SANDRIDGE ENERGY INC
Form 10-Q
August 09, 2018
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2018
OR

o **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	**(I.R.S. Employer Identification No.)**

incorporation or organization)

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 þ 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 þ No o
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	o		Accelerated filer	þ
Non-accelerated filer	o	(Do not check if a smaller reporting company)	Smaller reporting company	o
			Emerging growth company	o

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. 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 þ
Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 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 þ No o
The number of shares outstanding of the registrant's common stock, par value $0.001 per share, as of the close of business on August 2, 2018, was 35,402,708.

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References in this report to the “Company,” “SandRidge,” “we,” “our,” and “us” mean SandRidge Energy, Inc., including its consolidated subsidiaries and its proportionately consolidated share of each of SandRidge Mississippian Trust I, SandRidge Mississippian Trust II and SandRidge Permian Trust (collectively, the “Royalty Trusts”).

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 Annual Report on Form 10-K for the fiscal year ended December 31, 2017 (the “2017 Form 10-K”) and in Item 1A of this Quarterly Report.

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SANDRIDGE ENERGY, INC. AND SUBSIDIARIES
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PART I. Financial Information

ITEM 1. ***Financial Statements***

SANDRIDGE ENERGY, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)
(In thousands, except per share data)

	June 30, 2018		December 31, 2017	
ASSETS				
Current assets				
Cash and cash equivalents	$	30,125	$	99,143
Restricted cash - other	1,855		2,165	
Accounts receivable, net	58,992		71,277	
Derivative contracts	—		1,310	
Prepaid expenses	3,582		5,248	
Other current assets	411		15,954	
Total current assets	94,965		195,097	
Oil and natural gas properties, using full cost method of accounting				
Proved	1,145,667		1,056,806	
Unproved	87,268		100,884	
Less: accumulated depreciation, depletion and impairment	(515,822)		(460,431)	
	717,113		697,259	
Other property, plant and equipment, net	213,903		225,981	
Other assets	1,274		1,290	
Total assets	$	1,027,255	$	1,119,627

LIABILITIES AND STOCKHOLDERS' EQUITY				
Current liabilities				
Accounts payable and accrued expenses	$	120,550	$	139,155
Derivative contracts	35,283		10,627	
Asset retirement obligations	39,981		41,017	
Other current liabilities	1,714		8,115	
Total current liabilities	197,528		198,914	
Long-term debt	—		37,502	
Derivative contracts	8,642		3,568	
Asset retirement obligations	38,204		36,527	
Other long-term obligations	2,625		3,176	
Total liabilities	246,999		279,687	
Commitments and contingencies (Note 11)				
Stockholders' Equity				
Common stock, $0.001 par value; 250,000 shares authorized; 35,332 issued and outstanding at June 30, 2018 and 35,650 issued and outstanding at December 31, 2017	35		36	
Warrants	88,514		88,500	
Additional paid-in capital	1,053,595		1,038,324	
Accumulated deficit	(361,888)		(286,920)	
Total stockholders' equity	780,256		839,940	
Total liabilities and stockholders' equity	$	1,027,255	$	1,119,627

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

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SANDRIDGE ENERGY, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)
(In thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Revenues				
Oil, natural gas and NGL	$ 79,304	$ 84,546	$ 166,270	$ 182,695
Other	158	305	320	506
Total revenues	79,462	84,851	166,590	183,201
Expenses				
Production	20,785	25,209	45,498	50,232
Production taxes	4,389	2,653	9,089	5,829
Depreciation and depletion—oil and natural gas	30,961	29,477	58,958	56,457
Depreciation and amortization—other	3,040	3,493	6,193	7,330
Impairment	—	446	4,170	2,977
General and administrative	10,343	19,354	24,365	38,892
Accelerated vesting upon change in control	6,545	—	6,545	—
Proxy contest	7,191	—	7,598	—
Employee termination benefits	1,043	4,415	32,630	4,815
Loss (gain) on derivative contracts	30,104	(23,543)	48,434	(57,726)
Other operating (expense) income	(1,254)	(1)	(1,238)	267
Total expenses	113,147	61,503	242,242	109,073
(Loss) income from operations	(33,685)	23,348	(75,652)	74,128
Other (expense) income				
Interest expense, net	(651)	(946)	(1,599)	(1,885)
Gain on extinguishment of debt	—	—	1,151	—
Other income, net	217	1,055	1,090	2,025
	(434)	109	642	140

Total other (expense) income								
(Loss) income before income taxes	(34,119)		23,457		(75,010)		74,268	
Income tax benefit	(45)		(42)		(42)		(39)	
Net (loss) income	$	(34,074)	$	23,499	$	(74,968)	$	74,307
(Loss) earnings per share								
Basic	$	(0.97)	$	0.69	$	(2.15)	$	2.44
Diluted	$	(0.97)	$	0.69	$	(2.15)	$	2.42
Weighted average number of common shares outstanding								
Basic	35,017		34,076		34,800		30,458	
Diluted	35,017		34,138		34,800		30,650	

The accompanying notes are an integral part of these condensed consolidated financial statements.
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SANDRIDGE ENERGY, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
(Unaudited)
(In thousands)

	Common Stock		Warrants		Additional Paid-In Capital	Accumulated Deficit	Total
	Shares	Amount	Shares	Amount			
Six Months Ended June 30, 2018							
Balance at December 31, 2017	35,650	$ 36	6,570	$ 88,500	$ 1,038,324	$ (286,920)	$ 839,940
Cancellation of stock awards, net of issuances	(344)	(1)	—	—	1	—	—
Common stock issued for general unsecured claims	26	—	—	—	—	—	—
Stock-based compensation	—	—	—	—	22,660	—	22,660
Issuance of warrants for general unsecured claims	—	—	52	14	(14)	—	—
Cash paid for tax withholdings on vested stock awards	—	—	—	—	(7,376)	—	(7,376)
Net loss	—	—	—	—	—	(74,968)	(74,968)
Balance at June 30, 2018	35,332	$ 35	6,622	$ 88,514	$ 1,053,595	$ (361,888)	$ 780,256

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

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SANDRIDGE ENERGY, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)
(In thousands)

	Six Months Ended June 30,	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Net (loss) income	$ (74,968)	$ 74,307
Adjustments to reconcile net (loss) income to net cash provided by operating activities		
Provision for doubtful accounts	(6)	—
Depreciation, depletion and amortization	65,151	63,787
Impairment	4,170	2,977
Debt issuance costs amortization	235	195
Amortization of premiums and discounts on debt	(47)	(153)
Gain on extinguishment of debt	(1,151)	—
Loss (gain) on derivative contracts	48,434	(57,726)
Cash (paid) received on settlement of derivative contracts	(17,393)	2,706
Stock-based compensation	21,909	9,654
Other	(1,563)	379
Changes in operating assets and liabilities	11,346	7,806
Net cash provided by operating activities	56,117	103,932
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures for property, plant and equipment	(95,328)	(88,904)
	—	(48,236)

Acquisition of assets				
Proceeds from sale of assets	13,563		14,756	
Net cash used in investing activities	(81,765)		(122,384)	
CASH FLOWS FROM FINANCING ACTIVITIES				
Repayments of borrowings	(36,304)		—	
Debt issuance costs	—		(1,488)	
Cash paid for tax withholdings on vested stock awards	(7,376)		(2,891)	
Net cash used in financing activities	(43,680)		(4,379)	
NET DECREASE IN CASH, CASH EQUIVALENTS and RESTRICTED CASH	(69,328)		(22,831)	
CASH, CASH EQUIVALENTS and RESTRICTED CASH, beginning of year	101,308		174,071	
CASH, CASH EQUIVALENTS and RESTRICTED CASH, end of period	$	31,980	$	151,240
Supplemental Disclosure of Noncash Investing and Financing Activities				
Change in accrued capital expenditures	$	20,631	$	(8,340)
Equity issued for debt	$	—	$	(268,779)

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

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SANDRIDGE ENERGY, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
1. Basis of Presentation

Nature of Business. SandRidge Energy, Inc. is an oil and natural gas exploration and production company headquartered in Oklahoma City, Oklahoma with its principal focus on developing high-return, growth-oriented projects in the U.S. Mid-Continent and North Park Basin of Colorado.

Principles of Consolidation. The consolidated financial statements include the accounts of the Company and its wholly owned or majority owned subsidiaries, including its proportionate share of the Royalty Trusts. All significant intercompany accounts and transactions have been eliminated in consolidation.

Interim Financial Statements. The accompanying unaudited condensed consolidated financial statements and notes have been derived from the Company's 2017 Form 10-K and should be read in conjunction with the audited financial statements and notes contained in the Company’s 2017 Form 10-K. Certain information and disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) have been condensed or omitted, although the Company believes that the disclosures contained herein are adequate to make the information presented not misleading. In the opinion of management, the financial statements include all adjustments, which consist of normal recurring adjustments unless otherwise disclosed, necessary to fairly state the Company’s unaudited condensed consolidated financial statements.

Significant Accounting Policies. The unaudited condensed consolidated financial statements were prepared in accordance with the accounting policies stated in the 2017 Form 10-K as well as the items noted below.

Reclassifications. Certain reclassifications have been made to the prior period financial statements to conform to the current period presentation. These reclassifications have no effect on the Company’s previously reported results of operations.

Use of Estimates. The preparation of the unaudited condensed consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

The more significant areas requiring the use of assumptions, judgments and estimates include: oil, natural gas and natural gas liquids (“NGL”) reserves; impairment tests of long-lived assets; depreciation, depletion and amortization; income taxes; valuation of derivative instruments; contingencies; and accrued revenue and related receivables. Although management believes these estimates are reasonable, actual results could differ significantly.

Recent Accounting Pronouncements. The Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2014-09, “Revenue from Contracts with Customers (Topic 606),” which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. Its objective is to increase the usefulness of information in the financial statements regarding the nature, timing and uncertainty of revenues. In August 2015, the FASB issued ASU 2015-14, "Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date," which deferred the effective date of ASU 2014-09 to January 1, 2018, for the Company. The ASU required adoption using either the retrospective transition method, which required restating previously reported results or the cumulative effect (modified retrospective) transition method, which utilized a cumulative-effect adjustment to retained earnings in the period of adoption to account for prior period effects rather than restating previously reported results. The Company adopted FASB ASU 2014-09, “Revenue from Contracts with Customers (Topic 606),” and all the related amendments (the “new revenue standard”) on January 1, 2018, using the modified retrospective transition method. See Note 2 for further discussion of the adoption of the new revenue standard.

The FASB issued ASU 2016-16, “Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other than Inventory” which removed the prohibition in Accounting Standards Codification (“ASC”) 740 against the immediate recognition of current and deferred income tax effects of intra-entity transfers of assets other than inventory. The amendments in this ASU were effective for the Company on January 1, 2018, with early adoption permitted on January 1, 2017. The ASU required application on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. The Company adopted the ASU on January 1, 2018. There was no impact to the Company’s consolidated financial statements and related disclosures upon adoption.

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SANDRIDGE ENERGY, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
(Unaudited)

The FASB issued ASU 2017-05, “Other Income - Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic: 610-20): Clarifying the Scope of Asset Derecognition Guidance and the Accounting for Partial Sales of Nonfinancial
Assets,” which helps filers determine the guidance applicable for gain/loss recognition subsequent to the adoption of ASU 2014-09, Revenue from Contracts with Customers. The amendments also clarified that the derecognition of all businesses except those related to conveyances of oil and gas rights or contracts with customers should be accounted for in accordance with the derecognition and deconsolidation guidance in Topic 810, Consolidation. The Company adopted the ASU on January 1, 2018, using the modified retrospective transition method. Under this transition method the Company could have elected to apply this guidance retrospectively either to all contracts at the date of initial application or only to contracts that are not completed contracts at the date of initial application. The Company elected to evaluate only contracts that are not completed contracts. As there were no uncompleted contracts at January 1, 2018, there was no impact to the Company’s consolidated financial statements and related disclosures upon adoption.

Recent Accounting Pronouncements Not Yet Adopted. The FASB issued ASU 2016-02, “Leases (Topic 842),” which requires companies to recognize the assets and liabilities for the rights and obligations of all leases with a term greater than 12 months (long-term) on the balance sheet. Leases to explore for or use oil and natural gas are not impacted by this guidance. In January 2018, the FASB issued ASU 2018-01, “Leases (Topic 842), Land Easement Practical Expedient for Transition to Topic 842.” This ASU permits an entity to continue to apply its current accounting policy for land easements that existed before the effective date of Topic 842. Once an entity adopts Topic 842, it would apply that Topic prospectively to all new (or modified) land easements to determine whether the arrangement contains a lease. ASU 2016-02 required adoption by application of a modified retrospective transition approach. In July 2018, the FASB issued ASU 2018-11, "Leases (Topic 842)." The amendments in this update provide another transition method whereby entities are allowed to initially apply the new leases standard at the adoption date and recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. The amendments further provide lessors with a practical expedient, by class of underlying asset, to not separate nonlease components from the associated lease component, similar to the expedient provided for lessees. The lessor practical expedient is limited to circumstances in which the nonlease component or components otherwise would be accounted for under the new revenue guidance and both (1) the timing and pattern of transfer are the same for the nonlease component(s) and associated lease component and (2) the lease component, if accounted for separately, would be classified as an operating lease. The amendments also clarify whether Topic 842 or Topic 606 applies for combined components. This topic is effective for the Company on January 1, 2019. Early adoption is permitted.

The Company is in the process of reviewing its portfolio of leased assets and related contracts to determine the impact adoption will have on its consolidated financial statements and related disclosures. The Company is also assessing the impact of Topic 842 on its systems, processes and internal controls. The Company plans to elect certain practical expedients when implementing the new lease standard, which means the Company will not have to reassess the existence or classification of leases for contracts, including land easements, that commenced prior to adoption. Upon adoption, the Company anticipates recognizing assets and liabilities for the rights and obligations of its existing long-term operating leases on its consolidated balance sheets and utilizing new systems, processes and internal controls to properly identify, classify, measure and recognize new (or modified) leases after the date of adoption. The Company will complete its evaluation during 2018 and will adopt Topic 842 on January 1, 2019. The Company is currently assessing whether it will adopt this Topic using the modified retrospective approach for all comparative periods presented or by recognizing a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption.

2. Revenues

The Company adopted the new revenue standard on January 1, 2018, using the modified retrospective method for all contracts outstanding on that date. Adoption of the new revenue standard had no impact on the Company's consolidated balance sheet, results of operations, equity or cash flows as of the adoption date, and the Company does not expect any further material impact to its consolidated financial statements on an ongoing basis as a result of adopting the new revenue standard. The Company has included the disclosures required by the new revenue standard below.

SANDRIDGE ENERGY, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
(Unaudited)

The following table disaggregates the Company’s revenue by source for the three and six-month periods ended June 30, 2018 and 2017:

	Three Months Ended June 30,			
	2018	2017	2018	2017
	(In thousands)			
Oil	$ 49,219	$ 47,978	$ 102,554	$ 103,760
NGL	16,946	13,138	33,335	27,571
Natural gas	13,139	23,430	30,381	51,364
Other	158	305	320	506
Total revenues	$ 79,462	$ 84,851	$ 166,590	$ 183,201

Oil, natural gas and NGL revenues. A majority of the Company’s revenues come from sales of oil, natural gas and NGLs and are recorded at a point in time when control of the oil, natural gas and NGL production passes to the customer at the inlet of the processing plant or pipeline, or the delivery point for onloading to a delivery truck. As the Company’s customers obtain control of the production prior to selling it to other end customers, the Company presents its revenues on a net basis, rather than on a gross basis.

Pricing for the Company’s oil, natural gas and NGL contracts is variable and is based on volumes sold multiplied by either an index price, net of deductions, or a percentage of the sales price obtained by the customer, which is also based on index prices. The transaction price is allocated on a pro-rata basis to each unit of oil, natural gas or NGL sold based on the terms of the contract. Oil, natural gas and NGL revenues are also recorded net of royalties, discounts and allowances, and transportation costs, as applicable. Taxes assessed by governmental authorities on oil, natural gas and NGL sales are presented separately from revenues and are included in production tax expense in the consolidated statements of operations.

Revenues Receivable. The Company records an asset in accounts receivable, net on its consolidated balance sheet for revenues receivable from contracts with customers at the end of each period. Pricing for revenues receivable is estimated using current month crude oil, natural gas and NGL prices, net of deductions. Revenues receivable are typically collected the month after the Company delivers the related production to its customers. As of June 30, 2018, and December 31, 2017, the Company had revenues receivable of $29.1 million and $34.6 million, respectively, and did not record any bad debt expense on revenues receivable during the three and six-month periods ended June 30, 2018.

Practical expedients and exemptions. The Company elected not to retrospectively restate contracts that were modified prior to January 1, 2017, and assumed that the contract terms in place at January 1, 2018 were in place from the inception of the contract.

Most of the Company's contracts are short-term in nature with a contract term of one year or less. The Company generally expenses certain insignificant costs when incurred rather than recognizing them as an asset because the amortization period would have been one year or less. Additionally, the Company does not disclose the value of unsatisfied performance obligations for (i) contracts with an original expected length of one year or less, and (ii) contracts for which revenue is recognized at the amount to which the Company has the right to invoice for services performed. Payment terms are typically within 30 days of control being transferred.

Currently, the Company's existing contracts do not contain financing components, but the Company has elected the practical expedient that allows financing components to be ignored if the difference between the performance and payment is less than one year for any future contracts that may contain financing components.

3. Proxy Contest

In the second quarter of 2018, the Company received notification from Carl C. Icahn and certain affiliated entities (together, "Icahn"), that they intended to nominate a full slate of five candidates for election to the Board at the 2018 Annual Meeting of Stockholders (the "2018 annual meeting") that was held on June 19, 2018 (the "proxy contest"). The Company and Icahn, together with certain of their Board nominees, each entered into a settlement agreement pursuant to which the size of the Board was expanded to eight directors. The Board now consists of previously incumbent directors Sylvia K. Barnes, David J. Kornder and William M. Griffin, and newly elected members Bob G. Alexander, Jonathan Christodoro, Jonathan Frates, John J.

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SANDRIDGE ENERGY, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
(Unaudited)

"Jack" Lipinski and Randolph C. Read following the certification of the voting results, which occurred on June 22, 2018. As confirmed by external counsel, the election of a majority of non-incumbent directors nominated in connection with the proxy contest resulted in the accelerated vesting of certain share and incentive-based compensation awards granted to the Company's employees and directors as discussed further in Note 15.

The Company incurred legal, consulting and advisory fees related to shareholder activism and the proxy contest, as well as the previously announced review of strategic alternatives of $7.2 million and $7.6 million, respectively for the three and six-month periods ended June 30, 2018.

4. Employee Termination Benefits

The following table presents a summary of employee termination benefits for the three and six-month periods ended June 30, 2018 and 2017 (in thousands):

	Cash	Share-Based Compensation (4)	Number of Shares	Total Employee Termination Benefits
Three Months Ended June 30, 2018				
Executive Employee Termination Benefits	$ —	$ 82	—	$ 82
Other Employee Termination Benefits	862	99	—	961
	$ 862	$ 181	—	$ 1,043
Three Months Ended June 30, 2017				
Executive Employee Termination Benefits (1)	$ 2,500	$ 1,825	96	$ 4,325
Other Employee Termination Benefits	90	—	—	90
	$ 2,590	$ 1,825	96	$ 4,415
Six Months Ended June				

30, 2018				
Executive Employee Termination Benefits (2)	$ 11,945	$ 9,196	554	$ 21,141
Other Employee Termination Benefits (3)	7,554	3,935	209	11,489
	$ 19,499	$ 13,131	763	$ 32,630
Six Months Ended June 30, 2017				
Executive Employee Termination Benefits (1)	$ 2,500	$ 1,825	96	$ 4,325
Other Employee Termination Benefits	490	—	—	490
	$ 2,990	$ 1,825	96	$ 4,815

1. Includes cash severance costs and share-based compensation costs associated with the accelerated vesting of awards related to the departure of the Company's former Executive Vice President of Investor Relations and Strategy, Duane Grubert.
2. On February 8, 2018, the Company’s then current CEO, James Bennett, separated employment from the Company, and on February 22, 2018, the Company’s then current CFO, Julian Bott, also separated employment from the Company. In accordance with the terms of their respective employment agreements, the Company incurred cash severance costs and share-based compensation costs associated with the accelerated vesting of awards during the first quarter of 2018.
3. As a result of a reduction in workforce in the first quarter of 2018, certain employees received termination benefits including cash severance and accelerated share-based and incentive compensation vesting upon separation of service from the Company.
4. Share-based compensation recognized in connection with the accelerated vesting of restricted stock awards and performance share units upon the departure of certain executives and the reduction in workforce in the first quarter of 2018 reflects the remaining unrecognized compensation expense associated with these awards at the date of termination. The unrecognized compensation expense was calculated using the grant date fair value for restricted stock awards and performance share units. One share of the Company’s common stock was issued per performance share unit. Other employee termination benefits for the three and six-month periods ended June 30, 2018, includes an adjustment to first quarter 2018 accrued share-based compensation to reflect actuals paid.

See Note 15 for additional discussion of the Company’s share-based compensation awards.

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SANDRIDGE ENERGY, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
(Unaudited)

At the 2018 annual meeting, 83.2% of the voting shareholders voted against the Company's prior compensation plan. The Compensation Committee of the Board is re-evaluating the compensation program of the Company.

5. Acquisitions and Divestitures

Acquisition of Properties. On February 10, 2017, the Company acquired assets consisting of approximately 13,000 net acres in Woodward County, Oklahoma for approximately $47.8 million in cash, net of post-closing adjustments. Also included in the acquisition were working interests in four wells previously drilled on the acreage.

2017 Property Divestitures. In 2017, the Company divested various non-core oil and natural gas properties for approximately $11.3 million in cash. All of these divestitures were accounted for as adjustments to the full cost pool with no gain or loss recognized.

See Note 7 for discussion of significant fixed asset divestitures.

6. Fair Value Measurements

The Company measures and reports certain assets and liabilities on a fair value basis and has classified and disclosed its fair value measurements using the levels of the fair value hierarchy noted below. The carrying values of cash, restricted cash, accounts receivable, prepaid expenses, certain other current assets and other assets, accounts payable and accrued expenses, other current liabilities and other long-term obligations included in the unaudited condensed consolidated balance sheets approximated fair value at June 30, 2018, and December 31, 2017. As a result, these financial assets and liabilities are not discussed below. The fair values of property, plant and equipment classified as assets held for sale and related impairments, which are calculated using Level 3 inputs, are discussed in Note 7.

Level 1	Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.
Level 2	Quoted prices in markets that are not active, or inputs which are observable, either directly or indirectly, for substantially

	the full term of the asset or liability.
Level 3	Measurement based on prices or valuation models that require inputs that are both significant to the fair value measurement and less observable for objective sources (i.e., supported by little or no market activity).

Assets and liabilities that are measured at fair value are classified based on the lowest level of input that is significant to the fair value measurement. The Company's assessment of the significance of a particular input to the fair value measurement requires judgment, which may affect the valuation of the fair value of assets and liabilities and their placement within the fair value hierarchy levels. The determination of the fair values, stated below, considers the market for the Company's financial assets and liabilities, the associated credit risk and other factors. The Company considers active markets as those in which transactions for the assets or liabilities occur in sufficient frequency and volume to provide pricing information on an ongoing basis. The Company has assets and liabilities classified in Level 2 of the hierarchy as of June 30, 2018, and Level 1 and Level 2 as of December 31, 2017, as described below.

Level 1 Fair Value Measurements

Investments. The fair value of investments, consisting of assets attributable to the Company's non-qualified deferred compensation plan, is based on quoted market prices. Investments of $5.1 million are included in other current assets in the accompanying unaudited condensed consolidated balance sheet at December 31, 2017. The Company's non-qualified deferred compensation plan was terminated and all remaining investment balances were distributed to participants in January 2018.

Level 2 Fair Value Measurements

Commodity Derivative Contracts. The fair values of the Company's oil and natural gas fixed price swaps are based upon inputs that are either readily available in the public market, such as oil and natural gas futures prices, volatility factors and discount rates, or can be corroborated from active markets. Fair value is determined through the use of a discounted cash flow model or option pricing model using the applicable inputs discussed above. The Company applies a weighted average credit

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default risk rating factor for its counterparties or gives effect to its credit default risk rating, as applicable, in determining the fair value of these derivative contracts. Credit default risk ratings are based on current published credit default swap rates.

Fair Value - Recurring Measurement Basis

The following tables summarize the Company’s assets and liabilities measured at fair value on a recurring basis by the fair value hierarchy (in thousands):

June 30, 2018

	Fair Value Measurements			Netting(1)	Assets/Liabilities at Fair Value
	Level 1	Level 2	Level 3		
Assets					
Commodity derivative contracts	$ —	$ 1,079	$ —	$ (1,079)	$ —
	$ —	$ 1,079	$ —	$ (1,079)	$ —
Liabilities					
Commodity derivative contracts	$ —	$ 45,004	$ —	$ (1,079)	$ 43,925
	$ —	$ 45,004	$ —	$ (1,079)	$ 43,925

December 31, 2017

	Fair Value Measurements			Netting(1)	Assets/Liabilities at Fair Value
	Level 1	Level 2	Level 3		
Assets					
Commodity derivative contracts	$ —	$ 5,582	$ —	$ (4,272)	$ 1,310
Investments	5,072	—	—	—	5,072
	$ 5,072	$ 5,582	$ —	$ (4,272)	$ 6,382
Liabilities					
Commodity derivative contracts	$ —	$ 18,467	$ —	$ (4,272)	$ 14,195
	$ —	$ 18,467	$ —	$ (4,272)	$ 14,195

1. Represents the effect of netting assets and liabilities for counterparties with which the right of offset exists.

Transfers. The Company recognizes transfers between fair value hierarchy levels as of the end of the reporting period in which the event or change in circumstances causing the transfer occurred. The Company did not have any transfers between Level 1, Level 2 or Level 3 fair value measurements during the three and six-month periods ended June 30, 2018 and 2017.

Fair Value of Financial Instruments - Long-Term Debt

The Company measured the fair value of its $35.0 million initial principal note, as amended in February 2017, which was secured by first priority mortgages on the Company's real estate in Oklahoma City, Oklahoma (the "Building Note") using a discounted cash flow analysis, which is classified as a Level 2 input in the fair value hierarchy. The Company repaid the Building Note in full during the first quarter of 2018. The estimated fair values and carrying values of the Company's long-term debt are as follows (in thousands):

	June 30, 2018		December 31, 2017	
	Fair Value	Carrying Value	Fair Value	Carrying Value
Building Note	$ —	$ —	$ 42,526	$ 37,502

See Note 9 for additional discussion of the Company's long-term debt.

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7. Property, Plant and Equipment

Property, plant and equipment consists of the following (in thousands):

	June 30, 2018		December 31, 2017	
Oil and natural gas properties				
Proved	$	1,145,667	$	1,056,806
Unproved	87,268		100,884	
Total oil and natural gas properties	1,232,935		1,157,690	
Less accumulated depreciation, depletion and impairment	(515,822)		(460,431)	
Net oil and natural gas properties capitalized costs	717,113		697,259	
Land	4,500		4,500	
Electrical infrastructure	131,010		131,010	
Other non-oil and natural gas equipment	19,778		26,809	
Buildings and structures	79,548		79,548	
Total	234,836		241,867	
Less accumulated depreciation and amortization	(20,933)		(15,886)	
Other property, plant and equipment, net	213,903			