

SANDRIDGE ENERGY INC

Form 10-Q

November 06, 2008

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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 **September 30, 2008**
- 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**

*(State or other jurisdiction of  
incorporation or organization)*

**123 Robert S. Kerr Avenue  
Oklahoma City, Oklahoma**

*(Address of principal executive offices)*

**20-8084793**

*(I.R.S. Employer  
Identification No.)*

**73102**

*(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 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. (Check one):

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

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

As of October 31, 2008, 166,061,227 shares of the registrant's common stock, par value \$0.001 per share, were outstanding.

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**SANDRIDGE ENERGY, INC.**  
**FORM 10-Q**  
**Quarter Ended September 30, 2008**

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**DISCLOSURES REGARDING FORWARD-LOOKING STATEMENTS**

This quarterly report on Form 10-Q includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Various statements contained in this report, including those that express a belief, expectation, or intention, as well as those that are not statements of historical fact, are forward-looking statements. The forward-looking statements include projections and estimates concerning 2008 capital expenditures, our liquidity and capital resources, the timing and success of specific projects, outcomes and effects of litigation, claims and disputes and elements of our business strategy. Our forward-looking statements are generally accompanied by words such as estimate, project, predict, believe, expect, anticipate, potential, could, may, foresee, plan, goal or other words that convey the future events or outcomes. We have based these forward-looking statements on our current expectations and assumptions about future events. These statements are based on certain assumptions and analyses made by us in light of our experience and our perception of historical trends, current conditions and expected future developments as well as other factors we believe are appropriate under the circumstances. However, whether actual results and developments will conform with our expectations and predictions is subject to a number of risks and uncertainties, including the risk factors discussed in the prospectus we filed with the Securities and Exchange Commission on September 17, 2008, and in Item 1A of Part II of this quarterly report, the opportunities that may be presented to and pursued by us, competitive actions by other companies, changes in laws or regulations and other factors, many of which are beyond our control. Consequently, all of the forward-looking statements made in this report are qualified by these cautionary statements. The actual results or developments anticipated may not be realized or, even if substantially realized, they may not have the expected consequences to or effects on our company or our business or operations. Such statements are not guarantees of future performance and actual results or developments may differ materially from those projected in the forward-looking statements. We undertake no obligation to publicly update or revise any forward-looking statements.

**Table of Contents****PART I. Financial Information****ITEM 1. Financial Statements****SandRidge Energy, Inc. and Subsidiaries****Condensed Consolidated Balance Sheets**

	<b>September 30, 2008</b>	<b>December 31, 2007</b>
	<b>(Unaudited)</b>	
	<b>(In thousands)</b>	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 898	\$ 63,135
Accounts receivable, net:		
Trade	99,062	94,741
Related parties	13,874	20,018
Derivative contracts	87,751	21,958
Inventories	7,318	3,993
Deferred income taxes	3,528	1,820
Other current assets	29,858	20,787
Total current assets	242,289	226,452
Natural gas and crude oil properties, using full cost method of accounting		
Proved	4,155,044	2,848,531
Unproved	211,314	259,610
Less: accumulated depreciation and depletion	(434,561)	(230,974)
	3,931,797	2,877,167
Other property, plant and equipment, net	612,428	460,243
Derivative contracts	16,080	270
Investments	9,311	7,956
Restricted deposits	32,745	31,660
Other assets	45,852	26,818
Total assets	\$ 4,890,502	\$ 3,630,566
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current liabilities:		
Current maturities of long-term debt	\$ 16,227	\$ 15,350
Accounts payable and accrued expenses:		
Trade	314,444	215,497

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Related parties	575	395
Asset retirement obligation	1,524	864
Billings in excess of costs incurred	11,885	
Total current liabilities	344,655	232,106
Long-term debt	1,956,044	1,052,299
Other long-term obligations	11,817	16,817
Asset retirement obligation	64,574	57,716
Deferred income taxes	134,283	49,350
Total liabilities	2,511,373	1,408,288
Commitments and contingencies (Note 12)		
Minority interest	28	4,672
Redeemable convertible preferred stock, \$0.001 par value, 2,625 shares authorized; 0 and 2,184 issued and outstanding at September 30, 2008 and December 31, 2007, respectively		450,715
Stockholders' equity:		
Preferred stock, \$0.001 par value; 47,375 shares authorized; no shares issued and outstanding in 2008 and 2007		
Common stock, \$0.001 par value, 400,000 shares authorized; 166,973 issued and 165,648 outstanding at September 30, 2008 and 141,847 issued and 140,391 outstanding at December 31, 2007	163	140
Additional paid-in capital	2,161,891	1,686,113
Treasury stock, at cost	(19,315)	(18,578)
Retained earnings	236,362	99,216
Total stockholders' equity	2,379,101	1,766,891
Total liabilities and stockholders' equity	\$ 4,890,502	\$ 3,630,566

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

**Table of Contents****SandRidge Energy, Inc. and Subsidiaries****Condensed Consolidated Statements of Operations**

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
	<b>(Unaudited)</b>			
	<b>(In thousands, except per share amounts)</b>			
Revenues:				
Natural gas and crude oil	\$ 259,141	\$ 113,106	\$ 756,762	\$ 319,556
Drilling and services	12,054	16,684	36,345	56,928
Midstream and marketing	58,343	19,030	174,240	71,131
Other	4,485	4,828	13,812	14,160
Total revenues	334,023	153,648	981,159	461,775
Expenses:				
Production	41,070	28,689	115,512	77,707
Production taxes	6,717	4,402	29,456	12,328
Drilling and services	8,191	6,809	20,426	30,935
Midstream and marketing	51,908	14,444	157,059	61,191
Depreciation, depletion and amortization natural gas and crude oil	71,964	45,177	209,296	115,876
Depreciation, depletion and amortization other	17,597	14,282	51,342	36,545
General and administrative	29,235	20,421	76,432	45,781
(Gain) loss on derivative contracts	(292,526)	(39,247)	4,086	(55,228)
Gain on sale of assets	(1,420)	(1,045)	(9,131)	(1,704)
Total expenses	(67,264)	93,932	654,478	323,431
Income from operations	401,287	59,716	326,681	138,344
Other income (expense):				
Interest income	923	544	3,068	3,671
Interest expense	(41,026)	(28,522)	(88,421)	(88,630)
Minority interest	(2)	(164)	(853)	(321)
(Loss) income from equity investments	(60)	1,235	1,355	3,399
Other (expense) income, net	(83)	31	856	530
Total other (expense) income	(40,248)	(26,876)	(83,995)	(81,351)
Income before income tax expense	361,039	32,840	242,686	56,993
Income tax expense	130,693	11,920	89,308	21,002
Net income	230,346	20,920	153,378	35,991
Preferred stock dividends and accretion		9,313	16,232	30,573



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Income available to common stockholders	\$ 230,346	\$ 11,607	\$ 137,146	\$ 5,418
Income per share available to common stockholders:				
Basic	\$ 1.41	\$ 0.11	\$ 0.90	\$ 0.05
Diluted	\$ 1.40	\$ 0.11	\$ 0.89	\$ 0.05
Weighted average number of common shares outstanding:				
Basic	163,020	107,554	153,125	102,562
Diluted	164,554	109,049	154,489	103,778

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

Table of Contents**SandRidge Energy, Inc. and Subsidiaries****Condensed Consolidated Statement of Changes in Stockholders Equity**

	<b>Common Stock</b>	<b>Additional Paid-In Capital</b>	<b>Treasury Stock (Unaudited) (In thousands)</b>	<b>Retained Earnings</b>	<b>Total</b>
<b>Nine months ended September 30, 2008:</b>					
Balance, December 31, 2007	\$ 140	\$ 1,686,113	\$ (18,578)	\$ 99,216	\$ 1,766,891
Purchase of treasury stock			(3,536)		(3,536)
Common stock issued under retirement plans		3,167	2,799		5,966
Accretion on redeemable convertible preferred stock				(7,636)	(7,636)
Redeemable convertible preferred stock dividend				(8,596)	(8,596)
Stock-based compensation, net of tax		14,283			14,283
Conversion of redeemable convertible preferred stock to common stock	23	458,328			458,351
Net income				153,378	153,378
Balance, September 30, 2008	\$ 163	\$ 2,161,891	\$ (19,315)	\$ 236,362	\$ 2,379,101

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

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**SandRidge Energy, Inc. and Subsidiaries**

**Condensed Consolidated Statements of Cash Flows**

**Nine Months Ended  
September 30,  
2008                      2007  
(Unaudited)  
(In thousands)**

**CASH FLOWS FROM OPERATING ACTIVITIES:**

Net income

\$ 153,378                      \$ 35,991

Adjustments to reconcile net income to net cash provided by operating activities: