Matador Resources Co
Form 10-K
March 17, 2014
Table of Contents

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

FORM 10-K

(Mark One)
ý ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2013
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 001-34574
Matador Resources Company
(Exact name of registrant as specified in its charter)

Texas (State or other jurisdiction of incorporation or organization)	27-4662601 (I.R.S. Employer Identification No.)
5400 LBJ Freeway, Suite 1500 Dallas, Texas 75240 (Address of principal executive offices)	75240 (Zip Code)

Registrant’s telephone number, including area code: (972) 371-5200

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes ¨ No ý
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
Yes ¨ No ý
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).   Yes ý   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 definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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

The aggregate market value of the voting and non-voting common equity of the registrant held by non-affiliates, computed by reference to the price at which the common equity was last sold, as of the last business day of the registrant's most recently completed second fiscal quarter was $593,728,477.

As of March 13, 2014, there were 65,744,878 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

The information required by Part III of this Annual Report on Form 10-K, to the extent not set forth herein, is incorporated by reference to the registrant's definitive proxy statement relating to the 2014 Annual Meeting of Shareholders which will be filed with the Securities and Exchange Commission within 120 days after the end of the fiscal year to which this Annual Report on Form 10-K relates.

Table of Contents

MATADOR RESOURCES COMPANY
FORM 10-K
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2013
TABLE OF CONTENTS

Table of Contents

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements in this Annual Report on Form 10-K constitute "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. Additionally, forward-looking statements may be made orally or in press releases, conferences, reports, on our website or otherwise, in the future, by us or on our behalf. Such statements are generally identifiable by the terminology used such as "anticipate," "believe," "continue," "could," "estimate," "expect," "intend," "may," "might," "potential," "predict," "project," "should" or other similar words.

By their very nature, forward-looking statements require us to make assumptions that may not materialize or that may not be accurate. Forward-looking statements are subject to known and unknown risks and uncertainties and other factors that may cause actual results, levels of activity and achievements to differ materially from those expressed or implied by such statements. Such factors include, among others: changes in oil or natural gas prices, the success of our drilling program, the timing of planned capital expenditures, sufficient cash flow from operations together with available borrowing capacity under our credit agreement, uncertainties in estimating proved reserves and forecasting production results, operational factors affecting the commencement or maintenance of producing wells, the condition of the capital markets generally, as well as our ability to access them, the proximity to and capacity of transportation facilities, availability of acquisitions, uncertainties regarding environmental regulations or litigation and other legal or regulatory developments affecting our business, and the other factors discussed below and elsewhere in this Annual Report on Form 10-K and in other documents that we file with or furnish to the U.S. Securities and Exchange Commission (the "SEC"), all of which are difficult to predict. Forward-looking statements may include statements about:

- our business strategy;
- our reserves;
- our technology;
- our cash flows and liquidity;
- our financial strategy, budget, projections and operating results;
- our oil and natural gas realized prices;
- the timing and amount of future production of oil and natural gas;
- the availability of drilling and production equipment;
- the availability of oil field labor;
- the amount, nature and timing of capital expenditures, including future exploration and development costs;
- the availability and terms of capital;
- our drilling of wells;
- government regulation and taxation of the oil and natural gas industry;
- our marketing of oil and natural gas;
- our exploitation projects or property acquisitions;
- our costs of exploiting and developing our properties and conducting other operations;
- general economic conditions;
- competition in the oil and natural gas industry;
- the effectiveness of our risk management and hedging activities;
- environmental liabilities;
- counterparty credit risk;
- developments in oil-producing and natural gas-producing countries;
- our future operating results;
- estimated future reserves and the present value thereof; and
- our plans, objectives, expectations and intentions contained in this Annual Report on Form 10-K that are not historical.

Although we believe that the expectations conveyed by the forward-looking statements are reasonable based on information available to us on the date such forward-looking statements were made, no assurances can be given as to

future results, levels of activity, achievements or financial condition.
You should not place undue reliance on any forward-looking statement and should recognize that the statements are predictions of future results, which may not occur as anticipated. Actual results could differ materially from those anticipated in the forward-looking statements and from historical results, due to the risks and uncertainties described above, as well as others not now anticipated. The impact of any one factor on a particular forward-looking statement is not determinable with certainty as such factors are interdependent upon other factors. The foregoing statements are not exclusive and further information concerning us, including factors that potentially could materially affect our financial results, may emerge from time to time. We do not intend to update forward-looking statements to reflect actual results or changes in factors or assumptions affecting such

Table of Contents

forward-looking statements, except as required by law, including the securities laws of the United States and the rules and regulations of the SEC.

Table of Contents

PART I

Item 1. Business.

In this Annual Report on Form 10-K, references to “we,” “our” or “the Company” refer to Matador Resources Company and its subsidiaries before the completion of our corporate reorganization on August 9, 2011 and Matador Holdco, Inc. and its subsidiaries after the completion of our corporate reorganization on August 9, 2011. Prior to August 9, 2011, Matador Holdco, Inc. was a wholly-owned subsidiary of Matador Resources Company, now known as MRC Energy Company. Pursuant to the terms of our corporate reorganization, former Matador Resources Company became a wholly-owned subsidiary of Matador Holdco, Inc. and changed its corporate name to MRC Energy Company, and Matador Holdco, Inc. changed its corporate name to Matador Resources Company.

Unless the context otherwise requires, the term “common stock” refers to shares of our common stock after the conversion of our Class B common stock into Class A common stock upon the consummation of our initial public offering on February 7, 2012, as the Class A common stock then became the only class of common stock authorized, and the term “Class A common stock” refers to shares of our Class A common stock prior to the automatic conversion of our Class B common stock into Class A common stock upon the consummation of our initial public offering.

For certain oil and natural gas terms used in this Annual Report on Form 10-K, see the “Glossary of Oil and Natural Gas Terms” included in this Annual Report on Form 10-K.

General

We are an independent energy company engaged in the exploration, development, production and acquisition of oil and natural gas resources in the United States, with an emphasis on oil and natural gas shale and other unconventional plays. Our current operations are focused primarily on the oil and liquids-rich portion of the Eagle Ford shale play in South Texas and the Wolfcamp and Bone Spring plays in the Permian Basin in Southeast New Mexico and West Texas. We also operate in the Haynesville shale and Cotton Valley plays in Northwest Louisiana and East Texas. In addition, we have a large exploratory leasehold position in Southwest Wyoming and adjacent areas of Utah and Idaho where we are testing the Meade Peak shale.

We are a Texas corporation founded in July 2003 by Joseph Wm. Foran, Chairman and CEO. Mr. Foran began his career as an oil and natural gas independent in 1983 when he founded Foran Oil Company with $270,000 in contributed capital from 17 friends and family members. Foran Oil Company was later contributed to Matador Petroleum Corporation upon its formation by Mr. Foran in 1988. Mr. Foran served as Chairman and Chief Executive Officer of that company from its inception until it was sold in June 2003 to Tom Brown, Inc., in an all cash transaction for an enterprise value of approximately $388.5 million.

On February 2, 2012, our common stock began trading on the New York Stock Exchange (the “NYSE”) under the symbol “MTDR.” Prior to trading on the NYSE, there was no established public trading market for our common stock.

Our goal is to increase shareholder value by building oil and natural gas reserves, production and cash flows at an attractive rate of return on invested capital. We plan to achieve our goal by, among other items, executing the following business strategies:

- focus exploration and development activity on our Eagle Ford acreage in South Texas;
- explore and develop our Wolfcamp and Bone Spring acreage in the Permian Basin;
- identify, evaluate and develop oil and natural gas plays to maintain a balanced portfolio;
- continue to improve operational and cost efficiencies;
- maintain our financial discipline; and
- pursue opportunistic acquisitions.

The successful execution of our business strategies in 2013 led to significant increases in our oil and natural gas revenues and Adjusted EBITDA, oil production and proved oil and natural gas reserves, and the associated increase in the PV-10 of our proved reserves. We also significantly increased our leasehold position in the Permian Basin and added to our acreage positions in the Eagle Ford shale and the Haynesville shale. Adjusted EBITDA and PV-10 are non-GAAP financial measures. For a definition of such terms and a reconciliation to the most directly comparable GAAP financial measures, see “Selected Financial Data — Non-GAAP Financial Measures” and “—Estimated Proved Reserves.”

2013 Highlights

Increased Oil and Natural Gas Revenues and Adjusted EBITDA

Our oil and natural gas revenues for the year ended December 31, 2013 were the highest achieved in any fiscal year in the Company’s history. Our oil and natural gas revenues increased $113.0 million to $269.0 million in 2013, which represents an increase of 72% from 2012. This revenue increase was primarily driven by a significant increase in our oil production in 2013 and a higher weighted average natural gas price realized in 2013. Our Adjusted EBITDA of $191.8 million for 2013 was an increase of 65%, as compared to our Adjusted EBITDA of $115.9 million for 2012. Adjusted EBITDA is a non-GAAP financial measure. For a definition of Adjusted EBITDA and a reconciliation of Adjusted EBITDA to our net income (loss) and net cash provided by operating activities, see “Selected Financial Data — Non-GAAP Financial Measures.”

Increased Oil and Oil Equivalent Production

Our total oil production and our average daily oil equivalent production for the year ended December 31, 2013 were the best in our history. In 2013, we produced 2.1 million barrels of oil, an increase of 76%, as compared to 1.2 million barrels of oil produced in 2012. Our average daily oil equivalent production was 11,740 BOE per day, including 5,843 Bbl of oil per day and 35.4 MMcf of natural gas per day, an increase of 30%, as compared to 9,000 BOE per day, including 3,317 Bbl of oil per day and 34.1 MMcf of natural gas per day, for the year ended December 31, 2012. This increase in oil production was a direct result of our drilling operations in the Eagle Ford shale. We achieved this increased oil production despite having as much as 15% to 20% of our production capacity shut in at various times during 2013, as we continued our operational practices of pad and batch drilling in the Eagle Ford shale and shutting in producing wells while conducting drilling and completion operations on offsetting wells. Oil production comprised 50% of our total production (using a conversion ratio of one Bbl of oil per six Mcf of natural gas) for the year ended December 31, 2013, as compared to 37% for the year ended December 31, 2012 and 6% for the year ended December 31, 2011.

Increased Oil and Natural Gas Reserves

At December 31, 2013, our estimated total proved oil and natural gas reserves were 51.7 million BOE, including 16.4 million Bbl of oil and 212.2 Bcf of natural gas, which is an increase of 117% from December 31, 2012. The associated PV-10 of our estimated total proved oil and natural gas reserves increased 55% to $655.2 million at December 31, 2013 from $423.2 million at December 31, 2012. PV-10 is a non-GAAP financial measure. For a reconciliation of PV-10 to Standardized Measure, see “—Estimated Proved Reserves.”

Our proved oil reserves grew 56% to 16.4 million Bbl at December 31, 2013, as compared to 10.5 million Bbl at December 31, 2012. This growth in oil reserves was primarily attributable to our drilling program in the Eagle Ford shale during 2013. Our proved natural gas reserves increased 165% to 212.2 Bcf at December 31, 2013 from 80.0 Bcf at December 31, 2012. This large increase in proved natural gas reserves was attributable to our drilling and completion activities and improvements in natural gas prices in 2013. As a result of the continued improvement in natural gas prices during 2013, we re-classified Haynesville shale natural gas volumes previously removed from our proved reserves in 2012 as proved undeveloped reserves in 2013 and also included additional Haynesville shale proved undeveloped natural gas reserves in our total proved reserves at December 31, 2013.

At December 31, 2013, proved developed reserves included 8.3 million Bbl of oil and 53.5 Bcf of natural gas, and proved undeveloped reserves included 8.1 million Bbl of oil and 158.7 Bcf of natural gas. Proved developed reserves comprised 33% and proved oil reserves comprised 32% of our total proved oil and natural gas reserves, respectively, at December 31, 2013. Based on our 2013 year-end total proved reserves and our 2013 oil equivalent production of 4.3 million BOE, we improved our reserves/production (“R/P”) ratio to 12.1 years at December 31, 2013, as compared to 7.2 years at December 31, 2012.

Operational Efficiencies

We focus on optimizing the development of our resource base by seeking ways to maximize our recovery per well relative to the cost incurred and to minimize our operating costs per BOE produced. We apply an analytical approach to track and monitor the effectiveness of our drilling and completion techniques and service providers. This allows us to manage more effectively operating costs, the pace of development activities, technical applications, the gathering and marketing of our production and capital allocation. Additionally, we concentrate on our core areas, which allows us to achieve economies of scale and reduce operating costs. Largely as a result of these factors, we believe that we have increased our technical knowledge of drilling, completing and producing Eagle Ford shale wells, particularly over the past two years.

During this time, we have progressed from drilling wells on single-well pads to multi-well pad drilling, and most recently, to multi-well batch drilling. In August 2013, we began drilling certain wells on our western Eagle Ford acreage from batch drilled pads using a drilling rig equipped with a “walking” package and, as a result, we have improved both drilling times and costs. We have realized cost savings of approximately $325,000 per well on initial wells drilled using this rig, and we expect the use of batch drilling and the “walking” rig will lead to total cost savings of approximately $400,000 per well or more going

Table of Contents

forward. Recent wells drilled on our western Eagle Ford acreage in La Salle County, Texas have drilling times from spud to total depth of eight to 10 days per well and costs at or just below $6 million per well. In April 2014, we expect to replace the drilling rig currently operating in the central portion of our acreage in Karnes and Wilson Counties, Texas with a new “walking” rig. At that time, we will have two “walking” rigs operating in the Eagle Ford and will conduct batch drilling operations on our properties using these rigs for the balance of 2014. Recent wells in our central Eagle Ford acreage have been drilled for between $7.0 and $7.5 million, but we expect to see further cost improvements with the initiation of batch drilling operations in this area as well. We anticipate that we will drill almost 250,000 lateral feet with two rigs in the Eagle Ford in 2014, as compared to 150,000 feet using two rigs in 2012 and effectively 1.5 rigs in 2013, an increased drilling efficiency of almost 70%.

During 2013, we continued to refine the design of our hydraulic fracture treatments to enhance well productivity and ultimate hydrocarbon recovery, increasing fluid volumes to 40 Bbl per foot and proppant volumes to more than 2,000 pounds per foot, while decreasing the spacing between perforation clusters where the fractures are initiated. These Generation 5, and now Generation 6, fracture treatments are resulting in significant improvements in initial well productivity as compared to earlier generation treatment designs. We also believe that initiating the use of gas lift relatively early in the life of our newly drilled Eagle Ford wells has accelerated oil production, reduced lease operating expenses, lowered maintenance costs and helped our wells recover faster after being shut in for offset well operations.

Acreage Acquisitions

During 2013, we acquired approximately 55,400 gross (38,900 net) acres in the Permian Basin in Southeast New Mexico and West Texas. These acreage acquisitions brought our total Permian Basin acreage position to approximately 70,800 gross (44,800 net) acres as of December 31, 2013. Between January 1 and December 31, 2013, we also acquired approximately 1,720 gross (1,660 net) acres in the Eagle Ford shale play in South Texas and approximately 1,190 gross (1,190 net) acres in the Haynesville shale play in Northwest Louisiana.

Issuance of Common Stock

In April 2013, we filed with the SEC a universal shelf registration statement on Form S-3 (the “Shelf Registration Statement”), which provided us with the ability to offer and sell up to $300 million of debt and equity securities, subject to market conditions and our capital needs. The SEC declared the Shelf Registration Statement effective on May 9, 2013. As of December 31, 2013, we had approximately $151 million of securities available for issuance under the Shelf Registration Statement.

On September 10, 2013, we completed an underwritten public offering of 9,775,000 shares of our common stock and received net proceeds of approximately $141.7 million. The net proceeds from this offering were used to fund a portion of our capital expenditures, including the addition of a third rig to our drilling program and the acquisition of additional acreage in the Eagle Ford shale, the Permian Basin and the Haynesville shale. Pending such uses, we used a portion of the net proceeds to repay $130.0 million in outstanding borrowings under our third amended and restated credit agreement (the “Credit Agreement”) in September 2013, which amounts may be reborrowed in accordance with the terms of that facility for, among other items, the uses contemplated above.

Recent Developments

On March 12, 2014, the borrowing base under our Credit Agreement was increased to $385.0 million, and the conforming borrowing base was increased to $310.0 million based on the lenders’ review of our proved oil and natural gas reserves at December 31, 2013. At that time, we also amended our Credit Agreement to include Wells Fargo Bank, N.A., which replaced Capital One, N.A., in our lending group, which also includes Royal Bank of Canada, as administrative agent, Comerica Bank, Citibank, N.A., The Bank of Nova Scotia, SunTrust Bank, BMO Harris Financing, Inc. (Bank of Montreal) and IberiaBank. At March 13, 2014, we had $250.0 million in borrowings and $0.3 million in letters of credit outstanding under our Credit Agreement.

Between January 1 and March 13, 2014, we acquired an additional 7,000 gross (5,300 net) acres in Southeast New Mexico and West Texas, bringing our total Permian Basin acreage position to 77,800 gross (50,100 net) acres as of March 13, 2014.

Principal Areas of Interest

Our focus since inception has been the exploration for oil and natural gas in unconventional plays with an emphasis in recent years on the Eagle Ford shale play in South Texas, the Haynesville shale play in Northwest Louisiana and most recently, the Wolfcamp and Bone Spring plays in the Permian Basin in Southeast New Mexico and West Texas. During 2013, we devoted most of our efforts and most of our capital investment to our drilling operations in the Eagle Ford shale in South Texas as we sought to continue to increase our oil production and reserves. Since our inception, our exploration efforts have

Table of Contents

concentrated primarily on known hydrocarbon-producing basins with well-established production histories offering the potential for multiple-zone completions. We have also sought to balance the risk profile of our prospects by exploring for more conventional targets as well, although at December 31, 2013, essentially all of our efforts are focused on unconventional plays.

At December 31, 2013, our principal areas of interest consisted of the Eagle Ford shale play in South Texas, the Wolfcamp and Bone Spring plays in the Permian Basin in Southeast New Mexico and West Texas, the Haynesville shale play, as well as the traditional Cotton Valley and Hosston (Travis Peak) formations, in Northwest Louisiana and East Texas, and the Meade Peak shale play in Southwest Wyoming and the adjacent areas of Utah and Idaho.

The following table presents certain summary data for each of our operating areas as of and for the year ended December 31, 2013:

		Producing Wells		Total Identified Drilling Locations (1)		Estimated Net Proved Reserves (2)		Avg. Daily Production (BOE/d) (3)
	Net Acreage	Gross	Net	Gross	Net	MBOE (3)	% Developed	
South Texas:								