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Memorial Resource Development Corp.  
Form 10-Q  
May 10, 2016

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended March 31, 2016

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: 001-36490

MEMORIAL RESOURCE DEVELOPMENT CORP.

(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of incorporation or organization) 46-4710769  
(I.R.S. Employer Identification No.)

500 Dallas Street, Suite 1800, Houston, TX  
(Address of principal executive offices) 77002  
(Zip Code)

Registrant's telephone number, including area code: (713) 588-8300

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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 definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. Check one:

Large accelerated filer

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

As of April 30, 2016, the registrant had 206,360,992 shares of common stock, \$.01 par value, outstanding

MemORIAL RESOURCE DEVELOPMENT CORP.

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## GLOSSARY OF OIL AND NATURAL GAS TERMS

**Analogous Reservoir:** Analogous reservoirs, as used in resource assessments, have similar rock and fluid properties, reservoir conditions (depth, temperature, and pressure) and drive mechanisms, but are typically at a more advanced stage of development than the reservoir of interest and thus may provide concepts to assist in the interpretation of more limited data and estimation of recovery. When used to support proved reserves, analogous reservoir refers to a reservoir that shares all of the following characteristics with the reservoir of interest: (i) the same geological formation (but not necessarily in pressure communication with the reservoir of interest); (ii) the same environment of deposition; (iii) similar geologic structure; and (iv) the same drive mechanism.

**Bbl:** One stock tank barrel, or 42 U.S. gallons liquid volume, used in reference to oil or other liquid hydrocarbons.

**Bcfe:** One billion cubic feet of natural gas equivalent.

**BOEM:** Bureau of Ocean Energy Management.

**Btu:** One British thermal unit, the quantity of heat required to raise the temperature of a one-pound mass of water by one degree Fahrenheit.

**COPAS:** Council of Petroleum Accountants Societies.

**Dry Hole or Dry Well:** A well found to be incapable of producing hydrocarbons in sufficient quantities such that proceeds from the sale of such production would exceed production expenses and taxes.

**Economically Producing:** The term economically producing, as it relates to a resource, means a resource which generates revenue that exceeds, or is reasonably expected to exceed, the costs of the operation. For this determination, the value of the products that generate revenue are determined at the terminal point of oil and natural gas producing activities.

**Exploitation:** A development or other project which may target proven or unproven reserves (such as probable or possible reserves), but which generally has a lower risk than that associated with exploration projects.

**Field:** An area consisting of a single reservoir or multiple reservoirs all grouped on or related to the same individual geological structural feature and/or stratigraphic condition. The field name refers to the surface area, although it may refer to both the surface and the underground productive formations.

**Gross Acres or Gross Wells:** The total acres or wells, as the case may be, in which we have working interest.

**MBbl:** One thousand Bbls.

**Mcf:** One thousand cubic feet of natural gas.

**MMBtu:** One million British thermal units.

**MMcf:** One million cubic feet of natural gas.

**MMcfe:** One million cubic feet of natural gas equivalent.

Net Production: Production that is owned by us less royalties and production due others.

NGLs: The combination of ethane, propane, butane and natural gasolines that when removed from natural gas become liquid under various levels of higher pressure and lower temperature.

NYMEX: New York Mercantile Exchange.

Oil: Oil and condensate.

Operator: The individual or company responsible for the exploration and/or production of an oil or natural gas well or lease.

Play: A geographic area with hydrocarbon potential.

Possible Reserves: Reserves that are less certain to be recovered than probable reserves.

Probable Reserves: Reserves that are less certain to be recovered than proved reserves but that, together with proved reserves, are as likely as not to be recovered.

**Proved Reserves:** Those quantities of oil and natural gas, which, by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be economically producible, from a given date forward, from known reservoirs, and under existing economic conditions, operating methods, and government regulations, prior to the time at which contracts providing the right to operate expire, unless evidence indicates that renewal is reasonably certain, regardless of whether deterministic or probabilistic methods are used for the estimation. The project to extract the hydrocarbons must have commenced, or the operator must be reasonably certain that it will commence the project, within a reasonable time. The area of the reservoir considered as proved includes (i) the area identified by drilling and limited by fluid contacts, if any, and (ii) adjacent undrilled portions of the reservoir that can, with reasonable certainty, be judged to be continuous with it and to contain economically producible oil or natural gas on the basis of available geoscience and engineering data. In the absence of data on fluid contacts, proved quantities in a reservoir are limited by the lowest known hydrocarbons, as seen in a well penetration, unless geoscience, engineering or performance data and reliable technology establishes a lower contact with reasonable certainty. Where direct observation from well penetrations has defined a highest known oil elevation and the potential exists for an associated natural gas cap, proved oil reserves may be assigned in the structurally higher portions of the reservoir only if geoscience, engineering, or performance data and reliable technology establish the higher contact with reasonable certainty. Reserves which can be produced economically through application of improved recovery techniques (including fluid injection) are included in the proved classification when (i) successful testing by a pilot project in an area of the reservoir with properties no more favorable than in the reservoir as a whole, the operation of an installed program in the reservoir, or an analogous reservoir or other evidence using reliable technology establishes the reasonable certainty of the engineering analysis on which the project or program was based; and (ii) the project has been approved for development by all necessary parties and entities, including governmental entities. Existing economic conditions include prices and costs at which economic producibility from a reservoir is to be determined. The price used is the average price during the twelve-month period prior to the ending date of the period covered by the report, determined as an unweighted arithmetic average of the first-day-of-the-month price for each month within such period, unless prices are defined by contractual arrangements, excluding escalations based upon future conditions.

**PUDs: Proved Undeveloped Reserves.**

**Proved Undeveloped Reserves:** Proved oil and natural gas reserves that are expected to be recovered from new wells on undrilled acreage or from existing wells where a relatively major expenditure is required for recompletion. Reserves on undrilled acreage are limited to those drilling units offsetting productive units that are reasonably certain of production when drilled. Proved reserves for other undrilled units can be claimed only where it can be demonstrated with certainty that there is continuity of production from the existing productive formation. Under no circumstances should estimates for proved undeveloped reserves be attributable to any acreage for which an application of fluid injection or other improved recovery technique is contemplated, unless such techniques have been proved effective by actual tests in the area and in the same reservoir.

**Recompletion:** The completion for production of an existing wellbore in another formation from that which the well has been previously completed.

**Reliable Technology:** Reliable technology is a grouping of one or more technologies (including computational methods) that has been field tested and has been demonstrated to provide reasonably certain results with consistency and repeatability in the formation being evaluated or in an analogous formation.

**Reserve Life:** A measure of the productive life of an oil and natural gas property or a group of properties, expressed in years. Reserve life is calculated by dividing proved reserve volumes at year-end by production volumes. In our calculation of reserve life, production volumes are adjusted, if necessary, to reflect property acquisitions and

dispositions.

**Reserves:** Reserves are estimated remaining quantities of oil and natural gas and related substances anticipated to be economically producible, as of a given date, by application of development projects to known accumulations. In addition, there must exist, or there must be a reasonable expectation that there will exist, the legal right to produce or a revenue interest in the production, installed means of delivering oil and natural gas or related substances to market and all permits and financing required to implement the project. Reserves should not be assigned to adjacent reservoirs isolated by major, potentially sealing, faults until those reservoirs are penetrated and evaluated as economically producible. Reserves should not be assigned to areas that are clearly separated from a known accumulation by a non-productive reservoir (i.e., absence of reservoir, structurally low reservoir or negative test results). Such areas may contain prospective resources (i.e., potentially recoverable resources from undiscovered accumulations).

**Reservoir:** A porous and permeable underground formation containing a natural accumulation of producible oil and/or natural gas that is confined by impermeable rock or water barriers and is individual and separate from other reserves.

**Resources:** Resources are quantities of oil and natural gas estimated to exist in naturally occurring accumulations. A portion of the resources may be estimated to be recoverable and another portion may be considered unrecoverable. Resources include both discovered and undiscovered accumulations.



**Standardized Measure:** The present value of estimated future net revenue to be generated from the production of proved reserves, determined in accordance with the rules, regulations or standards established by the United States Securities and Exchange Commission (“SEC”) and the Financial Accounting Standards Board (“FASB”) (using prices and costs in effect as of the date of estimation), less future development, production and income tax expenses, and discounted at 10% per annum to reflect the timing of future net revenue. Because we are a corporation, we are subject to federal or state income taxes and thus make provisions for federal or state income taxes in the calculation of our standardized measure. Standardized measure does not give effect to derivative transactions.

**Wellbore:** The hole drilled by the bit that is equipped for oil or natural gas production on a completed well. Also called well or borehole.

**Working Interest:** An interest in an oil and natural gas lease that gives the owner of the interest the right to drill for and produce oil and natural gas on the leased acreage and requires the owner to pay a share of the costs of drilling and production operations.

**WTI:** West Texas Intermediate.

## NAMES OF ENTITIES

As used in this Form 10-Q, unless we indicate otherwise:

- Unless the context requires otherwise, references to “we,” “us,” “our,” “MRD,” or “the Company” or like terms are intended mean the business and operations of Memorial Resource Development Corp. and its consolidated subsidiaries;
- “Memorial Production Partners,” “MEMP” and “the Partnership” refer to Memorial Production Partners LP individually and collectively with its subsidiaries, as the context requires;
- “MEMP GP” refers to Memorial Production Partners GP LLC, the general partner of the Partnership;
  - “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 control MRD Holdco;
- “MRD Holdco” refers to MRD Holdco LLC, a holding company controlled by the Funds that, together with a group, owns a majority of our common stock;
- “NGP” refers to Natural Gas Partners, a family of private equity funds organized to make direct equity investments in the energy industry, including the Funds; and
- “Classic Pipeline” refers to Classic Pipeline & Gathering, LLC, a subsidiary of MRD Holdco that owned certain immaterial midstream assets in Texas.

#### CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This quarterly report contains “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Forward-looking statements are subject to a number of risks and uncertainties, many of which are beyond our control, may include statements about our:

- business strategy;
- estimated reserves and the present value thereof;
- technology;
- cash flows and liquidity;
- financial strategy, budget, projections and future operating results;
- realized commodity prices;
- timing and amount of future production of reserves;
- ability to procure drilling and production equipment;
- ability to procure oilfield labor;
  - the amount, nature and timing of capital expenditures, including future development costs;
- ability to access, and the terms of, capital;
- drilling of wells, including statements made about future horizontal drilling activities;
- competition;
- expectations regarding government regulations;
- marketing of production and the availability of pipeline capacity;
- exploitation or property acquisitions;
- costs of exploiting and developing our properties and conducting other operations;
- expectations regarding general economic and business conditions;
- competition in the oil and natural gas industry;
- effectiveness of our risk management activities;
- environmental and other liabilities;
- counterparty credit risk;
- expectations regarding taxation of the oil and natural gas industry;
- expectations regarding developments in other countries that produce oil and natural gas;
- future operating results;
- plans and objectives of management; and
- plans, objectives, expectations and intentions contained in this report that are not historical.

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These types of statements, other than statements of historical fact included in this quarterly report, are forward-looking statements. In some cases, you can identify forward-looking statements by terminology such as “may,” “will,” “could,” “should,” “expect,” “plan,” “project,” “forecast,” “intend,” “anticipate,” “believe,” “estimate,” “predict,” “potential,” “target,” “outlook,” “continue,” the negative of such terms or other comparable terminology. These statements discuss future expectations, contain projections of results of operations or of financial condition or include other “forward-looking” information. These forward-looking statements involve risks and uncertainties. Important factors that could cause our actual results or financial condition to differ materially from our expectations include, but are not limited to, the following risks and uncertainties:

- variations in the market demand for, and prices of, oil, natural gas and NGLs;
- uncertainties about our estimated reserves;
- the adequacy of our capital resources and liquidity including, but not limited to, access to additional borrowing capacity under our revolving credit facility;
- general economic and business conditions;
- risks associated with negative developments in the capital markets;
- failure to realize expected value creation from property acquisitions;
- uncertainties about our ability to replace reserves and economically develop our current reserves;
- drilling results;
  - potential financial losses or earnings reductions from our commodity price risk management programs;
- adoption or potential adoption of new governmental regulations;
- the availability of capital on economic terms to fund our capital expenditures and acquisitions;
- risks associated with our substantial indebtedness;
- our ability to satisfy future cash obligations and environmental costs; and
- potential changes to certain favorable tax deductions available to oil and natural gas exploration and production operations due to future legislative actions.

The forward-looking statements contained in this quarterly report are largely based on our expectations, which reflect estimates and assumptions made by our management. These estimates and assumptions reflect our best judgment based on currently known market conditions and other factors. Although we believe such estimates and assumptions to be reasonable, they are inherently uncertain and involve a number of risks and uncertainties that are beyond our control. In addition, management’s assumptions about future events may prove to be inaccurate. All readers are cautioned that the forward-looking statements contained in this quarterly report are not guarantees of future performance, and we cannot assure any reader that such statements will be realized or that the events or circumstances described in any forward-looking statement will occur. Actual results may differ materially from those anticipated or implied in the forward-looking statements due to factors described in the “Part I—Item 1A. Risk Factors” of our Annual Report on Form 10-K for the year ended December 31, 2015 (our “2015 Form 10-K”) and “Part II—Item 1A. Risk Factors” appearing within this quarterly report and elsewhere in this quarterly report. All forward-looking statements speak only as of the date of this quarterly report. We do not intend to update or revise any forward-looking statements as a result of new information, future events or otherwise. These cautionary statements qualify all forward-looking statements attributable to us or persons acting on our behalf.



## PART I—FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS.

## MEMORIAL RESOURCE DEVELOPMENT CORP.

## UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except outstanding shares)

	March 31, 2016	December 31, 2015
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents (including VIEs \$836 and \$599, respectively)	\$2,075	\$2,175
Accounts receivable (including VIEs \$45,290 and \$60,239, respectively)	112,724	114,095
Short-term derivative instruments (including VIEs \$259,854 and \$272,320, respectively)	472,956	500,311
Other financial instruments (Note 5)	35,358	46,106
Prepaid expenses and other current assets (including VIEs \$4,839 and \$7,028, respectively)	11,443	13,017
Total current assets	634,556	675,704
Property and equipment, at cost:		
Oil and natural gas properties, successful efforts method (including VIEs \$3,845,982 and \$3,822,201, respectively) (Note 2)	6,181,292	5,982,209
Other (including VIEs \$2,491 and \$2,671, respectively)	26,837	26,826
Accumulated depreciation, depletion and impairment (including VIEs \$(1,931,091) and \$(1,878,549), respectively)	(2,430,065)	(2,317,651)
Property and equipment, net	3,778,064	3,691,384
Long-term derivative instruments (including VIEs \$442,616 and \$461,810, respectively)	517,045	553,101
Restricted investments (including VIEs \$154,766 and \$152,631, respectively)	154,766	152,631
Other long-term assets (including VIEs \$4,519 and \$5,053, respectively)	12,482	10,029
Total assets	\$5,096,913	\$5,082,849
<b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Accounts payable (including VIEs \$6,863 and \$8,792, respectively)	\$27,711	\$33,849
Accounts payable - affiliates (including VIEs \$0 and \$193, respectively)	9,443	5,209
Revenues payable (including VIEs \$25,427 and \$25,504, respectively)	58,572	61,047
Accrued liabilities (including VIEs \$61,744 and \$52,923, respectively) (Note 2)	133,998	121,799
Short-term derivative instruments (including VIEs \$2,098 and \$2,850, respectively)	2,098	2,850
Total current liabilities	231,822	224,754

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Long-term debt—MRD Segment	1,113,483	1,012,064
Long-term debt—MEMP Segment	1,957,984	2,000,579
Asset retirement obligations (including VIEs \$164,964 and \$162,989, respectively)	175,495	173,068
Long-term derivative instruments (including VIEs \$2,161 and \$1,441, respectively)	2,161	1,441
Deferred tax liabilities (including VIEs \$2,158 and \$2,094, respectively)	198,320	195,827
Other long-term liabilities	6,689	7,195
Total liabilities	3,685,954	3,614,928
Commitments and contingencies (Note 14)		
Equity:		
Stockholders' equity:		
Preferred stock, \$.01 par value: 50,000,000 shares authorized; no shares issued and outstanding	—	—
Common stock, \$.01 par value: 600,000,000 shares authorized; 205,291,293 shares issued and outstanding at March 31, 2016; 205,293,743 shares issued and outstanding at December 31, 2015	2,053	2,053
Additional paid-in capital	1,542,340	1,560,949
Accumulated earnings (deficit)	(734,769 )	(740,175 )
Total stockholders' equity	809,624	822,827
Noncontrolling interests	601,335	645,094
Total equity	1,410,959	1,467,921
Total liabilities and equity	\$5,096,913	\$5,082,849

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

## MEMORIAL RESOURCE DEVELOPMENT CORP.

## UNAUDITED CONDENSED STATEMENTS OF CONSOLIDATED OPERATIONS

(In thousands, except per share amounts)

	For the Three Months Ended March 31,	
	2016	2015
<b>Revenues:</b>		
Oil & natural gas sales	\$ 141,701	\$ 178,972
Other revenues	243	869
Total revenues	141,944	179,841
<b>Costs and expenses:</b>		
Lease operating	42,410	45,700
Gathering, processing, and transportation	31,150	23,429
Gathering, processing, and transportation - affiliate (Note 12)	14,187	—
Exploration	2,568	816
Taxes other than income	6,872	9,430
Depreciation, depletion, and amortization	104,228	91,798
Impairment of proved oil and natural gas properties	8,342	251,347
Incentive unit compensation expense (benefit) (Note 11)	(21,761 )	10,224
General and administrative	24,657	27,487
Accretion of asset retirement obligations	2,847	1,757
(Gain) loss on commodity derivative instruments	(88,187 )	(253,649)
(Gain) loss on sale of properties	(46 )	—
Other, net	119	—
Total costs and expenses	127,386	208,339
Operating income (loss)	14,558	(28,498 )
Other income (expense):		
Interest expense, net	(43,909 )	