

Midstates Petroleum Company, Inc.
Form 10-Q
May 11, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2015

OR

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

For the transition period from _____ to _____

Commission File Number: 001-35512

MIDSTATES PETROLEUM COMPANY, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

45-3691816
(I.R.S. Employer
Identification No.)

321 South Boston, Suite 1000
Tulsa, Oklahoma
(Address of principal executive offices)

74103
(Zip Code)

(918) 947-8550

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer
Non-accelerated filer
(Do not check if a smaller reporting company)

Accelerated filer
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

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The number of shares outstanding of our common stock at May 4, 2015 is shown below:

Class	Number of shares outstanding
Common stock, \$0.01 par value	71,719,939

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MIDSTATES PETROLEUM COMPANY, INC.
QUARTERLY REPORT ON
FORM 10-Q
FOR THE THREE MONTHS ENDED MARCH 31, 2015

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GLOSSARY OF OIL AND NATURAL GAS TERMS

Bbl: One stock tank barrel, of 42 U.S. gallons liquid volume, used herein in reference to oil, condensate or natural gas liquids.

Boe: Barrels of oil equivalent, with 6,000 cubic feet of natural gas being equivalent to one barrel of oil.

Boe/day: Barrels of oil equivalent per day.

Completion: The process of treating a drilled well followed by the installation of permanent equipment for the production of natural gas or oil, or in the case of a dry hole, the reporting of abandonment to the appropriate agency.

Dry hole: A well found to be incapable of producing hydrocarbons in sufficient quantities such that proceeds from the sale of such production do not exceed production expenses and taxes.

Exploratory well: A well drilled to find a new field or to find a new reservoir in a field previously found to be productive of natural gas or oil in another reservoir.

Mcf: One thousand cubic feet of natural gas.

MMBoe: One million barrels of oil equivalent.

MMBtu: One million British thermal units.

Net acres: The percentage of total acres an owner has out of a particular number of acres, or a specified tract. An owner who has 50% interest in 100 acres owns 50 net acres.

NYMEX: The New York Mercantile Exchange.

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Proved reserves: Those quantities of oil and 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 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 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, but not limited to, 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 is the average price during the 12-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.

Reasonable certainty: A high degree of confidence.

Recompletion: The process of re-entering an existing wellbore that is either producing or not producing and completing new reservoirs in an attempt to establish or increase existing production.

Reserves: 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.

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

Spud or Spudding: The commencement of drilling operations of a new well.

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

Working interest: The right granted to the lessee of a property to explore for and to produce and own oil, gas, or other minerals. The working interest owners bear the exploration, development, and operating costs on a cash, penalty, or carried basis.

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PART I - FINANCIAL INFORMATION

MIDSTATES PETROLEUM COMPANY, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(In thousands, except share amounts)

	March 31, 2015	December 31, 2014
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 11,941	\$ 11,557
Accounts receivable:		
Oil and gas sales	56,843	69,161
Joint interest billing	28,550	42,407
Other	20,157	22,193
Commodity derivative contracts	95,473	126,709
Other current assets	2,119	1,098
Total current assets	215,083	273,125
PROPERTY AND EQUIPMENT:		
Oil and gas properties, on the basis of full-cost accounting	3,532,976	3,442,681
Other property and equipment	13,845	13,454
Less accumulated depreciation, depletion, amortization and impairment	(1,566,043)	(1,333,019)
Net property and equipment	1,980,778	2,123,116
OTHER ASSETS:		
Deferred income taxes	33,119	35,821
Other noncurrent assets	42,619	43,731
Total other assets	75,738	79,552
TOTAL	\$ 2,271,599	\$ 2,475,793
LIABILITIES AND EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$ 24,006	\$ 22,783
Accrued liabilities	182,488	183,831
Deferred income taxes	33,119	44,862
Total current liabilities	239,613	251,476
LONG-TERM LIABILITIES:		
Asset retirement obligations	22,044	21,599
Long-term debt	1,735,150	1,735,150
Other long-term liabilities	1,486	1,706
Total long-term liabilities	1,758,680	1,758,455
COMMITMENTS AND CONTINGENCIES (Note 15)		
STOCKHOLDERS EQUITY:		
Preferred stock, \$0.01 par value, 49,675,000 shares authorized; no shares issued or outstanding		

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Series A mandatorily convertible preferred stock, \$0.01 par value, \$395,412 and \$387,808 liquidation value at March 31, 2015 and December 31, 2014, respectively; 8% cumulative dividends; 325,000 shares issued and outstanding	3	3
Common stock, \$0.01 par value, 300,000,000 shares authorized; 72,440,407 shares issued and 71,650,849 shares outstanding at March 31, 2015 and 70,491,732 shares issued and 69,957,055 shares outstanding at December 31, 2014	724	704
Treasury stock, at cost	(2,897)	(2,592)
Additional paid-in-capital	883,177	881,894
Retained deficit	(607,701)	(414,147)
Total stockholders equity	273,306	465,862
TOTAL	\$ 2,271,599	\$ 2,475,793

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

Table of Contents**MIDSTATES PETROLEUM COMPANY, INC.****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS****(Unaudited)****(In thousands, except per share amounts)**

	For the Three Months Ended March 31,	
	2015	2014
REVENUES:		
Oil sales	\$ 59,257	\$ 116,222
Natural gas liquid sales	11,010	25,519
Natural gas sales	19,172	25,385
Gains (losses) on commodity derivative contracts - net	21,372	(22,673)
Other	387	209
Total revenues	111,198	144,662
EXPENSES:		
Lease operating and workover	23,262	20,127
Gathering and transportation	3,438	2,855
Severance and other taxes	3,565	7,647
Asset retirement accretion	445	497
Depreciation, depletion, and amortization	58,428	66,901
Impairment in carrying value of oil and gas properties	174,667	86,471
General and administrative	11,654	11,684
Acquisition and transaction costs		128
Advisory fees	1,743	
Other	97	330
Total expenses	277,299	196,640
OPERATING INCOME (LOSS)	(166,101)	(51,978)
OTHER INCOME (EXPENSE):		
Interest income	9	10
Interest expense net of amounts capitalized	(36,503)	(33,947)
Total other income (expense)	(36,494)	(33,937)
LOSS BEFORE TAXES	(202,595)	(85,915)
Income tax benefit	9,041	2,270
NET LOSS	\$ (193,554)	\$ (83,645)
Preferred stock dividend	(131)	(2,620)
Participating securities - Series A Preferred Stock		
Participating securities - Non-vested Restricted Stock		

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NET LOSS ATTRIBUTABLE TO COMMON SHAREHOLDERS	\$	(193,685)	\$	(86,265)
Basic and diluted net loss per share attributable to common shareholders	\$	(2.88)	\$	(1.31)
Basic and diluted weighted average number of common shares outstanding		67,261		65,987

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

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MIDSTATES PETROLEUM COMPANY, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY

(Unaudited)

(In thousands)

	Series A Preferred Stock	Common Stock	Treasury Stock	Additional Paid-in- Capital	Retained Deficit	Total Stockholders Equity
Balance as of December 31, 2014	\$ 3	\$ 704	\$ (2,592)	\$ 881,894	\$ (414,147)	\$ 465,862
Share-based compensation		20		1,283		1,303
Acquisition of treasury stock			(305)			(305)
Net loss					(193,554)	(193,554)
Balance as of March 31, 2015	\$ 3	\$ 724	\$ (2,897)	\$ 883,177	\$ (607,701)	\$ 273,306

	Series A Preferred Stock	Common Stock	Treasury Stock	Additional Paid-in- Capital	Retained Deficit	Total Stockholders Equity
Balance as of December 31, 2013	\$ 3	\$ 689	\$ (664)	\$ 871,047	\$ (531,076)	\$ 339,999
Share-based compensation		16		2,049		2,065
Acquisition of treasury stock			(649)			(649)
Net loss					(83,645)	(83,645)
Balance as of March 31, 2014	\$ 3	\$ 705	\$ (1,313)	\$ 873,096	\$ (614,721)	\$ 257,770

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

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MIDSTATES PETROLEUM COMPANY, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In thousands)

	Three Months Ended March 31,	
	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (193,554)	\$ (83,645)
<i>Adjustments to reconcile net loss to net cash provided by operating activities:</i>		
(Gains) losses on commodity derivative contracts net	(21,372)	22,673
Net cash received (paid) for commodity derivative contracts	52,608	(14,810)
Asset retirement accretion	445	497
Depreciation, depletion, and amortization	58,428	66,901
Impairment in carrying value of oil and gas properties	174,667	86,471
Share-based compensation, net of amounts capitalized to oil and gas properties	801	1,541
Deferred income taxes	(9,041)	(2,270)
Amortization of deferred financing costs	1,869	2,386
<i>Change in operating assets and liabilities:</i>		
Accounts receivable oil and gas sales	27,572	(2,767)
Accounts receivable JIB and other	13,475	(8,116)
Other current and noncurrent assets	(1,089)	(3,972)
Accounts payable	322	2,813
Accrued liabilities	8,106	37,170
Other	(220)	537
Net cash provided by operating activities	\$ 113,017	\$ 105,409
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment in property and equipment	(111,167)	(122,780)
Net cash used in investing activities	\$ (111,167)	\$ (122,780)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Deferred financing costs	(1,161)	(495)
Acquisition of treasury stock	(305)	(649)
Net cash used in financing activities	\$ (1,466)	\$ (1,144)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	384	(18,515)
Cash and cash equivalents, beginning of period	\$ 11,557	\$ 33,163
Cash and cash equivalents, end of period	\$ 11,941	\$ 14,648
SUPPLEMENTAL INFORMATION:		
Non-cash transactions investments in property and equipment accrued - not paid	\$ 71,900	\$ 134,000
Cash paid for interest, net of capitalized interest of \$1.0 million and \$4.6 million, respectively	2,321	

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

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MIDSTATES PETROLEUM COMPANY, INC.

Notes to Unaudited Condensed Consolidated Financial Statements

1. Organization and Business

Midstates Petroleum Company, Inc., through its wholly owned subsidiary Midstates Petroleum Company LLC, engages in the business of drilling for, and production of, oil, natural gas liquids (NGLs) and natural gas. Midstates Petroleum Company, Inc. was incorporated pursuant to the laws of the State of Delaware on October 25, 2011 to become a holding company for Midstates Petroleum Company LLC (Midstates Sub), which was previously a wholly owned subsidiary of Midstates Petroleum Holdings LLC (Holdings LLC). The terms Company, we, us, our, similar terms when used in the present tense, prospectively or for historical periods since April 25, 2012, refer to Midstates Petroleum Company, Inc. and its subsidiary, unless the context indicates otherwise.

The Company has oil and gas operations and properties in Oklahoma, Texas and Louisiana. At March 31, 2015, the Company operated oil and natural gas properties as one reportable segment engaged in the exploration, development and production of oil, natural gas liquids and natural gas. The Company's management evaluates performance based on one reportable segment as all our operations are located in the United States and therefore we maintain one cost center.

2. Liquidity and Capital Resources

As of March 31, 2015, the Company had available cash of approximately \$11.9 million and availability under its reserve based revolving credit facility (the Credit Facility) of approximately \$88.4 million. As of March 31, 2015, payments due on contractual obligations during the remainder of 2015, as well as for the years ending December 31, 2016 and 2017 are approximately \$143.5 million, \$132.0 million and \$131.2 million, respectively. This includes approximately \$387.8 million of interest payments on the senior notes, but excludes interest on our Credit Facility, for the remainder of 2015, as well as for the years ending December 31, 2016 and 2017. The Company believes it will need to complete certain transactions, including management of debt capital structure and potential asset sales, to have sufficient liquidity to satisfy these obligations, as well as other obligations such as fixed drilling commitments and operating leases, in the long term.

Liquidity Sufficiency

As a result of substantial declines in oil and gas prices during the latter half of 2014 and continuing into the first part of 2015, the liquidity outlook of the Company has been impacted. As a result, we expect lower operating cash flows than previously experienced and if commodity prices continue to remain low, our liquidity will be further impacted as current hedging contracts expire. During the three months ended March 31, 2015, the Company received cash payments on settled derivative contracts of \$52.6 million. Such cash payments will not be received in 2016 and future periods due to the expiration of our hedging contracts.

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As a result of the commodity price decline and the Company's substantial debt burden, the Company continues to believe forecasted cash and expected available credit capacity will not be sufficient to meet commitments as they come due and, absent a material improvement in oil and gas prices, the Company will not be able to remain in compliance with current debt covenants unless able to successfully increase liquidity. Additionally, while the terms of the Credit Facility were amended in March 2015 to allow the divestiture of certain of its oil and gas properties in Beauregard and Calcasieu Parishes, Louisiana, which closed on April 21, 2015 (Sale of Dequincy), with no associated reduction in the borrowing base of the Credit Facility, absent additional amendments, the terms of the Credit Facility and the indentures governing the senior notes require that some or all of the proceeds from certain future asset sales be used to permanently reduce outstanding debt, which could substantially reduce the amount of proceeds retained. Additionally, the covenants in these debt instruments impose limitations on the amount and type of additional indebtedness the Company can incur, which may significantly reduce the ability to obtain liquidity through the incurrence of additional indebtedness. Furthermore, the ability to refinance any of the existing indebtedness on commercially reasonable terms may be materially and adversely impacted by the current conditions in the energy industry and the Company's financial condition.

The interest payment obligations are substantial, and the Company is required to pay approximately \$32 million in interest on the 2020 Senior Notes (as defined below) on each of April 1 and October 1 and approximately \$32 million in interest on the 2021 Senior Notes (as defined below) on each of June 1 and December 1. The Company received a going concern qualification from its independent registered public accounting firm for the year ended December 31, 2014, but obtained a waiver to the Credit Facility waiving any default as a result of receiving such qualification. As the Company pursues the actions mentioned above to increase liquidity, it will likely need to negotiate additional waivers or amendments to the Credit Facility or indentures to facilitate those actions. There can be no assurance that the lenders or the holders of the senior notes will agree to any amendment or waiver on acceptable terms and if a default occurs, a failure to do so may provide the lenders the opportunity to accelerate the outstanding debt under these facilities and it would be classified as a current liability on the balance sheet.

The uncertainty associated with the Company's ability to meet commitments as they come due or to repay outstanding debt raises substantial doubt about the Company's ability to continue as a going concern. The accompanying financial statements do not include

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any adjustments related to the recoverability and classification of recorded assets or the amounts and classification of liabilities that might result from the uncertainty associated with the ability to meet obligations as they come due.

The Company continues to pursue a number of actions including (i) actively managing the debt capital structure, (ii) selling additional assets, (iii) minimizing capital expenditures, (iv) obtaining waivers or amendments from lenders, (v) effectively managing working capital and (vi) improving cash flows from operations. As previously announced, in early 2015 the Company engaged Evercore and Kirkland & Ellis to assist with reviewing all options to improve its liquidity profile and strengthen its balance sheet. These efforts continue in earnest and the Company is considering all available strategic alternatives and financing possibilities, including, without limitation, the incurrence of additional secured indebtedness and the exchange or refinancing of existing obligations. We can provide no assurance that these discussions will result in the completion of a transaction, or that any completed transaction will result in sufficient liquidity to satisfy our obligations.

Financial Ratio Covenants

As of March 31, 2015, the ratio of net consolidated indebtedness to EBITDA was 3.7:1.0 and the ratio of current assets to current liabilities was 1.0:1.0. As calculated for covenant compliance purposes, the Company's current assets exceeded its current liabilities by approximately \$1.5 million at March 31, 2015. If liquidity concerns are not addressed in the near term, the Company will likely breach the financial ratio covenants of the Credit Facility in 2015. As of March 31, 2015, the Company was in compliance with the financial ratio covenants included in the Credit Facility.

Borrowing Base Redetermination

On March 24, 2015, the Company and Midstates Sub entered into a Sixth Amendment (the "Sixth Amendment") to the Second Amended and Restated Credit Agreement dated as of June 8, 2012, among Midstates, Midstates Sub, as borrower, SunTrust Bank, N.A., as administrative agent, and the lenders and other parties thereto (the "Credit Agreement"). The Sixth Amendment provides that Midstates Sub's borrowing base will remain at its current size of \$525.0 million as part of the regular semi-annual borrowing base redetermination under the Credit Agreement. The Sixth Amendment also confirmed that the borrowing base will not be reduced as a result of the Sale of Dequincy. The Sixth Amendment amends the required ratio of net consolidated indebtedness to EBITDA under the Credit Agreement for each of the fiscal quarters in 2015 from 4.0:1.0 to 4.5:1.0. Additionally, the Sixth Amendment amends the mortgage requirements under the Credit Agreement to provide for an increase from 80% to 90% for the percentage of properties included in the borrowing base that are required to be subject to mortgages for the benefit of the lenders.

Cross Default Provisions

The Company's debt facilities contain significant cross default and/or cross acceleration provisions where a default under the Credit Facility or one of the indentures could enable the lenders of the other debt to also declare events of default and accelerate repayment of the obligations under those debt instruments. In general, these cross default/cross acceleration provisions are as follows:

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- The Credit Facility allows the lenders to declare an event of default if there is an event of default on other indebtedness and that default: (i) is the result of the failure to make any payment when due in respect of other indebtedness having an aggregate principal amount of at least 5% of the then effective borrowing base and such failure continues after the applicable grace or notice period; or (ii) is the result of a failure to perform any condition, covenant or other event and such failure permits the holders of such other indebtedness to cause the acceleration of such other indebtedness.

- The indentures governing the senior notes allow the lenders to declare an event of default if there is an event of default on other indebtedness and that default: (i) is caused by a failure to make any payment of principal prior to the expiration of the grace period following the final maturity date of such indebtedness; or (ii) results in the acceleration of such indebtedness prior to its stated maturity, and, in each case, the principal amount of any such indebtedness, together with the principal amount of any other indebtedness with respect to which an event described herein has occurred, aggregates \$50.0 million or more.

3. Summary of Significant Accounting Policies

Basis of Presentation

These interim financial statements are unaudited and have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (SEC) regarding interim financial reporting. Certain disclosures have been condensed or omitted from these financial statements. Accordingly, they do not include all of the information and notes required by accounting principles generally accepted in the United States of America (GAAP) for complete consolidated financial statements, and should be read in conjunction with the audited consolidated financial statements and notes thereto for the year ended December 31, 2014 included in the Company s Annual Report on Form 10-K as filed with the SEC on March 16, 2015.

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All intercompany transactions have been eliminated in consolidation. In the opinion of the Company's management, the accompanying unaudited condensed consolidated financial statements include all adjustments, consisting of normal recurring adjustments, necessary to fairly present the financial position as of, and the results of operations for, all periods presented. In preparing the accompanying condensed consolidated financial statements, management has made certain estimates and assumptions that affect reported amounts in the condensed consolidated financial statements and disclosures of contingencies. Actual results may differ from those estimates. The results for interim periods are not necessarily indicative of annual results.

Recently Issued Standards Not Yet Adopted

In April 2015, the FASB issued Accounting Standards Update 2015-03 Interest-Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs (ASU 2015-03). ASU 2015-03 requires that debt issuance costs related to a recognized liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs is not affected by ASU 2015-03. ASU 2015-03 is effective retrospectively for the Company beginning on January 1, 2016. The Company does not expect the reclassification of debt issuance costs on the Company's consolidated balance sheet as a result of the adoption of ASU 2015-03 to have a material impact on its consolidated financial statements or related disclosures.

Correction of Operating and Investing Cash Flows for the Three Months Ended March 31, 2014

In the first quarter of 2015, the Company determined that it had incorrectly presented non-cash accrued capital expenditures in its Statements of Cash Flows since December 31, 2012. Management concluded the misstatement is immaterial to previously issued financial statements; however, the Company has corrected the cash flow presentation in the accompanying Condensed Consolidated Statement of Cash Flows for the three months ended March 31, 2014. There was no impact of the misstatement on the Condensed Consolidated Balance Sheet as of December 31, 2014, or on the Condensed Consolidated Statement of Operations for the three months ended March 31, 2014. The impact of the correction is shown in the table below (in thousands):

Statement of Cash Flows	For the Three Months Ended March 31, 2014	
	As Previously Reported	As Restated
Change in operating assets and liabilities:		
accounts receivable - JIB and other	\$ (16,093)	\$ (8,116)
Net cash provided by operating activities	97,432	105,409
Investment in property and equipment	(114,803)	(122,780)
Net cash used in investing activities	(114,803)	(122,780)

4. Fair Value Measurements of Financial Instruments

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Assets and Liabilities Measured at Fair Value on a Recurring Basis

Derivative Instruments

Commodity derivative contracts reflected in the condensed consolidated balance sheets are recorded at estimated fair value. At March 31, 2015 and December 31, 2014, all of the Company's commodity derivative contracts were with seven bank counterparties and were classified as Level 2 in the fair value input hierarchy.

Derivative instruments listed below are presented gross and include swaps that are carried at fair value. The Company records the net change in the fair value of these positions in Gains (losses) on commodity derivative contracts net in the Company's unaudited condensed consolidated statements of operations.

	Fair Value Measurements at March 31, 2015			Total
	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
(in thousands)				
Assets:				
Commodity derivative oil swaps	\$	\$ 79,344	\$	\$ 79,344
Commodity derivative gas swaps		16,129		16,129
Total assets	\$	\$ 95,473	\$	\$ 95,473
Liabilities:				
Commodity derivative oil swaps	\$	\$	\$	\$
Commodity derivative gas swaps				
Total liabilities	\$	\$	\$	\$

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	Fair Value Measurements at December 31, 2014			Total
	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
	(in thousands)			
Assets:				
Commodity derivative oil swaps	\$	\$ 106,450	\$	\$ 106,450
Commodity derivative gas swaps		20,259		20,259
Total assets	\$	\$ 126,709	\$	\$ 126,709
Liabilities:				
Commodity derivative oil swaps	\$	\$	\$	\$
Commodity derivative gas swaps				
Total liabilities	\$	\$	\$	\$

5. Risk Management and Derivative Instruments

The Company's production is exposed to fluctuations in crude oil, NGLs and natural gas prices. The Company periodically utilizes derivative financial instruments to provide partial protection against declines in oil, natural gas and NGLs prices by reducing the risk of price volatility and the effect such volatility could have on the Company's operations and its ability to finance its capital budget and operations. The Company's decision on the quantity and price at which it chooses to hedge its production is based on its view of existing and forecasted oil, natural gas and NGLs production volumes, planned drilling projects and current and future market conditions. The Company currently utilizes swaps to manage fluctuations in cash flows resulting from changes in commodity prices. These derivative contracts are placed with major financial institutions that the Company believes are minimal credit risks. The oil, NGLs and gas reference prices, upon which the commodity derivative contracts are based, reflect various market indices that management believes have a high degree of historical correlation with actual prices received by the Company for its oil, NGLs and natural gas production.

Inherent in the Company's portfolio of commodity derivative contracts are certain business risks, including market risk and credit risk. Market risk is the risk that the price of the commodity will change, either favorably or unfavorably, in response to changing market conditions. Credit risk is the risk of loss from nonperformance by the Company's counterparty to a contract. The Company does not require collateral from its counterparties but does attempt to minimize its credit risk associated with derivative instruments by entering into derivative instruments only with counterparties that are large financial institutions, which management believes present minimal credit risk. In addition, to mitigate its risk of loss due to default, the Company has entered into agreements with its counterparties on its derivative instruments that allow the Company to offset its asset position with its liability position in the event of default by the counterparty. Due to the netting arrangements, had the Company's counterparties failed to perform under existing commodity derivative contracts, the maximum loss at March 31, 2015 would have been approximately \$95.5 million.

Commodity Derivative Contracts

As of March 31, 2015, the Company had the following open commodity derivative contract positions:

	Hedged Volume	Weighted-Average Fixed Price
Oil (Bbls):		
WTI Swaps 2015	2,196,000	\$ 88.04
Natural Gas (MMBtu):		
Swaps 2015 (1)	13,750,000	\$ 4.13

(1) Includes 1,500,000 MMBtus in natural gas swaps that priced during the period, but had not cash settled as of March 31, 2015.

Balance Sheet Presentation

The following table summarizes the gross fair values of derivative instruments by the appropriate balance sheet classification, even when the derivative instruments are subject to netting arrangements and qualify for net presentation in the Company's unaudited condensed consolidated balance sheets at March 31, 2015 and December 31, 2014, respectively (in thousands):

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Type	Balance Sheet Location (1)		March 31, 2015	December 31, 2014
Oil Swaps	Derivative financial instruments	Current Assets	\$ 79,344	\$ 106,450
Gas Swaps	Derivative financial instruments	Current Assets	16,129	20,259
Total derivative fair value at period end			\$ 95,473	\$ 126,709

(1) The fair values of commodity derivative instruments reported in the Company's consolidated balance sheets are subject to netting arrangements and qualify for net presentation. The following table summarizes the location and fair value amounts of all derivative instruments in the consolidated balance sheets, as well as the gross recognized derivative assets, liabilities and amounts offset in the consolidated balance sheets at March 31, 2015 and December 31, 2014, respectively (in thousands):

Not Designated as ASC 815 Hedges:	Balance Sheet Classification	Gross Recognized Assets/ Liabilities	March 31, 2015	
			Gross Amounts Offset	Net Recognized Fair Value Assets/ Liabilities
Derivative assets:				
Commodity contracts	Derivative financial instruments - current	\$ 95,473	\$	\$ 95,473
Commodity contracts	Derivative financial instruments - noncurrent			
		\$ 95,473	\$	\$ 95,473
Derivative liabilities:				
Commodity contracts	Derivative financial instruments - current	\$	\$	\$
Commodity contracts	Derivative financial instruments - noncurrent			
		\$	\$	\$

Not Designated as ASC 815 Hedges:	Balance Sheet Classification	Gross Recognized Assets/ Liabilities	December 31, 2014	
			Gross Amounts Offset	Net Recognized Fair Value Assets/ Liabilities
Derivative assets:				
Commodity contracts	Derivative financial instruments - current	\$ 126,709	\$	\$ 126,709
Commodity contracts	Derivative financial instruments - noncurrent			
		\$ 126,709	\$	\$ 126,709
Derivative liabilities:				
Commodity contracts	Derivative financial instruments - current	\$	\$	\$
Commodity contracts	Derivative financial instruments - noncurrent			
		\$	\$	\$

Gains (losses) on Commodity Derivative Contracts

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The Company does not designate its commodity derivative contracts as hedging instruments for financial reporting purposes. Accordingly, commodity derivative contracts are marked-to-market each quarter with the change in fair value during the periodic reporting period recognized currently as a gain or loss in Gains (losses) on commodity derivative contracts - net within revenues in the unaudited condensed consolidated statements of operations.

The following table presents Gains (losses) on commodity derivative contracts net for the periods presented:

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	For the Three Months Ended March 31,	
	2015	2014
	(in thousands)	
Net cash received (paid) for commodity derivative contracts	\$ 52,608	\$ (14,810)
Unrealized net losses	(31,236)	(7,863)
Gains (losses) on commodity derivative contracts - net	\$ 21,372	\$ (22,673)

Cash settlements, as presented in the table above, represent realized gains or losses related to the Company's derivative instruments. In addition to cash settlements, the Company also recognizes fair value changes on its derivative instruments in each reporting period. The changes in fair value result from new positions and settlements that may occur during each reporting period, as well as the relationships between contract prices and the associated forward curves.

6. Property and Equipment

	March 31, 2015	December 31, 2014
	(in thousands)	
Oil and gas properties, on the basis of full-cost accounting:		
Proved properties	\$ 3,491,783	\$ 3,398,146
Unevaluated properties	41,193	44,535
Other property and equipment	13,845	13,454
Less accumulated depreciation, depletion, amortization and impairment	(1,566,043)	(1,333,019)
Net property and equipment	\$ 1,980,778	\$ 2,123,116

Oil and Gas Properties

The Company capitalizes internal costs directly related to exploration and development activities to oil and gas properties. During the three months ended March 31, 2015 and 2014, the Company capitalized the following amounts (in thousands):

	Three Months Ended March 31,	
	2015	2014
Internal costs capitalized to oil and gas properties (1)	\$ 2,302	\$ 3,124

(1) Inclusive of \$0.5 million of qualifying share-based compensation expense for the three months ended March 31, 2015 and 2014.

The Company accounts for its oil and gas properties under the full cost method. Under the full cost method, proceeds from the sale or disposition of oil and gas properties are accounted for as a reduction to capitalized costs unless a significant portion of the Company's reserve quantities are sold such that it results in a significant alteration of the relationship between capitalized costs and remaining proved reserves, in which case a gain or loss is generally recognized in income.

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The Company performs a full-cost ceiling test on a quarterly basis. The test establishes a limit (ceiling) on the book value of oil and gas properties. The capitalized costs of oil and gas properties, net of accumulated depreciation, depletion and amortization (DD&A) and the related deferred income taxes, may not exceed this ceiling. The ceiling limitation is equal to the sum of: (i) the present value of estimated future net revenues from the projected production of proved oil and gas reserves, excluding future cash outflows associated with settling asset retirement obligations accrued on the balance sheet, calculated using the average oil and natural gas sales price received by the Company as of the first trading day of each month over the preceding twelve months (such prices are held constant throughout the life of the properties) and a discount factor of 10%; (ii) the cost of unproved and unevaluated properties excluded from the costs being amortized; (iii) the lower of cost or estimated fair value of unproved properties included in the costs being amortized; and (iv) related income tax effects. If capitalized costs exceed this ceiling, the excess is charged to expense in the accompanying consolidated statements of operations.

At March 31, 2015 and 2014, capitalized costs exceeded the ceiling and the Company recorded an impairment of oil and gas properties of \$174.7 million and \$86.5 million, respectively. The impairment at March 31, 2015 was primarily due to continued low commodity prices, which resulted in a reduction of the discounted present value of the Company's proved oil and natural gas reserves.

Depreciation, depletion and amortization is calculated using the units-of-production method based upon estimates of proved reserve quantities, the Company's costs incurred for proved developed properties and costs expected to be incurred to develop its proved

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undeveloped reserves. The following table presents depletion expense related to oil and gas properties for the three months ended March 31, 2015 and 2014, respectively:

	Three Months Ended March 31,			
	2015	2014	2015	2014
	(in thousands)		(per Boe)	
Depletion expense	\$ 57,605	\$ 66,204	\$ 18.73	\$ 25.37
Depreciation on other property	823	697	0.27	0.26
Depreciation, depletion, and amortization	\$ 58,428	\$ 66,901	\$ 19.00	\$ 25.63

Oil and gas unevaluated properties and properties under development include costs that are not being depleted or amortized. These costs represent investments in unproved properties. The Company excludes these costs until proved reserves are found, until it is determined that the costs are impaired or until major development projects are placed in service, at which time the costs are moved into oil and natural gas properties subject to amortization. All unproved property costs are reviewed at least quarterly to determine if impairment has occurred. Unevaluated property was \$41.2 million and \$44.5 million at March 31, 2015 and December 31, 2014, respectively.

Sale of Dequincy Assets

On April 21, 2015, the Company closed on the sale of its ownership interest in developed and undeveloped acreage in the Dequincy area located in Beauregard and Calcasieu Parishes, Louisiana for \$44 million to Pintail Oil and Gas LLC. The net proceeds of approximately \$42 million, which was net of customary closing adjustments, will be reflected as a reduction of oil and natural gas properties, with no gain or loss recognized. The proceeds from the sale will be used to pay down a portion of the outstanding borrowings under the Company's revolving credit facility and for general corporate purposes.

7. Other Noncurrent Assets

At March 31, 2015 and December 31, 2014 other noncurrent assets consisted of the following:

	March 31, 2015	December 31, 2014
	(in thousands)	
Deferred financing costs	\$ 37,099	\$ 37,807
Field equipment inventory	5,309	5,713
Other	211	211
Other noncurrent assets	\$ 42,619	\$ 43,731

8. Accrued Liabilities

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At March 31, 2015 and December 31, 2014 accrued liabilities consisted of the following:

	March 31, 2015		December 31, 2014
	(in thousands)		
Accrued oil and gas capital expenditures	\$ 52,709	\$	76,398
Accrued revenue and royalty distributions	46,286		51,292
Accrued lease operating and workover expense	16,313		10,113
Accrued interest	53,833		21,521
Accrued taxes	4,618		4,226
Other	8,729		20,281
Accrued liabilities	\$ 182,488	\$	183,831

9. Asset Retirement Obligations

Asset Retirement Obligations (AROs) represent the future abandonment costs of tangible assets, such as wells, service assets and other facilities. The fair value of the ARO at inception is capitalized as part of the carrying amount of the related long-lived assets. AROs approximated \$22.0 million and \$21.6 million as of March 31, 2015 and December 31, 2014, respectively, and the liability has been accreted to its present value as of March 31, 2015 and December 31, 2014.

10. Long-Term Debt

The Company's long-term debt as of March 31, 2015 and December 31, 2014 is as follows:

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	At March 31, 2015		At December 31, 2014
	(in thousands)		
Revolving credit facility, due 2018	\$ 435,150	\$	435,150
Senior notes, due 2020	600,000		600,000
Senior notes, due 2021	700,000		700,000
Long-term debt	\$ 1,735,150	\$	1,735,150

Reserve-based Credit Facility

As of March 31, 2015, the Company's credit facility consisted of a \$750 million Credit Facility with a borrowing base supported by the Company's Mississippian Lime and Anadarko Basin oil and gas assets. The borrowing base was reaffirmed on March 24, 2015 at \$525 million, with no reduction upon the closing in April of the Sale of Dequincy. At March 31, 2015, the Company had drawn \$435.2 million on the Credit Facility and had outstanding letters of credit obligations totaling \$1.4 million.

The Credit Facility matures on May 31, 2018 and borrowings thereunder are secured by substantially all of the Company's oil and natural gas properties and bear interest at LIBOR plus an applicable margin, depending upon the Company's borrowing base utilization, between 2.00% and 3.00% per annum. At March 31, 2015 and 2014, the weighted average interest rate was 3.0% and 2.7%, respectively.

In addition to interest expense, the Credit Facility requires the payment of a commitment fee each quarter. The commitment fee is computed at the rate of either 0.375% or 0.50% per annum based on the average daily amount by which the borrowing base exceeds the outstanding borrowings during each quarter.

The borrowing base under the Credit Facility is subject to semiannual redeterminations in April and October and up to one additional time per six month period following each scheduled borrowing base redetermination, as may be requested by the Company or the administrative agent, acting on behalf of lenders holding at least two thirds of the outstanding loans and other obligations.

Under the terms of the Credit Facility, the Company is required to repay the amount by which the principal balance of its outstanding loans and its letter of credit obligations exceed its redetermined borrowing base. The Company is permitted to make such repayment in six equal successive monthly payments commencing 30 days following the administrative agent's notice regarding such borrowing base reduction.

The Credit Facility, as amended, contains, among other standard affirmative and negative covenants, financial covenants including a maximum ratio of net debt to EBITDA (i.e. leverage ratio) and a minimum current ratio (as defined therein) of not less than 1.0 to 1.0. Pursuant to the Sixth Amendment, the Company is required to maintain a leverage ratio of not more than 4.5 to 1.0 through December 31, 2015 and 4.0 to 1.0 for each quarter thereafter. The Credit Facility also limits the Company's ability to make any dividends, distributions or redemptions.

As of March 31, 2015, the Company was in compliance with the current ratio and the ratio of net consolidated indebtedness to EBITDA covenants as set forth in the Credit Facility. The Company's current ratio at March 31, 2015 was 1.0 to 1.0. As calculated for covenant compliance purposes, the Company's current assets exceeded its current liabilities by approximately \$1.5 million at March 31, 2015. At March 31, 2015, the Company's leverage ratio was 3.7 to 1.0.

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Based upon the recent amendments to the Credit Facility, the Company believes its carrying amount at March 31, 2015 approximates its fair value (Level 2) due to the variable nature of the applicable interest rate and current secured financing terms available to the Company.

2020 Senior Notes

On October 1, 2012, the Company issued \$600 million in aggregate principal amount of 10.75% senior notes due in a private placement conducted pursuant to Rule 144A and Regulation S under the Securities Act of 1933, as amended (the Securities Act). In October 2013, these notes were exchanged for an equal principal amount of notes with identical terms other than registration under the Securities Act and the omission of restrictions on transfer, registration rights and provisions for additional interest (the 2020 Senior Notes). The 2020 Senior Notes were co-issued on a joint and several basis by the Company and its wholly owned subsidiary, Midstates Sub. The Company does not have any operations or independent assets other than its 100% ownership interest in Midstates Sub and there are no other subsidiaries of the Company. The 2020 Senior Notes Indenture does not create any restricted assets within Midstates Sub, nor does it impose any significant restrictions on the ability of Midstates Sub to pay dividends or make loans to the Company or limit the ability of the Company to advance loans to Midstates Sub.

The 2020 Senior Notes Indenture contains covenants that, among other things, restrict the Company's ability to: (i) incur additional indebtedness, guarantee indebtedness or issue certain preferred shares; (ii) make loans, investments and other restricted payments; (iii) pay dividends on or make other distributions in respect of, or repurchase or redeem, capital stock; (iv) create or incur certain liens;

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(v) sell, transfer or otherwise dispose of certain assets; (vi) enter into certain types of transactions with the Company's affiliates; (vii) consolidate, merge or sell substantially all of the Company's assets; (viii) prepay, redeem or repurchase certain debt; (ix) alter the business the Company conducts and (x) enter into agreements restricting the ability of the Company's current and any future subsidiaries to pay dividends.

The estimated fair value of the 2020 Senior Notes was \$302.3 million as of March 31, 2015 (Level 2 in the fair value measurement hierarchy), based on quoted market prices for these same debt securities. The effective annual interest rate for the 2020 Senior Notes was approximately 11.1% for the three months ended March 31, 2015 and 2014.

2021 Senior Notes

On May 31, 2013, the Company issued \$700 million in aggregate principal amount of 9.25% senior notes due 2021. In October 2013, these notes were exchanged for an equal principal amount of notes with identical terms other than registration under the Securities Act and the omission of restrictions on transfer, registration rights and provisions for additional interest (the 2021 Senior Notes).

The 2021 Senior Notes rank pari passu in right of payment with the 2020 Senior Notes.

The 2021 Senior Notes were co-issued on a joint and several basis by the Company and its wholly owned subsidiary, Midstates Sub. The 2021 Senior Notes indenture does not create any restricted assets within Midstates Sub, nor does it impose any significant restrictions on the ability of Midstates Sub to pay dividends or make loans to the Company or limit the ability of the Company to advance loans to Midstates Sub.

The terms of the covenants in the 2021 Senior Notes Indenture are substantially identical to those of the 2020 Senior Notes discussed above.

The estimated fair value of the 2021 Senior Notes was \$339.5 million as of March 31, 2015 (Level 2 in the fair value measurement hierarchy), based on quoted market prices for these same debt securities. The effective annual interest rate for the 2021 Senior Notes was approximately 9.6% for the three months ended March 31, 2015 and 2014.

11. Preferred Stock

Series A Preferred Stock

In connection with the Company's acquisition of its Mississippian Lime properties, on September 28, 2012, the Company designated 325,000 shares of Series A Mandatorily Convertible Preferred Stock (the Series A Preferred Stock) with an initial liquidation preference of \$1,000 per

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share and an 8% per annum dividend, payable semiannually at the Company's option in cash or through an increase in the liquidation preference. The Series A Preferred Shares are convertible after October 1, 2013, in whole but not in part and at the option of the holders of a majority of the outstanding shares of Series A Preferred Stock, into a number of shares of the Company's common stock calculated by dividing the then-current liquidation preference by the conversion price of \$13.50 per share and, if not previously converted, are mandatorily convertible at September 30, 2015 into shares of the Company's common stock at a conversion price no greater than \$13.50 per share and no less than \$11.00 per share, with the ultimate conversion price dependent upon the volume weighted average price of the Company's common stock during the 15 trading days immediately prior to September 30, 2015. The Series A Preferred Stock was issued on October 1, 2012.

On March 30, 2015, the Company elected to pay the \$13 million semi-annual dividend due on that date through an increase in the Series A Preferred Stock liquidation preference to \$1,217. As a result, the Company will be obligated to issue between 5,215,718 and 6,401,108 additional shares of common stock upon conversion of the Series A Preferred stock, with the ultimate number of shares dependent upon the conversion price then in effect as described above.

The following table demonstrates the number of shares to be issued upon conversion through March 31, 2015 at the respective conversion rates based upon the current liquidation preference:

	Conversion at \$13.50/share	Conversion at \$11.00/share
Number of Common Shares Issuable Upon Conversion	29,289,792	35,946,563

Share Activity

The aggregate number of shares of Series A Preferred Stock outstanding at March 31, 2015 and December 31, 2014 was 325,000.