

SANDRIDGE ENERGY INC
Form 10-Q
January 08, 2015
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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, 2014

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)

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

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 December 31, 2014, was 484,828,817.

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References in this report to the “Company” and “SandRidge” mean SandRidge Energy, Inc., including its consolidated subsidiaries and variable interest entities of which it is the primary beneficiary.

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 amended Annual Report on Form 10-K/A for the fiscal year ended December 31, 2013 (the “2013 Form 10-K/A”) filed with the Securities and Exchange Commission (the “SEC”) on January 8, 2015.

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Preliminary Note

Immediately prior to filing this report, the Company filed a Form 10-K/A for the fiscal year ended December 31, 2013 and Forms 10-Q/A for the fiscal quarters ended March 31, 2014 and June 30, 2014, restating the Company's financial statements for those periods. These filings were made to correct errors related to the accrual of the Company's annual CO₂ under delivery shortfall penalties and to make certain other adjustments with respect to the periods covered by those reports. Certain details regarding those errors and adjustments are discussed in "Note 2 - Restatement of Previously Issued Financial Statements" of this Form 10-Q.

Restatement

On November 4, 2014, the Company filed a Current Report on Form 8-K, stating that (i) the consolidated financial statements of the Company for the periods ended December 31, 2013 and 2012 included in the Company's Annual Reports on Form 10-K for the periods then ended and (ii) the unaudited consolidated financial statements of the Company for the periods ended March 31, 2013, June 30, 2013, September 30, 2013, March 31, 2014, and June 30, 2014 included in the Company's Quarterly Reports on Form 10-Q for the periods then ended should no longer be relied upon due to potential changes related to the accrual of a liability associated with the under delivery by the Company of CO₂ to Occidental Petroleum Corporation's ("Occidental") Century Plant in Pecos County, Texas (the "Century Plant") or elsewhere.

Historically, based on its determination of the appropriate method of accounting for the annual CO₂ delivery shortfall penalty, the Company did not evaluate whether an accrual was needed within each quarterly period prior to the fourth quarter. As a result of consultation with the staff of the SEC, the Company has determined to adopt a different method of accounting for the penalty, which method considers, on a quarterly basis, whether a portion of the annual shortfall delivery penalty should be accrued at the end of each quarter. After applying this method, the Company concluded that it should restate its previously issued unaudited condensed consolidated financial statements for the quarterly and year-to-date periods ended March 31, 2013, June 30, 2013, September 30, 2013, March 31, 2014, and June 30, 2014. The effect of such corrections is to transfer a portion of the annual accrual that was previously recorded at year-end to certain of the quarter-end periods within such calendar year. No changes are being made to the annual accruals previously recorded. For the three and nine-month periods ended September 30, 2013, the correction of these errors resulted in the accrual of (i) \$8.3 million and \$24.3 million in CO₂ under delivery shortfall penalties, respectively, which were previously included in the total 2013 annual delivery shortfall penalty of \$32.7 million recorded in the fourth quarter of 2013. The correction of these errors in the unaudited condensed consolidated financial statements for the three and nine-month periods ended September 30, 2013 did not have any impact to the statement of operations or statement of cash flows for the year ended December 31, 2013 or to the balance sheet as of December 31, 2013.

Revision

Additionally, as a result of consultation with the staff of the SEC, the Company has determined that construction of the Century Plant under a construction contract with Occidental should have been accounted for under the full cost method of accounting rather than the completed contract method of accounting. As of December 31, 2013, this change in accounting treatment had no impact on total assets, total liabilities, net income or retained earnings, but resulted in certain equal and offsetting adjustments within current assets or current liabilities as of December 31, 2013.

See "Note 2 - Restatement of Previously Issued Financial Statements" of this Form 10-Q for more information regarding the impact of the above-described adjustments.

Internal Control Consideration

The Company's management has determined that the absence of an evaluation of whether an accrual for the annual CO₂ delivery shortfall penalty was required within each quarterly period prior to the fourth quarter, in accordance with its prior method of accounting, was a deficiency in its internal control over financial reporting that constitutes a material weakness, as defined by SEC regulations, at September 30, 2014. For a discussion of management's consideration of the Company's disclosure controls and procedures and the material weakness identified, see Part I. Item 4 included in this Form 10-Q.

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SANDRIDGE ENERGY, INC.
FORM 10-Q
Quarter Ended September 30, 2014

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PART I. Financial Information

ITEM 1. Financial Statements

SANDRIDGE ENERGY, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except per share data)

	September 30, 2014	December 31, 2013 (Revised)
	(Unaudited)	
ASSETS		
Current assets		
Cash and cash equivalents	\$590,246	\$814,663
Accounts receivable, net	330,543	349,218
Derivative contracts	53,919	12,779
Prepaid expenses	6,794	39,253
Other current assets	23,223	25,910
Total current assets	1,004,725	1,241,823
Oil and natural gas properties, using full cost method of accounting		
Proved	11,252,074	10,972,816
Unproved	300,224	531,606
Less: accumulated depreciation, depletion and impairment	(6,250,457)	(5,762,969)
	5,301,841	5,741,453
Other property, plant and equipment, net	578,864	566,222
Derivative contracts	15,891	14,126
Other assets	77,068	121,171
Total assets	\$6,978,389	\$7,684,795

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

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SANDRIDGE ENERGY, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS - Continued

(In thousands, except per share data)

	September 30, 2014 (Unaudited)	December 31, 2013 (Revised)
LIABILITIES AND EQUITY		
Current liabilities		
Accounts payable and accrued expenses	\$652,649	\$812,488
Derivative contracts	—	34,267
Asset retirement obligations	—	87,063
Other current liabilities	18,549	—
Total current liabilities	671,198	933,818
Long-term debt		
Derivative contracts	—	20,564
Asset retirement obligations	57,696	337,054
Other long-term obligations	16,418	22,825
Total liabilities	3,940,613	4,509,168
Commitments and contingencies (Note 12)		
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 September 30, 2014 and December 31, 2013; aggregate liquidation preference of \$265,000	3	3
6.0% Convertible perpetual preferred stock; 2,000 shares issued and outstanding at September 30, 2014 and December 31, 2013; aggregate liquidation preference of \$200,000	2	2
7.0% Convertible perpetual preferred stock; 3,000 shares issued and outstanding at September 30, 2014 and December 31, 2013; aggregate liquidation preference of \$300,000	3	3
Common stock, \$0.001 par value, 800,000 shares authorized; 491,262 issued and 490,224 outstanding at September 30, 2014 and 491,609 issued and 490,290 outstanding at December 31, 2013	483	483
Additional paid-in capital	5,292,874	5,298,301
Additional paid-in capital—stockholder receivable	(3,750)	(3,750)
Treasury stock, at cost	(6,823)	(8,770)
Accumulated deficit	(3,511,498)	(3,460,462)
Total SandRidge Energy, Inc. stockholders' equity	1,771,294	1,825,810
Noncontrolling interest	1,266,482	1,349,817
Total equity	3,037,776	3,175,627
Total liabilities and equity	\$6,978,389	\$7,684,795

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

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SANDRIDGE ENERGY, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013 (Restated)	2014	2013 (Restated)
	(Unaudited)			
Revenues				
Oil, natural gas and NGL	\$359,613	\$459,211	\$1,104,835	\$1,391,510
Drilling and services	21,348	16,149	57,280	49,597
Midstream and marketing	11,922	14,624	44,706	42,854
Construction contract	—	—	—	23,253
Other	1,224	3,619	5,056	11,066
Total revenues	394,107	493,603	1,211,877	1,518,280
Expenses				
Production	82,664	124,571	256,473	389,911
Production taxes	8,380	8,816	24,027	24,819
Cost of sales	15,992	13,773	38,942	45,438
Midstream and marketing	11,405	13,224	40,659	39,954
Construction contract	—	—	—	23,253
Depreciation and depletion—oil and natural gas	112,569	137,639	325,021	434,068
Depreciation and amortization—other	14,417	15,270	45,350	46,628
Accretion of asset retirement obligations	1,116	8,472	7,927	28,051
Impairment	54	687	167,966	16,330
General and administrative	24,584	37,714	86,115	172,301
Employee termination benefits	5	2,256	8,927	120,374
(Gain) loss on derivative contracts	(132,575)	) 132,808	(4,792)	) 70,051
(Gain) loss on sale of assets	(995)	) 539	(978)	) 398,364
Total expenses	137,616	495,769	995,637	1,809,542
Income (loss) from operations	256,491	(2,166)	) 216,240	(291,262)
Other income (expense)				
Interest expense	(59,783)	) (61,385)	) (183,689)	) (208,454)
Loss on extinguishment of debt	—	—	—	(82,005)
Other (expense) income, net	(273)	) 658	3,159	1,163
Total other expense	(60,056)	) (60,727)	) (180,530)	) (289,296)
Income (loss) before income taxes	196,435	(62,893)	) 35,710	(580,558)
Income tax (benefit) expense	(1,064)	) 2,363	(2,131)	) 7,300
Net income (loss)	197,499	(65,256)	) 37,841	(587,858)
Less: net income attributable to noncontrolling interest	40,161	16,191	49,733	9,393
Net income (loss) attributable to SandRidge Energy, Inc.	157,338	(81,447)	) (11,892)	) (597,251)
Preferred stock dividends	11,381	13,881	39,144	41,644
Income available (loss applicable) to SandRidge Energy, Inc. common stockholders	\$145,957	\$(95,328)) \$(51,036)) \$(638,895)
Income (loss) per share				
Basic	\$0.30	\$(0.20)) \$(0.11)) \$(1.33)
Diluted	\$0.27	\$(0.20)) \$(0.11)) \$(1.33)

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Weighted average number of common shares
outstanding

Basic	485,458	483,582	485,194	480,209
Diluted	575,911	483,582	485,194	480,209

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

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SANDRIDGE ENERGY, INC.

CONDENSED CONSOLIDATED STATEMENT 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					
(Unaudited)									
Nine Months Ended September 30, 2014									
Balance at December 31, 2013	7,650	\$8	490,290	\$483	\$5,294,551	\$(8,770)	\$(3,460,462)		