

Memorial Resource Development Corp.
Form 424B4
June 16, 2014
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Filed Pursuant to Rule 424(b)(4)
Registration No. 333-195062

PROSPECTUS

42,800,000 Shares

Memorial Resource Development Corp.

Common Stock

\$19.00 per share

This is our initial public offering. We are selling 21,500,000 shares of common stock, and MRD Holdco LLC is selling 21,300,000 shares of our common stock. MRD Holdco LLC has granted the underwriters a 30-day option to purchase up to an additional 6,420,000 shares of common stock. We will not receive any proceeds from the sale of shares by MRD Holdco LLC, including any shares that it may sell pursuant to the underwriters' option to purchase additional shares of common stock.

No public market exists for our common stock. We have been approved to list our common stock on the NASDAQ Global Market under the symbol MRD. Following the completion of this offering, we will be a controlled company as defined under the NASDAQ listing rules because the group consisting of affiliates of Natural Gas Partners will beneficially own over 50% of our shares of outstanding common stock. See Principal and Selling Stockholders.

Investing in our common stock involves risks that are described in the Risk Factors section beginning on page 25 of this prospectus.

We are an emerging growth company as that term is used in the Jumpstart Our Business Startups Act of 2012, and as such, we have elected to take advantage of certain reduced public company reporting requirements for this prospectus and future filings. See Risk Factors and Summary Emerging Growth Company Status.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

	Per Share	Total
Initial Public Offering Price	\$ 19.00	\$ 813,200,000
Underwriting Discounts and Commissions(1)	\$ 1.06875	\$ 45,742,500
Proceeds, Before Expenses, to Us	\$ 17.93125	\$ 385,521,875
Proceeds, Before Expenses, to MRD Holdco LLC	\$ 17.93125	\$ 381,935,625

(1) See Underwriting (Conflicts of Interest) for a description of underwriting compensation payable in connection with this offering.

The underwriters expect to deliver the shares of common stock on or about June 18, 2014.

Joint Book-Running Managers

Citigroup		Barclays
BofA Merrill Lynch	BMO Capital Markets	Goldman, Sachs & Co.
Raymond James	RBC Capital Markets	Wells Fargo Securities

Co-Managers

Comerica Securities

Credit Suisse

Mitsubishi UFJ Securities
Scotiabank / Howard Weil
Stephens Inc.
UBS Investment Bank

Morgan Stanley
Simmons & Company International
Stifel
Wunderlich Securities

The date of this prospectus is June 12, 2014.

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You should rely only on the information contained in this prospectus. Neither we, MRD Holdco LLC, nor the underwriters have authorized any person to provide you with any information or represent anything about us or this offering that is not contained in this prospectus. If given or made, any such other information or representation should not be relied upon as having been authorized by us. Neither we nor MRD Holdco LLC are making an offer in any jurisdiction where an offer or sale is not permitted. The information contained in this prospectus is current only as of its date.

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Commonly Used Defined Terms

As used in this prospectus, unless we indicate otherwise:

the Company, we, our, us and our company or like terms refer collectively to (i) Memorial Resource Development Corp. and its subsidiaries (other than MEMP and its subsidiaries) for periods after the restructuring transactions described below and (ii) our predecessor (as described below) other than MEMP and its subsidiaries for periods prior to the restructuring transactions;

Memorial Production Partners, MEMP and the Partnership refer to Memorial Production Partners LP individually and collectively with its subsidiaries, as the context requires. Following the restructuring transactions described below, we will own the general partner of MEMP as well as 50% of MEMP's incentive distribution rights;

MEMP GP refers to Memorial Production Partners GP LLC, the general partner of the Partnership, which we will own following completion of the restructuring transactions described below;

MRD Holdco refers to MRD Holdco LLC, a holding company owned by the Funds that will own shares of our common stock following completion of the restructuring transactions described below and this offering, assuming that the underwriters do not exercise their option to purchase additional shares from MRD Holdco.

MRD LLC refers to Memorial Resource Development LLC, which has historically owned our predecessor's business and will be merged into MRD Operating LLC, our subsidiary, after completion of the restructuring transactions described below;

WildHorse Resources refers to WildHorse Resources, LLC, which owns our interest in the Terryville Complex and will be our 100% owned subsidiary following completion of the restructuring transactions described below;

our predecessor refers collectively to MRD LLC and its consolidated subsidiaries, consisting of Classic Hydrocarbons Holdings, L.P., Classic Hydrocarbons GP Co., L.L.C., Black Diamond Minerals, LLC, Beta Operating Company, LLC, MEMP GP, BlueStone, MRD Operating LLC, WildHorse Resources and each of their respective subsidiaries, including MEMP and its subsidiaries;

the Funds refers collectively to Natural Gas Partners VIII, L.P., Natural Gas Partners IX, L.P. and NGP IX Offshore Holdings, L.P., which collectively own MRD Holdco;

restructuring transactions means the transactions described beginning on page 13 that will take place in connection with and after the closing of this offering and pursuant to which we will acquire assets of MRD LLC (not including its interests in BlueStone, MRD Royalty, MRD Midstream, Golden Energy Partners LLC or Classic Pipeline) that comprise substantially all of the assets of MRD LLC;

BlueStone refers to BlueStone Natural Resources Holdings, LLC, which sold substantially all of its assets in July 2013 for approximately \$117.9 million;

NGP refers to Natural Gas Partners, a family of private equity investment funds organized to make direct equity investments in the energy industry, including the Funds;

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MRD Royalty refers to MRD Royalty LLC, which owns certain immaterial leasehold interests and overriding royalty interests in Texas and Montana;

MRD Midstream refers to MRD Midstream LLC, which owns an indirect interest in certain immaterial midstream assets in North Louisiana; and

Classic Pipeline refers to Classic Pipeline & Gathering, LLC, which owns certain immaterial midstream assets in Texas.

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Industry and Market Data

The market data and certain other statistical information used throughout this prospectus are based on independent industry publications, government publications or other published independent sources. Some data is also based on our good faith estimates. Although we believe these third-party sources are reliable and that the information is accurate and complete, neither we nor MRD Holdco have independently verified the information.

Equivalency

This prospectus presents certain production and reserves-related information on an equivalency basis. When we refer to oil and natural gas in equivalents, we are doing so to compare quantities of oil with quantities of natural gas. In calculating equivalents, we use a generally recognized standard in which one Bbl of oil and/or NGLs is equivalent to six Mcf of natural gas. This calculation is based on an approximate energy equivalency and does not imply or reflect a value or price relationship.

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SUMMARY

This summary highlights information appearing elsewhere in this prospectus. You should read the entire prospectus carefully, including Risk Factors beginning on page 25 and the historical and pro forma financial statements and the related notes to those financial statements. Certain oil and gas industry terms, including the terms proved reserves, probable reserves and possible reserves, used in this prospectus are defined in the Glossary of Oil and Natural Gas Terms in Appendix A of this prospectus.

Because we control MEMP through our ownership of its general partner, we are required to consolidate MEMP for accounting and financial reporting purposes even though we only own a minority of its limited partner interests. Our financial statements include two reportable business segments: (i) the MRD Segment, which reflects all of our operations except for MEMP and its subsidiaries, and (ii) the MEMP Segment, which reflects the operations of MEMP and its subsidiaries. Except with respect to our consolidated and combined financial statements or as otherwise indicated, the description of our business, properties, strategies and other information in this summary does not include the business, properties or results of operations of BlueStone, MRD Royalty, MRD Midstream and Classic Pipeline (the assets of which are included in our predecessor but will not be conveyed to us in the restructuring transactions) or MEMP. Our proved reserves as of December 31, 2013 have been prepared by Netherland, Sewell & Associates, Inc., our independent reserve engineers (NSAI), and our probable and possible reserves as of December 31, 2013 have been prepared by our internal reserve engineers and audited by NSAI, all of which are reflected in our reserve reports (which we collectively refer to as our reserve report), summaries of which are included in Appendices B-1 and B-2 of this prospectus.

Information expressed on a pro forma basis in this summary gives effect to certain transactions as if they had occurred on March 31, 2014 for pro forma balance sheet purposes and on January 1, 2013 for pro forma statements of operations purposes. For a description of these transactions, please read Summary Historical Consolidated and Combined Pro Forma Financial Data and Our Structure and Restructuring Transactions.

Overview

We are an independent natural gas and oil company focused on the exploitation, development, and acquisition of natural gas, NGL and oil properties with a majority of our activity in the Terryville Complex of North Louisiana, where we are targeting overpressured, liquids-rich natural gas opportunities in multiple zones in the Cotton Valley formation. Our total leasehold position is 347,458 gross (205,818 net) acres, of which 60,041 gross (51,522 net) acres are in what we believe to be the core of the Terryville Complex. We are focused on creating shareholder value primarily through the development of our sizeable horizontal inventory. As of December 31, 2013, we had 1,582 gross (1,091 net) identified horizontal drilling locations, of which 1,431 gross (994 net) identified horizontal drilling locations are located in the Terryville Complex. These total net identified horizontal drilling locations represent an inventory of over 32 years based on our expected 2014 drilling program. We believe our inventory to be repeatable and capable of generating high returns based on the extensive production history in the area, the results of our horizontal wells drilled to date, and the consistent reservoir quality across multiple target formations.

As of December 31, 2013, we had estimated proved, probable and possible reserves of approximately 1,126 Bcfe, 800 Bcfe and 1,711 Bcfe, respectively. As of such date, we operated 98% of our proved reserves, 71% of which were natural gas. For the three months ended March 31, 2014, 52% of our pro forma MRD Segment revenues were attributable to natural gas production, 24% to NGLs and 24% to oil. For the three months ended March 31, 2014, we generated pro forma MRD Segment Adjusted EBITDA of \$67 million and pro forma net income of \$15.9 million, and made pro forma capital expenditures of \$83 million. For the year ended December 31, 2013, we generated pro forma MRD Segment Adjusted EBITDA of \$159 million and pro forma

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net income of \$11.7 million, and made pro forma total capital expenditures of \$203 million. Please see Summary Historical Consolidated and Combined Pro Forma Financial Data Adjusted EBITDA for an explanation of the basis for the pro forma presentation and our use of Adjusted EBITDA to measure the MRD Segment's profitability.

Our average net daily production for the three months ended March 31, 2014 was 168 MMcfe/d (approximately 70% natural gas, 21% NGLs and 9% oil) and our reserve life was 18 years. As of December 31, 2013, we produced from 95 horizontal wells and 800 vertical wells. The Terryville Complex represented 85% of our total net production for the three months ended March 31, 2014. Our estimated average net daily production for the period from April 1 through April 30, 2014 was 179 MMcfe/d, of which 73% was from natural gas. Our estimated average net daily production from our properties in the Terryville Complex for the same period was 141 MMcfe/d, or 79% of our total production. In the Terryville Complex, we have completed and brought online six additional horizontal wells since January 1, 2014, bringing our total number of producing horizontal wells to 27 in our primary formations. The 30 day production average rates of our four most recent wells averaged 25.1 MMcfe/d per well.

The following chart provides information regarding our production growth and the increasing proportion of our horizontal well production since the beginning of 2012.

Our Properties

Cotton Valley Overview

The Cotton Valley formation extends across East Texas, North Louisiana and Southern Arkansas. The formation has been under development since the 1930s and is characterized by thick, multi-zone natural gas and oil reservoirs with well-known geologic characteristics and long-lived, predictable production profiles. Over 21,000 vertical wells have been completed throughout the play. In 2005, operators started redeveloping the Cotton Valley using horizontal drilling and advanced hydraulic fracturing techniques. To date, operators have drilled over 600 horizontal Cotton Valley wells. Some large, analogous redevelopment projects in the Cotton

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Valley include the Nan-Su-Gail Field in Freestone County, East Texas, where over 40 horizontal wells have been drilled by operators such as Devon Energy Corporation and Marathon Oil Corporation, and the Carthage Complex in Panola County, East Texas, where operators such as ExxonMobil Corporation, BP America, Memorial Production Partners LP and Anadarko Petroleum Corporation have drilled over 153 horizontal wells.

Cotton Valley Terryville Complex Horizontal Redevelopment

We are currently engaged in the horizontal redevelopment of the Terryville Complex in Lincoln Parish, Louisiana utilizing horizontal drilling and completion techniques similar to those employed at the Nan-Su-Gail Field, Carthage Complex in East Texas and other major resource plays across the United States. We have assembled a largely contiguous acreage position in the Terryville Complex of approximately 60,041 gross (51,522 net) acres as of December 31, 2013. The majority of our current and planned development is focused in and around what we believe to be the core of the Terryville Complex.

We entered the Terryville Complex via an acquisition from Petrohawk Energy Corporation in April 2010, with the goal of redeveloping the field with horizontal drilling and modern completion techniques. Since that acquisition, we have completed multiple bolt-on acquisitions and in-fill leases to build our current position. We believe the Terryville Complex, which has been producing since 1954, is one of North America's most prolific natural gas fields, characterized by high recoveries relative to drilling and completion costs, high initial production rates with high liquids yields, long reserve life, multiple stacked producing zones, available infrastructure and a large number of service providers.

After initially drilling eight vertical pilot wells in the Terryville Complex, we commenced a horizontal drilling program in 2011 to further delineate and define our position. In 2013, we shifted our operational focus to full-scale horizontal redevelopment of the Terryville Complex, going from two rigs to four rigs by the end of that year. Additionally, in the fourth quarter of 2013, we moved to drilling on multi-well pads that allow us to more efficiently drill wells and control costs as we develop our stacked pay zones. We intend to dedicate approximately \$264 million of our \$312 million drilling and completion budget in 2014 to develop multiple zones within the Terryville Complex, where we expect to drill and complete 35 gross (30 net) wells. Our horizontal redevelopment program in the Terryville Complex will be focused on increasing our well performance and recoveries.

Within the Terryville Complex, as of December 31, 2013, we had 945 Bcfe, 688 Bcfe and 1,643 Bcfe of estimated proved, probable and possible reserves, respectively, and a drilling inventory consisting of 1,431 gross (994 net) identified horizontal drilling locations, including 91 gross (72 net) drilling locations to which we have attributed proved undeveloped reserves as of December 31, 2013. Since initiating our horizontal drilling program in 2011, we have drilled 27 gross (22.0 net) horizontal wells, growing our gross daily production in the Terryville Complex by 304% from 53.0 MMcfe/d for the three months ended March 31, 2010 to 214.0 MMcfe/d for the month ended April 30, 2014. For the three months ended March 31, 2014, 51% of our revenues from the Terryville Complex were attributable to natural gas, 25% to NGLs and 24% to oil. Within the Terryville Complex, on a proved reserves basis, we operate approximately 99% of our existing acreage and hold an average working interest of approximately 74% across our acreage. Our high operating control allows us to more efficiently and economically manage the redevelopment of this extensive resource.

We believe seismic data, as well as information gathered from the results of our existing 275 vertical and 27 horizontal wells throughout the field, support the existence of at least ten stacked pay zones across the Terryville Complex. Our redevelopment program currently targets four of the stacked pay zones in the Cotton Valley formation zones we term the Upper Red, Lower Red, Lower Deep Pink and Upper Deep Pink, all of which we are developing with horizontal wells through pad drilling. These four zones have an overall thickness ranging from 400 to 890 feet across our acreage position. We believe the overpressured nature of this section of the Cotton Valley formation is highly productive when accessed through horizontal drilling and fracture

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stimulation technologies. These qualities, when combined with the liquids-rich nature of the natural gas, high initial rates of production and competitive well costs, produce what we believe to be amongst the highest rate of return wells in the nation. Further, there are additional opportunities for redevelopment in the zones above the four main zones. NSAI has allocated over \$1 billion PV-10 and 677 Bcfe to our possible reserve category for the redevelopment of these additional zones. Please see Reserves.

The table below details certain information on estimated ultimate recoveries and production for the 27 horizontal wells currently producing in the Terryville Complex. Our well results have shown consistency in initial production, decline rates and estimated ultimate recovery. The consistency of these results gives us confidence that the full-scale redevelopment of the Terryville Complex we began in 2013 will be successful as we move from four to five rigs in 2014. Please see Business Our Properties Cotton Valley Terryville Complex Horizontal Redevelopment for more detail on our properties in the Terryville Complex and the table on page 98 for more detail on the average EUR and cumulative production of our properties in the Terryville Complex.

Well Name (1)	Producing Wells					Gross Wellhead Flow Rates After Processing (MMcfe/d)(3)(4)					D&C (\$MM)
	Lateral Length (Feet)	EUR (Bcfe)(2)	EUR BCFE/1,000	First Production	Days Producing	Cumulative Production (Bcfe)	0-30	0-90	91-180	181-360	
Upper Red Zone											
LD Barnett 23H-2	4,015	13.6	3.4	1/30/2012	842	4.6	14.5	12.0	7.7	5.6	6.7
Colquitt 20 17H-1	4,357	11.2	2.6	7/30/2012	660	3.9	17.5	12.6	7.2	5.1	7.7
Dowling 22 15H-1	5,376	16.8	3.1	9/22/2012	606	5.2	16.3	15.6	11.1	8.2	8.8
Nobles 13H-1	4,216	11.6	2.8	11/17/2012	550	4.3	21.5	16.7	9.9	6.5	7.8
Sidney McCullin 16 21H-1	4,604	16.9	3.7	1/19/2013	487	4.5	17.4	14.2	10.8	8.4	8.1
Wright 14 11 HC-1	5,250	18.0	3.4	5/27/2013	359	4.6	19.6	18.1	16.1	8.5	8.8
BF Fallin 22 15H-1	5,122	15.6	3.0	6/17/2013	338	3.2	14.8	13.7	11.8		7.5
Dowling 20 17H-1	4,327	8.9	2.1	7/22/2013	303	2.1	15.2	11.0	5.7		10.7
Gleason 31H-1	3,692	2.5	0.7	8/12/2013	282	0.5	3.5	2.7	1.8		9.4
Burnett 26H-1	2,405	4.2	1.7	9/22/2013	241	0.9	6.9	5.5	3.3		6.6
Drewett 17 8H-1	4,010	14.0	3.5	11/13/2013	189	2.9	22.1	18.7	12.3		7.7
Wright 13 12 HC-2	6,009	18.1	3.0	12/21/2013	151	2.7	22.7	19.5			8.0
LA Minerals 15 22H-2	5,814	N/A	N/A	1/21/2014	120	1.9	18.1	16.7			9.3
TL McCrary 14 11 HC-5	5,875	N/A	N/A	4/14/2014	37	0.9	25.3				7.8
Wright 13 24 HC-1	6,678	N/A	N/A	4/14/2014	37	0.8	23.2				8.9
Wright 13 24 HC-3	6,606	N/A	N/A	4/14/2014	37	1.0	28.1				7.6
Lower Red Zone											
TL McCrary 14H-1	4,544	12.8	2.8	5/1/2012	750	4.0	14.4	11.7	8.3	5.4	7.7
Nobles 13H-2	4,060	9.2	2.3	11/17/2012	550	3.1	16.0	11.9	8.4	5.2	7.8
LA Methodist Orphanage 14H-1	3,637	12.1	3.3	2/15/2013	460	3.6	13.9	13.0	9.7	6.3	9.1
Dowling 21 16H-1	4,590	9.4	2.0	3/18/2013	429	2.6	13.0	10.1	6.5	4.5	6.6
Drewett 17 8H-2	3,700	3.7	1.0	11/13/2013	189	0.9	8.7	6.2	3.2		6.8
Wright 13 12 HC-1	5,409	8.2	1.5	12/21/2013	151	1.5	14.7	11.3			9.1
LA Minerals 15 22H-1	5,926	N/A	N/A	1/21/2014	120	1.2	13.8	11.1			8.0
Wright 13 24 HC-4	6,518	N/A	N/A	4/14/2014	37	0.8	23.8				10.3
Lower Deep Pink Zone											
LA Methodist Orphanage 14H-2	3,550	12.2	3.4	2/15/2013	460	3.2	14.2	11.6	7.6	5.6	6.1
Wright 13 12 HC-3	5,706	6.3	1.1	12/21/2013	151	1.2	12.5	9.3			7.1
Wright 13 12 HC-4	5,010	5.0	1.0	12/21/2013	151	1.1	11.8	8.8			6.1
Averages											
All Wells	4,852	11.0	2.5		322	2.5	16.4	12.3	8.3	6.3	8.0
Upper Red	4,897	12.6	2.7		327	2.8	17.9	13.6	8.9	7.0	8.2
Lower Red	4,798	9.2	2.2		336	2.2	14.8	10.8	7.2	5.4	8.2
Lower Deep Pink	4,755	7.8	1.8		254	1.8	12.8	9.9	7.6	5.6	6.4

- (1) The majority of the wells in this table are included within our proved developed producing reserve category in our reserve report as of December 31, 2013. LA Minerals 15 22H-1, LA Minerals 15 22H-2, TL McCrary 14 II HC-5, Wright 13 24 HC-1, Wright 13 24 HC-3 and Wright 13 24 HC-4 each started producing in 2014 so they have not been included in the year-end reserve report as proved developed producing.
- (2) EUR represents the Estimated Ultimate Recovery or sum of total gross remaining proved reserves attributable to each location in our reserve report and cumulative sales from such location. EUR is shown on a combined basis for oil/condensates, gas and NGLs after the effects of processing.

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- (3) Production data is as of May 21, 2014 and shown gross on a combined basis after the effects of processing.
- (4) Periodic flow rates start on day 4, with days 1 through 3 used to allow clean up associated with well completion. The 30-day flow rates therefore start on day 4 and continue 30 days to day 33 and the 90-day flow rates go from day 4 to day 93.

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Recent Drilling Updates

During the week of April 14, 2014, we completed four new wells in the Terryville Complex. The combined 30 day production average for the four wells was 100.4 MMcfe per day. Three of the wells were drilled on one pad in the eastern edge of our property, the farthest step out from our core position to date, and produced a combined 30 day production average of 75.1 MMcfe per day.

East Texas

We own and operate approximately 54,337 gross (42,894 net) acres as of December 31, 2013 in Texas, where we are currently producing primarily from the Cotton Valley, Travis Peak and Bossier formations and targeting the Cotton Valley formation for future development. From January 1, 2011 through December 31, 2013, we have drilled and completed 28 gross (10.3 net) wells and are operating one rig in East Texas as of December 31, 2013. In 2014, we plan to invest \$36 million to drill and complete 8 gross (6 net) wells in East Texas in the Joaquin Field of Panola and Shelby Counties. As of December 31, 2013, we had approximately 108 gross identified horizontal drilling locations in East Texas, including 54 gross (43 net) drilling locations to which we have attributed proved undeveloped reserves as of December 31, 2013. For the three months ended March 31, 2014, our average net daily production from our East Texas properties was 21 MMcfe/d, of which 74% was natural gas. Within our East Texas properties, on a proved reserves basis, we operate approximately 94% of our existing properties.

Rockies

We own approximately 162,375 gross (66,191 net) acres as of December 31, 2013 in our Rockies region and for the three months ended March 31, 2014 our average net daily production from this region was 4 MMcfe/d. In 2014, we plan to operate one rig and invest \$12 million to drill 3 gross (3 net) vertical wells in the Tepee Field of the Piceance Basin targeting the Mancos and Williams Fork formations. As of December 31, 2013, we had approximately 174 gross identified vertical drilling locations in the Tepee Field in our Rockies properties.

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Our estimates of proved reserves are prepared by NSAI, and our estimates of probable and possible reserves are prepared by our management and audited by NSAI. As of December 31, 2013, we had 1,126 Bcfe, 800 Bcfe and 1,711 Bcfe of estimated proved, probable and possible reserves, respectively. As of this date, our proved reserves were 71% gas and 29% NGLs and oil. Additionally, the PV-10 of our proved reserves was \$1,469 million, the PV-10 for our probable reserves was \$1,052 million and the PV-10 for our possible reserves was \$2,386 million. The following table provides summary information regarding our estimated proved, probable and possible reserves data by area based on our reserve report as of December 31, 2013 and our average net daily production by area for the three months ended March 31, 2014:

	Proved Total (Bcfe)	% Gas	% Developed	Proved PV-10 (in millions)(1)	Probable Total (Bcfe)(2)	Probable PV-10 (in millions)(1)	Possible Total (Bcfe)(2)	Possible PV-10 (in millions)(1)	Average Net Daily Production (MMcfe/d)
Terryville Complex	945	71%	33%	\$ 1,341	688	\$ 1,032	1,643	\$ 2,383	143
East Texas	175	75%	29%	110	109	18	66	3	21
Rockies	6	49%	100%	18	2	2	2	1	4
Total	1,126	71%	33%	\$ 1,469	800	\$ 1,052	1,711	\$ 2,386	168

- (1) In this prospectus, we have disclosed our PV-10 based on our reserve report. PV-10 is a non-GAAP financial measure and represents the period-end present value of estimated future cash inflows from our natural gas and crude oil reserves, less future development and production costs, discounted at 10% per annum to reflect timing of future cash flows and using SEC pricing assumptions in effect at the end of the period. SEC pricing for natural gas and oil of \$3.67 per Mcf and \$93.42 per Bbl was based on the unweighted average of the first-day-of-the-month prices for each of the twelve months preceding December 2013. PV-10 differs from standardized measure, the most directly comparable GAAP financial measure, because it does not include the effects of income taxes. Moreover, GAAP does not provide a measure of estimated future net cash flows for reserves other than proved reserves. Because PV-10 estimates of probable and possible reserves are more uncertain than PV-10 and standardized estimates of proved reserves, but have not been adjusted for risk due to that uncertainty, they may not be comparable with each other. Nonetheless, we believe that PV-10 estimates for reserve categories other than proved present useful information for investors about the future net cash flows of our reserves in the absence of a comparable GAAP measure such as standardized measure. Because of this, PV-10 can be used within the industry and by creditors and securities analysts to evaluate estimated net cash flows from proved reserves on a more comparable basis. In addition, investors should be cautioned that estimates of PV-10 for probable and possible reserves, as well as the underlying volumetric estimates, are inherently more uncertain of being recovered and realized than comparable measures for proved reserves, and that the uncertainty for possible reserves is even more significant. Our PV-10 estimates of proved reserves and our standardized measure are equivalent because, prior to the completion of this offering, we were not subject to entity level taxation. Accordingly, no provision for federal income taxes has been provided because taxable income has been passed through to our equity holders. However, had we not been a tax exempt entity as of December 31, 2013, our estimated discounted future income tax in respect of our proved, probable and possible reserves would have been approximately \$401 million, \$368 million and \$835 million, respectively. After this offering, we will be treated as a taxable entity for federal income tax purposes and our future income taxes will be dependent upon our future taxable income. Neither PV-10 nor standardized measure represents an estimate of fair market value of our natural gas and oil properties. We and others in the industry use PV-10 as a measure to compare the relative size and value of estimated reserves held by companies without regard to the specific tax characteristics of such entities.
- (2) Substantially all of our estimated probable and possible reserves are classified as undeveloped.

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We intend to develop our multi-year drilling inventory by utilizing our significant expertise in horizontal drilling and fracture stimulation to grow our production, reserves and cash flow. For 2014, we have budgeted a total of \$312 million to drill and complete 46 gross (39 net) operated wells. We expect to fund our 2014 development primarily from cash flows from operations. The majority of our drilling locations and our 2014 development program are focused on the Terryville Complex, where we plan to invest \$264 million on drilling and completing 33 gross (28 net) horizontal wells and 2 gross (2 net) vertical wells. Approximately \$5.0 million of our Terryville Complex budget is allocated towards the drilling of vertical wells and routine facilities maintenance. In East Texas, we plan to invest \$36 million on drilling and completing 8 gross (6 net) horizontal wells. In the Rockies, we plan to invest \$12 million on drilling and completing 3 gross (3 net) vertical wells in the Tepee Field.

The following table provides information regarding our acreage and drilling locations by area as of December 31, 2013, except for projected 2014 information:

	Gross Horizontal Drilling Locations(1)(2)							2014			
	Net Acreage	WI%	Proved	Probable	Possible	Management	Total Gross	Net	Net Horizontal Drilling Inventory (years)	Projected Operated Net Wells to be Drilled	2014 Projected Capital Budget (\$MM)
Terryville Complex	96,733	74%	91	147	450	743	1,431	994	36	30	\$ 264
East Texas	42,894	79%	54	39	15		108	92	15	6	36
Rockies	66,191	41%		23	20		43	4		3	12
Total	205,818	59%	145	209	485	743	1,582	1,091	32	39	\$ 312

- (1) The above table excludes 192 proved vertical drilling locations in our reserve report in the Terryville Complex and 174 identified vertical locations based on management estimates in the Rockies.
- (2) Please see [Business Our Operations Drilling Locations](#) for more information regarding the process and criteria through which these drilling locations were identified. The drilling locations on which we actually drill will depend on the availability of capital, regulatory approval, commodity prices, costs, actual drilling results and other factors. Please see [Risk Factors Risks Related to Our Business](#) Our identified drilling locations, which are scheduled out over many years, are susceptible to uncertainties that could materially alter the occurrence or timing of their drilling. Proved, probable and possible locations are based on our reserve report. Management locations are based on management estimates of additional identified drilling locations.

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Our extensive inventory and horizontal drilling program in the Terryville Complex is currently focused on four zones within the Cotton Valley formation the Upper Red, Lower Red, Lower Deep Pink and Upper Deep Pink. The table below sets forth our drilling locations by zone as of December 31, 2013 along with the average results for the wells we have drilled within each zone. Please see Business Our Properties Cotton Valley Terryville Complex Horizontal Redevelopment for more detail on our properties in the Terryville Complex and the table on page 98 for the 30 day initial production rate and EUR condensate volumes.