SANDRIDGE ENERGY INC Form 10-Q/A January 08, 2015 Table of Contents	
UNITED STATES SECURITIES AND EXCHANGE COMMISSION Washington, D.C. 20549	
Form 10-Q/A(Amendment No. 1) (Mark One)	
b QUARTERLY REPORT PURSUANT TO SECTI OF 1934	ON 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT
For the quarterly period ended June 30, 2014 OR	
TRANSITION REPORT PURSUANT TO SECTI OF 1934	ON 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT
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	73102
(Address of principal executive offices) Registrant's telephone number, including area code:	(Zip Code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of

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

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 b No o

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 b No o

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

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

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, 2014, was 494,027,381.

Table of Contents

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," "goa 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.

Table of Contents

Explanatory Note

The Company is filing this amendment on Form 10-Q/A ("Form 10-Q/A") to amend its Quarterly Report on Form 10-Q for the quarter ended June 30, 2014, originally filed with the SEC on August 7, 2014 (the "Original Filing"), to restate its unaudited condensed consolidated financial statements and related footnote disclosures for the three and six-month periods ended June 30, 2014 and 2013. This Form 10-Q/A also amends certain other items in the Original Filing, as listed in "Items Amended in this Form 10-Q/A" below.

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 June 30, 2014, March 31, 2014, September 30, 2013, June 30, 2013 and March 31, 2013 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 June 30, 2014, March 31, 2014, September 30, 2013, June 30, 2013 and March 31, 2013. 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 six-month periods ended June 30, 2014 and 2013, the correction of these errors resulted in the accrual of (i) \$8.5 million and \$16.8 million in CO₂ under delivery shortfall penalties, for the three and six-month periods ended June 30, 2014, respectively, and (ii) \$8.1 million and \$16.0 million in CO₂ under delivery shortfall penalties, for the three and six-month periods ended June 30, 2013, 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 six-month periods ended June 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. As a result of the above-described adjustments, the Company is presenting in this Form 10-Q/A restated condensed consolidated financial statements for the periods indicated above.

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 June 30, 2014 and December 31, 2013, this change in accounting treatment had no impact on total assets, total liabilities, net income or retained earnings, but resulted in (i) certain equal and offsetting adjustments within current assets or current liabilities as of June 30, 2014 and December 31, 2013 and (ii) certain equal and offsetting adjustments within items comprising net cash provided by operating activities for the six-month periods ended June 30, 2014 and 2013. The Company has determined that none of these revisions are material to the unaudited condensed consolidated financial statements for

any of the periods presented in the Original Filing; however, in conjunction with the Company's need to file this Form 10-Q/A as a result of the error noted above, the Company has determined that it would be appropriate within this Form 10-Q/A to record all such adjustments.

See "Note 2 - Restatement of Previously Issued Financial Statements" of this Form 10-Q/A 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 June 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/A.

Table of Contents

Items Amended in this Form 10-Q/A

This Form 10-Q/A sets forth the Original Filing, in its entirety, as modified and superseded as necessary to reflect the restatement. The following items in the Original Filing have been amended as a result of, and to reflect, the restatement:

A. Part I, Item 1. Financial Statements

B. Part I, Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

C. Part I, Item 4. Controls and Procedures

D. Part II, Item 6. Exhibits

This Form 10-Q/A is presented as of the filing date of the Original Filing and does not reflect events occurring after that date, or modify or update the information contained therein in any way other than as required to reflect the restatement described above.

In accordance with rule 12b-15 under the Exchange Act, as amended, this Form 10-Q/A includes certifications from the Company's Chief Executive Officer and Chief Financial Officer as of the date of this filing.

Table of Contents

SANDRIDGE ENERGY, INC. FORM 10-Q/A

Quarter Ended June 30, 2014

INDEX

PART I. FINANCIAL INFORMATION

ITEM 1.	Financial Statements (Unaudited)	<u>4</u>
	Condensed Consolidated Balance Sheets (restated)	<u>4</u>
	Condensed Consolidated Statements of Operations (restated)	<u>6</u>
	Condensed Consolidated Statement of Changes in Equity (restated)	7
	Condensed Consolidated Statements of Cash Flows (restated)	<u>8</u>
	Notes to Condensed Consolidated Financial Statements (restated)	9
ITEM 2.	Management's Discussion and Analysis of Financial Condition and Results of	52
	Operations	<u>53</u>
ITEM 3.	Quantitative and Qualitative Disclosures About Market Risk	<u>70</u>
ITEM 4.	Controls and Procedures	<u>73</u>
PART II. O	THER INFORMATION	
ITEM 1.	<u>Legal Proceedings</u>	<u>74</u>
ITEM 1A.	Risk Factors	<u>76</u>
ITEM 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>77</u>
ITEM 6.	<u>Exhibits</u>	<u>77</u>

Table of Contents

PART I. Financial Information

ITEM 1. Financial Statements SANDRIDGE ENERGY, INC. CONDENSED CONSOLIDATED BALANCE SHEETS (In thousands, except per share data)

	June 30, 2014 (Restated)	December 31, 2013 (Revised)
	(Unaudited)	
ASSETS		
Current assets		
Cash and cash equivalents	\$918,758	\$814,663
Accounts receivable, net	333,300	349,218
Derivative contracts	115	12,779
Prepaid expenses	12,337	39,253
Other current assets	25,106	25,910
Total current assets	1,289,616	1,241,823
Oil and natural gas properties, using full cost method of accounting		
Proved	10,807,088	10,972,816
Unproved	309,043	531,606
Less: accumulated depreciation, depletion and impairment	(6,138,833)	(5,762,969)
	4,977,298	5,741,453
Other property, plant and equipment, net	564,521	566,222
Derivative contracts	2,826	14,126
Other assets	78,558	121,171
Total assets	\$6,912,819	\$7,684,795

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

Table of Contents

SANDRIDGE ENERGY, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS - Continued

(In thousands, except per share data)

	June 30, 2014 (Restated)	December 31, 2013 (Revised)	,
	(Unaudited)		
LIABILITIES AND EQUITY			
Current liabilities	Φ.C.1012.1	010 100	
Accounts payable and accrued expenses	\$648,434	\$812,488	
Derivative contracts	56,728	34,267	
Asset retirement obligations		87,063	
Other current liabilities	19,171	_	
Total current liabilities	724,333	933,818	
Long-term debt	3,195,165	3,194,907	
Derivative contracts	5,533	20,564	
Asset retirement obligations	55,210	337,054	
Other long-term obligations	19,152	22,825	
Total liabilities	3,999,393	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 June	3	3	
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 June	2	2	
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 June	3	3	
30, 2014 and December 31, 2013; aggregate liquidation preference of \$300,000	3	3	
Common stock, \$0.001 par value, 800,000 shares authorized; 495,687 issued and			
494,546 outstanding at June 30, 2014 and 491,609 issued and 490,290 outstanding at	485	483	
December 31, 2013			
Additional paid-in capital	5,307,814	5,298,301	
Additional paid-in capital—stockholder receivable	(3,750)	(3,750)
Treasury stock, at cost	(7,295)	(8,770)
Accumulated deficit	(3,657,455)	(3,460,462)
Total SandRidge Energy, Inc. stockholders' equity	1,639,807	1,825,810	
Noncontrolling interest	1,273,619	1,349,817	
Total equity	2,913,426	3,175,627	
Total liabilities and equity	\$6,912,819	\$7,684,795	

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

5