

SANDRIDGE ENERGY INC

Form 10-K

March 05, 2019

SANDRIDGE ENERGY INC Accelerated

Filer10-K12/31/20182018FYNoYesNoFALSEFALSEFALSEFALSE539.235,687,601--12-3100013494360.0010.001250,0002

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**Form
10-K**

(Mark One)

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

For the fiscal year ended December 31, 2018
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)**

(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

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

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 every Interactive Data File required to be submitted 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 such files). Yes 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 has filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer
 Smaller reporting company
 Non-accelerated filer
 Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

The aggregate market value of our common stock held by non-affiliates on June 29, 2018 was approximately \$539.2 million based on the closing price as quoted on the New York Stock Exchange. As of February 20, 2019, there were 35,687,601 shares of our common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Company's definitive proxy statement for the 2019 Annual Meeting of Stockholders, which will be filed with the SEC within 120 days of December 31, 2018, are incorporated by reference in Part III.

SANDRIDGE ENERGY, INC.
2018 ANNUAL REPORT ON FORM 10-K
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GLOSSARY OF 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. 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. In addition, the following is a description of the meanings of certain terms used in this report.

2-D seismic or 3-D seismic. Geophysical data that depict the subsurface strata in two dimensions or three dimensions, respectively. 3-D seismic typically provides a more detailed and accurate interpretation of the subsurface strata than 2-D seismic.

2009 Plan. SandRidge Energy, Inc. 2009 Incentive Plan.

ASC. Accounting Standards Codification.

ASU. Accounting Standards Update.

Bankruptcy Code. United States Bankruptcy Code.

Bankruptcy Court. United States Bankruptcy Court for the Southern District of Texas.

Bankruptcy Petitions. Voluntary petitions for reorganization under Chapter 11 of the United States Bankruptcy Code.

Bbl. One stock tank barrel, or 42 U.S. gallons liquid volume, used in this report in reference to oil or other liquid hydrocarbons.

Bcf. Billion cubic feet of natural gas.

Bench. A geological horizon; a distinctive stratum useful for stratigraphic correlation.

Boe. Barrels of oil equivalent, with six thousand cubic feet of natural gas being equivalent to one barrel of oil.

Although an equivalent barrel of condensate or natural gas may be equivalent to a barrel of oil on an energy basis, it is not equivalent on a value basis as there may be a large difference in value between an equivalent barrel and a barrel of oil. For example, based on the commodity prices used to prepare the estimate of the Company’s reserves at year-end 2018 of \$65.56/Bbl for oil and \$3.10/Mcf for natural gas, the ratio of economic value of oil to natural gas was approximately 21 to 1, even though the ratio for determining energy equivalency is 6 to 1.

Boe/d. Boe per day.

Bonanza Creek. Bonanza Creek Energy, Inc.

Btu or British thermal unit. The quantity of heat required to raise the temperature of one pound of water by one degree Fahrenheit.

Building Note. Note with a principal amount of \$35.0 million, as amended in February 2017, which was secured by first priority mortgages on the Company’s real estate in Oklahoma City, Oklahoma.

Cash Collateral Account. Restricted cash account controlled by the administrative agent to the First Lien Exit Facility.

CBP. Central Basin Platform.

Ceiling limitation. Present value of future net revenues from proved oil, natural gas and NGL reserves, discounted at 10% per annum, plus the lower of cost or fair value of unproved properties, plus estimated salvage value, less related tax effects.

CO₂. Carbon dioxide.

Common Stock. Common stock in the Successor Company.

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Completion. The process of treating a drilled well, primarily through hydraulic fracturing, followed by the installation of permanent equipment for the production of oil or natural gas, or in the case of a dry well, the reporting to the appropriate authority that the well has been abandoned.

Convertible Notes. Non-interest bearing 0.00% convertible senior secured subordinated notes due 2020.

Convertible Senior Unsecured Notes. 8.125% Convertible Senior Notes due 2022 and 7.5% Convertible Senior Notes due 2023.

Counterparty. Counterparty to the Company's drilling participation agreement.

Credit facility. Senior credit facility dated February 10, 2017.

Debtors. The Company and certain of its direct and indirect subsidiaries which collectively filed for reorganization under the Bankruptcy Code on May 16, 2016.

Developed acreage. The number of acres that are assignable to productive wells.

Developed oil, natural gas and NGL reserves. Reserves of any category that can be expected to be recovered (i) through existing wells with existing equipment and operating methods or in which the cost of the required equipment is relatively minor compared to the cost of a new well and (ii) through installed extraction equipment and infrastructure operational at the time of the reserves estimate if the extraction is by means not involving a well.

Development costs. Costs incurred to obtain access to proved reserves, complete wells and provide facilities for extracting, treating, gathering and storing the oil and natural gas. More specifically, development costs, including depreciation and applicable operating costs of support equipment and facilities and other costs of development activities, are costs incurred to (i) gain access to and prepare well locations for drilling, including surveying well locations for the purpose of determining specific development drilling sites, clearing ground, draining, road building and relocating public roads, gas lines and power lines, to the extent necessary in developing the proved reserves, (ii) drill, equip and complete development wells, development-type stratigraphic test wells and service wells, including the costs of platforms and of well equipment such as casing, tubing, pumping equipment, and the wellhead assembly, (iii) acquire, construct and install production facilities such as lease flow lines, separators, treaters, heaters, manifolds, measuring devices and production storage tanks, natural gas cycling and processing plants, and central utility and waste disposal systems, and (iv) provide improved recovery systems.

Development well. A well drilled within the proved area of an oil or natural gas reservoir to the depth of a stratigraphic horizon known to be productive.

Dry well. An exploratory, development or extension well that proves to be incapable of producing either oil or natural gas in sufficient quantities to justify completion as an oil or natural gas well.

Early settlements. Settlements of commodity derivative contracts prior to contractual maturity.

Emergence Date. Date the Debtors emerged from bankruptcy, October 4, 2016.

Exchange Act. Securities Exchange Act of 1934, as amended.

Exploratory well. A well drilled to find a new field or to find a new reservoir in a field previously found to produce oil or natural gas in another reservoir.

Extended-reach lateral ("XRL"). Extended-reach lateral wells are horizontal wells where the horizontal segment or lateral is at least approximately 9,000-9,500 feet in length and may extend further. When referencing lateral counts, XRL's are counted as more than one lateral depending on the relationship of length to an SRL length. E.g. a 9,000 foot lateral would be counted as two laterals.

FASB. Financial Accounting Standards Board.

Field. An area consisting of a single reservoir or multiple reservoirs all grouped on or related to the same individual geological structural feature and/or stratigraphic condition. There may be two or more reservoirs in a field which are separated vertically by intervening impervious strata, or laterally by local geological barriers, or both. Reservoirs that are associated by being in overlapping or adjacent fields may be treated as a single or common operational field. The geological terms “structural

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feature” and “stratigraphic condition” are intended to identify localized geological features as opposed to the broader terms of basins, trends, provinces, plays, areas of interest, etc.

First Lien Exit Facility. \$425.0 million reserve-based revolving credit facility entered into on the Emergence Date.

Gross acres or gross wells. The total acres or wells, as the case may be, in which a working interest is owned.

Horizontal well. A well that is turned horizontally at depth, providing access to oil and gas reserves at a wide range of angles.

Hydraulic fracturing. Procedure to stimulate production by forcing a mixture of fluid and proppant into the formation under high pressure. Hydraulic fracturing creates artificial fractures in the reservoir rock to increase permeability and porosity.

IRS. Internal Revenue Service.

Lease. A contract in which the owner of minerals gives a company or working interest owner temporary and limited rights to explore for, develop, and produce minerals from the property, or; any transfer where the owner of a mineral interest assigns all or a part of the operating rights to another party but retains a continuing nonoperating interest in production from the property.

MBbls. Thousand barrels of oil or other liquid hydrocarbons.

MBoe. Thousand barrels of oil equivalent.

Mcf. Thousand cubic feet of natural gas.

MMBbls. Million barrels of oil or other liquid hydrocarbons.

MMBoe. Million barrels of oil equivalent.

MMBtu. Million British Thermal Units.

MMcf. Million cubic feet of natural gas.

MMcf/d. MMcf per day.

Mississippian Trust I. SandRidge Mississippian Trust I.

Mississippian Trust II. SandRidge Mississippian Trust II.

Net acres or net wells. The sum of the fractional working interest owned in gross acres or gross wells, as the case may be.

Netherland Sewell. Netherland, Sewell & Associates, Inc.

NGL. Natural gas liquids, such as ethane, propane, butanes and natural gasoline that are extracted from natural gas production streams.

NYMEX. The New York Mercantile Exchange.

NYSE. New York Stock Exchange.

Occidental. Occidental Petroleum Corporation.

Omnibus Incentive Plan. SandRidge Energy, Inc. 2016 Omnibus Incentive Plan.

Permian Divestiture. The November 1, 2018 sale of substantially all of the Company's oil and natural gas properties, rights and related assets in the CBP region of the Permian Basin, along with 13,125,000 common units representing a 25% equity interest in the Permian Trust to an independent third party.

Permian Trust. SandRidge Permian Trust.

Plan. Debtors' joint plan of reorganization, as amended.

Poison Pill. Agreement with American Stock Transfer & Trust Company, LLC on November 26, 2017, as amended by the First Amendment to the Stockholder Rights Agreement dated January 22, 2018.

Plugging and abandonment. Refers to the sealing off of fluids in the strata penetrated by a well so that the fluids from one stratum will not escape into another or to the surface. Regulations of all states require plugging of abandoned wells.

Predecessor 2016 Period. Period from January 1, 2016, through October 1, 2016.

Present value of future net revenues. The present value of estimated future revenues to be generated from the production of proved reserves, before income taxes, calculated in accordance with SEC guidelines, net of estimated production and future development costs, using prices and costs as of the date of estimation without future escalation and without giving effect to hedging activities, non-property related expenses such as general and administrative expenses, debt service and depreciation, depletion and amortization. PV-10 is calculated using an annual discount rate of 10% and PV-9 is calculated using an annual discount rate of 9%.

Production costs. Costs incurred to operate and maintain wells and related equipment and facilities, including depreciation and applicable operating costs of support equipment and facilities and other costs of operating and maintaining those wells and related equipment and facilities that become part of the cost of oil and natural gas produced.

Productive well. A well that is found to be capable of producing oil or natural gas in sufficient quantities to justify completion as an oil or natural gas well.

Prospect. A specific geographic area that, based on supporting geological, geophysical or other data and also preliminary economic analysis using reasonably anticipated prices and costs, is deemed to have potential for the discovery of commercial hydrocarbons.

Proved developed reserves. Reserves that are both proved and developed.

Proved oil, natural gas and NGL reserves. Those quantities of oil, natural gas and NGLs which, by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be economically producible from a given date forward, from known reservoirs, and under existing economic conditions, operating methods, and government regulations, prior to the time at which contracts providing the right to operate expire, unless evidence indicates that renewal is reasonably certain, regardless of whether deterministic or probabilistic methods are used for estimation. The project to extract the hydrocarbons must have commenced or the operator must be reasonably certain that it will commence the project within a reasonable time. For additional information, see the SEC's definition in Rule 4-10(a) (22) of Regulation S-X, a link for which is available at the SEC's website.

Proved undeveloped reserves. Reserves that are both proved and undeveloped.

PV-9. See "Present value of future net revenues" above.

PV-10. See "Present value of future net revenues" above.

Reserves. Estimated remaining quantities of oil and natural gas and related substances anticipated to be economically producible, as of a certain date, by application of development projects to known accumulations. In addition, there must exist, or there must be a reasonable expectation that there will exist, the legal right to produce or a revenue interest in the production, installed means of delivering oil and natural gas or related substances to market, and all permits and financing required to implement the project.

Reserves should not be assigned to adjacent reservoirs isolated by major, potentially sealing, faults until those reservoirs are penetrated and evaluated as economically producible. Reserves should not be assigned to areas that are clearly separated from a known accumulation by a non-productive reservoir (*i.e.*, absence of reservoir, structurally low reservoir, or negative test results). Such areas may contain prospective resources (*i.e.*, potentially recoverable resources from undiscovered accumulations).

Reservoir. A porous and permeable underground formation containing a natural accumulation of producible oil and/or natural gas that is confined by impermeable rock or water barriers and is individual and separate from other reservoirs.

Royalty Interest. An interest in an oil and natural gas property entitling the owner to a share of oil, natural gas or NGL production free of costs of production.

Royalty Trust. Individually, the SandRidge Mississippian Trust I, the SandRidge Mississippian Trust II and the SandRidge Permian Trust.

Royalty Trusts. Collectively, the SandRidge Mississippian Trust I, the SandRidge Mississippian Trust II and the SandRidge Permian Trust.

Ryder Scott. Ryder Scott Company, L.P.

SEC. Securities and Exchange Commission.

SEC prices. Unweighted arithmetic average oil and natural gas prices as of the first day of the month for the most recent 12 months as of the balance sheet date.

Securities Act. Securities Act of 1933, as amended.

Senior credit facility. Predecessor Company's pre-petition senior secured revolving credit facility.

Senior Secured Notes. Collectively, the 8.75% Senior Secured Notes due 2020 and the 8.75% Senior Secured Notes due 2020 issued to Piñon Gathering Company, LLC.

Senior Unsecured Notes. Collectively, the 8.75% Senior Notes due 2020, 7.5% Senior Notes due 2021, 8.125% Senior Notes due 2022 and 7.5% Senior Notes due 2023.

Standard-reach lateral ("SRL"). Standard-reach lateral wells are horizontal wells where the horizontal segment or lateral is approximately 4,000- 4,500 feet in length.

Standardized measure or standardized measure of discounted future net cash flows. The present value of estimated future cash inflows from proved oil, natural gas and NGL reserves, less future development and production costs and future income tax expenses, discounted at 10% per annum to reflect timing of future cash flows and using the same pricing assumptions as were used to calculate PV-10. Standardized Measure differs from PV-10 because Standardized Measure includes the effect of future income taxes on future net revenues.

Successor 2016 Period. Period after October 1, 2016 through December 31, 2016.

Undeveloped acreage. Lease acreage on which wells have not been drilled or completed to a point that would permit the production of economic quantities of oil or natural gas regardless of whether such acreage contains proved reserves.

Undeveloped oil, natural gas and NGL reserves. Reserves of any category that are expected to be recovered from new wells on undrilled acreage, or from existing wells where a relatively major expenditure is required for completion.

i. Reserves on undrilled acreage are limited to those directly offsetting development spacing areas that are reasonably certain of production when drilled, unless evidence using reliable technology exists that establishes reasonable certainty of economic producibility at greater distances.

ii. Undrilled locations are classified as having undeveloped reserves only if a development plan has been adopted indicating that they are scheduled to be drilled within five years, unless the specific circumstances justify a longer time.

iii. Under no circumstances shall estimates for undeveloped reserves be attributable to any acreage for which an application of fluid injection or other improved recovery technique is contemplated, unless such techniques have been proved effective by actual projects in the same reservoir or an analogous reservoir or by other evidence using reliable technology establishing reasonable certainty.

Unsecured Notes. Collectively, the Convertible Senior Unsecured Notes and the Senior Unsecured Notes.

Warrants. Series A warrants and Series B warrants with initial exercise prices of \$41.34 and \$42.03 per share, respectively, which expire on October 4, 2022.

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Working interest. The operating interest that gives the owner the right to drill, produce and conduct operating activities on the property and receive a share of production and requires the owner to pay a share of the costs of drilling and production operations.

WTI. West Texas Intermediate.

WTO. West Texas Overthrust.

Cautionary Note Regarding Forward-Looking Statements

This report includes "forward-looking statements" as defined by the SEC. These forward-looking statements may include projections and estimates concerning our 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 our business strategy, compliance with governmental regulation of the oil and natural gas industry, including environmental regulations, acquisitions and divestitures and the potential effects on our financial condition and other statements concerning our 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 convey the uncertainty of future outcomes. These forward-looking statements are based on certain assumptions and analyses based on our experience and perception of historical trends, current conditions and expected future developments as well as other factors we believe are appropriate under the circumstances. Such statements are not guarantees of future performance and actual results or developments may differ materially from those projected. The Company disclaims any obligation to update or revise these forward-looking statements unless required by law, and cautions readers not to rely on them unduly. While we consider 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, as well as the following:

- risks associated with drilling oil and natural gas wells;
- the volatility of oil, natural gas and 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 our 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 options;
- 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;
- risks and uncertainties related to the adoption and implementation of regulations restricting oil and gas development in states where we operate;
- 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;
- risks and uncertainties related to the potential sale or lease of our corporate headquarters; and

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