

SANDRIDGE ENERGY INC

Form 10-Q

November 08, 2016

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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Form 10-Q

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(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, 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

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SANDRIDGE ENERGY, INC.

(Exact name of registrant as specified in its charter)

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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

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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, prior to the Company's emergence from bankruptcy on October 4, 2016 was 719,562,166. The number of shares outstanding of the registrant's common stock, par value \$0.001 per share at October 31, 2016 was 20,575,551.

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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 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 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,” and 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.

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

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## PART I. Financial Information

## ITEM 1. Financial Statements

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

## CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except per share data)

	September 30, 2016 (Unaudited)	December 31, 2015
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$652,680	\$ 435,588
Accounts receivable, net	61,446	127,387
Derivative contracts	10,192	84,349
Prepaid expenses	12,514	6,833
Other current assets	1,003	19,931
Total current assets	737,835	674,088
Oil and natural gas properties, using full cost method of accounting		
Proved	12,093,492	12,529,681
Unproved	322,580	363,149
Less: accumulated depreciation, depletion and impairment	(11,637,538)	(11,149,888 )
	778,534	1,742,942
Other property, plant and equipment, net	357,528	491,760
Derivative contracts	70	—
Other assets	12,537	13,237
Total assets	\$1,886,504	\$ 2,922,027

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

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

	September 30, 2016 (Unaudited)	December 31, 2015
<b>LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)</b>		
Current liabilities		
Accounts payable and accrued expenses	\$ 140,448	\$ 428,417
Derivative contracts	2,982	573
Asset retirement obligations	8,573	8,399
Total current liabilities	152,003	437,389
Long-term debt	—	3,562,378
Derivative contracts	935	—
Asset retirement obligations	62,896	95,179
Other long-term obligations	3	14,814
Liabilities subject to compromise	4,346,188	—
Total liabilities	4,562,025	4,109,760
Commitments and contingencies (Note 8)		
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 September 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 September 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; 720,936 issued and 719,425 outstanding at September 30, 2016 and 635,584 issued and 633,471 outstanding at December 31, 2015	718	630
Additional paid-in capital	5,315,655	5,301,136
Additional paid-in capital—stockholder receivable	(1,250 )	(1,250 )
Treasury stock, at cost	(5,218 )	(5,742 )
Accumulated deficit	(7,985,411 )	(6,992,697 )
Total SandRidge Energy, Inc. stockholders' deficit	(2,675,500 )	(1,697,917 )
Noncontrolling interest	(21 )	510,184
Total stockholders' deficit	(2,675,521 )	(1,187,733 )
Total liabilities and stockholders' deficit	\$ 1,886,504	\$ 2,922,027

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

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CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

	Three Months Ended September 30, 2016		Nine Months Ended September 30, 2016	
	2015	2015	2015	2015
	(Unaudited)			
Revenues				
Oil, natural gas and NGL	\$99,934	\$165,135	\$279,971	\$575,399
Midstream and marketing	3,004	8,838	10,545	26,208
Drilling and services	886	4,572	2,342	19,658
Other	232	1,607	951	3,802
Total revenues	104,056	180,152	293,809	625,067
Expenses				
Production	39,640	72,884	129,608	244,158
Production taxes	2,278	3,652	6,107	12,548
Cost of sales	563	4,323	5,302	22,034
Midstream and marketing	—	6,633	1,840	22,464
Depreciation and depletion—oil and natural gas	26,335	66,501	86,613	266,906
Depreciation and amortization—other	7,514	11,379	21,323	37,234
Accretion of asset retirement obligations	1,390	1,132	4,365	3,323
Impairment	354,451	1,074,588	718,194	3,647,845
General and administrative	29,145	34,233	134,447	108,764
(Gain) loss on derivative contracts	(338)	(42,211)	4,823	(59,034)
Loss on settlement of contract	—	—	90,184	—
Loss (gain) on sale of assets	416	6,771	(2,794)	2,097
Total expenses	461,394	1,239,885	1,200,012	4,308,339
Loss from operations	(357,338)	(1,059,733)	(906,203)	(3,683,272)
Other (expense) income				
Interest expense (excludes \$36.9 and \$74.5 million of contractual interest expense on debt subject to compromise for the three and nine month-periods ended September 30, 2016)	(3,343)	(77,000)	(126,099)	(213,569)
Gain on extinguishment of debt	—	340,699	41,179	358,633
Reorganization items, net	(42,754)	—	(243,672)	—
Other (expense) income, net	(898)	(426)	1,332	1,208
Total other (expense) income	(46,995)	263,273	(327,260)	146,272
Loss before income taxes	(404,333)	(796,460)	(1,233,463)	(3,537,000)
Income tax expense	4	25	11	90
Net loss	(404,337)	(796,485)	(1,233,474)	(3,537,090)
Less: net loss attributable to noncontrolling interest	—	(156,073)	—	(493,243)
Net loss attributable to SandRidge Energy, Inc.	(404,337)	(640,412)	(1,233,474)	(3,043,847)
Preferred stock dividends	—	9,114	16,321	27,069
Loss applicable to SandRidge Energy, Inc. common stockholders	\$(404,337)	\$(649,526)	\$(1,249,795)	\$(3,070,916)
Loss per share				
Basic	\$(0.56)	\$(1.23)	\$(1.76)	\$(6.14)
Diluted	\$(0.56)	\$(1.23)	\$(1.76)	\$(6.14)
Weighted average number of common shares outstanding				
Basic	718,373	526,388	708,788	500,077
Diluted	718,373	526,388	708,788	500,077

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

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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	Treasury	Accumulated	Non-controlling		
	Perpetual	Preferred							
	Stock	Shares	Amount	Capital	Amount				
Nine Months Ended September									
30, 2016									
Balance at	5,420	\$ 6	633,471	\$ 630	\$5,299,886	\$(5,742)	\$(6,992,697)	\$ 510,184	\$(1,187,733)
December 31, 2015									
Cumulative effect of									
adoption of ASU	—	—	—	—	—	—	257,081	(510,205 )	(253,124 )
2015-02									
Purchase of treasury	—	—	—	—	—	(44 )	—	—	(44 )
stock									
Retirement of	—	—	—	—	(44 )	44	—	—	—
treasury stock									
Stock distributions,	—	—	603	—	(860 )	524	—	—	(336 )
net of purchases -									
retirement plans									
Stock-based	—	—	—	—	11,102	—	—	—	11,102
compensation									
Cancellations of	—	—	(2,184 )	2	(2 )	—	—	—	—
restricted stock									
awards, net of									
issuance									
Common stock	—	—	84,390	84	4,325	—	—	—	4,409
issued for debt									
Conversion of	(173 )	—	2,220	2	(2 )	—	—	—	—
preferred stock to									
common stock									
Net loss	—	—	—	—	—	—	(1,233,474 )	—	(1,233,474 )
Convertible									
perpetual preferred	—	—	—	—	—	—	(16,321 )	—	(16,321 )
stock dividends									
Balance at	5,247	\$ 6	718,500	\$ 718	\$5,314,405	\$(5,218)	\$(7,985,411)	\$ (21 )	\$(2,675,521)
September 30, 2016									

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

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SANDRIDGE ENERGY, INC. (DEBTOR-IN-POSSESSION)  
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
 (In thousands)

	Nine Months Ended September 30,	
	2016	2015
	(Unaudited)	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net loss	\$(1,233,474)	\$(3,537,090)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities		
Provision for doubtful accounts	16,704	—
Depreciation, depletion and amortization	107,936	304,140
Accretion of asset retirement obligations	4,365	3,323
Impairment	718,194	3,647,845
Reorganization items, net	231,836	—
Debt issuance costs amortization	4,996	8,324
Amortization of discount, net of premium, on debt	2,734	1,053
Gain on extinguishment of debt	(41,179)	(358,633)
Write off of debt issuance costs	—	7,108
Gain on debt derivatives	(1,324)	(10,146)
Cash paid for early conversion of convertible notes	(33,452)	(2,708)
Loss (gain) on derivative contracts	4,823	(59,034)
Cash received on settlement of derivative contracts	72,608	278,581
Loss on settlement of contract	90,184	—
Cash paid on settlement of contract	(11,000)	—
(Gain) loss on sale of assets	(2,794)	2,097
Stock-based compensation	9,075	15,170
Other	(466)	1,772
Changes in operating assets and liabilities	(3,805)	59,084
Net cash (used in) provided by operating activities	(64,039)	360,886
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Capital expenditures for property, plant and equipment	(186,452)	(761,905)
Acquisition of assets	(1,328)	(3,231)
Proceeds from sale of assets	20,090	35,387
Net cash used in investing activities	(167,690)	(729,749)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from borrowings	489,198	2,190,000
Repayments of borrowings	(40,000)	(1,034,466)
Debt issuance costs	(333)	(48,021)
Noncontrolling interest distributions	—	(115,301)
Purchase of treasury stock	(44)	(3,198)
Dividends paid — preferred	—	(11,262)
Net cash provided by financing activities	448,821	977,752
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>217,092</b>	<b>608,889</b>
<b>CASH AND CASH EQUIVALENTS, beginning of year</b>	<b>435,588</b>	<b>181,253</b>
<b>CASH AND CASH EQUIVALENTS, end of period</b>	<b>\$652,680</b>	<b>\$790,142</b>
<b>Supplemental Disclosure of Cash Flow Information</b>		
Cash paid for reorganization items	\$(11,836)	\$—
<b>Supplemental Disclosure of Noncash Investing and Financing Activities</b>		

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Cumulative effect of adoption of ASU 2015-02	\$ (247,566 )	\$ —
Property, plant and equipment transferred in settlement of contract	\$ (215,635 )	\$ —
Change in accrued capital expenditures	\$ 25,045	\$ 160,853
Equity issued for debt	\$ 4,409	\$ (35,147 )
Preferred stock dividends paid in common stock	\$ —	\$ (16,188 )

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

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SANDRIDGE ENERGY, INC.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

1. Chapter 11 Proceedings

On May 16, 2016, the Company and certain of its direct and indirect subsidiaries (collectively with the Company, the “Debtors”) filed voluntary petitions (the “Bankruptcy 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”). The Bankruptcy Court confirmed the Debtors’ joint plan of reorganization on September 9, 2016, and the Debtors’ subsequently emerged from bankruptcy on October 4, 2016 (the “Emergence Date”). Although the Company is no longer a debtor-in-possession, the Company was a debtor-in-possession for the entire quarter ended September 30, 2016. As such, the Company’s bankruptcy proceedings and related matters have been summarized below.

References to “Successor” or “Successor Company” relate to SandRidge on and subsequent to October 4, 2016. References to “Predecessor” or “Predecessor Company” refer to SandRidge on and prior to October 3, 2016.

The Company was able to conduct normal business activities and pay associated obligations for the period following its bankruptcy filing and was authorized to pay and has paid certain pre-petition obligations, including for employee wages and benefits, goods and services provided by certain vendors, transportation of the Company’s production, royalties and costs incurred on the Company’s behalf by other working interest owners. During the pendency of the Chapter 11 case, all transactions outside the ordinary course of business required the prior approval of the Bankruptcy Court.

Automatic Stay. Subject to certain specific exceptions under the Bankruptcy Code, the Chapter 11 filings automatically stayed most judicial or administrative actions against the Company and efforts by creditors to collect on or otherwise exercise rights or remedies with respect to pre-petition claims. Absent an order from the Bankruptcy Court, substantially all of the Debtors’ pre-petition liabilities were subject to settlement under the Bankruptcy Code.

Plan of Reorganization. In accordance with the plan of reorganization confirmed by the Bankruptcy Court (the “Plan”), the following significant transactions occurred upon the Company’s emergence from bankruptcy on October 4, 2016:

First Lien Credit Agreement. All outstanding obligations under the senior secured revolving credit facility (the “senior credit facility”) were canceled, and claims under the senior credit facility received their proportionate share of (a) \$35.0 million in cash and (b) participation in the newly established \$425.0 million reserve-based revolving credit facility (the “New First Lien Exit Facility”). Refer to Note 6 for additional information.