

Midstates Petroleum Company, Inc.
Form 10-Q
August 07, 2014
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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 June 30, 2014

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)

4400 Post Oak Parkway, Suite 2600
Houston, Texas
(Address of principal executive offices)

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

77027
(Zip Code)

(713) 595-9400

(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 August 5, 2014 is shown below:

Class	Number of shares outstanding
Common stock, \$0.01 par value	70,673,772

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MIDSTATES PETROLEUM COMPANY, INC.

QUARTERLY REPORT ON

FORM 10-Q

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2014

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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)

	June 30, 2014	December 31, 2013
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 29,660	\$ 33,163
Accounts receivable:		
Oil and gas sales	103,481	102,483
Joint interest billing	40,721	42,631
Other	2,396	1,090
Commodity derivative contracts		700
Deferred income taxes	12,090	11,837
Other current assets	1,419	693
Total current assets	189,767	192,597
PROPERTY AND EQUIPMENT:		
Oil and gas properties, on the basis of full-cost accounting	3,190,927	3,060,661
Other property and equipment	12,691	11,113
Less accumulated depreciation, depletion, amortization and impairment	(1,201,060)	(976,880)
Net property and equipment	2,002,558	2,094,894
OTHER ASSETS:		
Commodity derivative contracts	17	19
Other noncurrent assets	50,942	54,597
Total other assets	50,959	54,616
TOTAL	\$ 2,243,284	\$ 2,342,107
LIABILITIES AND EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$ 34,267	\$ 21,493
Accrued liabilities	207,983	204,381
Commodity derivative contracts	47,152	27,880
Total current liabilities	289,402	253,754
LONG-TERM LIABILITIES:		
Asset retirement obligations	20,382	26,308
Commodity derivative contracts	5,869	3,651
Long-term debt	1,654,150	1,701,150
Deferred income taxes	13,233	15,291
Other long-term liabilities	2,665	1,954
Total long-term liabilities	1,696,299	1,748,354
COMMITMENTS AND CONTINGENCIES (Note 13)		

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STOCKHOLDERS EQUITY:

Preferred stock, \$0.01 par value, 49,675,000 shares authorized; no shares issued or outstanding		
Series A mandatorily convertible preferred stock, \$0.01 par value, \$372,892 and \$358,550 liquidation value at June 30, 2014 and December 31, 2013, respectively; 8% cumulative dividends; 325,000 shares issued and outstanding	3	3
Common stock, \$0.01 par value, 300,000,000 shares authorized; 70,857,076 shares issued and 70,459,020 shares outstanding at June 30, 2014 and 68,925,745 shares issued and 68,807,043 shares outstanding at December 31, 2013	708	689
Treasury stock	(2,155)	(664)
Additional paid-in-capital	875,846	871,047
Retained deficit	(616,819)	(531,076)
Total stockholders equity	257,583	339,999
TOTAL	\$ 2,243,284	\$ 2,342,107

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 June 30,		For the Six Months Ended June 30,	
	2014	2013	2014	2013
REVENUES:				
Oil sales	\$ 131,273	\$ 77,636	\$ 247,495	\$ 149,854
Natural gas liquid sales	23,020	10,998	48,539	20,717
Natural gas sales	24,994	14,464	50,379	23,259
Gains (losses) on commodity derivative contracts - net	(31,467)	22,421	(54,140)	2,297
Other	170	489	379	903
Total revenues	147,990	126,008	292,652	197,030
EXPENSES:				
Lease operating and workover	19,721	17,575	39,848	31,446
Gathering and transportation	2,940		5,795	
Severance and other taxes	5,632	6,579	13,279	12,534
Asset retirement accretion	432	313	929	567
Depreciation, depletion, and amortization	71,074	52,830	137,975	94,806
Impairment in carrying value of oil and gas properties			86,471	
General and administrative	13,434	15,272	25,118	26,298
Acquisition and transaction costs	2,483	11,492	2,611	11,492
Other	609		939	
Total expenses	116,325	104,061	312,965	177,143
OPERATING INCOME (LOSS)	31,665	21,947	(20,313)	19,887
OTHER INCOME (EXPENSE):				
Interest income	9	5	19	10
Interest expense net of amounts capitalized	(33,813)	(16,621)	(67,760)	(27,488)
Total other income (expense)	(33,804)	(16,616)	(67,741)	(27,478)
INCOME (LOSS) BEFORE TAXES	(2,139)	5,331	(88,054)	(7,591)
Income tax benefit (expense)	41	(1,993)	2,311	2,980
NET INCOME (LOSS)	\$ (2,098)	\$ 3,338	\$ (85,743)	\$ (4,611)
Preferred stock dividend	(4,806)	(2,709)	(7,426)	(6,826)
Participating securities - Series A Preferred Stock		(154)		
Participating securities - Non-vested Restricted Stock		(16)		
NET INCOME (LOSS) ATTRIBUTABLE TO COMMON SHAREHOLDERS	\$ (6,904)	\$ 459	\$ (93,169)	\$ (11,437)

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Basic and diluted net income (loss) per share attributable to common shareholders	\$	(0.10)	\$	0.01	\$	(1.41)	\$	(0.17)
Basic and diluted weighted average number of common shares outstanding		66,453		68,441		66,221		65,699

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/ Accumulated Loss	Total Stockholders Equity
Balance as of December 31, 2013	\$ 3	\$ 689	\$ (664)	\$ 871,047	\$ (531,076)	\$ 339,999
Share-based compensation		19		4,799		4,818
Acquisition of treasury stock			(1,491)			(1,491)
Net loss					(85,743)	(85,743)
Balance as of June 30, 2014	\$ 3	\$ 708	\$ (2,155)	\$ 875,846	\$ (616,819)	\$ 257,583

	Series A Preferred Stock	Common Stock	Treasury Stock	Additional Paid-in-Capital	Retained Deficit/ Accumulated Loss	Total Stockholders Equity
Balance as of December 31, 2012	\$ 3	\$ 666	\$	\$ 830,003	\$ (187,091)	\$ 643,581
Share-based compensation		20		3,689		3,709
Acquisition of treasury stock			(605)			(605)
Net loss					(4,611)	(4,611)
Balance as of June 30, 2013	\$ 3	\$ 686	\$ (605)	\$ 833,692	\$ (191,702)	\$ 642,074

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)

	Six Months Ended June 30,	
	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (85,743)	\$ (4,611)
<i>Adjustments to reconcile net loss to net cash provided by operating activities:</i>		
Losses (gains) on commodity derivative contracts net	54,140	(2,297)
Net cash paid for commodity derivative contracts not designated as hedging instruments	(31,948)	(6,075)
Asset retirement accretion	929	567
Depreciation, depletion, and amortization	137,975	94,806
Impairment in carrying value of oil and gas properties	86,471	
Share-based compensation, net of amounts capitalized to oil and gas properties	3,668	3,014
Deferred income taxes	(2,311)	(2,980)
Amortization of deferred financing costs	4,197	2,264
<i>Change in operating assets and liabilities:</i>		
Accounts receivable oil and gas sales	(998)	(26,032)
Accounts receivable JIB and other	1,929	(7,739)
Other current and noncurrent assets	(1,094)	(2,147)
Accounts payable	4,756	(4,546)
Accrued liabilities	4,365	28,717
Other	711	(101)
Net cash provided by operating activities	\$ 177,047	\$ 72,840
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment in property and equipment	(279,033)	(259,584)
Investment in acquired property		(621,748)
Proceeds from the sale of oil and gas properties	147,519	
Net cash used in investing activities	\$ (131,514)	\$ (881,332)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from long-term borrowings	84,000	861,450
Repayment of long-term borrowings	(131,000)	(34,300)
Deferred financing costs	(545)	(24,646)
Acquisition of treasury stock	(1,491)	(605)
Net cash (used in) provided by financing activities	\$ (49,036)	\$ 801,899
NET DECREASE IN CASH AND CASH EQUIVALENTS	(3,503)	(6,593)
Cash and cash equivalents, beginning of period	\$ 33,163	\$ 18,878
Cash and cash equivalents, end of period	\$ 29,660	\$ 12,285