

Midstates Petroleum taking out second and third liens to focus on Mississippi Lime drilling

By ROD WALTON World Business Editor | Posted: Wednesday, May 27, 2015 12:00 am

Midstates Petroleum Inc., which has struggled with the twin pressures of high debt and low crude oil prices, seems to have gained some breathing room by taking second and third liens on its assets.

The Tulsa-based producer last week announced it has completed a series of transactions that increased liquidity by approximately \$420 million, reduced the interest rate on some senior notes and allowed the company to focus capital on its lower-cost Mississippi Lime drilling in northern Oklahoma.

Time will tell whether this is helpful to a company struggling with \$1.7 billion in long-term debt and limited cash flow. To one longtime Tulsa wealth manager, at least Midstates is making strong moves to buy itself some time.

“Let’s give them some credit for working in a very tough environment,” Fred Russell, who leads Fredric E. Russell Investment Management Co. in Tulsa, said Tuesday.

The transactions are complicated, but essentially Midstates made two moves that altered its revolving credit facility. The first was a private offering of senior secured second lien notes with an aggregate principal of about \$625 million and an annual interest rate of 10 percent.

Part of those note proceeds paid down all the borrowings under the former revolving credit facility while the rest is being held in cash. Midstates now has all of its amended revolver of \$253 million available.

“It gives us a ton of flexibility and optionality going forward,” a company spokesman said Tuesday.

The second deal, which is the third lien, exchanges \$279.8 million of 10.75-percent senior unsecured notes due 2020 and \$350 million of 9.25-percent senior unsecured notes due 2021 for new senior secured notes in the amount of \$504.1 million at cash interest of 10 percent and pay-in-kind interest of 2 percent annually.

Midstates CEO Jake Brace, who came on board earlier this year, said last week that the move gives his company a boost in liquidity and allows it to continue working in the Mississippi Lime formation of northern Oklahoma.

“We evaluated multiple alternatives and concluded that this comprehensive transaction was the best option for all stakeholders,” he said, “and will provide the company a substantial runway to prosper in a variety of commodity price environments.”

Several years ago, Midstates paid almost \$1.3 billion for the assets of two Tulsa-based companies, Eagle Energy and Panther Energy. The Houston firm eventually sold off all of its other drilling assets and moved headquarters to Tulsa to focus on those drilling options.

Even company insiders have previously said that Midstates may have overpaid for some acquisitions, although they never singled out the Eagle and Panther transactions. Midstates’ debt-to-capital ratio is highest among all publicly traded Tulsa-based energy firms at 78 percent, so the tighter margins from lower crude oil prices has made the company’s turnaround difficult.

“It’s really unfortunate,” wealth manager Russell noted. “When a lot of debt collides with dramatically lower commodity prices, you’re going to have problems.”

Midstates is not alone in its struggles. Privately held Samson Resources Co., which has \$4 billion in long-term debt and less than \$150 million in cash flow, has stopped its drilling program and hired restructuring firms to help it figure out the options.

“They’ve bought some time,” Russell said of Midstates’ latest actions. “How much, I’m not sure.”