Matador Resources Co
Form 10-K
February 29, 2016
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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, 2015
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 ý No ¨
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. ý

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 ý		Accelerated filer	¨
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 $1,861,025,900.

As of February 25, 2016, there were 85,801,633 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 2016 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.

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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,” “forecasted,” “hypothetical,” “intend,” “may,” “might,” “plan,” “potential,” “predict,” “project,” “should” or other si
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: general economic conditions, changes in oil, natural gas and natural gas liquids prices and the demand for oil, natural gas and natural gas liquids, 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, our ability to integrate acquisitions, including the integration of Harvey E. Yates Company, with our business, weather and environmental conditions, 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 United States Securities and Exchange Commission, or 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;
- our ability to negotiate and consummate acquisition and divestiture opportunities;
- government regulation and taxation of the oil and natural gas industry;
- our marketing of oil and natural gas;
- our exploitation projects or property acquisitions;
- the integration of acquisitions, including the integration of Harvey E. Yates Company, with our business;
- our ability to construct and operate midstream facilities;
- 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

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

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 as a whole (unless the context indicates otherwise) and references to "Matador" refer solely to Matador Resources Company. 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 Wolfcamp and Bone Spring plays in the Delaware Basin in Southeast New Mexico and West Texas. We also operate in the Eagle Ford shale play in South Texas and the Haynesville shale and Cotton Valley plays in Northwest Louisiana and East Texas.

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 our exploration and development activities primarily on unconventional plays, including the Wolfcamp and Bone Spring plays in the Delaware Basin, the Eagle Ford shale in South Texas and the Haynesville shale and Cotton Valley plays in Northwest Louisiana and East Texas;
- identify, evaluate and develop additional oil and natural gas plays as necessary to maintain a balanced portfolio of oil and natural gas properties;
- continue to improve operational and cost efficiencies;
- identify and develop midstream opportunities that support and enhance our exploration and development activities;
- maintain our financial discipline; and
- pursue opportunistic acquisitions and divestitures.

Despite a challenging commodity price environment in 2015, the successful execution of our business strategies led to significant increases in our oil and natural gas production and proved oil and natural gas reserves in 2015. We also significantly increased our leasehold position in the Delaware Basin. In addition, we concluded several important transactions in 2015, including our merger with Harvey E. Yates Company ("HEYCO"), a subsidiary of HEYCO Energy Group, Inc., which added substantially to our Delaware Basin acreage position, our first issuance of senior unsecured notes, an equity offering and the sale of a portion of our midstream assets in Loving County, Texas to an affiliate of EnLink Midstream Partners, LP ("EnLink"). These transactions increased our operational flexibility and further strengthened our balance sheet.

2015 Highlights

Increased Oil, Natural Gas and Oil Equivalent Production

For the year ended December 31, 2015, we achieved record oil, natural gas and average daily oil equivalent production. In 2015, we produced 4.5 million Bbl of oil, an increase of 35%, as compared to 3.3 million Bbl of oil produced in 2014. We also produced 27.7 Bcf of natural gas, an increase of 81% from 15.3 billion Bcf of natural gas produced in 2014. Our average daily oil equivalent production for the year ended December 31, 2015 was 24,955 BOE per day, including 12,306 Bbl of oil per

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day and 75.9 MMcf of natural gas per day, an increase of 55%, as compared to 16,082 BOE per day, including 9,095 Bbl of oil per day and 41.9 MMcf of natural gas per day, for the year ended December 31, 2014. The increase in oil production was primarily attributable to our ongoing delineation and development operations in the Delaware Basin throughout 2015, as well as our development activities in the Eagle Ford shale during early 2015. The increase in natural gas production was primarily attributable to new, non-operated Haynesville shale wells completed and placed on production in our Elm Grove properties in Northwest Louisiana in the latter half of 2014 and throughout 2015, but also includes increased natural gas production associated with our operations in both the Delaware Basin and the Eagle Ford shale. Oil production comprised 49% 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, 2015, as compared to 57% for the year ended December 31, 2014.

Increased Oil and Oil Equivalent Reserves

At December 31, 2015, our estimated total proved oil and natural gas reserves were 85.1 million BOE, including 45.6 million Bbl of oil and 236.9 Bcf of natural gas, which is an increase of 24% from December 31, 2014. The associated PV-10 of our estimated total proved oil and natural gas reserves decreased 48% to $541.6 million at December 31, 2015 from $1.04 billion at December 31, 2014, as a result of declining oil and natural gas prices throughout 2015. 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 89% to 45.6 million Bbl at December 31, 2015 from 24.2 million Bbl at December 31, 2014. This growth in oil reserves was primarily attributable to our drilling program in the Delaware Basin during 2015. Our proved natural gas reserves decreased 11% to 236.9 Bcf at December 31, 2015 from 267.1 Bcf at December 31, 2014. This decrease in proved natural gas reserves was largely attributable to a decrease in our proved undeveloped natural gas reserves, principally from the reclassification of proved undeveloped natural gas reserves to contingent resources, primarily in the Haynesville shale, as a result of the decline in natural gas prices during 2015 as noted below in “— Estimated Proved Reserves.” As long as the leasehold acreage associated with these previously classified proved undeveloped natural gas reserves is held by production from existing Haynesville wells, however, these natural gas volumes remain available to be developed by Matador or the operator at a future time should natural gas prices improve, drilling and completion costs decline or new technologies be developed that increase expected recoveries.

At December 31, 2015, proved developed reserves included 17.1 million Bbl of oil and 101.4 Bcf of natural gas, and proved undeveloped reserves included 28.5 million Bbl of oil and 135.5 Bcf of natural gas. Proved developed reserves comprised 40% and proved oil reserves comprised 54% of our total proved oil and natural gas reserves, respectively, at December 31, 2015. Proved developed reserves comprised 45% of our total reserves and proved oil reserves comprised 35% of our total proved oil and natural gas reserves, respectively, at December 31, 2014.

Operational Highlights

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 more effectively manage 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 Delaware Basin wells, particularly over the past two years, as we continued to apply there what we learned from our Eagle Ford shale, as well as from our Haynesville shale, experience. The Delaware Basin will continue to be our primary area of focus in 2016.

We completed and began producing oil and natural gas from 41 gross (25.0 net) wells in the Delaware Basin in 2015, including 27 gross (23.7 net) operated and 14 gross (1.3 net) non-operated wells. We also substantially increased our acreage position in the Delaware Basin during 2015. As a result, at December 31, 2015 our total acreage position in the Delaware Basin had increased to approximately 157,100 gross (88,800 net) acres, primarily in Loving County, Texas and Lea and Eddy Counties, New Mexico. Overall, we have been very pleased with the initial performance of the wells we have drilled and completed, or participated in as a non-operator, thus far in our six main prospect areas in the Delaware Basin—the Wolf and Jackson Trust prospect areas in Loving County, Texas, the Rustler Breaks and Arrowhead prospect areas in Eddy County, New Mexico and the Ranger and Twin Lakes prospect areas in Lea County, New Mexico. As a result, our Delaware Basin properties have become an increasingly important component of our asset portfolio. Our average daily oil equivalent production from the Delaware Basin grew 3.6-fold from 1,790 BOE per day, including 1,314 Bbl of oil per day and 2.9 MMcf of natural gas per day, in 2014 to an average daily oil equivalent production of 6,518 BOE per day, including 4,648 Bbl of oil per day and 11.2 MMcf of natural gas per day, in 2015. We expect our Delaware Basin production to increase throughout 2016 as we continue the delineation and development of these properties.

During 2015, we made significant progress in reducing drilling costs and times for both Wolfcamp and Bone Spring horizontal wells in the Delaware Basin. Our focus on improving drilling times and operational efficiencies has cut drilling times by as much as 50% or more on recent Wolfcamp wells in the Wolf and Rustler Breaks prospect areas as compared to earlier wells drilled in those prospect areas. In the Wolf prospect area in Loving County, Texas, for example, Wolfcamp drilling times (spud to total depth) have been reduced from an average of 43 days in 2014 to as low as 18 days on a well drilled in late 2015. In the Rustler Breaks prospect area in Eddy County, New Mexico, where the Wolfcamp formation is shallower, Wolfcamp drilling times have been reduced from an average of 32 days in 2014 and early 2015 to as low as 15 days on recent wells drilled in late 2015. In addition, our most recent Second Bone Spring horizontal well in our Rustler Breaks prospect area was drilled from spud to total depth in 12 days, making it the fastest Second Bone Spring horizontal well we have drilled to date. These increased drilling efficiencies are the result of a number of factors such as Company-supported modifications to our contracted drilling rigs, including 7,500-psi circulating systems, integrated equipment upgrades and other efficiency-related modifications, as well as more experienced personnel on each rig, improved bit designs and starting to drill wells in "batch" mode in some areas, particularly in the Wolf prospect area where we are in development mode.

These increased drilling and completion efficiencies, coupled with service cost reductions of varying amounts, reduced overall well costs in 2015. Recent Wolfcamp wells in the Wolf prospect area have been drilled and completed for approximately $6.5 million, including production facilities and other related infrastructure. In the Rustler Breaks prospect area, we expect to drill and complete Wolfcamp wells for an average of $6.0 to $6.5 million in the first quarter of 2016, including production facilities and other related infrastructure. Our most recent Second Bone Spring well in this area was drilled and completed for approximately $4.0 million on an existing multi-well pad, which is the least expensive Second Bone Spring well we have drilled thus far on our Delaware Basin acreage. These well costs are substantially reduced from those of initial wells drilled in these areas. We plan to continue to focus on improving operational efficiencies as we move closer to full development of our Delaware Basin assets.

We completed and began producing oil and natural gas from 18 gross (17.3 net) wells in the Eagle Ford shale in 2015, all in the early portion of the year, including 17 gross (17.0 net) operated wells and one gross (0.3 net) non-operated well. During the second quarter of 2015, we concluded our drilling and completion operations in the Eagle Ford for 2015 and did not drill or complete any additional operated wells in the Eagle Ford shale for the remainder of 2015.

We did not drill any operated Haynesville shale wells during 2015, but we did participate in 22 gross (1.9 net) non-operated wells drilled in the Haynesville shale in Northwest Louisiana. The most impactful of these were the Haynesville wells drilled and completed by a subsidiary of Chesapeake Energy Corporation ("Chesapeake") on our Elm Grove properties in southern Caddo Parish. In 2015, Chesapeake completed and placed on production nine gross (1.6 net) wells at Elm Grove. As a result of these 2015 completions and additional non-operated Haynesville wells completed and placed on production in the latter half of 2014, our Haynesville natural gas production grew 135% from 19.7 MMcf of natural gas per day in 2014 to 46.4 MMcf of natural gas per day in 2015.

Financing Arrangements

On April 14, 2015, we issued $400.0 million of 6.875% senior unsecured notes due 2023 in a private placement and, on October 21, 2015, we exchanged all of the privately placed senior notes for a like principal amount of 6.875% senior notes due 2023 that have been registered under the Securities Act. On April 21, 2015, we completed a public offering of 7,000,000 shares of our common stock. After deducting offering costs totaling approximately $1.2 million, we received net proceeds of approximately $187.6 million. Finally, during the fourth quarter of 2015, the lenders party to our third amended and restated credit agreement (the "Credit Agreement"), under which we had no borrowings outstanding at December 31, 2015, reaffirmed our borrowing base at $375.0 million and extended the maturity date of the credit facility to October 16, 2020. See Note 6 to the consolidated financial statements in this Annual Report on Form 10-K for more details on each of the above items.

Acquisitions and Divestitures

On February 27, 2015, we completed a business combination pursuant to which one of our wholly-owned subsidiaries merged with HEYCO (the "HEYCO Merger"), combining certain oil and natural gas producing properties and undeveloped acreage located in Lea and Eddy Counties, New Mexico with our Delaware Basin operations. In the HEYCO Merger, we obtained approximately 58,600 gross (18,200 net) acres strategically located between our existing acreage in our Ranger and Rustler Breaks prospect areas. See Note 5 to the consolidated financial statements in this Annual Report on Form 10-K for more details on the HEYCO Merger.

We also acquired approximately 1,900 net acres contributed into two joint ventures with certain affiliates of HEYCO Energy Group, Inc. We have agreed to contribute an aggregate of approximately $14 million in exchange for a 50% interest in both entities. See Note 16 to the consolidated financial statements in this Annual Report on Form 10-K for more details on the joint ventures.

On October 1, 2015, we completed the sale of our wholly-owned subsidiary that owned certain natural gas gathering and processing assets in the Delaware Basin in Loving County, Texas (the “Loving County System”) to EnLink. The Loving County System included a cryogenic natural gas processing plant with approximately 35 MMcf per day of inlet capacity (the

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"Processing Plant") and approximately six miles of high-pressure gathering pipeline which connects our gathering system to the Processing Plant. Pursuant to the terms of the transaction, EnLink paid cash consideration of approximately $143.4 million, excluding customary purchase price adjustments, and we dedicated our leasehold interests in Loving County as of the closing date pursuant to a 15-year fixed-fee natural gas gathering and processing agreement and provided a volume commitment in exchange for priority one service. See Note 5 and Note 13 to the consolidated financial statements in this Annual Report on Form 10-K for more details regarding the transaction with EnLink.

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 Wolfcamp and Bone Spring plays in the Delaware Basin in Southeast New Mexico and West Texas, the Eagle Ford shale play in South Texas and the Haynesville shale play in Northwest Louisiana. During 2015, we devoted most of our efforts and most of our capital investment to our drilling and completion operations in the Wolfcamp and Bone Spring plays in the Delaware Basin and the Eagle Ford shale in South Texas, although we completed our planned operated drilling and completion activities in the Eagle Ford shale for 2015 in the second quarter. Since our inception, our exploration efforts have 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, 2015, essentially all of our efforts were focused on unconventional plays.

At December 31, 2015, our principal areas of interest consisted of the Wolfcamp and Bone Spring plays in the Delaware Basin in Southeast New Mexico and West Texas, the Eagle Ford shale play in South Texas, and the Haynesville shale play, as well as the traditional Cotton Valley and Hosston (Travis Peak) formations, in Northwest Louisiana and East Texas.

The following table presents certain summary data for each of our operating areas as of and for the year ended December 31, 2015.

			Producing Wells		Total Identified Drilling Locations (1)		Estimated Net Proved Reserves (2)		Avg. Daily
	Gross Acreage	Net	Gross	Net	Gross	Net		%	Production