

SANDRIDGE ENERGY INC  
Form 10-Q  
August 06, 2012  
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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 June 30, 2012

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

(State or other jurisdiction of  
incorporation or organization)

20-8084793

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

123 Robert S. Kerr Avenue

Oklahoma City, Oklahoma

(Address of principal executive offices)

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

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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

Accelerated filer

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

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 July 31, 2012, was 491,077,348.

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DISCLOSURES REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q (“Quarterly Report”) of SandRidge Energy, Inc. (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 capital expenditures, the Company’s liquidity and capital resources, the timing and success of specific projects, outcomes and effects of litigation, claims and disputes, elements of the Company’s business strategy, the effects of the acquisition of Dynamic Offshore Resources, LLC on the Company’s financial condition and other statements concerning the Company’s operations, economic performance and financial 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 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, they may not have the expected consequences to or effects on the Company’s business or operations. Such statements are not guarantees of future performance and actual results or developments may differ materially from those projected in such forward-looking statements. The forward-looking statements in this respect speak only as of the date hereof. The Company disclaims any obligation to update or revise any 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 discussed in “Risk Factors” in Item 1A of the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2011 (the “2011 Form 10-K”).

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FORM 10-Q  
Quarter Ended June 30, 2012

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## PART I. Financial Information

## ITEM 1. Financial Statements

SANDRIDGE ENERGY, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(In thousands, except per share data)

	June 30, 2012 (Unaudited)	December 31, 2011
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$421,073	\$207,681
Accounts receivable, net	288,332	206,336
Derivative contracts	204,202	4,066
Inventories	4,055	6,903
Costs in excess of billings	14,768	—
Prepaid expenses	33,648	14,099
Other current assets	14,707	2,755
Total current assets	980,785	441,840
Oil and natural gas properties, using full cost method of accounting		
Proved	11,197,054	8,969,296
Unproved	948,369	689,393
Less: accumulated depreciation, depletion and impairment	(5,011,661)	(4,791,534)
	7,133,762	4,867,155
Other property, plant and equipment, net	595,250	522,269
Restricted deposits	27,941	27,912
Derivative contracts	98,237	26,415
Goodwill	235,396	235,396
Other assets	107,164	98,622
Total assets	\$9,178,535	\$6,219,609
<b>LIABILITIES AND EQUITY</b>		
Current liabilities		
Current maturities of long-term debt	\$—	\$1,051
Accounts payable and accrued expenses	669,362	506,784
Billings and estimated contract loss in excess of costs incurred	6,321	43,320
Derivative contracts	6,962	115,435
Asset retirement obligation	140,789	32,906
Total current liabilities	823,434	699,496
Long-term debt	3,549,432	2,813,125
Derivative contracts	19,833	49,695
Asset retirement obligation	349,192	95,210
Other long-term obligations	14,566	13,133
Total liabilities	4,756,457	3,670,659
Commitments and contingencies (Note 11)		
Equity		
SandRidge Energy, Inc. stockholders' equity		
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, 2012 and December 31, 2011; aggregate liquidation preference of \$265,000	3	3

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6.0% Convertible perpetual preferred stock; 2,000 shares issued and outstanding at June 30, 2012 and December 31, 2011; aggregate liquidation preference of \$200,000	2	2
7.0% Convertible perpetual preferred stock; 3,000 shares issued and outstanding at June 30, 2012 and December 31, 2011; aggregate liquidation preference of \$300,000	3	3
Common stock, \$0.001 par value, 800,000 shares authorized; 490,161 issued and 489,191 outstanding at June 30, 2012 and 412,827 issued and 411,953 outstanding at December 31, 2011	475	399
Additional paid-in capital	5,202,119	4,568,856
Treasury stock, at cost	(6,925	) (6,158 )
Accumulated deficit	(2,360,172	) (2,937,094 )
Total SandRidge Energy, Inc. stockholders' equity	2,835,505	1,626,011
Noncontrolling interest	1,586,573	922,939
Total equity	4,422,078	2,548,950
Total liabilities and equity	\$9,178,535	\$6,219,609

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 OPERATIONS  
(In thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
	(Unaudited)			
Revenues				
Oil and natural gas	\$429,758	\$312,111	\$771,123	\$579,053
Drilling and services	33,632	28,537	62,941	49,571
Midstream and marketing	8,852	16,313	17,158	38,570
Other	6,192	7,813	8,847	10,427
Total revenues	478,434	364,774	860,069	677,621
Expenses				
Production	122,481	81,834	205,791	155,791
Production taxes	11,001	12,666	23,255	23,242
Drilling and services	19,241	18,058	36,802	33,099
Midstream and marketing	8,559	15,873	16,513	38,156
Depreciation and depletion — oil and natural gas	139,260	73,826	226,326	145,286
Depreciation and amortization — other	15,348	13,275	29,860	26,368
Accretion of asset retirement obligation	7,965	2,360	10,572	4,786
General and administrative	61,716	37,678	112,017	72,091
(Gain) loss on derivative contracts	(669,850)	) (169,988	) (415,204	) 107,640
Loss (gain) on sale of assets	300	(524	) 3,380	(725
Total expenses	(283,979)	) 85,058	249,312	605,734
Income from operations	762,413	279,716	610,757	71,887
Other income (expense)				
Interest expense	(68,569	) (61,687	) (135,534	) (121,124
Bargain purchase gain	124,446	—	124,446	—
Loss on extinguishment of debt	—	(2,051	) —	(38,232
Other (expense) income, net	(81	) 138	2,387	1,335
Total other income (expense)	55,796	(63,600	) (8,701	) (158,021
Income (loss) before income taxes	818,209	216,116	602,056	(86,134
Income tax benefit	(103,658)	) (7,054	) (103,587	) (6,967
Net income (loss)	921,867	223,170	705,643	(79,167
Less: net income attributable to noncontrolling interest	99,004	13,154	100,958	13,161
Net income (loss) attributable to SandRidge Energy, Inc.	822,863	210,016	604,685	(92,328
Preferred stock dividends	13,881	13,881	27,763	27,821
Income available (loss applicable) to SandRidge Energy, Inc. common stockholders	\$808,982	\$196,135	\$576,922	\$(120,149
Earnings (loss) per share				
Basic	\$1.75	\$0.49	\$1.34	\$(0.30
Diluted	\$1.47	\$0.42	\$1.14	\$(0.30
Weighted average number of common shares outstanding				
Basic	461,008	398,435	430,802	398,343
Diluted	560,640	495,982	530,378	398,343

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

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CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(In thousands)

	SandRidge Energy, Inc. Stockholders								
	Convertible Perpetual Preferred Stock		Common Stock		Additional Paid-In Capital	Treasury Stock	Accumulated Deficit	Non-controlling Interest	Total
	Shares	Amount	Shares	Amount					
Six Months Ended June 30, 2011									
Balance at December 31, 2010	7,650	\$ 8	406,360	\$ 398	\$ 4,528,912	\$(3,547)	\$(2,989,576)	\$ 11,288	\$ 1,547,483
Issuance of units by royalty trust	—	—	—	—	—	—	—	336,892	336,892
Distributions to noncontrolling interest owners	—	—	—	—	—	—	—	(1,501)	(1,501)
Stock issuance expense	—	—	—	—	(231)	—	—	—	(231)
Purchase of treasury stock	—	—	—	—	—	(4,984)	—	—	(4,984)
Retirement of treasury stock	—	—	—	—	(4,984)	4,984	—	—	—
Stock purchases— retirement plans, net of distributions	—	—	(110)	—	1,998	(978)	—	—	1,020
Stock-based compensation	—	—	—	—	24,987	—	—	—	24,987
Stock-based compensation excess tax benefit	—	—	—	—	7	—	—	—	7
Issuance of restricted stock awards, net of cancellations	—	—	3,668	—	—	—	—	—	—
Net (loss) income	—	—	—	—	—	—	(92,328)	13,161	(79,167)
Convertible perpetual preferred stock dividends	—	—	—	—	—	—	(27,821)	—	(27,821)
Balance at June 30, 2011	7,650	\$ 8	409,918	\$ 398	\$ 4,550,689	\$(4,525)	\$(3,109,725)	\$ 359,840	\$ 1,796,685

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Six Months  
Ended June 30,  
2012

Balance at December 31, 2011	7,650	\$8	411,953	\$399	\$4,568,856	\$(6,158)	\$(2,937,094)	\$ 922,939	\$2,548,950
Issuance of common stock in acquisition	—	—	73,962	74	542,064	—	—	—	542,138
Issuance of units by royalty trust	—	—	—	—	—	—	—	587,086	587,086
Sale of royalty trust units	—	—	—	—	71,158	—	—	52,391	123,549
Distributions to royalty trust unitholders	—	—	—	—	—	—	—	(76,801 )	(76,801 )
Purchase of treasury stock	—	—	—	—	—	(6,704 )	—	—	(6,704 )
Retirement of treasury stock	—	—	—	—	(6,704 )	6,704	—	—	—
Stock purchases — retirement plans, net of distributions	—	—	(96 )	—	1,193	(767 )	—	—	426
Stock-based compensation	—	—	—	—	25,546	—	—	—	25,546
Stock-based compensation excess tax benefit	—	—	—	—	8	—	—	—	8
Issuance of restricted stock awards, net of cancellations	—	—	3,372	2	(2 )	—	—	—	—
Net income	—	—	—	—	—	—	604,685	100,958	705,643
Convertible perpetual preferred stock dividends	—	—	—	—	—	—	—	—	—