SANDRIDGE ENERGY INC
Form 10-K
March 03, 2017

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

Form 10-K

(Mark One)
þ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 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

SANDRIDGE ENERGY, INC.
(Exact name of registrant as specified in its charter)

Delaware	20-8084793
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
123 Robert S. Kerr Avenue Oklahoma City, Oklahoma	73102
(Address of principal executive offices)	(Zip Code)

(405) 429-5500
(Registrant’s telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, $0.001 par value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No þ

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No þ

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 þ 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 þ No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

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. (Check one):

Large accelerated filer o	Accelerated filer o
Non-accelerated filer þ (Do not check if 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 ¨ No þ

The aggregate market value of our common stock held by non-affiliates on June 30, 2016 was approximately $13.3 million based on the closing price as quoted on the Pink Sheets. As of February 24, 2017, there were 35,872,778 shares of our common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Company's definitive proxy statement for the 2017 Annual Meeting of Stockholders are incorporated by reference in Part III.

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Certain Defined Terms

References in this report to the "Company," "SandRidge," "we," "our," and "us" mean SandRidge Energy, Inc., including its consolidated subsidiaries and variable interest entities of which it is the primary beneficiary. In addition, this report includes terms commonly used in the oil and natural gas industry, which are defined in the "Glossary of Oil and Natural Gas Terms" beginning on page 23.

Cautionary Note Regarding Forward-Looking Statements

Various statements contained in this report, including those that express a belief, expectation, or intention, as well as those that are not statements of historical fact, are 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 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, pending dispositions, 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, financial 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 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 this report, including the following:

- risks associated with drilling oil and natural gas wells;
- the volatility of oil, natural gas and natural gas liquids ("NGL") prices;
- uncertainties in estimating oil, natural gas and NGL reserves;
- the need to replace the oil, natural gas and NGL reserves the Company produces;
- our ability to execute its growth strategy by drilling wells as planned;
- the amount, nature and timing of capital expenditures, including future development costs, required to develop our undeveloped areas;
- concentration of operations in the Mid-Continent region of the United States;
- limitations of seismic data;
- the potential adverse effect of commodity price declines on the carrying value of our oil and natural properties;
- severe or unseasonable weather that may adversely affect production;
- availability of satisfactory oil, natural gas and NGL marketing and transportation;
- availability and terms of capital to fund capital expenditures;
- amount and timing of proceeds of asset monetizations;

- potential financial losses or earnings reductions from commodity derivatives;
- potential elimination or limitation of tax incentives;
- competition in the oil and natural gas industry;
- general economic conditions, either internationally or domestically affecting the areas where we operate;
- costs to comply with current and future governmental regulation of the oil and natural gas industry, including environmental, health and safety laws and regulations, and regulations with respect to hydraulic fracturing and the disposal of produced water; and
- the need to maintain adequate internal control over financial reporting.

PART I

Item 1. Business

GENERAL

SandRidge Energy, Inc. is an oil and natural gas company with a principal focus on exploration and production activities in the Mid-Continent and Rockies regions of the United States. The Company's Rockies properties were acquired during the fourth quarter of 2015.

As of December 31, 2016, the Company had 3,122 gross (2,310.0 net) producing wells, a substantial portion of which it operates, and approximately 1,364,000 gross (950,000 net) total acres under lease. As of December 31, 2016, the Company had one rig drilling in the Mid-Continent. Total estimated proved reserves as of December 31, 2016 were 163.9 MMBoe, of which approximately 74% were proved developed.

The Company's principal executive offices are located at 123 Robert S. Kerr Avenue, Oklahoma City, Oklahoma 73102 and the Company's telephone number is (405) 429-5500. SandRidge makes available free of charge on its website at www.sandridgeenergy.com its annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports as soon as reasonably practicable after the Company electronically files such material with, or furnishes it to, the Securities and Exchange Commission ("SEC"). Any materials that the Company has filed with the SEC may be read and copied at the SEC's Public Reference Room at 100 F Street, N.E., Room 1580, Washington D.C. 20549 or accessed via the SEC's website address at www.sec.gov. The public may also obtain information about the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330.

Reorganization Under Chapter 11 and Emergence from Bankruptcy

On May 16, 2016, the Company and certain of its direct and indirect subsidiaries (collectively, 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 (as amended, the "Plan"), and the Debtors' subsequently emerged from bankruptcy on October 4, 2016 (the "Emergence Date"). The Company's Chapter 11 reorganization and related matters are addressed in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Note 1- Voluntary Reorganization under Chapter 11 Proceedings " and "Note 2 - Fresh Start Accounting" to the accompanying consolidated financial statements contained in Item 8, "Financial Statements and Supplementary Data."

The reorganization under Chapter 11 substantially reduced indebtedness and restructured the Company's balance sheet. Throughout the course of the Chapter 11 reorganization, we were able to conduct normal business activities and pay associated obligations for the period following the bankruptcy filing and paid certain pre-petition obligations, including employee wages and benefits, goods and services provided by certain vendors, transportation of our production, and royalties and costs incurred on the Company's behalf by other working interest owners. As a result of the reorganization, we now have an improved capital structure and enhanced financial flexibility.

Fresh Start Accounting

The Company elected to apply fresh start accounting effective October 1, 2016, to coincide with the timing of its normal fourth quarter reporting period, which resulted in SandRidge becoming a new entity for financial reporting purposes. The Company evaluated and concluded that events between October 1, 2016 and October 4, 2016 were immaterial and use of an accounting convenience date of October 1, 2016 was appropriate. As such, fresh start accounting is reflected in the accompanying consolidated balance sheet as of December 31, 2016 and related fresh start adjustments are included in the accompanying statement of operations for the period from January 1, 2016 through October 1, 2016 (the “Predecessor 2016 Period”).

As a result of the application of fresh start accounting and the effects of the implementation of the Plan, the financial statements after October 1, 2016 (the “Successor 2016 Period”) will not be comparable with the financial statements prior to that date. References to the “Successor” or the “Successor Company” relate to SandRidge subsequent to October 1, 2016. References to the “Predecessor” or “Predecessor Company” refer to SandRidge on and prior to October 1, 2016.

Board of Directors

Pursuant to the Plan of Reorganization confirmed by the Bankruptcy Court, the post-emergence board of directors is comprised of five directors, including the Company’s Chief Executive Officer, James Bennett, and four non-employee directors, Michael L. Bennett, John V. Genova, William “Bill” M. Griffin, Jr. and David J. Kornder.

Presentation of Royalty Trust Activities

Information presented for the years ended December 31, 2015 and 2014 includes 100% of the interests and activities of the SandRidge Mississippian Trust I (the “Mississippian Trust I”), the SandRidge Permian Trust (the “Permian Trust”) and the SandRidge Mississippian Trust II (the “Mississippian Trust II”) (collectively, the “Royalty Trusts”), including amounts attributable to noncontrolling interest. On January 1, 2016, we adopted the provisions of ASU 2015-02, “Amendments to the Consolidation Analysis,” which led to the conclusion that the Royalty Trusts were no longer variable interest entities (“VIEs”), and a cumulative-effect adjustment was made to equity to remove the effect of any previously recorded non-controlling interest. Prior periods were not restated. For the 2016 periods, we have proportionately consolidated only our share of each Royalty Trust’s assets, liabilities, revenues and expenses.

Post-Emergence Business Strategy

SandRidge’s mission is to create resource value from its oil and natural gas development and production activities in the Mid-Continent and Rockies regions of the United States. In pursuit of its mission, the Company focuses on the following strategies:

Complementary Operating Areas. Our primary areas of operation are the Mid-Continent area of Oklahoma and Kansas and the Niobrara Shale in the Colorado Rockies. In the Mid-Continent, we are able to (i) leverage technical expertise in the interpretation of geological and operational opportunities, (ii) take advantage of investments in infrastructure including electrical infrastructure and saltwater gathering and disposal systems and (iii) opportunistically grow our holdings through acquisitions, farmouts and operations in this area to achieve production and reserve growth. We are developing a proven oil resource play on our Rockies acreage similar to that being developed by industry in Colorado’s DJ Basin, as both areas draw from the oil rich Niobrara Shale. We will continue to apply our core competencies in developing medium depth formations in the Rockies by deploying our expertise in multi-stage fracture stimulation, artificial lift and extended and multi-lateral horizontal wellbore designs. Additionally, as operator of a majority of our wells, we can further apply competitive advantages to deliver strong, sustainable returns.

Preservation of Capital in Depressed Commodity Pricing Environment. During periods of depressed oil and natural gas pricing, such as that which began during the second half of 2014 and continued throughout 2015 and 2016, we have implemented measures to preserve capital and liquidity by decreasing capital expenditures and focusing drilling efforts on locations that make the most effective use of existing infrastructure, and which have a greater certainty of economic returns. We have established a range for our 2017 capital expenditures budget between $210.0 million and $220.0 million, with the substantial majority of the budgeted expenditures being designated for exploration and production activities.

Focus on Cost Efficiency and Capital Allocation. By leveraging our experienced workforce, scalable operational structure and infrastructure systems, we are able to achieve cost efficiencies and sustainable returns in the Mid-Continent and Rockies areas. In the Mid-Continent, we focus on lower-risk, high rate of return and repeatable drilling opportunities with long economic lives. This has resulted in improved economic returns associated with our multi-lateral wellbore designs, completion designs, well site production facilities, pad drilling utilization, vendor contracts and spud-to-spud cycle time, which reduced our cost structure in the Mid-Continent. Further, due to the relatively low pressure and shallow characteristics of the reservoirs we develop, we are able to maintain a low-cost operating structure and manage service costs. We believe similar opportunities also exist in the Rockies, and have been able to utilize certain technologies and experience from our Mid-Continent operations in the development of our Rockies acreage. The ability to drill multiple laterals or extended laterals from a single pad or single vertical wellbore is facilitating the cost-effective development of this oil rich resource play.

Mitigate Commodity Price Risk. As appropriate, we enter into derivative contracts to mitigate a portion of the commodity price volatility inherent in the oil and natural gas industry. This increases the predictability of cash inflows for a portion of future production, lessens funding risks for longer term development plans, and locks in rates of return on our capital projects.

Maintain Flexibility. We have multi-year inventories of both oil and natural gas drilling locations within our core operating areas, which allows management to efficiently direct capital toward projects with the most attractive returns.

Pursue Opportunistic Acquisitions. We periodically review acquisition targets to complement our existing asset base. Targets are selectively identified based on several factors including relative value, hydrocarbon mix and location, and the relative fit of our core competencies and technical expertise and, when appropriate, seek to acquire them at a discount to other capital allocation opportunities.

Acquisitions and Divestitures

2016 Divestiture and Release from Treating Agreement

On January 21, 2016, we transferred ownership of substantially all of our oil and natural gas properties and midstream assets located in the Piñon field in the West Texas Overthrust (“WTO”) and $11.0 million in cash to a wholly owned subsidiary of Occidental Petroleum Corporation (“Occidental”) and were released from all past, current and future claims and obligations under an existing 30-year treating agreement with Occidental.

The assets of Piñon Gathering Company, LLC (“PGC”), which we acquired in October 2015 as discussed further below, were included in the consideration conveyed to Occidental.

2015 Acquisitions

Piñon Gathering Company, LLC. In October 2015, we acquired the assets of and terminated a gas gathering agreement with PGC for $48.0 million in cash and $78.0 million principal amount of newly issued 8.75% Senior Secured Notes due 2020 (“PGC Senior Secured Notes”). PGC owned approximately 370 miles of gathering lines supporting the natural gas production from the Company's Piñon field in the WTO.

Rockies Properties - North Park Basin. In December 2015, we acquired approximately 135,000 net acres in the North Park Basin, Jackson County, Colorado for approximately $191.1 million in cash, including post-closing adjustments. Also included in the acquisition were working interests in 16 wells previously drilled on the acreage. Additionally, the seller paid us $3.1 million for certain overriding interests retained in the properties.

2014 Divestiture

Sale of Gulf of Mexico and Gulf Coast Properties. On February 25, 2014, we sold certain subsidiaries that owned our Gulf of Mexico and Gulf Coast oil and natural gas properties (collectively, the “Gulf Properties”), to Fieldwood Energy, LLC (“Fieldwood”) for $702.6 million, net of working capital adjustments and post-closing adjustments, and Fieldwood’s assumption of approximately $366.0 million of related asset retirement obligations. We used the proceeds from the sale to fund drilling in the Mid-Continent.

PRIMARY BUSINESS OPERATIONS

Our primary operations are the exploration, development and production of oil and natural gas. The following table presents information concerning our exploration and production activities by geographic area of operation as of December 31, 2016, unless otherwise noted

Area	Estimated Net Proved Reserves (MMBoe)	Daily Production (MBoe/d)(1)	Reserves/ Production (Years)(2)	Gross Acreage	Net Acreage	Capital Expenditures (In millions) (3)
Mid-Continent	127.8	42.2	8.3	1,185,408	793,471	$ 105.6
Rockies	30.2	1.4	59.1	140,216	132,504	87.4
Other	5.9	1.6	10.1	38,785	23,909	—
Total	163.9	45.2	9.9	1,364,409	949,884	$ 193.0

(1) Average daily net production for the month of December 2016.
(2) Estimated net proved reserves as of December 31, 2016 divided by production for the month of December 2016 annualized.
(3) Capital expenditures for the year ended December 31, 2016 on an accrual basis.

Properties

Mid-Continent

We held interests in approximately 1,185,000 gross (793,000 net) leasehold acres located primarily in Oklahoma and Kansas at December 31, 2016. Associated proved reserves at December 31, 2016 totaled 127.8 MMBoe, 87% of which were proved developed reserves, based on estimates prepared by Cawley, Gillespie & Associates, Inc., (“CG&A”) and our internal engineers. Our interests in the Mid-Continent as of December 31, 2016 included 1,972 gross (1,179.5 net) producing wells with an average working interest of 60%. We had one rig operating in the Mid-Continent as of December 31, 2016, which was drilling a horizontal well. We drilled a total of 16 wells in this area during 2016, all of which were horizontal wells.

Mississippian Formation. The Mississippian formation is an expansive carbonate hydrocarbon system located on the Anadarko Shelf in northern Oklahoma and southern Kansas, and is a key target for exploration and development within the Mid-Continent. The top of this formation is encountered between approximately 4,000 and 7,000 feet and lies stratigraphically between various formations of Pennsylvanian age and the Devonian-aged Woodford Shale formation. The Mississippian formation can reach 1,000 feet in gross thickness and have targeted porosity zone(s) ranging between 20 and 150 feet in thickness. At December 31, 2016, we had approximately 1,087,000 gross (736,000 net) acres under lease and 1,471 gross (917.6 net) producing wells in the Mississippian formation.

Other Formations. The Meramec formation, the primary target in the STACK play of Blaine and Kingfisher Counties, is currently being drilled using horizontal well technology in Garfield, Major, Dewey, and Woodward Counties, a play area called the NW STACK. The formation is Mississippian in age, lying above the Osage formation and below Chester (if present) and Pennsylvanian formations. It is composed of interbedded shales, sands, and carbonates. The top of the formation ranges from about 5,800 feet at the northern edge of the basin to greater than 14,000 feet toward the interior of the basin. The thickness of the formation ranges from about 50 feet to over 400 feet across the STACK and NW STACK area. We drilled two wells in this formation during 2016. Of our total Mississippian acreage at December 31, 2016, approximately 105,500 gross (54,100 net) acres were under lease in the Meramec formation.

The Osage formation, also a target in the STACK and NW STACK plays, has been targeted both vertically and horizontally across the Anadarko Basin, with the Sooner Trend being a notable historic play. The formation is Mississippian in age, lying above the Woodford formation and below the Meramec and Pennsylvanian formations. It is composed of low porosity, fractured limestone and chert. The top of the formation ranges from 6,000 feet at the northern edge of the basin to about 12,300 feet toward the interior of the basin, with formation thickness ranging from about 450 to 1,400 feet. We drilled one well in this formation during 2016. Of our total Mississippian acreage at December 31, 2016, approximately 13,200 gross (7,600 net) acres were under lease in the Osage formation.

The Woodford Shale is the primary hydrocarbon source for both the Meramec and Osage, while the organic content in the Meramec Shale may provide a self-sourcing component as well. Similar to the STACK, there is an over-pressured area and normally pressured area in the NW STACK. Significant industry activity in the NW STACK has established both the Meramec and Osage as productive reservoirs with successful wells.

Rockies

Our Rockies properties consisted of approximately 140,000 gross (133,000 net) acres, and 25 gross (25.0 net) producing wells with an average working interest of 100%, at December 31, 2016. Associated proved reserves at December 31, 2016 were approximately 30.2 MMBoe, of which approximately 12.1% were proved developed reserves. The Rockies acreage is located within the Niobrara Shale play. The Niobrara Shale is characterized by numerous stacked pay reservoirs at depths of 5,500 to 9,000 feet with reservoir