averaged 320.9 MMcf per day and oil volumes equaled 23,400 barrels per day, compared to the first nine months of 2008 volumes of 347.5 MMcf per day and 22,611 barrels per day. The lower gas volumes decreased sales between the two periods by $72.9 million, and the higher oil volumes resulted in $21.2 million of additional revenues. The expected decrease in natural gas volumes during the quarter and the first nine months of the current year is due to our significantly reduced drilling program from prior year. Most of our gas wells produce from resevoirs characterized by high initial production which decline rapidly and stabilize within three to five years. During the current year we have drilled 76% fewer wells as compared to the same period of 2008.

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Total 2009 oil and gas production volumes were 461.3 MMcfe per day, down 21.9 MMcfe per day from 2008. The expected decrease in production volumes between the periods is a result of reduced drilling. Our 2009 operated rig count is 11 rigs as compared to 42 in the comparable period of 2008.

Average realized gas prices decreased by 61% to $3.80 per Mcf for the three months ended September 30, 2009, compared to $9.76 per Mcf for the third quarter of 2008. This price decrease lowered gas sales by $168.2 million between the two periods. For the nine months ended September 30, 2009, realized gas prices decreased 61% to $3.70 per Mcf from $9.58 per Mcf. This price change decreased sales by $515.1 million. Included in our first nine months of 2008 realized gas price is $72 thousand of net cash payments from cash flow designated hedges.

Realized oil prices averaged $63.49 per barrel during the third quarter of 2009, compared to $114.87 per barrel for the same period in 2008. The decrease in oil sales resulting from this 45% decrease in oil prices totaled $106.0 million. For the nine months ended September 30, 2009, realized oil prices decreased 54% to $50.80 per barrel, from $110.26 per barrel, in the first nine months of 2008. This oil price decrease lowered sales $379.8 million.

	For the Three Months Ended September 30, 2009	For the Three Months Ended September 30, 2008	For the Nine Months Ended September 30, 2009	For the Nine Months Ended September 30, 2008
Gas Gathering, Processing, Marketing and Other (in thousands):				
Gas gathering, processing and other revenues	$ 10,732	$ 24,163	$ 31,165	$ 73,734
Gas gathering and processing costs	(4,830)	(12,591)	(14,347)	(35,787)
Gas gathering, processing and other margin	$ 5,902	$ 11,572	$ 16,818	$ 37,947
Gas marketing revenues, net of related costs	$ 54	$ 654	$ 888	$ 2,225

We sometimes transport, process and market third-party gas that is associated with our gas. In the third quarter of 2009, third-party gas gathering, processing and other contributed $5.9 million of pre-tax cash operating margin (revenues less direct cash expenses) versus $11.6 million in 2008. For the nine months ended September 30, 2009 and 2008, such revenues less direct cash expenses totaled $16.8 million and $37.9 million, respectively. Our gas marketing margin (revenues less purchases) was $54 thousand in the third quarter of 2009 compared to $0.7 million in the third quarter of 2008. Gas marketing margin decreased to $0.9 million from $2.2 million for the first nine months of 2009 and 2008, respectively. Changes in net margins from gas gathering, processing, marketing and other activities are the direct result of volumes and overall market conditions.

	For the Three Months Ended September 30, 2009	For the Three Months Ended September 30, 2008	Variance Between 2009/2008	For the Nine Months Ended September 30, 2009	For the Nine Months Ended September 30, 2008	Variance Between 2009/2008
Operating costs and expenses (in thousands):						
Impairment of oil and gas properties	$	$ 657,146	$ (657,146)	$ 791,137	$ 657,146	$ 133,991
	59,240	147,432	(88,192)	205,791	406,189	(200,398)

Depreciation, depletion and amortization						
Asset retirement obligation	4,024	1,978	2,046	8,665	5,434	3,231
Production	42,682	55,362	(12,680)	139,127	156,506	(17,379)
Transportation	8,760	10,621	(1,861)	25,233	29,551	(4,318)
Taxes other than income	19,728	39,097	(19,369)	50,525	109,453	(58,928)
General and administrative	12,522	12,377	145	29,803	37,837	(8,034)
Stock compensation	2,477	2,791	(314)	6,831	7,432	(601)
Loss on derivative instruments, net	17,357		17,357	17,613		17,613
Other operating, net	2,911	11,871	(8,960)	19,094	12,992	6,102
	$ 169,701	$ 938,675	$ (768,974)	$ 1,293,819	$ 1,422,540	$ (128,721)

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Total operating costs and expenses (not including gas gathering, marketing and processing costs, or income tax expense) decreased to $169.7 million in the third quarter of 2009 compared to $938.7 million in the third quarter of 2008. For the first nine months of 2009 these operating costs and expenses decreased $128.7 million from $1.423 billion in 2008 to $1.294 billion.

The significant decrease in the current quarter as compared to third quarter 2008 is primarily due to an oil and gas impairment that was recorded in the prior year. At September 30, 2008 gas prices fell sharply in the Permian and Mid-Continent regions where we produce over 80% of our gas. As a result, we recorded a non-cash impairment of oil and gas properties in the amount of $657.1 million ($417.4 million, net of tax). A similar impairment was recorded in the first quarter of 2009 due to a continued decline in natural gas prices. This current year non-cash impairment of oil and gas properties was in the amount of $791.1 million ($501.8 million, net of tax).Volatility of oil and gas prices could require us to record a ceiling test write-down in future periods. The full cost method of accounting is discussed in detail under Note 1 to the Consolidated Financial Statements.

DD&A decreased from $147.4 million in the third quarter of 2008 to $59.2 million in the same period of 2009. On a unit of production basis, third quarter DD&A was $3.30 per Mcfe in 2008 compared to $1.46 per Mcfe for 2009. For the first nine months of 2009 and 2008, DD&A totaled $205.8 million and $406.2 million, respectively. On a unit of production basis, DD&A was $1.63 per Mcfe for the first nine months in 2009 compared to $3.07 per Mcfe for 2008. The significant decrease in DD&A in the third quarter and first nine months of 2009 is due to $3.0 billion of impairments to the carrying value of our oil and gas properties recorded during the last half of 2008 and the first quarter of 2009.

Asset retirement obligation expense was $4.0 million in the third quarter of 2009 compared to $2.0 million for 2008. The asset retirement obligation expense increased from $5.4 million for the first nine months of 2008 to $8.7 million for the same period in 2009. The increase in the current year is due to plugging and abandonment costs being greater than our original asset retirement obligation estimates. This was primarily the result of hurricane damage to our offshore properties which caused additional expenses to be incurred during site restoration.

Production costs decreased $12.7 million from $55.4 million ($1.24 per Mcfe) in the third quarter of 2008 to $42.7 million ($1.05 per Mcfe) in the third quarter of 2009. Production costs decreased by $17.4 million from $156.5 million ($1.18 per Mcfe) during the first nine months of 2008 to $139.1 million ($1.11 per Mcfe) during the same period in 2009. Our production costs consist of workover expense and lease operating expenses. We have seen a decrease in costs between quarters and the nine month periods in both of these areas. A reduction in large scale workover projects caused a $5.0 million decrease in workover expense from prior year. A decrease in lease operating expense in the current year is attributable to the sale of producing properties in the last half of 2008 and early 2009 and a significant decline in service costs in comparison to their peak in mid 2008.

Transportation costs decreased from $10.6 million in the third quarter of 2008 to $8.8 million in the third quarter of 2009. Transportation costs for the first nine months of 2009 were $25.2 million compared to $29.6 million for the same period in 2008. The decrease is the result of lower sales volumes and a decreasing fuel cost component.

Taxes other than income in the third quarter of 2009 were $19.4 million lower, decreasing from $39.1 million in third quarter 2008 to $19.7 million. Taxes other than income were $50.5 million during the first nine months of 2009 versus $109.5 million in 2008. The decrease between periods resulted from decreases in oil and gas sales stemming from significantly lower commodity prices and lower production volumes.

General and administrative (G&A) expenses increased $0.1 million from $12.4 million in the third quarter of 2008 to $12.5 million in the third quarter of 2009. G&A expense for the first nine months of 2009 equaled $29.8 million compared to $37.8 million for the same period of 2008. The decrease between the nine month periods is primarily the result of lower employee-benefit costs incurred during the first and second quarters of 2009. We recorded lower bonus and profit sharing expenses resulting from significant decreases in commodity prices from the prior year.

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A component of our operating costs and expense for the third quarter and first nine months of 2009 is (gain) loss on our derivative instruments. We recorded a net unrealized loss of $17.4 million and $17.6 million for the third quarter and first nine months of 2009, respectively. The year to date recorded loss is comprised of $21.1 million of unrealized losses which is partially offset by $3.5 million of realized gains on contract settlements during the first nine months of the year. See Note 2 to the Consolidated Financial Statements of this report for detailed information regarding our derivative instruments.

Other operating, net decreased from $11.9 million for the third quarter of 2008 to $2.9 million in the same period of 2009. For the first nine months of 2009, Other operating, net increased by $6.1 million from $13.0 million in 2008 to $19.1 million in 2009. The change between the periods is due to the timing of recordings related to the resolution of and accruals related to various legal matters most of which pertain to contract settlements and title and royalty issues.

Other Income and Expense

Interest expense was $5.3 million higher in the first nine months of the year, increasing from $24.8 million in 2008 to $30.1 million in 2009. Interest expense for the third quarter increased from $8.1 million in 2008 to $10.6 million in 2009. This change resulted primarily from a $6.2 million increase in interest expense on bank debt as we had no borrowings on our credit facility during the first nine months of 2008 and an average outstanding balance of more than $250 million during 2009. Also, in comparison to prior year, we recognized an additional $2.8 million of deferred financing costs. These higher costs are the result of the new credit facility we entered into in April 2009. Partially offsetting these increases is a $3.7 million decrease in interest expense on our convertible notes due to the December 2008 repurchases of $105.5 million of the outstanding $125 million (face value) notes. We repurchased the notes with borrowings under our credit facility.

Other, net changed from $8.1 million of income in the third quarter of 2008 to $3.7 million of expense in the third quarter of 2009. Other, net for the nine months ended September 30, 2009 was $11.6 million of expense and income of $16.6 million during the same period of 2008. Components consist of miscellaneous income and expense items that will vary from period to period, including income and loss in equity investees, gain or loss on sale of oil and gas well equipment and interest income. The change from 2008 to 2009 is primarily the result of oil and gas well equipment impairments due to decreased value of drill pipe resulting from a significant slowing of drilling activity across the industry. An impairment of $13.7 million has been recognized in the current year versus $12.5 million of gain on sale of oil and gas well equipment in the prior year.

Income Tax

For third quarter 2009, a net income tax expense of $26.8 million, of which $13.3 million is current, was recognized versus $135.9 million of income tax benefit for the third quarter of 2008. Income tax equaled a combined federal and state effective income tax rate of 40.9% and 36.9% in the third quarters of 2009 and 2008, respectively. The effective tax rate for the third quarter of 2009 differs from the statutory rate primarily due to state income taxes, non-deductible expenses, and adjustments for the non-realization of special deductions. An income tax benefit for the first nine months of 2009 equaled $236.1 million, of which $15.5 million is a current benefit, compared to $73.8 million of income tax expense for the same period of 2008, equating to combined Federal and state effective income tax rates of 36.2% and 33.6%, respectively. The effective tax rate for the first nine months of 2009 differs from the statutory rate primarily due to state income taxes, and non-deductible expenses.

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LIQUIDITY AND CAPITAL RESOURCES

Overview

The ongoing economic downturn, credit crisis and slowing demand have continued to negatively impact commodity prices. Sustained low oil and gas prices may reduce the amount of oil and gas that we can economically produce, and can also affect the amount of cash flow available for capital expenditures and our ability to borrow and raise additional capital. These conditions may also impact third parties with whom we do business which could lead to losses associated with uncollectible receivables.

We have and will continue to focus on maintaining liquidity, promoting operational efficiency, and expanding long-term reserves through focused drilling projects and potential acquisitions. Historically our exploration and development expenditures have generally been funded by cash flow provided by operating activities (operating cash flow). With our intent to continue to operate within operating cash flows, we have significantly scaled back our planned 2009 drilling program in comparison to 2008 and are focusing on our highest rate of return projects.

We continue to search for attractive acquisition opportunities; however, the timing and size of acquisitions are unpredictable. In order to ready ourselves for such an opportunity and to prepare ourselves for the potential of further declines in commodity prices, in April 2009, we entered into a new three-year senior secured revolving credit facility. The new facility increases bank commitments from $500 million to a fully-subscribed $800 million. The borrowing base remains unchanged at $1 billion. In addition to our increased credit facility, we may consider a high-yield bond offering in the future to raise additional capital, if appropriate.

We believe that our operating cash flow and other capital resources will be adequate to continue to meet our needs for our planned capital expenditures, working capital, debt servicing and dividend payments for 2009 and beyond.

Analysis of Cash Flow Changes

Cash flow provided by operating activities for the first nine months of 2009 was $465.6 million, compared to $1.1 billion for the nine months ended September 30, 2008. The decrease in the first nine months of 2009 resulted primarily from significantly lower gas and oil prices and decreased production.

Cash flow used in investing activities for the first nine months of 2009 was $369.4 million, compared to $1.1 billion for the nine months ended September 30, 2008. Changes in the cash flow used in investing activities are generally the result of changes in our exploration and development programs, acquisitions and property sales. The decrease from the first nine months of 2008 to 2009 was mostly caused by decreased oil and gas expenditures resulting from a planned decrease in activity in our drilling and exploitation programs.

Net cash flow used by financing activities in the first nine months of 2009 was $94.5 million versus $2.1 million in the same period of 2008. In 2009, we had net payments on our credit facility of $64.0 million while we had no activity in 2008. In addition, we incurred $18.0 million of financing costs in the current year for our new three-year senior secured revolving credit facility.

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Capital Expenditures

The following table sets forth certain historical information regarding capitalized expenditures by us in our oil and gas acquisition, exploration, and development activities (in thousands):

	For Three Months Ended September 30, 2009	For Three Months Ended September 30, 2008	For Nine Months Ended September 30, 2009	For Nine Months Ended September 30, 2008
Acquisitions:				
Proved	$ 350	$ 120	$ 474	$ 1,489
Unproved	(10,315)(1)		(10,315)(1)	
	(9,965)	120	(9,841)	1,489
Exploration and development:				
Land and seismic	7,036	52,485	34,072	109,611
Exploration and development	119,144	366,456	332,844	976,183
	126,180	418,941	366,916	1,085,794
Property sales	(9,877)		(28,305)	
	$ 106,338	$ 419,061	$ 328,770	$ 1 ,087,283

(1) The negative balance reflects purchase price adjustments related to an acreage acquisition in fourth quarter 2008.

Our exploration and development expenditures decreased 66 percent in the first nine months of 2009 compared to the first nine months of 2008. The decrease in 2009 resulted from a planned decrease in our exploration activity in response to the current economic environment and our continued efforts to operate within our cash flow provided by operating activities. Overall, we drilled a total of 94 gross (56 net) wells during the first nine months of 2009 versus 376 gross (232 net) wells in the same period of 2008.

Our planned capital program for 2009 is approximately $525 million with the expectation of continued low oil and gas prices. Although our 2009 capital budget is set at a level that we believe corresponds with our anticipated 2009 cash flows, the timing of capital expenditures and the receipt of cash flows do not necessarily match. We anticipate borrowing and repaying funds under our credit arrangements throughout the year. If we start to see a significant change in commodity prices from our current forecasts, we have the operational flexibility to react quickly with our capital expenditures to changes in our cash flows from operations.

We have made, and will continue to make, expenditures to comply with environmental and safety regulations and requirements. These costs are considered a normal recurring cost of our ongoing operations and not an extraordinary cost of compliance. We do not anticipate that we will be required to expend amounts that will have a material adverse effect on our financial position or operations, nor are we aware of any pending regulatory changes that would have a material impact.

Financial Condition

During the first nine months of 2009 our total assets, net oil and gas assets, net income and stockholders equity were reduced by a non-cash impairment of oil and gas properties in the amount of $791.1 million ($501.8 million after tax). Total assets decreased by $0.8 billion in the first nine months of 2009 from $4.2 billion at the beginning of the year to $3.4 billion by September 30, 2009. Our net oil and gas assets decreased by $643.7 million and our cash position increased by $1.7 million for the same period. As of September 30, 2009, stockholders equity totaled $1.9 billion, down from $2.4 billion at December 31, 2008. The decrease resulted primarily from a current year 2009 net loss of $416.6 million.

Dividends

In December 2005, the Board of Directors declared the Company s first quarterly cash dividend of $.04 per share on our common stock. A dividend has been authorized in every quarter since then. On

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December 12, 2007 the Board of Directors increased the regular cash dividend on our common stock from $0.04 to $0.06 per share.

Common Stock Repurchase Program

In December 2005, the Board of Directors authorized the repurchase of up to four million shares of common stock. During 2007 we repurchased a total of 1,114,200 shares at an average purchase price of $37.93. Cumulative purchases through December 31, 2007 total 1,364,300 shares at an average price of $39.05. No purchases have been made since the quarter ended September 30, 2007.

Working Capital

Working capital increased $11.3 million from year-end 2008 to $56.6 million at third quarter-end 2009. Working capital increased primarily because of the following:

- A $144.7 million decrease in current liabilities during the year is due to decrease in payables attributable to lower commodity prices, less production, and a significant decrease in exploration and development activities.

These working capital increases were mostly offset by:

- A $133.4 million decrease in current assets during the first nine months due to a decrease in receivables caused by lower average commodity prices and reduced drilling activity. Additionally, we have seen a decrease in prepaid expenses due to timing and a decrease in oil and gas well equipment and supplies primarily due to drill pipe impairments.

Our receivables are a major component of our working capital and are made up of a diverse group of companies including major energy companies, pipeline companies, local distribution companies and end-users in various industries. The collection of receivables during the period presented has been timely. Historically, losses associated with uncollectible receivables have not been significant.

Financing

Debt at September 30, 2009 and December 31, 2008 consisted of the following (in thousands):

		September 30, 2009		December 31, 2008
Bank debt	$	156,000	$	220,000
7.125% Notes due 2017		350,000		350,000
Floating rate convertible notes due 2023 (face value $19,450)		17,753		17,630
Total long-term debt	$	523,753	$	587,630

Bank Debt

In April 2009, we entered into a new three-year senior secured revolving credit facility (credit facility). The new credit facility increases bank commitments from $500 million to $800 million, with a borrowing base of $1 billion. The credit facility is provided by a syndicate of banks led by JP Morgan Chase Bank, N.A., matures on April 14, 2012 and is secured by mortgages on certain of our oil and gas properties and the stock of certain wholly-owned operating subsidiaries.

The borrowing base under the credit agreement is determined at the discretion of the lenders, based on the collateral value of our proved reserves, and is subject to potential special and regular semi-annual redeterminations.

The credit facility contains covenants and restrictive provisions which may limit our ability to incur additional indebtedness, make investments or loans and create liens. The credit facility requires us to maintain a current ratio greater than 1 to 1 and a leverage ratio not to exceed 3.5 to 1. As of September 30, 2009, we were in compliance with all of the financial and non-financial covenants.

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At Cimarex s option, borrowings under the credit facility may bear interest at either (a) a London Interbank Offered Rate (LIBOR) plus 2 to 3 percent, based on borrowing base usage, or (b) the higher of (i) a prime rate, (ii) the federal funds effective rate plus 0.50 percent, or (iii) adjusted LIBOR, in each case, plus an additional 1.125 to 2.125 percent, based on borrowing base usage.

At September 30, 2009, there was $156 million of borrowings outstanding under the credit facility at a weighted average interest rate of approximately 3.1%. We also had letters of credit outstanding of $17.7 million leaving an unused borrowing availability of $626.3 million.

7.125% Notes due 2017

In May, 2007, we issued $350 million of 7.125% senior unsecured notes that mature May 1, 2017 at par. Interest on the notes is payable May 1 and November 1 of each year. The notes are governed by an indenture containing covenants that could limit our ability to incur additional indebtedness; pay dividends or repurchase our common stock; make investments and other restricted payments; incur liens; enter into sale/leaseback transactions; engage in transactions with affiliates; sell assets; and consolidate, merge or transfer assets.

The notes are redeemable at our option, in whole or in part, at any time on and after May 1, 2012 at the following redemption prices (expressed as percentages of the principal amount) plus accrued interest, if any, thereon to the date of redemption.

Year	Percentage
2012	103.6%
2013	102.4%
2014	101.2%
2015 and thereafter	100.0%

At any time prior to May 1, 2010, we may redeem up to 35% of the original principal amount of the notes with the proceeds of certain equity offerings of our shares of common stock at a redemption price of 107.125% of the principal amount of the notes, together with accrued and unpaid interest, if any, to the date of redemption. At any time prior to May 1, 2012, we may also redeem all, but not part, of the notes at a price of 100% of the principal amount of the notes plus accrued and unpaid interest plus a make-whole premium.

If a specified change of control occurs, subject to certain conditions, we must make an offer to purchase the notes at a purchase price of 101% of the principal amount of the notes, plus accrued and unpaid interest to the date of the purchase.

Floating rate convertible notes due 2023

The floating rate convertible senior notes mature on December 15, 2023. The notes are senior unsecured obligations and bear interest at the three month LIBOR, reset quarterly. On September 30, 2009, the interest rate approximated 0.3%.

In December 2008, holders of $105.5 million of the original $125 million issuance amount elected to submit their notes for repurchase. We repurchased the $105.5 million in notes with borrowings under our credit facility. Holders of the remaining $19.5 million of notes have optional repurchase dates as of December 15, 2013, and 2018.

In addition to the repurchase rights, holders of the convertible notes may surrender their notes for conversion into a combination of cash and shares of our common stock upon the occurrence of certain circumstances, including if the price of our common stock has been trading above 110% of the conversion price of $28.59 per share for a defined period of time. As of September 30, 2009, and December 31, 2008, the notes were not convertible. However, based on the price of our common stock during September 2009, the notes became convertible effective October 1, 2009.

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At our option, we may offer to redeem the notes at any time at par. In addition, if a change of control occurs, subject to certain conditions, we must make an offer to purchase the notes at a purchase price of 101% of the principal amount of the notes.

In May 2008, the FASB issued new guidance that changed the accounting for the components of convertible debt that can be settled wholly or partly in cash upon conversion. The new requirements are required to be applied to both new instruments and retrospectively to previously issued convertible instruments. The debt and equity components of the instruments are accounted for separately. The value assigned to the debt component is the estimated value of similar debt without a conversion feature as of the issuance date, with the remaining proceeds allocated to the equity component and recorded as additional paid-in capital. The debt component is recorded at a discount and is subsequently accreted to its par value, thereby reflecting an overall market rate of interest in the income statement. The effective interest rate for the quarters ended September 30, 2009 and 2008 was 1.5% and 4%, respectively. The effective interest rate for the nine months ended September 30, 2009 and 2008 was 2.3% and 4.7%, respectively. (See Note 6 for additional information).

Contractual Obligations and Material Commitments

At September 30, 2009, we had contractual obligations and material commitments as follows:

		Payments Due by Period			
Contractual obligations	**Total**	**Less than 1 Year**	**1-3 Years**	**4-5 Years**	**More than 5 Years**
			(In thousands)		
Long-term debt (1)	$ 525,450	$	$ 156,000	$	$ 369,450
Fixed-Rate interest payments (1)	199,500	24,938	49,875	49,875	74,812
Operating leases	24,819	5,841	10,883	7,643	452
Drilling commitments (2)	115,879	115,879			
Gas processing facility (3)	102,583	43,701	34,186	24,696	
Asset retirement obligation	155,815	21,306	(4)	(4)	(4)
Derivative instruments	20,761	12,645	8,116		
Other liabilities (5)	48,741	10,243	20,029	10,029	8,440

(1) These amounts do not include interest on the $156 million of bank debt outstanding at September 30, 2009. The weighted average interest rate at September 30, 2009 was approximately 3.1%. See item 3: Interest Rate Risk for more information regarding fixed and variable rate debt.

(2) We have drilling commitments of approximately $69.1 million consisting of obligations to complete drilling wells in progress at September 30, 2009. We also have minimum expenditure commitments of $46.8 million to secure the use of drilling rigs.

(3) We have a large development project in Sublette County, Wyoming where we are developing the deep Madison gas formation and constructing a gas processing plant. At September 30, 2009, we had commitments of $163.1 million relating to construction of the gas processing plant of which $102.6 million is subject to a construction contract. The total cost of the project will approximate $354 million. Pursuant to the terms of our operating agreement with our partners in this project, we will be reimbursed by them for 42.5% of the costs. The gas processing plant is subject to a delivery commitment agreement over a 20 year period, commencing December, 2011. If no deliveries were made, the maximum amount that would be payable under the agreement would be approximately $43 million.

(4) We have excluded the long term asset retirement obligations because we are not able to precisely predict the timing of these amounts.

(5) Other liabilities include the fair value of our liabilities associated with our benefit obligations and other miscellaneous commitments.

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At September 30, 2009, we had firm sales contracts to deliver approximately 5.6 Bcf of natural gas over the next six months. If this gas is not delivered, our financial commitment would be approximately $19.6 million. This commitment will fluctuate due to price volatility and actual volumes delivered. However, we believe no significant financial commitment will be due based on our reserves and current production levels.

In connection with a gas gathering and processing agreement, we have commitments to deliver 58.5 Bcf of gas over the next five years. If no gas was delivered, the maximum amount that would be payable under these commitments would be approximately $43.5 million.

We have other various delivery commitments in the normal course of business, none of which are individually material. In aggregate, these commitments have a maximum amount that would be payable, if no gas is delivered, of approximately $5 million.

All of the noted commitments were routine and were made in the normal course of our business.

Based on current commodity prices and anticipated levels of production, we believe that the estimated net cash generated from operations, coupled with the cash on hand and amounts available under our existing bank credit facility will be adequate to meet future liquidity needs, including satisfying our financial obligations and funding our operations and exploration and development activities.

2009 Outlook

Our exploration and development expenditures program for 2009 is projected to range from $500 million to $550 million. Though there are a variety of factors that could curtail, delay or even cancel some of our planned operations, we believe our projected program is likely to occur. The majority of projects are in hand, drilling rigs are being scheduled, and the historical results of our drilling efforts warrant pursuit of the projects. A majority of the expenditures will be in the Mid-Continent area, primarily in our Western Oklahoma Anadarko-Woodford shale Cana play. In addition we plan to continue to drill in our Permian Basin and Gulf Coast areas.

Production estimates for 2009 range from 455 to 460 MMcfe per day. Revenues from production will be dependent not only on the level of oil and gas actually produced, but also the prices that will be realized. During 2008, our realized prices averaged $8.43 per Mcf of gas and $96.03 per barrel of oil. Prices can be very volatile and the possibility of 2009 realized prices being different than they were in 2008 is high.

Costs of operations on a per Mcfe basis for fourth quarter of 2009 are currently estimated as follows:

	2009
Production expense	$1.10 - $1.20
Transportation expense	0.19 - 0.24
DD&A and Asset retirement obligation	1.40 - 1.70

General and Administrative	0.24 - 0.30
Production taxes (% of oil and gas revenue)	7.5% - 8.5%

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

We consider accounting policies related to oil and gas reserves, full cost accounting, goodwill, derivatives, contingencies and asset retirement obligations to be critical policies and estimates. These critical policies and estimates are summarized in Management s Discussion and Analysis of Financial Condition and Results of Operations in our 2008 annual report on Form 10-K, as amended by the Current Report on Form 8-K filed July 17, 2009 with the SEC.

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Accounting Changes

Certain amounts in prior years financial statements have been reclassified to conform to the 2009 financial statement presentation. In addition, effective January 1, 2009, we adopted new rules promulgated by the Financial Accounting Standards Board (FASB) pertaining to the accounting treatment for certain convertible debt instruments (see Note 6) and to the calculation of earnings per share (see Note 9). Accordingly, prior periods have been adjusted retrospectively to conform to the applicable accounting pronouncements.

Recent Accounting Developments

In December 2008, the SEC adopted revisions to its required oil and gas reporting disclosures. The revisions are intended to provide investors with a more meaningful and comprehensive understanding of oil and gas reserves. In the three decades that have passed since adoption of these disclosure items, there have been significant changes in the oil and gas industry. The amendments are designed to modernize and update the oil and gas disclosure requirements to align them with current practices and changes in technology. In addition, the amendments concurrently align the SEC s full cost accounting rules with the revised disclosures. The revised disclosure requirements must be incorporated in registration statements filed on or after January 1, 2010, and annual reports on Form 10-K for fiscal years ending on or after December 31, 2009. A company may not apply the new rules to disclosures in quarterly reports prior to the first annual report in which the revised disclosures are required.

The following amendments have the greatest likelihood of affecting our reserve disclosures:

- *Pricing mechanism for oil and gas reserves estimation* The SEC s current rules require proved reserve estimates to be calculated using prices as of the end of the period and held constant over the life of the reserves. Price changes can be made only to the extent provided by contractual arrangements. The revised rules require reserve estimates to be calculated using a 12-month average price. The 12-month average price will also be used for purposes of calculating the full cost ceiling limitations. Price changes can still be incorporated to the extent defined by contractual arrangements. The use of a 12-month average price rather than a single-day price is expected to reduce the impact on reserve estimates and the full cost ceiling limitations due to short-term volatility and seasonality of prices.

- *Reasonable certainty* The SEC s current definition of proved oil and gas reserves incorporate certain specific concepts such as lowest known hydrocarbons, which limits the ability to claim proved reserves in the absence of information on fluid contacts in a well penetration, notwithstanding the existence of other engineering and geoscientific evidence. The revised rules amend the definition to permit the use of new reliable technologies to establish the reasonable certainty of proved reserves. This revision also includes provisions for establishing levels of lowest known hydrocarbons and highest known oil through reliable technology other than well penetrations.

The revised rules also amend the definition of proved oil and gas reserves to include reserves located beyond development spacing areas that are immediately adjacent to developed spacing areas if economic producibility can be established with reasonable certainty. These revisions are designed to permit the use of alternative technologies to establish proved reserves in lieu of requiring companies to use specific tests. In addition, they establish a uniform standard of reasonable certainty that applies to all proved reserves, regardless of location or distance from producing wells. Because the revised rules generally expand the definition of proved reserves, proved reserve estimates could increase upon adoption of the revised rules. However, we are not able to estimate the magnitude of the potential change at this time.

• *Unproved reserves* The SEC s current rules prohibit disclosure of reserve estimates other than proved in documents filed with the SEC. The revised rules permit disclosure of probable and

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possible reserves and provide definitions of probable reserves and possible reserves. Disclosure of probable and possible reserves is optional. However, such disclosures must meet specific requirements. Disclosures of probable or possible reserves must provide the same level of geographic detail as proved reserves. Probable and possible reserve disclosures must also provide the relative uncertainty associated with these classifications of reserves estimations. We have not yet determined whether we will disclose our probable and possible reserves in documents filed with the SEC.

In June 2009, the FASB approved the FASB Accounting Standards Codification (ASC), which after its launch on July 1, 2009 became the single source of authoritative, nongovernmental U.S. Generally Accepted Accounting Principles (GAAP). The Codification reorganizes all previous U.S. GAAP pronouncements into roughly 90 accounting topics and displays all topics using a consistent structure. All existing standards that were used to create the Codification are now superseded, replacing the previous references to specific Statements of Financial Accounting Standards with numbers used in the Codification s structural organization.

In September 2009, the FASB issued an exposure draft of proposed Accounting Standards Update (ASU) entitled Oil and Gas Reserve Estimation and Disclosures. This proposed ASU would amend the FASB accounting standards to align the reserve calculation and disclosure requirements with the requirements in the new SEC Rule, *Modernization of Oil and Gas Reporting Requirements*. As proposed, the ASU would be effective for reporting periods ending on or after December 31, 2009. Public comment is sought on the proposed ASU by October 15, 2009.

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ITEM 3. QUALITATIVE AND QUANTITATIVE DISCLOSURES ABOUT MARKET RISK

The term market risk refers to the risk of loss arising from adverse changes in oil and gas prices, interest rates and value of our short-term investments. The disclosures are not meant to be precise indicators of expected future losses, but rather indicators of reasonably possible losses.

Price Fluctuations

Our major market risk is pricing applicable to our oil and gas production. The prices we receive for our production are based on prevailing market conditions and are influenced by many factors that are beyond our control. Pricing for oil and gas production has been volatile and unpredictable.

We periodically hedge a portion of our price risk associated with our future oil and gas production.

The following table details the contracts we have in place as of September 30, 2009:

Natural Gas Contracts

Period	Type	Volume/Day		Index(1)	Weighted Average Price Floor		Ceiling		Swap		Fair Value (000 s)	
Oct 09 Dec 09	Collar	143,370	MMBtu	PEPL	$	3.00	$	5.00			$	(4,762)
Jan 10 - Dec 10	Collar	100,000	MMBtu	PEPL	$	5.00	$	6.62			$	(4,556)
Jan 10 - Dec 10	Swap	40,000	MMBtu	PEPL					$	5.18	$	(8,787)
Jan 10 - Dec 10	Collar	20,000	MMBtu	HSC	$	5.00	$	6.85			$	(2,347)

Oil Contracts

Period	Type	Volume/Day		Index(1)	Weighted Average Price Floor		Ceiling		Fair Value (000 s)	
Jan 10 - Dec 10	Collar	10,000	Bbls	WTI	$	60.03	$	92.07	$	1,612
Jan 10 - Dec 10	Put/Floor	1,000	Bbls	WTI	$	60.00			$	1,621

(1) PEPL refers to Panhandle Eastern Pipe Line Company price and HSC refers to Houston Ship Channel price, both as quoted in Platt s Inside FERC on the first business day of each month. WTI refers to West Texas Intermediate price as quoted on the New York Mercantile Exchange.

While these contracts limit the downside risk of adverse price movements, they may also limit future revenues from favorable price movements. For the 2009 contracts listed above, a hypothetical $0.10 change in the price below or above the contracted price applied to the notional amounts would cause a change in our gain (loss) on mark-to-market derivatives in 2009 of $9.6 million.

In spite of the recent turmoil in the financial markets, counterparty credit risk did not have a significant effect on our cash flow calculations and commodity derivative valuations. This is primarily the result of two factors. First, we have mitigated our exposure to any single counterparty by contracting with numerous counterparties. Our commodity derivative contracts are held with eight separate counterparties. Second, our derivative contracts are held with investment grade counterparties that are a part of our credit facilitySee Note 2 to the Consolidated Financial Statements of this report for additional information regarding our derivative instruments.

Interest Rate Risk

At September 30, 2009, our debt was comprised of the following (in thousands):

	Fixed Rate Debt	Variable Rate Debt
Bank debt	$	$ 156,000
7.125% Notes due 2017	350,000	
Floating rate convertible notes due 2023		17,753
Total long-term debt	$ 350,000	$ 173,753

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As of September 30, 2009, the amounts outstanding under our senior secured revolving credit facility bears interest at either (a) a LIBOR plus 2 to 3 percent, based on borrowing base usage, or (b) the higher of (i) a prime rate, (ii) the federal funds effective rate plus 0.50 percent, or (iii) adjusted LIBOR, in each case, plus an additional 1.125 to 2.125 percent, based on borrowing base usage. Our senior unsecured notes bear interest at a fixed rate of 7.125% and will mature on May 1, 2017, and our unsecured convertible senior notes bear interest at an annual rate of three-month LIBOR, reset quarterly.

We consider our interest rate exposure to be minimal because approximately 67% of our long-term debt obligations were at fixed rates. An increase of 100 basis points in the three-month LIBOR rate would increase our annual interest expense by $1.8 million. This sensitivity analysis for interest rate risk excludes accounts receivable, accounts payable and accrued liabilities because of the short-term maturity of such instruments. See Note 3 and Note 6 to the Consolidated Financial Statements in this report for additional information regarding debt.

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ITEM 4. CONTROLS AND PROCEDURES

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

Our management, with the participation of our Chief Executive Officer (CEO) and Chief Financial Officer (CFO), have evaluated the effectiveness of our disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e)) as of September 30, 2009 and concluded that the disclosure controls and procedures are effective in providing reasonable assurance that the information required to be disclosed in reports filed with the SEC is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms. The disclosure controls and procedures are also designed to provide reasonable assurance that such information is accumulated and communicated to our management, including the CEO and CFO, as appropriate to allow such persons to make timely decisions regarding required disclosures.

Our management does not expect that our disclosure controls and procedures will prevent all errors and all fraud. The design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Based on 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, 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. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is also based upon certain assumptions about the likelihood of future events. Therefore, 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. Our disclosure controls and procedures are designed to provide such reasonable assurances of achieving our desired control objectives, and our CEO and CFO have concluded, as of September 30, 2009, that our disclosure controls and procedures are effective in achieving that level of reasonable assurance.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

There have been no changes in our internal controls over financial reporting or in other factors that occurred during the fiscal quarter ended September 30, 2009, that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

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PART II

ITEM 6 EXHIBITS

31.1	Certification of F. H. Merelli, Chief Executive Officer of Cimarex Energy Co. pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Paul Korus, Chief Financial Officer of Cimarex Energy Co. pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of F. H. Merelli, Chief Executive Officer of Cimarex Energy Co. pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350.
32.2	Certification of Paul Korus, Chief Financial Officer of Cimarex Energy Co. pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350.
101	The following materials from the Cimarex Energy Co. Quarterly Report on Form 10-Q for the quarter ended September 30, 2009, formatted in XBRL (eXtensible Business Reporting Language) includes (i) the Consolidated Statements of Operations, (ii) the Consolidated Balance Sheets, (iii) the Consolidated Statements of Cash Flows, and (iv) Notes to the Consolidated Financial Statements, tagged as blocks of text.*

*Users of this data are advised pursuant to Rule 401 of Regulation S-T that the financial information contained in the XBRL-Related Documents is unaudited. Furthermore, users of this data are advised in accordance with Rule 406T of Regulation S-T promulgated by the Securities and Exchange Commission that this Interactive Data File is deemed not filed or part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, as amended, is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, as amended, and otherwise is not subject to liability under these sections.

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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

November 3, 2009

CIMAREX ENERGY CO.

/s/Paul Korus
Paul Korus
Vice President, Chief Financial Officer and Treasurer
(Principal Financial Officer)

/s/James H. Shonsey
James H. Shonsey
Vice President, Chief Accounting Officer and Controller
(Principal Accounting Officer)