

SANDRIDGE ENERGY INC
Form 10-Q
August 15, 2016
Table of Contents

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: 001-33784

SANDRIDGE ENERGY, INC.

(Exact name of registrant as specified in its charter)

Delaware	20-8084793
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

123 Robert S. Kerr Avenue	73102
Oklahoma City, Oklahoma	
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code:
(405) 429-5500

Former name, former address and former fiscal year, if changed since last report: Not applicable

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 website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T 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	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>

(Do not check if a 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 the registrant's common stock, par value \$0.001 per share, as of the close of business on August 8, 2016, was 719,458,145.

Table of Contents

References in this report to the “Company” and “SandRidge” mean SandRidge Energy, Inc., including its consolidated subsidiaries and its proportionately consolidated share of each of the SandRidge Mississippian Trust I (the “Mississippian Trust I”), SandRidge Mississippian Trust II (the “Mississippian Trust II”) and SandRidge Permian Trust (the “Permian Trust”)(each individually, a “Royalty Trust” and collectively, the “Royalty Trusts”).

DISCLOSURES REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q (“Quarterly Report”) of the Company includes “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). These statements express a belief, expectation or intention and generally are accompanied by words that convey projected future events or outcomes. These forward-looking statements may include projections and estimates concerning the Company’s capital expenditures, liquidity, capital resources and debt profile, the potential effects of a restructuring transaction on the Company’s operations, management, and employees, the Company’s ability to consummate a restructuring transaction, the timing and success of specific projects, outcomes and effects of litigation, claims and disputes, elements of the Company’s business strategy, compliance with governmental regulation of the oil and natural gas industry, including environmental regulations, acquisitions and divestitures and the effects thereof on the Company’s financial condition and other statements concerning the Company’s operations and financial performance and condition. Forward-looking statements are generally accompanied by words such as “estimate,” “assume,” “target,” “project,” “predict,” “believe,” “expect,” “anticipate,” “potential,” “could,” “may,” “foresee,” “plan,” “goal,” “should,” “intend” or other words that convey the uncertainty of future events or outcomes. The Company has based these forward-looking statements on its current expectations and assumptions about future events. These statements are based on certain assumptions and analyses made by the Company in light of its experience and perception of historical trends, current conditions and expected future developments as well as other factors the Company believes are appropriate under the circumstances. The actual results or developments anticipated may not be realized or, even if substantially realized, may not have the expected consequences to or effects on the Company’s business or results. Such statements are not guarantees of future performance and actual results or developments may differ materially from those projected in such forward-looking statements. These forward-looking statements speak only as of the date hereof. The Company disclaims any obligation to update or revise these forward-looking statements unless required by law, and it cautions readers not to rely on them unduly. While the Company’s management considers these expectations and assumptions to be reasonable, they are inherently subject to significant business, economic, competitive, regulatory and other risks, contingencies and uncertainties relating to, among other matters, the risks and uncertainties discussed in “Risk Factors” in Item 1A of the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2015 (the “2015 Form 10-K”) and in Item 1A of this Quarterly Report.

The forward-looking statements related to one or more plans of reorganization (the “Plan”) involve known and unknown risks, uncertainties, assumptions and other factors that may cause the Company’s actual results, performance or achievements to be materially different from any results, performance or achievements expressed or implied by other forward-looking statements contained in this Quarterly Report on Form 10-Q, including but not limited to potential adverse effects related to the following: potential restructuring of the Company’s outstanding debt and related effects on the holders of the Company’s outstanding equity; potential effects of the industry downturn on the Company’s business, financial condition and results of operations; potential limitations on the Company’s ability to maintain contracts and other critical business relationships; requirements for adequate liquidity to fund operations in the future, including obtaining sufficient financing on acceptable terms; and other matters related to the potential restructuring and indebtedness, including any defaults related thereto.

Table of Contents

SANDRIDGE ENERGY, INC.
FORM 10-Q
Quarter Ended June 30, 2016

INDEX

PART I. FINANCIAL INFORMATION

ITEM 1. <u>Financial Statements (Unaudited)</u>	<u>4</u>
<u>Condensed Consolidated Balance Sheets</u>	<u>4</u>
<u>Condensed Consolidated Statements of Operations</u>	<u>6</u>
<u>Condensed Consolidated Statement of Changes in Stockholders' Equity (Deficit)</u>	<u>7</u>
<u>Condensed Consolidated Statements of Cash Flows</u>	<u>8</u>
<u>Notes to Condensed Consolidated Financial Statements</u>	<u>9</u>
ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	<u>52</u>
ITEM 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>71</u>
ITEM 4. <u>Controls and Procedures</u>	<u>73</u>

PART II. OTHER INFORMATION

ITEM 1. <u>Legal Proceedings</u>	<u>74</u>
ITEM 1A. <u>Risk Factors</u>	<u>81</u>
ITEM 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>85</u>
ITEM 3. <u>Defaults upon Senior Securities</u>	<u>86</u>
ITEM 6. <u>Exhibits</u>	<u>87</u>

Table of Contents

PART I. Financial Information

ITEM 1. Financial Statements

SANDRIDGE ENERGY, INC. (DEBTOR-IN-POSSESSION)

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except per share data)

	June 30, 2016 (Unaudited)	December 31, 2015
ASSETS		
Current assets		
Cash and cash equivalents	\$634,166	\$435,588
Accounts receivable, net	81,718	127,387
Derivative contracts	21,000	84,349
Prepaid expenses	15,331	6,833
Other current assets	1,650	19,931
Total current assets	753,865	674,088
Oil and natural gas properties, using full cost method of accounting		
Proved	12,029,734	12,529,681
Unproved	338,573	363,149
Less: accumulated depreciation, depletion and impairment	(11,313,610)	(11,149,888)
	1,054,697	1,742,942
Other property, plant and equipment, net	420,555	491,760
Other assets	11,791	13,237
Total assets	\$2,240,908	\$2,922,027

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

Table of Contents

SANDRIDGE ENERGY, INC. (DEBTOR-IN-POSSESSION)
 CONDENSED CONSOLIDATED BALANCE SHEETS - Continued
 (In thousands, except per share data)

	June 30, 2016 (Unaudited)	December 31, 2015
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current liabilities		
Accounts payable and accrued expenses	\$64,926	\$428,417
Derivative contracts	356	573
Asset retirement obligations	8,534	8,399
Total current liabilities	73,816	437,389
Long-term debt	—	3,562,378
Asset retirement obligations	62,425	95,179
Other long-term obligations	—	14,814
Liabilities subject to compromise	4,377,611	—
Total liabilities	4,513,852	4,109,760
Commitments and contingencies (Note 10)		
Equity (deficit)		
SandRidge Energy, Inc. stockholders' equity (deficit)		
Preferred stock, \$0.001 par value, 50,000 shares authorized		
8.5% Convertible perpetual preferred stock; 2,650 shares issued and outstanding at June 30, 2016 and December 31, 2015; aggregate liquidation preference of \$265,000	3	3
7.0% Convertible perpetual preferred stock; 2,597 shares issued and outstanding at June 30, 2016; aggregate liquidation preference of \$259,700; 2,770 shares issued and outstanding at December 31, 2015; aggregate liquidation preference of \$277,000	3	3
Common stock, \$0.001 par value; 1,800,000 shares authorized; 721,143 issued and 719,632 outstanding at June 30, 2016 and 635,584 issued and 633,471 outstanding at December 31, 2015	718	630
Additional paid-in capital	5,313,895	5,301,136
Additional paid-in capital—stockholder receivable	(1,250)	(1,250)
Treasury stock, at cost	(5,218)	(5,742)
Accumulated deficit	(7,581,074)	(6,992,697)
Total SandRidge Energy, Inc. stockholders' deficit	(2,272,923)	(1,697,917)
Noncontrolling interest	(21)	510,184
Total stockholders' deficit	(2,272,944)	(1,187,733)
Total liabilities and stockholders' deficit	\$2,240,908	\$2,922,027

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

Table of Contents

SANDRIDGE ENERGY, INC. (DEBTOR-IN-POSSESSION)
 CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
 (In thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(Unaudited)			
Revenues				
Oil, natural gas and NGL	\$95,662	\$214,532	\$180,037	\$410,264
Midstream and marketing	3,254	8,606	7,541	17,370
Drilling and services	224	5,241	1,456	15,086
Other	281	1,228	719	2,195
Total revenues	99,421	229,607	189,753	444,915
Expenses				
Production	42,686	81,776	89,968	171,274
Production taxes	2,121	4,382	3,829	8,896
Cost of sales	471	4,884	4,739	17,711
Midstream and marketing	756	7,724	1,840	15,831
Depreciation and depletion—oil and natural gas	27,952	94,298	60,278	200,405
Depreciation and amortization—other	6,974	12,508	13,809	25,855
Accretion of asset retirement obligations	1,387	1,111	2,975	2,191
Impairment	253,629	1,489,391	363,743	2,573,257
General and administrative	31,024	38,382	105,302	74,531
Loss (gain) on derivative contracts	7,969	33,004	5,161	(16,823)
Loss on settlement of contract	1,092	—	90,184	—
Gain on sale of assets	(1,330)	(2,770)	(3,210)	(4,674)
Total expenses	374,731	1,764,690	738,618	3,068,454
Loss from operations	(275,310)	(1,535,083)	(548,865)	(2,623,539)
Other (expense) income				
Interest expense (excludes \$37.7 million of contractual interest expense on debt subject to compromise for the three and six month-periods ended June 30, 2016)	(41,605)	(73,727)	(122,756)	(136,569)
(Loss) gain on extinguishment of debt	(152)	17,934	41,179	17,934
Reorganization items, net	(200,918)	—	(200,918)	—
Other income, net	2,077	2,170	2,230	1,634
Total other expense	(240,598)	(53,623)	(280,265)	(117,001)
Loss before income taxes	(515,908)	(1,588,706)	(829,130)	(2,740,540)
Income tax expense	3	25	7	65
Net loss	(515,911)	(1,588,731)	(829,137)	(2,740,605)
Less: net loss attributable to noncontrolling interest	—	(220,249)	—	(337,170)
Net loss attributable to SandRidge Energy, Inc.	(515,911)	(1,368,482)	(829,137)	(2,403,435)
Preferred stock dividends	5,440	7,074	16,321	17,955
Loss applicable to SandRidge Energy, Inc. common stockholders	\$(521,351)	\$(1,375,556)	\$(845,458)	\$(2,421,390)
Loss per share				
Basic	\$(0.73)	\$(2.78)	\$(1.20)	\$(4.98)
Diluted	\$(0.73)	\$(2.78)	\$(1.20)	\$(4.98)
Weighted average number of common shares outstanding				
Basic	718,102	495,153	703,943	486,704
Diluted	718,102	495,153	703,943	486,704

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

6

Table of Contents

SANDRIDGE ENERGY, INC. (DEBTOR-IN-POSSESSION)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIT)

(In thousands)

	SandRidge Energy, Inc. Stockholders								Total
	Convertible		Common Stock		Additional Paid-In Capital	Treasury Stock	Accumulated Deficit	Non-controlling Interest	
	Perpetual Preferred Stock	Shares	Amount	Shares					
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	
(Unaudited)									
Six Months Ended June 30, 2016									
Balance at December 31, 2015	5,420	\$ 6	633,471	\$ 630	\$5,299,886	\$(5,742)	\$(6,992,697)	\$ 510,184	\$(1,187,733)
Cumulative effect of adoption of ASU 2015-02	—	—	—	—	—	—	257,081	(510,205)	(253,124)
Purchase of treasury stock	—	—	—	—	—	(41)	—	—	(41)
Retirement of treasury stock	—	—	—	—	(41)	—	—	—	(41)