Memorial Resource Development Corp.
Form S-1
October 01, 2014
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As filed with the Securities and Exchange Commission on October 1, 2014

Registration No. 333-

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM S-1

REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

MEMORIAL RESOURCE DEVELOPMENT CORP.

(Exact name of registrant as specified in its charter)

Delaware	**1311**	**46-4710769**
(State or other jurisdiction of incorporation or organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification Number)

1301 McKinney Street, Suite 2100

Houston, Texas 77010

(713) 588-8300

(Address, including zip code, and telephone number, including area code, of registrants principal executive offices)

Kyle N. Roane

Vice President, General Counsel and Corporate Secretary

Memorial Resource Development Corp.

1301 McKinney Street, Suite 2100

Houston, Texas 77010

(713) 588-8300

(Name, address, including zip code, and telephone number, including area code, of agent for service)

With copies to:

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Shar Ahmed

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Approximate date of commencement of proposed sale of the securities to the public: As soon as practicable after this Registration Statement becomes effective.

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box: ¨

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

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

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Amount to be Registered(1)	Proposed Maximum Offering Price per Share(2)	Proposed Maximum Aggregate Offering Price(2)	Amount of Registration Fee
Common Stock, $0.01 par value per share	31,968,125	$26.98	$862,500,000	$100,222.50

(1) Includes shares of common stock that may be sold to cover the exercise of an option to purchase additional shares granted to the underwriters.
(2) Estimated solely for the purpose of calculating the registration fee pursuant to Rule 457(c) under the Securities Act of 1933, as amended, and based on a price of $26.98, which is the average of the high and low trading prices per share as reported by the NASDAQ Global Select Market on September 30, 2014.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, as amended, or until this Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

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The information in this preliminary prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This preliminary prospectus is not an offer to sell securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED OCTOBER 1, 2014

PRELIMINARY PROSPECTUS

27,798,368 Shares

Memorial Resource Development Corp.

Common Stock

$ per share

MRD Holdco LLC and certain former management members of WildHorse Resources, LLC (collectively, the selling stockholders) are offering 27,798,368 shares of Memorial Resource Development Corp. s common stock. The selling stockholders have granted the underwriters a 30-day option to purchase up to an additional 4,169,757 shares of common stock. We will not receive any proceeds from the sale of shares by the selling stockholders, including any shares that the selling stockholders may sell pursuant to the underwriters option to purchase additional shares of common stock.

Our common stock is listed on the NASDAQ Global Select Market under the symbol MRD. We are a controlled company as defined under the NASDAQ listing rules because the group consisting of affiliates of Natural Gas Partners beneficially owns over 50% of our shares of outstanding common stock. See Principal and Selling Stockholders.

On September 30, 2014, the last reported sale price of our common stock on the NASDAQ Global Select Market was $27.11 per share.

Investing in our common stock involves risks that are described in the Risk Factors section beginning on page 22 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
Public Offering Price	$	$
Underwriting Discounts and Commissions(1)	$	$
Proceeds, Before Expenses, to the Selling Stockholders	$	$

(1) See Underwriting 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 , 2014.

Citigroup

The date of this prospectus is , 2014.

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You should rely only on the information contained in this prospectus. Neither we, the selling stockholders, 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. The selling stockholders are not 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;

selling stockholders refers to MRD Holdco LLC and the certain former management members of WildHorse Resources, LLC named herein;

Memorial Production Partners, MEMP and the Partnership refer to Memorial Production Partners LP individually and collectively with its subsidiaries, as the context requires. We 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 own;

MRD Holdco refers to MRD Holdco LLC, a holding company controlled by the Funds that, together as part of a group owns a majority of our common stock;

MRD LLC refers to Memorial Resource Development LLC, which historically owned our predecessor s business and was merged into MRD Operating LLC, our subsidiary, subsequent to our initial public offering;

WildHorse Resources refers to WildHorse Resources, LLC, which owns our interest in the Terryville Complex and is our 100% owned subsidiary;

our predecessor refers collectively to MRD LLC and its former 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, Tanos Energy LLC 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 12 that took place in connection with and shortly after the closing of our initial public offering, and pursuant to which we acquired substantially all of the assets of MRD LLC (not including its interests in BlueStone, MRD Royalty, MRD Midstream, Golden Energy Partners LLC or Classic Pipeline);

BlueStone refers to BlueStone Natural Resources Holdings, LLC, a subsidiary of MRD Holdco that 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;

MRD Royalty refers to MRD Royalty LLC, a subsidiary of MRD Holdco that owns certain immaterial leasehold interests and overriding royalty interests in Texas and Montana;

MRD Midstream refers to MRD Midstream LLC, a subsidiary of MRD Holdco that owns an indirect interest in certain immaterial midstream assets in North Louisiana; and

Classic Pipeline refers to Classic Pipeline & Gathering, LLC, a subsidiary of MRD Holdco that owns certain immaterial midstream assets in Texas.

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

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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 the selling stockholders 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 22 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 were not 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 June 30, 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 Corporate History and Structure.

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. As of December 31, 2013, our total leasehold position was 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 34 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 six months ended June 30, 2014, 55% of our pro forma MRD Segment revenues were attributable to natural gas production, 22% to NGLs and 23% to oil. For the six months ended June 30, 2014, we generated pro forma MRD Segment Adjusted EBITDA of $163 million and pro forma net loss of $924 million, and made pro forma capital expenditures of $166 million. For the year ended December 31, 2013, we generated pro forma MRD Segment Adjusted EBITDA of $159 million and pro forma net loss of $2.9 million, and made pro forma total capital expenditures of $203 million. Please see Summary Historical

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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 six months ended June 30, 2014 was approximately 196 MMcfe/d (approximately 75% natural gas, 17% NGLs and 8% oil) and our reserve life was 15.8 years. The Terryville Complex represented 84% of our total net production for the six months ended June 30, 2014. As of December 31, 2013, we produced from 95 horizontal wells and 800 vertical wells. Since January 1, 2014, in the Terryville Complex we have completed and brought online 10 horizontal wells through June 30, 2014, bringing our total number of producing horizontal wells to 31 in our primary formations.

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 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.

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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 $304 million of our $351 million drilling and completion budget in 2014 to develop multiple zones within the Terryville Complex, where we expect to drill 43 gross (37 net) horizontal wells and 3 gross (2.7 net) vertical 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 31 gross (27 net) horizontal wells. 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 31 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 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 audited over $1 billion PV-10 and 677 Bcfe in our possible reserve category for the redevelopment of these additional zones. Please see Reserves.

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The table below details certain information on estimated ultimate recoveries and production for the 31 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 six rigs for the remainder of 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 97 for more detail on the average EUR and cumulative production of our properties in the Terryville Complex.

		Producing Wells					Gross Wellhead Flow Rates				
	Lateral		EUR			Cumulative	After Processing				
	Length	EUR	Bcfe/	First	Days	Production	(MMcfe/d)(3)(4)				D&C
Well Name(1)	**(Feet)**	**(Bcfe)(2)**	**1,000**	**Production**	**Producing**	**(Bcfe)**	**0-30**	**0-90**	**91-180**	**181-360**	**($MM)**
Upper Red Zone											
LD Barnett 23H-2	4,015	13.6	3.4	1/30/2012	883	4.8	14.5	12.0	7.7	5.6	6.7
Colquitt 20 17H-1	4,357	11.2	2.6	7/30/2012	701	4.0	17.5	12.6	7.2	5.1	7.7
Dowling 22 15H-1	5,376	16.8	3.1	9/22/2012	647	5.3	16.3	15.6	11.1	8.2	8.8
Nobles 13H-1	4,216	11.6	2.8	11/17/2012	591	4.4	21.5	16.7	9.9	6.5	7.8
Sidney McCullin 16 21H-1	4,604	16.9	3.7	1/19/2013	528	4.7	17.4	14.2	10.8	8.4	8.1
Wright 14 11 HC-1	5,250	18.0	3.4	5/27/2013	400	4.9	19.6	18.1	16.1	8.4	8.8
BF Fallin 22 15H-1	5,122	15.6	3.0	6/17/2013	379	3.4	14.8	13.7	11.8	5.9	7.5
Dowling 20 17H-1	4,327	8.9	2.1	7/22/2013	344	2.3	15.2	11.0	5.7		10.7
Gleason 31H-1	3,692	2.5	0.7	8/12/2013	323	0.5	2.9	2.3	1.8		9.5
Burnett 26H-1	2,405	4.2	1.7	9/22/2013	282	1.0	6.9	5.5	3.3		6.9
Drewett 17 8H-1	4,010	14.0	3.5	11/13/2013	230	3.2	22.1	18.7	12.0		7.7
Wright 13 12 HC-2	6,009	18.1	3.0	12/21/2013	192	3.4	22.7	19.6	16.2		8.6
LA Minerals 15 22H-2	5,814	N/A	N/A	1/21/2014	161	2.4	18.1	16.3			9.4
Wright 13 24 HC-3	6,606	N/A	N/A	4/14/2014	78	2.0	30.3				10.7
Wright 13 24 HC-1	6,678	N/A	N/A	4/14/2014	78	1.6	25.0				11.8
TL McCrary 14 11 HC-5	5,875	N/A	N/A	4/14/2014	78	1.8	22.9				10.2
LA Minerals 19 30 HC-2	6,912	N/A		5/29/2014	33	0.8	25.1				10.5
LA Minerals 19 30 HC-1	6,519	N/A		6/1/2014	30	0.6	21.8				11.6
Lower Red Zone											
TL McCrary 14H-1	4,544	12.8	2.8	5/1/2012	791	4.2	14.4	11.7	8.3	5.4	7.7
Nobles 13H-2	4,060	9.2	2.3	11/17/2012	591	3.2	16.0	11.9	8.4	5.2	7.8
LA Methodist Orphanage 14H-1	3,637	12.1	3.3	2/15/2013	501	3.8	13.9	13.0	9.7	6.3	9.1
Dowling 21 16H-1	4,590	9.4	2.0	3/18/2013	470	2.7	13.0	10.1	6.5	4.5	6.6
Drewett 17 8H-2	3,700	3.7	1.0	11/13/2013	230	1.0	8.7	6.2	3.1		7.0
Wright 13 12 HC-1	5,409	8.2	1.5	12/21/2013	192	1.7	14.7	11.4	7.2		9.3
LA Minerals 15 22H-1	5,926	N/A	N/A	1/21/2014	161	1.4	13.8	10.9			8.8
Wright 13 24 HC-4	6,518	N/A	N/A	4/14/2014	78	1.6	25.7				13.4
LA Minerals 19 30 HC-3	5,356	N/A	N/A	5/29/2014	33	0.3	8.8				12.1
LA Minerals 19 30 HC-4	6,469	N/A	N/A	6/1/2014	30	0.4	14.1				13.6
Lower Deep Pink Zone											
LA Methodist Orphanage 14H-2	3,550	12.2	3.4	2/15/2013	501	3.3	14.2	11.6	7.6	5.6	6.1
Wright 13 12 HC-4	5,010	5.0	1.0	12/21/2013	192	1.3	11.8	8.8	4.8		7.0
Wright 13 12 HC-3	5,706	6.3	1.1	12/21/2013	192	1.3	12.5	9.3	5.0		7.4
Averages											
All Wells	**5,041**	**11.0**	**2.5**		**320**	**2.5**	**16.7**	**12.2**	**8.3**	**6.3**	**9.0**
Upper Red	**5,099**	**12.6**	**2.7**		**331**	**2.8**	**18.6**	**13.6**	**9.5**	**6.9**	**9.1**
Lower Red	**5,021**	**9.2**	**2.2**		**308**	**2.0**	**14.3**	**10.7**	**7.2**	**5.4**	**9.5**
Lower Deep Pink	**4,755**	**7.8**	**1.8**		**295**	**2.0**	**12.8**	**9.9**	**5.8**	**5.6**	**6.8**

(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 11 HC-5, Wright 13 24 HC-1, Wright 13 24 HC-3, Wright 13 24 HC-4, LA Minerals 19 30 HC-1, LA Minerals 19 30 HC-2, LA Minerals 19 30 HC-3 and LA Minerals 19 30 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 June 30, 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.

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 $29 million to drill 4 gross (3 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 six months ended June 30, 2014, our average net daily production from our East Texas properties was 25 MMcfe/d, of which 75% was natural gas. Within our East Texas properties, on a proved reserves basis, we operate approximately 91% 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 six months ended June 30, 2014 our average net daily production from this region was 6 MMcfe/d. In 2014, we plan to invest $18 million to complete 2 gross (2 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.

Reserves

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 six months ended June 30, 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	165
East Texas	175	75%	29%	110	109	18	66	3	25
Rockies	6	49%	100%	18	2	2	2	1	6
Total	1,126	71%	33%	$ 1,469	800	$ 1,052	1,711	$ 2,386	196

(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

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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 our initial public offering, we were not subject to entity level taxation. Accordingly, no provision for federal income taxes has been provided because taxable income for 2013 was 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. Since the closing of our initial public offering, we are 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.

Drilling Inventory and Capital Budget

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 $351 million to drill 47 gross (39 net) operated horizontal wells. We expect to fund our 2014 development primarily from cash flows from operations. The majority of our drilling l