

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)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 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 73102
(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

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

Edgar Filing: SANDRIDGE ENERGY INC - Form 10-Q/A

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, 2014, was 494,027,381.

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. | <u>Financial Statements (Unaudited)</u> | <u>4</u> |
| | <u>Condensed Consolidated Balance Sheets</u> (restated) | <u>4</u> |
| | <u>Condensed Consolidated Statements of Operations</u> (restated) | <u>6</u> |
| | <u>Condensed Consolidated Statement of Changes in Equity</u> (restated) | <u>7</u> |
| | <u>Condensed Consolidated Statements of Cash Flows</u> (restated) | <u>8</u> |
| | <u>Notes to Condensed Consolidated Financial Statements</u> (restated) | <u>9</u> |
| ITEM 2. | Management's Discussion and Analysis of Financial Condition and Results of Operations | <u>53</u> |
| ITEM 3. | <u>Quantitative and Qualitative Disclosures About Market Risk</u> | <u>70</u> |
| ITEM 4. | <u>Controls and Procedures</u> | <u>73</u> |

PART II. OTHER INFORMATION

| | | |
|----------|--|-----------|
| ITEM 1. | <u>Legal Proceedings</u> | <u>74</u> |
| ITEM 1A. | <u>Risk Factors</u> | <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) (Unaudited) | December 31, 2013 (Revised) |
|--|--|-----------------------------------|
| 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) (Unaudited) | December 31, 2013 (Revised) |
|---|--|-----------------------------------|
| LIABILITIES AND EQUITY | | |
| Current liabilities | | |
| 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 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 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 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 December 31, 2013 | 485 | 483 |
| 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.