

Matador Resources Co
Form 10-Q
November 14, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2012

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 001-35410

MATADOR RESOURCES COMPANY

(Exact name of registrant as specified in its charter)

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

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 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 No

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 <input type="checkbox"/>	Accelerated filer <input type="checkbox"/>
Non-accelerated filer <input checked="" type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company <input type="checkbox"/>

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of November 14, 2012, there were 55,569,667 shares of the registrant's common stock, par value \$0.01 per share, outstanding.

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MATADOR RESOURCES COMPANY

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FOR THE QUARTER ENDED SEPTEMBER 30, 2012

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Table of Contents**Part I Financial Information****Item 1. Financial Statements****Matador Resources Company and Subsidiaries****CONDENSED CONSOLIDATED BALANCE SHEETS - UNAUDITED****(In thousands, except par value and share data)**

	September 30, 2012	December 31, 2011
ASSETS		
Current assets		
Cash and cash equivalents	\$ 4,178	\$ 10,284
Certificates of deposit	266	1,335
Accounts receivable		
Oil and natural gas revenues	17,046	9,237
Joint interest billings	4,252	2,488
Other	591	1,447
Derivative instruments	6,395	8,989
Lease and well equipment inventory	1,478	1,343
Prepaid expenses	974	1,153
Total current assets	35,180	36,276
Property and equipment, at cost		
Oil and natural gas properties, full-cost method		
Evaluated	654,292	423,945
Unproved and unevaluated	164,514	162,598
Other property and equipment	24,597	18,764
Less accumulated depletion, depreciation and amortization	(295,042)	(205,442)
Net property and equipment	548,361	399,865
Other assets		
Derivative instruments	1,880	847
Deferred income taxes	1,878	1,594
Other assets	1,537	887
Total other assets	5,295	3,328
Total assets	\$ 588,836	\$ 439,469
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities		
Accounts payable	\$ 17,364	\$ 18,841
Accrued liabilities	50,262	25,439
Royalties payable	5,920	1,855
Borrowings under Credit Agreement		25,000
Derivative instruments		171
Advances from joint interest owners	1,782	
Income taxes payable	188	

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Deferred income taxes	1,878	3,024
Dividends payable - Class B		69
Other current liabilities	56	177
Total current liabilities	77,450	74,576
Long-term liabilities		
Borrowings under Credit Agreement	106,000	88,000
Asset retirement obligations	4,551	3,935
Derivative instruments	142	383
Other long-term liabilities	1,465	1,060
Total long-term liabilities	112,158	93,378
Commitments and contingencies (Note 10)		
Shareholders' equity		
Common stock - Class A, \$0.01 par value, 80,000,000 shares authorized; 56,697,718 and 42,916,668 shares issued; 55,505,209 and 41,737,493 shares outstanding, respectively	567	429
Common stock - Class B, \$0.01 par value, zero and 2,000,000 shares authorized; zero and 1,030,700 shares issued and outstanding, respectively		10
Additional paid-in capital	403,248	263,562
Retained earnings	6,178	18,279
Treasury stock, at cost, 1,192,509 and 1,179,175 shares, respectively	(10,765)	(10,765)
Total shareholders' equity	399,228	271,515
Total liabilities and shareholders' equity	\$ 588,836	\$ 439,469

The accompanying notes are an integral part of these financial statements.

Table of Contents**Matador Resources Company and Subsidiaries****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS - UNAUDITED****(In thousands, except per share data)**

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Revenues				
Oil and natural gas revenues	\$ 38,008	\$ 17,447	\$ 103,250	\$ 52,009
Realized gain on derivatives	3,371	1,435	11,147	4,237
Unrealized (loss) gain on derivatives	(12,993)	2,870	(1,149)	1,534
Total revenues	28,386	21,752	113,248	57,780
Expenses				
Production taxes and marketing	2,822	1,848	7,605	4,801
Lease operating	6,491	2,065	17,511	5,639
Depletion, depreciation and amortization	21,680	7,288	52,799	22,578
Accretion of asset retirement obligations	59	61	170	158
Full-cost ceiling impairment	3,596		36,801	35,673
General and administrative	3,439	4,207	11,321	9,919
Total expenses	38,087	15,469	126,207	78,768
Operating (loss) income	(9,701)	6,283	(12,959)	(20,988)
Other income (expense)				
Net loss on asset sales and inventory impairment			(60)	
Interest expense	(144)	(171)	(453)	(461)
Interest and other income	55	82	157	248
Total other expense	(89)	(89)	(356)	(213)
(Loss) income before income taxes	(9,790)	6,194	(13,315)	(21,201)
Income tax provision (benefit)				
Current	188		188	(46)
Deferred	(781)		(1,430)	(6,906)
Total income tax benefit	(593)		(1,242)	(6,952)
Net (loss) income	\$ (9,197)	\$ 6,194	\$ (12,073)	\$ (14,249)
Earnings (loss) per common share				
Basic				
Class A	\$ (0.17)	\$ 0.14	\$ (0.23)	\$ (0.34)
Class B	\$	\$ 0.21	\$ (0.03)	\$ (0.14)
Diluted				
Class A	\$ (0.17)	\$ 0.14	\$ (0.23)	\$ (0.34)

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Class B	\$	\$ 0.21	\$ (0.03)	\$ (0.14)
Weighted average common shares outstanding				
Basic				
Class A	55,271	41,720	53,379	41,671
Class B		1,031	140	1,031
Total	55,271	42,751	53,519	42,702
Diluted				
Class A	55,271	41,848	53,379	41,671
Class B		1,031	140	1,031
Total	55,271	42,879	53,519	42,702

The accompanying notes are an integral part of these financial statements.

Table of Contents**Matador Resources Company and Subsidiaries****CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS EQUITY - UNAUDITED****(In thousands)**

For the nine months ended September 30, 2012

	Common stock		Class B Shares	Class B Amount	Additional paid-in capital	Retained earnings	Treasury stock		Total
	Class A Shares	Class A Amount					Shares	Amount	
Balance at January 1, 2012	42,917	\$ 429	1,031	\$ 10	\$ 263,562	\$ 18,279	(1,179)	\$ (10,765)	\$ 271,515
Issuance of Class A common stock	12,209	122			146,388				146,510
Cost to issue equity					(11,268)				(11,268)
Conversion of Class B common stock to Class A common stock	1,031	10	(1,031)	(10)					
Issuance of Class A common stock to Board advisors	7				71				71
Stock options expense					379				379
Stock options exercised	295	3			3,541				3,544
Liability based stock option awards forfeited or expired					192				192
Restricted stock issued	239	3			(3)				
Restricted stock forfeited					(29)		(13)		(29)
Restricted stock and restricted stock units expense					391				391
Swing sale profit contribution					24				24
Class B dividends declared						(28)			(28)
Current period net loss						(12,073)			(12,073)
Balance at September 30, 2012	56,698	\$ 567		\$	\$ 403,248	\$ 6,178	(1,192)	\$ (10,765)	\$ 399,228

The accompanying notes are an integral part of these financial statements.

Table of Contents**Matador Resources Company and Subsidiaries****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS - UNAUDITED****(In thousands)**

	Nine Months Ended September 30,	
	2012	2011
Operating activities		
Net loss	\$ (12,073)	\$ (14,249)
Adjustments to reconcile net loss to net cash provided by operating activities		
Unrealized loss (gain) on derivatives	1,149	(1,534)
Depletion, depreciation and amortization	52,799	22,578
Accretion of asset retirement obligations	170	158
Full-cost ceiling impairment	36,801	35,673
Stock option and grant expense	(585)	1,379
Restricted stock and restricted stock units expense	362	36
Deferred income tax benefit	(1,430)	(6,906)
Loss on asset sales and inventory impairment	60	
Changes in operating assets and liabilities		
Accounts receivable	(8,718)	(2,411)
Lease and well equipment inventory	(285)	(1)
Prepaid expenses	179	240
Other assets	(650)	
Accounts payable, accrued liabilities and other liabilities	6,105	(2,360)
Income taxes payable	188	
Royalties payable	4,065	2,548
Advances from joint interest owners	1,782	(723)
Other long-term liabilities	406	15
Net cash provided by operating activities	80,325	34,443
Investing activities		
Oil and natural gas properties capital expenditures	(212,702)	(104,733)
Expenditures for other property and equipment	(5,297)	(3,303)
Purchases of certificates of deposit	(416)	(3,721)
Maturities of certificates of deposit	1,485	3,985
Net cash used in investing activities	(216,930)	(107,772)
Financing activities		
Repayments of borrowings under Credit Agreement	(123,000)	
Borrowings under Credit Agreement	116,000	60,000
Proceeds from issuance of common stock	146,510	592
Swing sale profit contribution	24	
Cost to issue equity	(11,599)	(1,185)
Proceeds from stock options exercised	2,660	837
Payment of dividends - Class B	(96)	(206)
Net cash provided by financing activities	130,499	60,038
Decrease in cash and cash equivalents	(6,106)	(13,291)
Cash and cash equivalents at beginning of period	10,284	21,059

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Cash and cash equivalents at end of period	\$	4,178	\$	7,768
Supplemental disclosures of cash flow information (Note 11)				

The accompanying notes are an integral part of these financial statements.

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Matador Resources Company and Subsidiaries

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS -

UNAUDITED

NOTE 1 - NATURE OF OPERATIONS

Matador Resources Company (Matador or the Company) is an independent energy company engaged in the exploration, development, acquisition and production of oil and natural gas resources in the United States, with a particular emphasis on oil and natural gas shale plays and other unconventional resource plays. Matador's current operations are located primarily in the Eagle Ford shale play in South Texas and the Haynesville shale play in Northwest Louisiana and East Texas. In addition to these primary operating areas, Matador has acreage positions in Southeast New Mexico and West Texas and in Southwest Wyoming and adjacent areas in Utah and Idaho where the Company continues to identify new oil and natural gas prospects.

On November 22, 2010, the company formerly known as Matador Resources Company, a Texas corporation founded on July 3, 2003, formed a wholly-owned subsidiary, Matador Holdco, Inc. Pursuant to the terms of a corporate reorganization that was completed on August 9, 2011, the 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.

MRC Energy Company holds the primary assets of the Company and has four wholly owned subsidiaries: Matador Production Company, MRC Permian Company, MRC Rockies Company and Longwood Gathering and Disposal Systems GP, Inc. Matador Production Company serves as the oil and natural gas operating entity. MRC Permian Company conducts oil and natural gas exploration and development activities in Southeast New Mexico. MRC Rockies Company conducts oil and natural gas exploration and development activities in the Rocky Mountains and specifically in the states of Wyoming, Utah and Idaho. Longwood Gathering and Disposal Systems GP, Inc. serves as the general partner of Longwood Gathering and Disposal Systems, LP which owns a majority of the pipeline systems and salt water disposal wells used in the Company's operations and also transports limited quantities of third-party natural gas.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Interim Financial Statements, Basis of Presentation, Consolidation and Significant Estimates

The unaudited condensed consolidated financial statements of Matador and its subsidiaries have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission (SEC) but do not include all of the information and footnotes required by generally accepted accounting principles in the United States of America (U.S. GAAP) for complete financial statements and should be read in conjunction with the Company's audited consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2011 filed with the SEC. All intercompany accounts and transactions have been eliminated in consolidation. In management's opinion, these interim unaudited condensed consolidated financial statements include all adjustments of a normal recurring nature necessary for a fair presentation of the Company's consolidated financial position as of September 30, 2012, consolidated results of operations for the three and nine months ended September 30, 2012 and 2011, consolidated changes in shareholders' equity for the nine months ended September 30, 2012 and consolidated cash flows for the nine months ended September 30, 2012 and 2011. Certain reclassifications have been made to prior period items to conform to the current period presentation. These reclassifications had no effect on previously reported results of operations, cash flows or retained earnings. Amounts as of December 31, 2011 are derived from the audited consolidated financial statements as filed with the SEC in our Annual Report on Form 10-K for the year ended December 31, 2011.

Accounting measurements at interim dates inherently involve greater reliance on estimates than at year end and the results for the interim periods shown in this report are not necessarily indicative of results to be expected for the full year due in part to volatility in oil and natural gas prices, global economic and financial market conditions, interest rates, access to sources of liquidity, estimates of reserves, drilling risks, geological risks, transportation restrictions, oil and natural gas supply and demand, market competition and interruptions of production.

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Matador Resources Company and Subsidiaries

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS -

UNAUDITED - CONTINUED

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. These estimates and assumptions may also affect disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. The Company's consolidated financial statements are based on a number of significant estimates, including accruals for oil and natural gas revenues, accrued assets and liabilities primarily related to oil and natural gas operations, stock-based compensation, valuation of derivative instruments and oil and natural gas reserves. The estimates of oil and natural gas reserves quantities and future net cash flows are the basis for the calculations of depletion and impairment of oil and natural gas properties, as well as estimates of asset retirement obligations and certain tax accruals. While the Company believes its estimates are reasonable, changes in facts and assumptions or the discovery of new information may result in revised estimates. Actual results could differ from these estimates.

Property and Equipment

The Company uses the full-cost method of accounting for its investments in oil and natural gas properties. Under this method of accounting, all costs associated with the acquisition, exploration and development of oil and natural gas properties and reserves, including unproved and unevaluated property costs, are capitalized as incurred and accumulated in a single cost center representing the Company's activities, which are undertaken exclusively in the United States. Such costs include lease acquisition costs, geological and geophysical expenditures, lease rentals on undeveloped properties, costs of drilling both productive and non-productive wells, capitalized interest on qualifying projects and general and administrative expenses directly related to exploration and development activities, but do not include any costs related to production, selling or general corporate administrative activities. The Company capitalized approximately \$1.7 million and \$1.3 million of its general and administrative costs for the nine months ended September 30, 2012 and 2011, respectively. The Company capitalized approximately \$1.0 million and \$0.8 million of its interest expenses for the nine months ended September 30, 2012 and 2011, resp