

Midstates Petroleum Company, Inc.
Form 10-Q
August 12, 2016
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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, 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: 001-35512

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

Accelerated filer

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

Smaller reporting company

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Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The number of shares outstanding of our common stock at August 8, 2016 is shown below:

Class	Number of shares outstanding
Common stock, \$0.01 par value	10,767,743

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MIDSTATES PETROLEUM COMPANY, INC.

QUARTERLY REPORT ON

FORM 10-Q

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2016

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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.

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.

Table of Contents**PART I - FINANCIAL INFORMATION****MIDSTATES PETROLEUM COMPANY, INC. (DEBTOR-IN-POSSESSION)****CONDENSED CONSOLIDATED BALANCE SHEETS****(Unaudited)****(In thousands, except share amounts)**

	June 30, 2016	December 31, 2015
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 281,561	\$ 81,093
Accounts receivable:		
Oil and gas sales	36,176	33,656
Joint interest billing	5,614	12,503
Other	432	17,506
Other current assets	10,102	1,044
Total current assets	333,885	145,802
PROPERTY AND EQUIPMENT:		
Oil and gas properties, on the basis of full-cost accounting	3,768,653	3,666,403
Other property and equipment	13,543	14,798
Less accumulated depreciation, depletion, amortization and impairment	(3,390,199)	(3,157,332)
Net property and equipment	391,997	523,869
OTHER NONCURRENT ASSETS:	3,412	9,496
TOTAL	\$ 729,294	\$ 679,167
LIABILITIES AND STOCKHOLDERS EQUITY (DEFICIT)		
CURRENT LIABILITIES:		
Accounts payable	\$ 8,943	\$ 1,904
Accrued liabilities	62,650	91,712
Debt classified as current (Note 9)	249,383	1,890,944
Total current liabilities	320,976	1,984,560
ASSET RETIREMENT OBLIGATIONS	19,791	18,708
OTHER LONG-TERM LIABILITIES	1,839	1,965
LIABILITIES SUBJECT TO COMPROMISE (Note 2)	1,881,795	
COMMITMENTS AND CONTINGENCIES (Note 14)		
STOCKHOLDERS EQUITY (DEFICIT):		
Preferred stock, \$0.01 par value, 49,675,000 shares authorized; no shares issued or outstanding		
Common stock, \$0.01 par value, 100,000,000 shares authorized; 10,916,771 shares issued and 10,769,069 shares outstanding at June 30, 2016 and 10,962,105 shares issued and 10,865,814 shares outstanding at December 31, 2015	109	110
Treasury stock	(3,134)	(3,081)
Additional paid-in-capital	889,572	888,247
Retained deficit	(2,381,654)	(2,211,342)

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Total stockholders' equity (deficit)	(1,495,107)	(1,326,066)
TOTAL	\$ 729,294	\$ 679,167

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

Table of Contents**MIDSTATES PETROLEUM COMPANY, INC. (DEBTOR-IN-POSSESSION)****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,	
	2016	2015	2016	2015
REVENUES:				
Oil sales	\$ 39,110	\$ 67,498	\$ 69,248	\$ 126,755
Natural gas liquid sales	9,071	10,239	16,134	21,249
Natural gas sales	12,868	15,995	26,810	35,167
Gains (losses) on commodity derivative contracts, net		(19,293)		2,079
Other	1,510	315	2,328	678
Total revenues	62,559	74,754	114,520	185,928
EXPENSES:				
Lease operating and workover	16,109	21,758	31,870	45,020
Gathering and transportation	4,711	3,931	9,132	7,369
Severance and other taxes	1,484	2,505	2,988	6,069
Asset retirement accretion	444	390	864	835
Depreciation, depletion, and amortization	18,638	55,255	43,473	113,683
Impairment in carrying value of oil and gas properties	62,963	498,389	190,697	673,056
General and administrative	4,497	11,461	15,785	23,115
Acquisition and transaction costs		251		251
Advisory fees and debt restructuring costs	6,472	34,398	7,589	36,141
Other				73
Total expenses	115,318	628,338	302,398	905,612
OPERATING LOSS	(52,759)	(553,584)	(187,878)	(719,684)
OTHER INCOME (EXPENSE):				
Interest income	24	27	81	36
Interest expense net of amounts capitalized (excludes interest expense of \$31.7 million on senior and secured notes subject to compromise for the three and six months ended June 30, 2016)	(18,839)	(44,880)	(63,051)	(81,382)
Reorganization items, net (Note 2)	80,536		80,536	
Total other income/(expense)	61,721	(44,853)	17,566	(81,346)
INCOME/(LOSS) BEFORE TAXES	8,962	(598,437)	(170,312)	(801,030)
Income tax benefit				9,041
NET INCOME/(LOSS)	\$ 8,962	\$ (598,437)	\$ (170,312)	\$ (791,989)

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Preferred stock dividend			(669)			(800)
Participating securities - Non-vested Restricted Stock		(98)				
NET INCOME/(LOSS) ATTRIBUTABLE TO COMMON SHAREHOLDERS	\$	8,864	\$	(599,106)	\$	(170,312)
					\$	(792,789)
Basic and diluted net income/(loss) per share attributable to common shareholders	\$	0.83	\$	(88.44)	\$	(16.01)
Basic and diluted weighted average number of common shares outstanding		10,653		6,774		10,637
						6,750

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

Table of Contents**MIDSTATES PETROLEUM COMPANY, INC. (DEBTOR-IN-POSSESSION)****CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY (DEFICIT)**

(Unaudited)

(In thousands)

	Series A Preferred Stock	Common Stock	Treasury Stock	Additional Paid-in-Capital	Retained Deficit	Total Stockholders Equity (Deficit)
Balance as of December 31, 2015	\$	\$ 110	\$ (3,081)	\$ 888,247	\$ (2,211,342)	\$ (1,326,066)
Share-based compensation		(1)		1,325		1,324
Acquisition of treasury stock			(53)			(53)
Net loss					(170,312)	(170,312)
Balance as of June 30, 2016	\$	\$ 109	\$ (3,134)	\$ 889,572	\$ (2,381,654)	\$ (1,495,107)

	Series A Preferred Stock	Common Stock	Treasury Stock	Additional Paid-in-Capital	Retained Deficit	Total Stockholders Equity (Deficit)
Balance as of December 31, 2014	\$ 3	\$ 70	\$ (2,592)	\$ 882,528	\$ (414,147)	\$ 465,862
Share-based compensation		3		3,756		3,759
Acquisition of treasury stock			(429)			(429)
Net loss					(791,989)	(791,989)
Balance as of June 30, 2015	\$ 3	\$ 73	\$ (3,021)	\$ 886,284	\$ (1,206,136)	\$ (322,797)

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

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MIDSTATES PETROLEUM COMPANY, INC. (DEBTOR-IN-POSSESSION)

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In thousands)

	Six Months Ended June 30,	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (170,312)	\$ (791,989)
<i>Adjustments to reconcile net loss to net cash provided by operating activities:</i>		
Gains on commodity derivative contracts, net		(2,079)
Net cash received for commodity derivative contracts		94,797
Asset retirement accretion	864	835
Depreciation, depletion, and amortization	43,473	113,683
Impairment in carrying value of oil and gas properties	190,697	673,056
Share-based compensation, net of amounts capitalized to oil and gas properties	998	2,897
Deferred income taxes		(9,041)
Amortization of deferred financing costs and write-off of debt issuance costs	4,069	8,356
Paid-in-kind interest expense	3,531	1,187
Amortization of deferred gain on debt restructuring	(8,246)	(1,775)
Operating lease abandonment	2,904	
Noncash reorganization items	(81,724)	
Transaction costs for debt restructuring		34,398
<i>Change in operating assets and liabilities:</i>		
Accounts receivable oil and gas sales	(1,405)	139
Accounts receivable JIB and other	20,860	22,617
Other current and noncurrent assets	(6,739)	(1,275)
Accounts payable	2,936	(2,793)
Accrued liabilities	50,589	(4,058)
Other	(934)	(305)
Net cash provided by operating activities	\$ 51,561	\$ 138,650
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment in property and equipment	(100,424)	(190,278)
Proceeds from the sale of oil and gas properties		40,284
Net cash used in investing activities	\$ (100,424)	\$ (149,994)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from second lien notes		625,000
Proceeds from revolving credit facility	249,384	33,000
Repayment of revolving credit facility		(468,150)
Deferred financing costs		(4,199)
Transaction costs for debt restructuring		(34,398)
Acquisition of treasury stock	(53)	(429)
Net cash provided by financing activities	\$ 249,331	\$ 150,824
NET INCREASE IN CASH AND CASH EQUIVALENTS	200,468	139,480
Cash and cash equivalents, beginning of period	\$ 81,093	\$ 11,557
Cash and cash equivalents, end of period	\$ 281,561	\$ 151,037

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SUPPLEMENTAL INFORMATION:

Non-cash investment in property and equipment	\$	18,766	\$	61,728
Non-cash exchange of third lien notes for 2020 senior notes and 2021 senior notes				524,121
Cash paid for interest, net of capitalized interest of \$2.1 million for the six months ended June 30, 2015 (no capitalized interest for the six months ended June 30, 2016)		3,539		71,569
Cash paid for reorganization items	\$	1,188	\$	

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

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MIDSTATES PETROLEUM COMPANY, INC. (DEBTOR-IN-POSSESSION)

Notes to Unaudited Condensed Consolidated Financial Statements

1. Organization and Business

Midstates Petroleum Company, Inc. (Midstates), through its wholly owned subsidiary Midstates Petroleum Company LLC, engages in the business of exploring, drilling for, and the 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, and similar terms when used in the present tense, prospectively or for historical periods since April 25, 2012, refer to Midstates Petroleum Company, Inc. and Midstates Sub, unless the context indicates otherwise.

The Company conducts oil and gas operations and owns and operates oil and gas properties in Oklahoma, Texas and Louisiana. The Company operates a significant portion of its oil and natural gas properties. The Company s management evaluates performance based on one reportable segment as all its operations are located in the United States and, therefore, it maintains one cost center.

2. Chapter 11 Proceedings

Voluntary Reorganization Under Chapter 11

On April 30, 2016 (the Petition Date), Midstates and Midstates Sub (collectively, the Debtors), filed voluntary petitions (the Bankruptcy Petitions) for reorganization under the Bankruptcy Code in the United States Bankruptcy Court for the Southern District of Texas (the Bankruptcy Court). The Debtors Chapter 11 cases (the Chapter 11 Cases) are being jointly administered under the case styled *In re Midstates Petroleum Company, Inc., et al, No. 16-32237*. The Debtors will continue to operate their businesses as debtors-in-possession under the jurisdiction of the Bankruptcy Court and in accordance with the applicable provisions of the Bankruptcy Code and orders of the Bankruptcy Court. The Company has accounted for the bankruptcy in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 852, *Reorganizations*, beginning in the quarterly period ended June 30, 2016.

By certain first day motions filed in the Chapter 11 Cases, the Company obtained Bankruptcy Court approval to, among other things and subject to the terms of the orders entered by the Bankruptcy Court, pay employee wages, health benefits and certain other employee obligations, pay certain lienholders or prospective lienholders and forward funds to third parties, including royalty holders and other working interest owners. As a result, the Company is not only able to conduct normal business activities and pay all associated obligations for the period following its bankruptcy filing, it is also authorized to pay and has paid pre-petition employee wages and benefits, pre-petition amounts owed to certain lienholders or prospective lienholders and funds belonging to third parties. During the pendency of the Chapter 11 Cases, all transactions outside the ordinary course of business require the prior approval of the Bankruptcy Court.

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On April 30, 2016, and prior to filing the Bankruptcy Petitions, the Debtors entered into a Plan Support Agreement (the Plan Support Agreement) with the following parties:

- Approximately 80.0% of the lenders (collectively, the Consenting Credit Facility Lenders) under the Debtors secured revolving first lien credit facility (the Credit Facility);
- Approximately 74.0% of the holders (collectively, the Consenting Second Lien Noteholders) of the Debtors 10.0% Second Lien Senior Secured Notes Due 2020 (the Second Lien Notes); and
- Approximately 77.0% of the holders (collectively, the Consenting Third Lien Noteholders , and together with the Consenting Credit Facility Lenders and Consenting Second Lien Noteholders, the Plan Support Agreement Parties) of the Debtors 12.0% Third Lien Notes due 2020 (the Third Lien Notes).

On June 29, 2016, the Debtors entered into a First Amendment to the Plan Support Agreement with certain of the Plan Support Agreement Parties (the PSA Amendment). The PSA Amendment, among other things modified the dates for certain of the milestones related to the occurrence of certain events in the Chapter 11 Cases.

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In order for the Debtors to emerge successfully from the Chapter 11 Cases as reorganized companies, they must obtain approval from the Bankruptcy Court and certain of their respective creditors for a Chapter 11 plan of reorganization. On May 14, 2016, the Debtors filed with the Bankruptcy Court the Joint Chapter 11 Plan of Reorganization of Midstates Petroleum Company, Inc. and its Debtor Affiliate (as further amended, the Plan), as well as the related Disclosure Statement (as further amended, the Disclosure Statement). The Bankruptcy Court approved amended versions of the Plan and Disclosure Statement on July 13, 2016. On August 3, 2016, the Debtors filed a plan supplement with the Bankruptcy Court, which included, among other things, a schedule of assumed executory contracts and unexpired leases, a list of retained causes of action, a term sheet for the Exit Facility (as defined below), a list of new directors and officers of the reorganized Debtors, a form-of registration rights agreement and a form-of warrant agreement.

The restructuring transactions contemplated by the Plan Support Agreement were memorialized in the Plan and include the following key elements:

- **Substantial Deleveraging of the Balance Sheet:** The Plan contemplates (i) the permanent pay-down of \$82.0 million of the Company's Credit Facility, with a \$170.0 million exit facility (the Exit Facility) upon emergence, (ii) the pay-down of up to \$60.0 million of the Company's Second Lien Notes in cash, and (iii) the conversion into equity of all of the Company's remaining debt that is junior to the Credit Facility.
- **Intercreditor Settlement:** Equity distributions among the noteholder classes will be made in accordance with an intercreditor settlement among the Plan Support Agreement Parties (the Settlement), which provides for a valuation allocation with respect to the Company's assets that are encumbered or unencumbered as of the Petition Date, such that the equity of the reorganized Company will be allocated 98.8% on account of prepetition collateral and 1.2% on account of unencumbered assets.
- **Credit Facility Claims:** Holders of allowed claims under the Credit Facility (the Credit Facility Claims) will receive their pro rata share of approximately \$82.0 million in cash and the Credit Facility will be amended to reflect the terms of the Exit Facility.
- **Second Lien Notes Claims:** Holders of allowed claims under the Second Lien Notes (the Second Lien Notes Claims) will receive their pro rata share of (a) 96.3% of the equity of the reorganized Company (subject to increase to 98.8% if the Third Lien Intercreditor Settlement (as defined below) is not approved as part of the Plan) and (b) cash payments equal to the amount of cash the Company holds at emergence, less cash distributions and reserves to be funded under the Plan (including the cash payment to, and a \$40.0 million cash collateral account for the benefit of, the Consenting Credit Facility Lenders) and \$70.0 million, subject to a maximum cash distribution to Consenting Second Lien Noteholders of \$60.0 million.
- **Third Lien Notes Claims:** Holders of allowed claims under the Third Lien Notes (the Third Lien Notes Claims) will receive their pro rata share of 2.5% of the equity in the reorganized Company and warrants to acquire

15% of such equity (the Third Lien Intercreditor Settlement). These warrants will carry a strike price based on an equity valuation for the Company of \$600.0 million and will expire 42 months after the Company emerges from the Chapter 11 Cases.

- Unsecured Claims: Holders (the Unsecured Noteholders) of allowed claims under the Debtors' 10.75% Senior Unsecured Notes due 2020 (the 2020 Notes Claims), the holders of allowed claims under the 9.25% Senior Unsecured Notes due 2021 (the 2021 Notes Claims, and together with the 2020 Notes Claims, the Unsecured Notes Claims), and the Holders of other unsecured claims will receive their pro rata share of 1.2% of the equity in the reorganized Company (the Unencumbered Assets Equity Distribution).

- Existing Equity: All existing equity interests of the Company will be extinguished, and existing equity holders would not receive consideration in respect of their equity interests.

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- **Exit Facility:** The Company's Credit Facility, which was redetermined with a borrowing base of \$170.0 million in April 2016, will be amended, as described, and will continue after emergence as the Exit Facility. The Exit Facility will have an initial borrowing base of \$170.0 million with no borrowing base redeterminations to occur until April 2018 (provided certain conditions are met) and semiannual borrowing base redeterminations thereafter. The Exit Facility will mature on the earlier of September 30, 2020, or 4 years from the Plan effective date, with interest payable at LIBOR plus 4.50% per annum, subject to a 1.00% LIBOR floor. The Exit Facility will be secured by first priority mortgages on at least 95.0% of the proved oil and gas reserves and all other oil and gas properties included in the most recently delivered reserve report, pledges of capital stock, a first priority security interest in the cash, cash equivalents, deposit, securities and other similar accounts, and a first-priority perfected security interest in substantially all other tangible and intangible assets (including but not limited to as-extracted collateral, accounts receivable, inventory, equipment, general intangibles, investment property, intellectual property, real property and the proceeds of the foregoing). The Exit Facility is subject to a variety of other terms and conditions including conditions precedent to funding, financial covenants, and various other covenants and representations and warranties.
- **Management Incentive Plan:** The Plan provides for the establishment of a management equity incentive plan (the MIP) under which 10% of the equity in the reorganized Company (on a fully-diluted/fully-distributed basis) will be reserved for grants made from time to time to the directors, officers, and other members of management of the reorganized Company. The remainder of compensation will be negotiated in connection with approval of the Plan.
- **Releases:** The Plan provides for release, exculpation, and injunction provisions, including customary carve-outs, to the fullest extent permitted by applicable law and consistent with the terms of the Plan Support Agreement.
- **Corporate Governance:** The corporate governance documents of the reorganized Company shall be subject to the consent of the Consenting Second Lien Noteholders. If the settlement is approved, the initial board of directors of the reorganized Company shall be appointed by the parties to the Plan Support Agreement who hold, in the aggregate, at least 50.1% in principal amount outstanding of the Second Lien Notes held by all parties to the Plan Support Agreement.

Subject to certain exceptions, under the Bankruptcy Code, the filing of the Bankruptcy Petitions automatically enjoined, or stayed, the continuation of most judicial or administrative proceedings or filing of other actions against the Debtors or their property to recover, collect or secure a claim arising prior to the date of the Bankruptcy Petitions. Accordingly, although the filing of the Bankruptcy Petitions triggered defaults on the Debtors' debt obligations, creditors are stayed from taking any actions against the Debtors as a result of such defaults, subject to certain limited exceptions permitted by the Bankruptcy Code. Absent an order of the Bankruptcy Court, substantially all of the Debtors' prepetition liabilities are subject to discharge under the Bankruptcy Code and are reflected in the June 30, 2016 balance sheet as liabilities subject to compromise.

Under the priority requirements established by the Bankruptcy Code, unless creditors agree otherwise, pre-petition liabilities to creditors and post-petition liabilities must be satisfied in full before the holders of the Company's existing common stock are entitled to receive any

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distribution or retain any property under a plan of reorganization. The ultimate recovery to creditors and/or stockholders, if any, will not be determined until confirmation and implementation of the Plan or an alternative transaction. While the Company is seeking to implement the Plan on the terms summarized above, the outcome of the Chapter 11 Cases remains uncertain at this time and, as a result, the Company cannot accurately estimate the amounts or value of distributions that creditors and stockholders may receive. The Plan Support Agreement contemplates that stockholders will receive no distribution on account of their interests.

For the duration of the Company's Chapter 11 proceedings, the Company's operations and ability to develop and execute its business plan are subject to the risks and uncertainties associated with the Chapter 11 process. As a result of these risks and uncertainties, the number of the Company's outstanding shares and shareholders, assets, liabilities, officers and/or directors could be significantly different following the outcome of the Chapter 11 Cases, and the description of the Company's operations, properties and capital plans included herein may not accurately reflect its operations, properties and capital plans following the Chapter 11 process.

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In particular, subject to certain exceptions, under the Bankruptcy Code, the Debtors may assume, assign, or reject certain executory contracts and unexpired leases subject to the approval of the Bankruptcy Court and certain other conditions. Generally, the rejection of an executory contract or unexpired lease is treated as a pre-petition breach of such executory contract or unexpired lease and, subject to certain exceptions, relieves the Debtors of performing their future obligations under such executory contract or unexpired lease but entitles the contract counterparty or lessor to a pre-petition general unsecured claim for damages caused by such deemed breach. Counterparties to such rejected contracts or leases may assert unsecured claims in the Bankruptcy Court against the applicable Debtors' estate for such damages. Generally, the assumption of an executory contract or unexpired lease requires the Debtors to cure existing monetary defaults under such executory contract or unexpired lease and provide adequate assurance of future performance. Accordingly, any description of an executory contract or unexpired lease with the Debtors in the interim financial statements, including where applicable a quantification of the Company's obligations under any such executory contract or unexpired lease with the Debtors is qualified by any overriding rejection rights the Company has under the Bankruptcy Code. Further, nothing herein is or shall be deemed (i) an admission with respect to any claim amounts or calculations arising from the rejection of any executory contract or unexpired lease and the Debtors expressly preserve all of their rights with respect thereto, (ii) a waiver of any rights, claims, actions or defenses that the Company may have in respect of any given executory contract or unexpired leases or (iii) an affirmation by the Company to assume any given executory contract or unexpired lease.

There can be no assurances regarding the Company's ability to successfully develop, confirm and consummate the Plan as contemplated by the Plan Support Agreement or any other plans of reorganization or other alternative restructuring transactions.

Fresh Start Accounting

Based upon the current Plan, the consolidated financial statements of the Company will be required to be prepared with the application of fresh start accounting upon the emergence of the Company from bankruptcy because (i) the holders of existing voting shares of the Company prior to its emergence will receive less than 50% of the voting shares of the Company outstanding following its emergence from bankruptcy and (ii) the reorganization value of its assets immediately prior to confirmation of the plan of reorganization will likely be less than the post-petition liabilities and allowed claims. Under the principles of fresh start accounting, a new reporting entity is considered to be created, and as a result, the Company will allocate the reorganization value of the Company to its individual assets based on their estimated fair values as of the date of the emergence. As a result of the anticipated application of fresh start accounting and the effects of the implementation of the Plan Support Agreement, the consolidated financial statements on or after the date of emergence will not be comparable with the consolidated financial statements prior to that date.

Financial Statement Classification of Liabilities Subject to Compromise

Liabilities subject to compromise represent liabilities incurred prior to the commencement of the bankruptcy proceedings which may be affected by the Chapter 11 Cases. These amounts represent the Company's allowed claims and its best estimate of claims expected to be allowed which will be resolved as part of the bankruptcy proceedings. Such claims remain subject to future adjustments. Adjustments may result from negotiations, actions of the Bankruptcy Court, determination as to the value of any collateral securing claims or other various events. A difference between liability amounts estimated by the Company and claims filed by creditors will be investigated and the Bankruptcy Court will make a final determination of the amount of allowable claims. The Company's Credit Facility is fully secured and, as such, is not considered a liability subject to compromise. Liabilities subject to compromise consist of the following:

June 30, 2016
(in thousands)

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Debt:		
2020 Senior Notes (including accrued interest as of the Petition Date)	\$	312,039
2021 Senior Notes (including accrued interest as of the Petition Date)		361,050
Second Lien Notes (including accrued interest as of the Petition Date)		651,042
Third Lien Notes (including accrued interest as of the Petition Date)		556,136
Total debt (including accrued interest as of the Petition Date)		1,880,267
Accounts Payable		1,528
Total Liabilities Subject to Compromise	\$	1,881,795

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The Debtors have discontinued recording interest on liabilities subject to compromise upon the Petition Date. Contractual interest on liabilities subject to compromise not reflected in the condensed consolidated statements of operations for the three and six months ended June 30, 2016 was approximately \$31.7 million, representing interest expense from the Petition Date through June 30, 2016. In addition, the Company has not made required interest payments of \$15.8 million and \$73.8 million on April 1, 2016 and June 1, 2016, respectively.

Reorganization Items

Reorganization items represent the direct and incremental costs of being in bankruptcy, such as professional fees, pre-petition liability claim adjustments and losses related to terminated contracts that are probable and can be estimated. Unamortized deferred financing costs as well as unamortized gains on the May 2015 troubled debt restructuring associated with debt classified as liabilities subject to compromise are reclassified to reorganization items in order to reflect the expected amounts of probable allowed claims. Reorganization items consisted of the following for the three and six months ended June 30, 2016:

	For the Three and Six Months Ended June 30, 2016 (in thousands)
Professional fees incurred(1)	\$ 7,462
Adjustment to unamortized debt issuance costs associated with 2020 Senior Notes	10,738
Adjustment to unamortized debt issuance costs associated with 2021 Senior Notes	12,671
Adjustment to unamortized gain on troubled debt restructuring associated with Second Lien Notes	(39,599)
Adjustment to unamortized gain on troubled debt restructuring associated with Third Lien Notes	(71,808)
Total reorganization items, net	\$ (80,536)

(1) Through June 30, 2016, the Company has incurred significant professional fees associated with various advisors engaged in the restructuring process. The Company anticipates it will continue to incur significant professional fees throughout the duration of the bankruptcy proceedings. In addition, the Company has agreed to pay certain advisors additional fees contingent upon the completion of a successful restructuring as such term is defined in the related agreements. The amount of these contingent success fees could be material.

3. Summary of Significant Accounting Policies*Basis of Presentation*

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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, 2015 included in the Company s Annual Report on Form 10-K as filed with the SEC on March 30, 2016.

The consolidated financial statements for the quarter ended June 30, 2016 have been prepared in accordance with FASB ASC Topic 852, *Reorganizations*. This guidance requires that transactions and events directly associated with the Chapter 11 reorganization be distinguished from the ongoing operations of the business. In addition, the guidance provides for changes in the accounting for and presentation of liabilities. See Note 2. Chapter 11 Proceedings .

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.

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Recently Issued Standards Not Yet Adopted

In May 2014, the FASB issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)* (ASU 2014-09). ASU 2014-09 provides guidance concerning the recognition and measurement of revenue from contracts with customers. The objective of ASU 2014-09 is to increase the usefulness of information in the financial statements regarding the nature, timing and uncertainty of revenues. ASU 2014-09 requires an entity to (i) identify the contract(s) with a customer, (ii) identify the performance obligations in the contract(s), (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract(s), and (v) recognize revenue when, or as, the entity satisfies a performance obligation. ASU 2014-09 will be effective for the Company beginning on January 1, 2018, including interim periods within that reporting period, considering the one year deferral provided by ASU 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date*. The standard permits the use of either the retrospective or cumulative effect transition method and early adoption is permitted. The Company has not selected a transition method and is evaluating the impact this standard will have on its condensed consolidated financial statements and related disclosures.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)* (ASU 2016-02). ASU 2016-02 establishes a right-of-use (ROU) model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for the Company beginning on January 1, 2019, including interim periods within those fiscal years. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Company is currently evaluating the impact this standard will have on its condensed consolidated financial statements and related disclosures.

In March 2016, the FASB issued ASU 2016-09, *Compensation - Stock Compensation (Topic 718)* (ASU 2016-09). ASU 2016-09 simplifies how certain aspects of share-based payments to employees are recorded. ASU 2016-09 requires that entities recognize the income tax effects of awards in the income statement when the awards vest or are settled, provides guidance on the classification of certain aspects of share-based payments on the statement of cash flows, changes the threshold for awards to qualify for equity classification, and allows an entity to make an accounting policy election to account for forfeitures when they occur. The new standard is effective for the Company beginning on January 1, 2017. The Company does not believe the adoption of ASU 2015-09 will have a material impact on its financial position, results of operations or cash flows.

4. Risk Management and Derivative Instruments

Revenue realized by the Company from the sale of its production is exposed to fluctuations in the prices for crude oil, NGLs and natural gas. The Company has historically utilized various types of derivative financial instruments, including swaps and collars, to reduce fluctuations in cash flows resulting from changes in commodity prices. Although the Company has entered into derivative financial instruments in the past, the Company currently has no derivatives in place.

Commodity Derivative Contracts

As of June 30, 2016 and December 31, 2015, the Company did not have any open commodity derivative contract positions.

Gains (Losses) on Commodity Derivative Contracts

Historically, the Company has not designated 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 net cash received for commodity derivative contracts and unrealized net losses recorded by the Company related to the change in the fair value of the derivative instruments in Gains on commodity derivative contracts, net for the periods presented:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2016	2015	2016	2015
	(in thousands)			
Net cash received for commodity derivative contracts	\$	\$ 42,189	\$	\$ 94,797
Unrealized net losses		(61,482)		(92,718)
Gains (losses) on commodity derivative contracts - net	\$	\$ (19,293)	\$	\$ 2,079

Table of Contents**5. Property and Equipment**

Property and equipment consisted of the following as of the dates presented:

	June 30, 2016		December 31, 2015
	(in thousands)		
Oil and gas properties, on the basis of full-cost accounting:			
Proved properties	\$ 3,768,653		\$ 3,666,403
Unevaluated properties			
Other property and equipment	13,543		14,798
Less accumulated depreciation, depletion, amortization and impairment	(3,390,199)		(3,157,332)
Net property and equipment	\$ 391,997		\$ 523,869

Oil and Gas Properties

The Company capitalizes internal costs directly related to exploration and development activities to oil and gas properties. During the three and six months ended June 30, 2016 and 2015, the Company capitalized the following (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(in thousands)			
Internal costs capitalized to oil and gas properties(1)	\$ 992	\$ 2,613	\$ 2,262	\$ 4,915

(1) Inclusive of \$0.1 million and \$0.4 million of qualifying share-based compensation expense for the three months ended June 30, 2016 and 2015, respectively. For the six months ended June 30, 2016 and 2015, inclusive of \$0.3 million and \$0.9 million, respectively.

The Company accounts for its oil and gas properties under the full cost method. Under the full cost method, proceeds realized 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.

The Company performs a full-cost ceiling test on a quarterly basis. The test establishes a limit (ceiling) on the book value of the Company's 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

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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.

For the three and six months June 30, 2016, capitalized costs exceeded the ceiling and the Company recorded an impairment of oil and gas properties of \$63.0 million and \$190.7 million, respectively. The comparable three and six month periods ended June 30, 2015 included impairments of oil and gas properties of \$498.4 million and \$673.1 million, respectively. These impairments were primarily the result of continued low commodity prices, which resulted in a reduction of the discounted present value of the Company's proved oil and natural gas reserves.

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Depreciation, depletion and amortization is calculated using the Units of Production Method (UOP). The UOP calculation multiplies the percentage of estimated proved reserves produced by the cost of those reserves. The result is to recognize expense at the same pace that the reservoirs are estimated to be depleting. The amortization base in the UOP calculation includes the sum of proved property costs net of accumulated depreciation, depletion, amortization and impairment, estimated future development costs (future costs to access and develop proved reserves) and asset retirement costs that are not already included in oil and gas property, less related salvage value. The following table presents depletion expense related to oil and gas properties for the three and six months ended June 30, 2016 and 2015, respectively:

	Three Months Ended June 30,				Six Months Ended June 30,			
	2016 (in thousands)	2015	2016 (per Boe)	2015	2016 (in thousands)	2015	2016 (per Boe)	2015
Depletion expense	\$ 18,046	\$ 54,359	\$ 6.57	\$ 17.63	\$ 41,788	\$ 111,964	\$ 7.38	\$ 18.18
Depreciation on other property	592	896	0.22	0.29	1,685	1,719	0.30	0.28
Depreciation, depletion, and amortization	\$ 18,638	\$ 55,255	\$ 6.79	\$ 17.92	\$ 43,473	\$ 113,683	\$ 7.68	\$ 18.46

Other Property and Equipment

Other property and equipment consists of vehicles, furniture and fixtures, and computer hardware and software and are carried at cost. Depreciation is calculated principally using the straight-line method over the estimated useful lives of the assets, which range from five to seven years. Maintenance and repairs are charged to expense as incurred, while renewals and betterments are capitalized.

6. Other Noncurrent Assets

The following table presents the components of other noncurrent assets as of the dates presented:

	June 30, 2016	December 31, 2015
	(in thousands)	
Deferred financing costs associated with the Credit Facility	\$ 3,037	\$ 6,105
Field inventory	375	3,225
Other		166
Other noncurrent assets	\$ 3,412	\$ 9,496

During the three months ended June 30, 2016, approximately \$1.8 million in deferred financing costs associated with the Credit Facility were impaired. In addition, deferred financing costs associated with the Credit Facility were reclassified from other noncurrent assets to other current assets at June 30, 2016.

7. Accrued Liabilities

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The following table presents the components of accrued and other current liabilities as of the dates presented:

	June 30, 2016	December 31, 2015
	(in thousands)	
Accrued oil and gas capital expenditures	\$ 11,612	\$ 19,984
Accrued revenue and royalty distributions	26,846	27,939
Accrued lease operating and workover expense	5,797	9,281
Accrued interest	429	20,193
Accrued taxes	1,764	1,272
Accrued professional fees associated with restructuring	6,275	
Compensation and benefit related accruals	3,764	8,414
Accrued claims and contingencies	1,066	1,066
Prepayments from joint interest partners	1,419	1,369
Other	3,678	2,194
Accrued liabilities	\$ 62,650	\$ 91,712

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8. Asset Retirement Obligations

Asset Retirement Obligations (AROs) represent the estimated future abandonment costs of tangible assets, such as wells, service assets and other facilities. The estimated fair value of the ARO at inception is capitalized as part of the carrying amount of the related long-lived assets.

The following table reflects the changes in the Company's AROs as of the dates presented:

	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015
	(in thousands)	
Asset retirement obligations beginning of period	\$ 18,708	\$ 21,599
Liabilities incurred	497	2
Revisions		
Liabilities settled	(278)	
Liabilities eliminated through asset sales		(4,699)
Current period accretion expense	864	835
Asset retirement obligations end of period	\$ 19,791	\$ 17,737

9. Debt

The Company's filing of the Bankruptcy Petitions, described in Note 2 herein, constitutes an event of default that accelerated the Company's obligations under the Credit Facility, Second Lien Notes, Third Lien Notes and the Senior Notes. As a result of the filing of the Bankruptcy Petitions, subject to certain limited exceptions, the lenders under the Credit Facility, Second Lien Notes, Third Lien Notes and the holders of the Senior Notes are stayed from taking any actions against the Company as a result of these defaults.

As of the dates presented, the Company's debt, not including debt instruments classified as liabilities subject to compromise, consisted of the following:

	Principal		Unamortized Deferred Gain on Debt Forgiven		Unamortized Debt Issuance Costs		Total	
	June 30, 2016	December 31, 2015	June 30, 2016	December 31, 2015	June 30, 2016	December 31, 2015	June 30, 2016	December 31, 2015
	(in thousands)							
Credit Facility(1)	\$ 249,383	\$	\$	\$	\$	\$	\$ 249,383	\$
2020 Senior Notes(2)		293,625				(11,344)		282,281
2021 Senior Notes(2)		347,652				(13,296)		334,356
Second Lien Notes(2)		625,000		42,293				667,293
		529,653		77,361				607,014

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Third Lien Notes(2)												
Total debt	\$	249,383	\$	1,795,930	\$	119,654	\$	(24,640)	\$	249,383	\$	1,890,944

(1) As a result of the Company's Chapter 11 filing, the Company's Credit Facility is classified as current at June 30, 2016 and December 31, 2015.

(2) Amount has been reclassified to liabilities subject to compromise at June 30, 2016. See Note 2. Chapter 11 Proceedings.

Reclassification of Senior and Secured Notes

The Company's Senior Notes outstanding of \$293.6 million due 2020, Senior Notes outstanding of \$347.7 million due 2021, Second Lien Notes of \$625.0 million due 2020, and Third Lien Notes of \$529.7 million due 2020 are included in liabilities subject to compromise in the condensed consolidated balance sheets as of June 30, 2016. See Note 2. Chapter 11 Proceedings for further information.

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Reserve-based Credit Facility

The Company currently maintains a \$750.0 million Credit Facility with a borrowing base of \$170.0 million at June 30, 2016, which, as a result of the semiannual redetermination on April 1, 2016, was reduced by \$82.0 million from the previous borrowing base of \$252.0 million. As of April 1, 2016, the Company had approximately \$252.0 million in aggregate outstanding obligations under the Credit Facility, resulting in a borrowing base deficiency of approximately \$82.0 million which has not been cured as of June 30, 2016 or the date of this filing..

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 under the Credit Facility holding at least two-thirds of the outstanding loans and other obligations.

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. The effective interest rate was 3.5% and 2.9% for the quarters ended June 30, 2016 and June 30, 2015, 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 0.500% per annum based on the average daily amount by which the borrowing base exceeds the outstanding borrowings during each quarter.

The Company's filing of the Bankruptcy Petitions described in Note 2 herein constitutes an event of default that accelerated the Company's obligations under the Credit Facility. In addition, various other defaults existed prior to the filing of the Bankruptcy Petitions, including the failure to receive an unqualified auditors' opinion in relation to the 2015 consolidated financial statements, the failure to make required interest payments on the 2020 Senior Notes and the failure to cure the borrowing base deficiency of the Credit Facility. However, subject to certain limited exceptions, the filing of the Company's Bankruptcy Petitions automatically enjoined or stayed the Company's creditors from taking any actions against the Company as a result of such defaults.

The current Plan Support Agreement, if implemented, provides that holders of allowed claims under the Credit Facility will receive their pro rata share of approximately \$82.0 million in cash and the Credit Facility will be amended to reflect the terms of the Exit Facility. See Note 2, Chapter 11 Proceedings for a discussion of the proposed Exit Facility upon emergence from bankruptcy.

2020 Senior Notes

On October 1, 2012, the Company issued \$600.0 million in aggregate principal amount of 2020 Senior Notes, 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 identical registered notes. In May 2015 and June 2015, a total of \$306.4 million aggregate principal amount of 2020 Senior Notes were exchanged for Third Lien Notes. As a result, \$293.6 million of 2020 Senior Notes remain outstanding at June 30, 2016 and are

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included in liabilities subject to compromise in the condensed consolidated balance sheet as of June 30, 2016.

The estimated fair value of the 2020 Senior Notes as of June 30, 2016 was \$2.9 million (Level 2 in the fair value measurement hierarchy), based on quoted market prices for these same debt securities. The effective interest rate was 3.5% and 10.4%, respectively, for the quarters ended June 30, 2016 and 2015.

On April 1, 2016, the Company elected to forego payment with respect to an approximately \$15.8 million interest payment due on the 2020 Notes, which, after the expiration of the 30 day grace period, resulted in an event of default.

The Company's filing of the Bankruptcy Petitions described in Note 2 herein constitutes an event of default that accelerated the Company's obligations under the 2020 Senior Notes. In addition, various other defaults existed prior to the filing of the Bankruptcy Petitions, including the failure to receive an unqualified auditors' opinion in relation to the 2015 consolidated financial statements, the failure to make required interest payments on the 2020 Senior Notes and the failure to cure the borrowing base deficiency of the Credit Facility. However, subject to certain limited exceptions, the filing of the Company's Bankruptcy Petitions automatically enjoined or stayed the Company's creditors from taking any actions against the Company as a result of such defaults.

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The current Plan Support Agreement, if implemented, provides that holders of allowed claims of the 2020 Senior Notes will receive equity in the reorganized Company; see **Note 2. Chapter 11 Proceedings** for further discussion.

2021 Senior Notes

On May 31, 2013, the Company issued \$700.0 million in aggregate principal amount of 2021 Senior Notes. In October 2013, these notes were exchanged for an equal principal amount of identical registered notes. In May and June 2015, a total of \$352.3 million aggregate principal amount of 2021 Senior Notes were exchanged for Third Lien Notes. As a result, \$347.7 million of 2021 Senior Notes remain outstanding at June 30, 2016 and are included in liabilities subject to compromise in the condensed consolidated balance sheet as of June 30, 2016.

The estimated fair value as of June 30, 2016 of the 2021 Senior Notes was \$3.5 million (Level 2 in the fair value measurement hierarchy), based on quoted market prices for these same debt securities. The effective interest rate was 3.0% and 8.9%, respectively, for the quarters ended June 30, 2016 and 2015.

The Company's filing of the Bankruptcy Petitions described in Note 2 herein constitutes an event of default that accelerated the Company's obligations under the 2021 Senior Notes. In addition, various other defaults existed prior to the filing of the Bankruptcy Petitions, including the failure to receive an unqualified auditors' opinion in relation to the 2015 consolidated financial statements, the failure to make required interest payments on the 2020 Senior Notes and the failure to cure the borrowing base deficiency of the Credit Facility. However, subject to certain limited exceptions, the filing of the Company's Bankruptcy Petitions automatically enjoined or stayed the Company's creditors from taking any actions against the Company as a result of such defaults.

The current Plan Support Agreement, if implemented, provides that holders of allowed claims of the 2021 Senior Notes will receive equity in the reorganized Company; see **Note 2. Chapter 11 Proceedings** for further discussion.

Second Lien Notes

On May 21, 2015, the Company and Midstates Sub issued and sold \$625.0 million aggregate principal amount of Second Lien Notes, in a private placement conducted pursuant to Rule 144A under the Securities Act. In November 2015, these notes were exchanged for an equal principal amount of identical registered notes. The outstanding balance of \$625.0 million is included in liabilities subject to compromise in the condensed consolidated balance sheet as of June 30, 2016.

The estimated fair value of the Second Lien Notes was \$368.8 million as of June 30, 2016 (Level 2 in the fair value measurement hierarchy), based on quoted market prices for these same debt securities. The effective interest rate was 2.9% and 10.2%, respectively, for the quarter ended June 30, 2016 and 2015.

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The Company's filing of the Bankruptcy Petitions described in Note 2 herein constitutes an event of default that accelerated the Company's obligations under the Second Lien Notes. In addition, various other defaults existed prior to the filing of the Bankruptcy Petitions, including the failure to receive an unqualified auditor's opinion in relation to the 2015 consolidated financial statements, the failure to make required interest payments on the 2020 Senior Notes and the failure to cure the borrowing base deficiency of the Credit Facility. However, subject to certain limited exceptions, the filing of the Company's Bankruptcy Petitions automatically enjoined or stayed the Company's creditors from taking any actions against the Company as a result of such defaults.

The current Plan Support Agreement, if implemented, provides that holders of allowed claims of the Second Lien Notes will receive cash and equity in the reorganized Company; see Note 2. Chapter 11 Proceedings for further discussion.

Third Lien Notes

On May 21, 2015 and June 2, 2015, the Company issued approximately \$504.1 million and \$20.0 million, respectively, in aggregate principal amount of Third Lien Notes in a private placement and in exchange for an aggregate \$306.4 million of the 2020 Senior Notes and \$352.3 million of the 2021 Senior Notes. In November 2015, these notes were exchanged for an equal principal amount of identical registered notes. The outstanding balance of \$529.7 million is included in liabilities subject to compromise in the condensed consolidated balance sheet as of June 30, 2016.

The estimated fair value of the Third Lien Notes was \$42.4 million as of June 30, 2016 (Level 2 in the fair value measurement hierarchy), based on quoted market prices for these same debt securities. The effective interest rate was 3.0% and 12.4%, respectively, for the quarter ended June 30, 2016 and 2015.

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The Company's filing of the Bankruptcy Petitions described in Note 2 herein constitutes an event of default that accelerated the Company's obligations under the Third Lien Notes. In addition, various other defaults existed prior to the filing of the Bankruptcy Petitions, including the failure to receive a unqualified auditors' opinion in relation to the 2015 consolidated financial statements, the failure to make required interest payments on the 2020 Senior Notes and the failure to cure the borrowing base deficiency of the Credit Facility. However, subject to certain limited exceptions, the filing of the Company's Bankruptcy Petitions automatically enjoined or stayed the Company's creditors from taking any actions against the Company as a result of such defaults.

The current Plan Support Agreement, if implemented, provides that holders of allowed claims of the Third Lien Notes will receive equity and warrants exercisable for equity in the reorganized Company; see Note 2. Chapter 11 Proceedings for further discussion.

10. Equity and Share-Based Compensation

Impact of Bankruptcy Proceedings

The Company has a significant amount of indebtedness that is senior to its existing common stock in its capital structure. The current Plan Support Agreement if implemented, would provide no recovery for, and the cancellation of, the Company's outstanding common stock, including shares of its restricted stock. Additionally, significant restrictions have been put in place on trading of the Company's common stock.

Common Shares

Share Activity

The following table summarizes changes in the number of outstanding shares during the six months ended June 30, 2016:

	Number of Shares	
	Common Stock	Treasury Stock
Share count as of December 31, 2015	10,962,105	(96,291)