

Midstates Petroleum Company, Inc.
Form 10-K
March 14, 2018
[Table of Contents](#)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

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

For the fiscal year ended December 31, 2017

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)

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Delaware
(State or other jurisdiction of
incorporation or organization)

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

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

74103
(Zip Code)

Registrant's telephone number, including area code: **(918) 947-8550**

Securities registered pursuant to Section 12(b) of the Act:

Common stock, \$0.01 par value
(Title of each class)

New York Stock Exchange
(Name of each exchange on which registered)

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III or any amendment to the Form 10-K

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See definition of large accelerated filer, accelerated filer, smaller reporting company, and emerging growth company in Rule 12b-2 of the Exchange Act. Check one:

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Large accelerated filer
Emerging growth company

Accelerated filer

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

Smaller reporting company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

The aggregate market value of the registrant's Common Stock held by non-affiliates of the registrant was approximately \$146.8 million based upon the closing price of such stock on June 30, 2017, the last business day of the registrant's most recently completed second fiscal quarter, of \$12.67 per share.

The number of shares outstanding of our stock at March 8, 2018 is shown below:

Class	Number of shares outstanding
Common stock, \$0.01 par value	25,153,381

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive Proxy Statement of Midstates Petroleum Company, Inc. for the Annual Meeting of Shareholders to be held in June 2018, which will be filed with the Securities and Exchange Commission within 120 days after the end of the fiscal year, are incorporated by reference into Part III of this Annual Report on Form 10-K.

Table of Contents

MIDSTATES PETROLEUM COMPANY, INC.

TABLE OF CONTENTS

Item		Page
	<u>PART I</u>	
<u>1.</u>	<u>BUSINESS</u>	6
<u>1A.</u>	<u>RISK FACTORS</u>	21
<u>1B.</u>	<u>UNRESOLVED STAFF COMMENTS</u>	36
<u>2.</u>	<u>PROPERTIES</u>	36
<u>3.</u>	<u>LEGAL PROCEEDINGS</u>	36
<u>4.</u>	<u>MINE SAFETY DISCLOSURES</u>	36
	<u>PART II</u>	
<u>5.</u>	<u>MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES</u>	37
<u>6.</u>	<u>SELECTED FINANCIAL DATA</u>	39
<u>7.</u>	<u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	42
<u>7A.</u>	<u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	67
<u>8.</u>	<u>FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA</u>	68
<u>9.</u>	<u>CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE</u>	68
<u>9A.</u>	<u>CONTROLS AND PROCEDURES</u>	68
<u>9B.</u>	<u>OTHER INFORMATION</u>	70
	<u>PART III</u>	
<u>10.</u>	<u>DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE</u>	71
<u>11.</u>	<u>EXECUTIVE COMPENSATION</u>	71
<u>12.</u>	<u>SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS</u>	71
<u>13.</u>	<u>CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS</u>	71
<u>14.</u>	<u>PRINCIPAL ACCOUNTING FEES AND SERVICES</u>	71
	<u>PART IV</u>	
<u>15.</u>	<u>EXHIBITS, FINANCIAL STATEMENT SCHEDULES</u>	72
<u>16.</u>	<u>FORM 10-K SUMMARY</u>	74

Table of Contents

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains forward-looking statements that are subject to a number of risks and uncertainties, many of which are beyond our control. All statements other than statements of historical fact included in this annual report are forward-looking statements, including, without limitation, statements regarding our strategy, future operations, financial position, estimated revenues and income/loss, projected costs, prospects, plans and objectives of management. When used in this annual report, the words could, believe, anticipate, intend, estimate, expect, may, continue, predict, potential, project and similar expressions are intended to identify forward-looking statements. Not all forward-looking statements contain such identifying words.

Forward-looking statements may include statements about our:

- business strategy, including our business strategy post-emergence from our Chapter 11 cases (the Chapter 11 Cases);
- estimated future net reserves and present value thereof;
- technology;
- financial condition, revenues, cash flows and expenses;
- levels of indebtedness, liquidity, borrowing capacity and compliance with debt covenants;
- financial strategy, budget, projections and operating results;
- oil and natural gas realized prices;
- timing and amount of future production of oil and natural gas;
- availability of drilling and production equipment;
- the amount, nature and timing of capital expenditures, including future development costs;
- availability of oilfield labor;
- availability of third party natural gas gathering and processing capacity;
- availability and terms of capital;
- drilling of wells, including our identified drilling locations;
- successful results from our identified drilling locations;

- marketing of oil and natural gas;
- the integration and benefits of asset and property acquisitions or the effects of asset and property acquisitions or dispositions on our cash position and levels of indebtedness;
- infrastructure for salt water disposal and electricity;
- current and future ability to dispose of salt water;
- sources of electricity utilized in operations and the related infrastructures;
- costs of developing our properties and conducting other operations;
- general economic conditions;
- effectiveness of our risk management activities;
- environmental liabilities;
- counterparty credit risk;
- the outcome of pending and future litigation;
- governmental regulation and taxation of the oil and natural gas industry;
- developments in oil and natural gas producing countries;
- new capital structure;
- uncertainty regarding our future operating results; and
- plans, objectives, expectations and intentions contained in this annual report that are not historical.

All forward-looking statements speak only as of the date of this annual report. You should not place undue reliance on these forward-looking statements. These forward-looking statements are subject to a number of risks, uncertainties and assumptions. Although we believe that our plans, intentions and expectations reflected in or suggested by the forward-looking statements we make in this annual report are reasonable, we can give no assurance that these plans, intentions or expectations will be achieved or occur, and actual results could differ materially and adversely from those anticipated or implied in the forward-looking statements. We disclose important factors that could cause our actual results to differ materially from our expectations under **Risk Factors** and elsewhere in this annual report.

Table of Contents

These factors include:

- variations in the market demand for, and prices of, oil, natural gas liquids (NGLs) and natural gas;
- uncertainties about our estimated quantities of oil and natural gas reserves;
- the adequacy of our capital resources and liquidity including, but not limited to, access to additional borrowing capacity under our reserves based revolving credit facility (the Exit Facility);
- access to capital and general economic and business conditions;
- uncertainties about our ability to replace reserves and economically develop our current reserves;
- risks in connection with acquisitions;
- risks related to the concentration of our operations onshore in Oklahoma and Texas;
- drilling results;
- the potential adoption of new governmental regulations, including future regulations regarding the disposal of salt water; and
- our ability to satisfy future cash obligations and environmental costs.

These cautionary statements qualify all forward-looking statements attributable to us or persons acting on our behalf.

Reserve engineering is a process of estimating underground accumulations of oil and natural gas that cannot be measured in an exact way. The accuracy of any reserves estimate depends on the quality of available data (including geoscience and engineering data), the interpretation of such data and price and cost assumptions made by our reserve engineers. In addition, the results of drilling, testing and production activities may justify revisions of estimates that were made previously. If significant, such revisions would change the schedule of any future production and development drilling. Accordingly, reserve estimates may differ from the quantities of oil and natural gas that are ultimately recovered.

Table of Contents

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.

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.

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 drill or operate expire, unless evidence indicates that renewal is reasonably certain, regardless of whether deterministic or probabilistic methods are used for the estimation. The project to extract the hydrocarbons must have commenced or the operator must be reasonably certain that it will commence the project within a reasonable time. The area of the reservoir considered as proved includes (i) the area identified by drilling and limited by fluid contacts, if any, and (ii) adjacent undrilled portions of the reservoir that can, with reasonable certainty, be judged to be continuous with it and to contain economically producible oil or natural gas on the basis of available geoscience and engineering data. In the absence of data on fluid contacts, proved quantities in a reservoir are limited by the lowest known hydrocarbons, as seen in a well penetration unless geoscience, engineering, or performance data and reliable technology establishes a lower contact with reasonable certainty. Where direct observation from well penetrations has defined a highest known oil elevation and the potential exists for an associated 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, re-establishing, 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 oil and/or natural gas 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, natural 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

ITEM 1. BUSINESS

General

Midstates Petroleum Company, Inc. is an independent exploration and production company focused on the application of modern drilling and completion techniques in oil and liquids-rich basins in the onshore United States. Our operations are concentrated in Oklahoma and Texas, with our corporate headquarters located in Tulsa, Oklahoma. 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 or Debtor Affiliate). In this Annual Report, references to Company, we, us, our, and Midstates when used in the present tense, prospectively or for historical periods refer to Midstates Petroleum Company, Inc. and its wholly owned subsidiary.

On April 30, 2016, we filed voluntary petitions for reorganization under Chapter 11 of the United States Bankruptcy Code. On October 21, 2016, in connection with our emergence from Chapter 11, our existing common shares were cancelled and on October 24, 2016, our new common shares issued in connection with our successful reorganization and emergence from Chapter 11 were listed and began trading on the NYSE MKT under the symbol MPO . Our common stock began trading on the NYSE under the symbol MPO beginning on May 4, 2017. We currently lease office space in Tulsa, Oklahoma at 321 South Boston Avenue, Suite 1000, where our principal offices are located. The lease for our Tulsa office expires in 2026. We also lease one field office in Dacoma, Oklahoma and one in Perryton, Texas. As of December 31, 2017, we had 129 employees.

We are required to file annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission (SEC). You may read and copy any documents filed by us with the SEC at the SEC s Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. Our filings with the SEC are also available to the public from commercial document retrieval services and at the SEC s website at <http://www.sec.gov>.

We also make available on our website (<http://www.midstatespetroleum.com>) all of the documents that we file with the SEC, free of charge, as soon as reasonably practicable after we electronically file such material with the SEC. Our Code of Business Conduct and Ethics, Corporate Governance Guidelines, Financial Code of Ethics, and the charters of our audit committee, compensation committee and nominating and governance committee are also available on our website and in print free of charge to any stockholder who requests them. Requests should be sent by mail to 321 South Boston Avenue, Suite 1000; Tulsa, Oklahoma 74103, attention Vice President General Counsel. Information contained on our website is not incorporated by reference into this Annual Report on Form 10-K. We will disclose any amendments or waivers to our Code of Ethics on our website.

Business Strategy

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Our goal is to grow shareholder value through optimized capital investments and generation of free cash flow. To achieve these objectives, we strive to:

- Operate in a safe and environmentally responsible manner;
- Maximize our return on capital deployed by utilizing our extensive technical and operating experience in our core areas of operations to focus on identifying opportunities to achieve the best rate of return and the highest probability of success;
- Maintain a best in class cost structure to maximize the cash flow margin of our production;
- Prioritize free cash flow generation over production growth. Strive towards the optimum balance between free cash flow generation and sustaining inventory for future investment. We will optimize free cash flow generation by focused capital investments, optimizing our base production, and maintaining a low-cost structure; and
- Maintain maximum optionality by maintaining low net debt, balancing shareholder cash returns with replenishing inventory, and evaluating strategic alternatives within and outside of our current asset base.

Our balance sheet and strong liquidity position provide us with significant resources to develop our multi-year drilling inventory and judiciously expand our core acreage positions. For 2018, we intend to opportunistically achieve the best return on investments by optimizing our drilling and completion design, focusing on minimizing well down time and optimizing well productivities while maintaining both capital discipline and a low-cost structure.

Table of Contents

Chapter 11 Plan of Reorganization

On April 30, 2016 (the *Petition Date*), we filed voluntary petitions for reorganization under Chapter 11 of the United States Bankruptcy Code (the *Bankruptcy Code*) in the United States Bankruptcy Court for the Southern District of Texas (the *Bankruptcy Court*). Our Chapter 11 cases (the *Chapter 11 Cases*) were jointly administered under the case styled *In re Midstates Petroleum Company, Inc., et al., Case No. 16-32237*. On September 28, 2016, the Bankruptcy Court entered the *Findings of Fact, Conclusions of Law, and Order Confirming Debtors' First Amended Joint Chapter 11 Plan of Reorganization of Midstates Petroleum Company, Inc. and its Debtor Affiliate* (the *Confirmation Order*), which approved and confirmed the First Amended Joint Chapter 11 Plan of Reorganization of Midstates Petroleum Company, Inc. and its Debtor Affiliate as filed on the same date (the *Plan*). On October 21, 2016 (the *Effective Date*), we satisfied the conditions to effectiveness set forth in the Confirmation Order and in the Plan, the Plan became effective in accordance with its terms and we emerged from the Chapter 11 Cases. Further information is set forth in Note 2, *Emergence from Voluntary Reorganization under Chapter 11 Proceedings* in the Notes to the Consolidated Financial Statements set forth in Part IV, Item 15 of this Annual Report on Form 10-K.

Upon our emergence on the Effective Date, we adopted fresh start accounting as required by United States generally accepted accounting principles (US GAAP). We qualified for fresh start accounting because (i) the holders of existing voting shares of the pre-emergence debtor-in-possession received less than 50% of the voting shares of the post-emergence successor entity and (ii) the reorganization value of our assets immediately prior to confirmation was less than the post-petition liabilities and allowed claims. We applied fresh start accounting as of October 21, 2016. Adopting fresh start accounting results in a new reporting entity for financial reporting purposes with no beginning retained earnings or deficit. The cancellation of all existing shares outstanding on the Effective Date and issuance of new shares in the reorganized Company caused a related change of control under US GAAP. As a result of the application of fresh start accounting, as well as the effects of the implementation of the Plan, our consolidated financial statements on or after October 21, 2016, are not comparable with our consolidated financial statements prior to that date. References to *Successor Period* relate to the financial position and results of operations for the period October 21, 2016 through December 31, 2016 and references to *Predecessor Period* refer to the financial position and results of operations of the Company from January 1, 2016 through October 20, 2016.

Summary of Oil and Gas Properties and Operations

Mississippian Lime

Our Mississippian Lime assets are located in Oklahoma and target the Mississippian Lime formation. At December 31, 2017, our acreage consisted of approximately 97,762 net (117,451 gross) prospective acres in the Mississippian Lime trend in Woods and Alfalfa Counties of Oklahoma, which we currently intend to develop using horizontal wells.

Our properties in this area represented 92% of our total proved reserves as of December 31, 2017. As of December 31, 2017, we held an average working interest and average net revenue interest of 77% and 62%, respectively, in this area.

For the year ended December 31, 2017, the Successor Period and the Predecessor Period, our average daily production from our Mississippian Lime assets was as follows:

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	Year Ended December 31, 2017	Successor Period October 21, 2016 through December 31, 2016	Predecessor Period January 1, 2016 through October 20, 2016
Oil (Bbls)	5,108	6,048	8,156
Natural gas liquids (Bbls)	4,273	4,843	5,326
Natural gas (Mcf)	52,797	58,816	68,107
Net Boe/day	18,181	20,694	24,833

At December 31, 2017, we had one operated drilling rig in operation in the Mississippian Lime horizontal well program. For 2018, we anticipate investing between \$100.0 million and \$120.0 million in the area.

Table of Contents

Anadarko Basin

Our Anadarko Basin assets are located in Western Oklahoma and the Texas panhandle and target, or are prospective in, the Cleveland, Marmaton, Cottage Grove, Osage, Meramac and Tonkawa formations. At December 31, 2017, our acreage consisted of approximately 76,409 net (92,289 gross) acres in Texas and 16,198 net (41,332 gross) acres in western Oklahoma.

Our properties in this area represented 8% of our total proved reserves as of December 31, 2017. As of December 31, 2017, we held an average working interest and average net revenue interest of 64% and 50%, respectively, in this area.

For the year end December 31, 2017, Successor Period and Predecessor Period, our average daily production from the Anadarko Basin area was as follows:

	Year Ended December 31, 2017	Successor Period October 21, 2016 through December 31, 2016	Predecessor Period January 1, 2016 through October 20, 2016
Oil (Bbls)	1,379		