SANDRIDGE ENERGY INC
Form 10-Q
December 03, 2007

Table of Contents

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 September 30, 2007

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 incorporation or organization)	*(I.R.S. Employer Identification No.)*
1601 N.W. Expressway, Suite 1600, Oklahoma City, Oklahoma	**73118**
(Address of principal executive offices)	*(Zip Code)*

Registrant s telephone number, including area code:
(405) 753-5500

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 o No þ

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large accelerated filer o Accelerated filer o Non-accelerated filer þ

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

The number of shares outstanding of the registrant s common stock, par value $0.001 per shares, as of the close of business on November 30, 2007, was 141,845,661.

SANDRIDGE ENERGY, INC.
FORM 10-Q
Quarter Ended September 30, 2007

INDEX

PART I. FINANCIAL INFORMATION

PART II. OTHER INFORMATION

Table of Contents

DISCLOSURES REGARDING FORWARD-LOOKING STATEMENTS

This quarterly report on Form 10-Q (Quarterly Report) includes forward-looking statements within the meaning of various provisions of the Securities Act of 1933, as amended and the Securities Exchange Act of 1934, as amended. Various statements contained in this Quarterly 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. The forward-looking statements may include projections and estimates concerning the timing and success of specific projects and our future production, revenues, income and capital spending. Our forward-looking statements are generally accompanied by words such as estimate, project, predict, believe, expect, anticipate, potential, could, may, foresee, words that convey the uncertainty of future events or outcomes. We have based these forward-looking statements on our current expectations and assumptions about future events. These statements are based on certain assumptions and analyses made by us in light of our experience and our perception of historical trends, current conditions and expected future developments as well as other factors we believe are appropriate under the circumstances. However, whether actual results and developments will conform with our expectations and predictions is subject to a number of risks and uncertainties, including Risk Factors discussed in our Registration Statement on Form S-1 filed with the Securities and Exchange Commission on October 23, 2007 and Item 1A- Risk Factors contained herein, the opportunities that may be presented to and pursued by us, competitive actions by other companies, changes in laws or regulations, and other factors, many of which are beyond our control. Consequently, all of the forward-looking statements made in this document are qualified by these cautionary statements and there can be no assurance that the actual results or developments anticipated will be realized or, even if substantially realized, that they will have the expected consequences to or effects on our company or our business or operations. Such statements are not guarantees of future performance and actual results or developments may differ materially from those projected in the forward-looking statements. We undertake no obligation to publicly update or revise any forward-looking statements.

Table of Contents

PART I. Financial Information

ITEM 1. ***Financial Statements***

SandRidge Energy, Inc. and Subsidiaries

Condensed Consolidated Balance Sheets

	September 30, 2007 (Unaudited)	December 31, 2006
	(In thousands)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 32,013	$ 38,948
Accounts receivable, net:		
Trade	71,957	89,774
Related parties	16,727	5,731
Derivative contracts	27,903	
Inventories	4,249	2,544
Deferred income taxes		6,315
Other current assets	20,548	31,494
Total current assets	173,397	174,806
Oil and natural gas properties, using full cost method of accounting		
Proved	2,388,534	1,636,832
Unproved	247,757	282,374
Less: accumulated depreciation and depletion	(174,552)	(60,752)
	2,461,739	1,858,454
Other property, plant and equipment, net	427,756	276,264
Derivative contracts	4,139	
Goodwill	27,076	26,198
Investments	6,983	3,584
Restricted deposits	39,851	33,189
Other assets	29,515	15,889
Total assets	$ 3,170,456	$ 2,388,384
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Current maturities of long-term debt	$ 14,293	$ 26,201
Accounts payable and accrued expenses:		
Trade	181,227	129,799

Related parties	3,182	1,834
Deferred income taxes	6,740	
Derivative contracts		958
Total current liabilities	205,442	158,792
Long-term debt	1,437,211	1,040,630
Derivative contracts		3,052
Other long-term obligations	16,219	21,219
Asset retirement obligation	57,508	45,216
Deferred income taxes	32,992	24,922
Total liabilities	1,749,372	1,293,831
Commitments and contingencies (Note 12)		
Minority interest	5,605	5,092
Redeemable convertible preferred stock, $0.001 par value, 2,650 shares authorized; 2,184 and 2,137 shares issued and outstanding at September 30, 2007 and December 31, 2006, respectively	450,356	439,643
Stockholders equity:		
Preferred stock, no par; 50,000 shares authorized; no shares issued and outstanding in 2007 and 2006		
Common stock, $0.001 par value, 400,000 shares authorized; 109,272 issued and 107,820 outstanding at September 30, 2007 and 93,048 issued and 91,604 outstanding at December 31, 2006	108	92
Additional paid-in capital	889,211	574,868
Treasury stock, at cost	(18,496)	(17,835)
Retained earnings	94,300	92,693
Total stockholders equity	965,123	649,818
Total liabilities and stockholders equity	$ 3,170,456	$ 2,388,384

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

Table of Contents

SandRidge Energy, Inc. and Subsidiaries

Condensed Consolidated Statements of Operations

	Three Months Ended September 30, 2007	Three Months Ended September 30, 2006	Nine Months Ended September 30, 2007	Nine Months Ended September 30, 2006
	(Unaudited) (In thousands except per share amounts)			
Revenues:				
Natural gas and crude oil	$ 113,106	$ 18,150	$ 319,556	$ 46,419
Drilling and services	16,684	35,742	56,928	105,713
Midstream and marketing	19,030	29,326	71,131	91,218
Other	4,828	6,432	14,160	19,827
Total revenues	153,648	89,650	461,775	263,177
Expenses:				
Production	28,689	7,960	77,707	21,625
Production taxes	4,402	1,050	12,328	2,579
Drilling and services	6,809	24,985	30,935	72,670
Midstream and marketing	14,444	27,139	61,191	85,525
Depreciation, depletion and amortization natural gas and crude oil	45,177	6,064	115,876	13,932
Depreciation, depletion and amortization other	14,282	8,298	36,545	22,106
General and administrative	20,421	11,721	45,781	32,024
Gain on derivative contracts	(39,247)	(5,304)	(55,228)	(16,176)
Gain on sale of assets	(1,045)	(839)	(1,704)	(849)
Total expenses	93,932	81,074	323,431	233,436
Income from operations	59,716	8,576	138,344	29,741
Other income (expense):				
Interest income	575	51	4,201	448
Interest expense	(28,522)	(2,506)	(88,630)	(4,090)
Minority interest	(164)	(182)	(321)	(281)
Income from equity investments	1,235	737	3,399	40
Total other income (expense)	(26,876)	(1,900)	(81,351)	(3,883)
Income before income tax expense	32,840	6,676	56,993	25,858
Income tax expense	11,920	1,781	21,002	6,931
Net income	20,920	4,895	35,991	18,927
Preferred stock dividends and accretion	9,313		30,573	
Income available to common stockholders	$ 11,607	$ 4,895	$ 5,418	$ 18,927

Basic and diluted income per share available to common stockholders	$	0.11	$	0.07	$	0.05	$	0.26
Weighted average number of shares outstanding:								
Basic		107,554		71,870		102,562		71,692
Diluted		109,049		72,806		103,778		72,633

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

Table of Contents

SandRidge Energy, Inc. and Subsidiaries

Condensed Consolidated Statement of Changes in Stockholders Equity

	Common Stock	Additional Paid-in Capital	Treasury Stock	Retained Earnings	Total
			(Unaudited) (In thousands)		
Balance, December 31, 2006	$ 92	$ 574,868	$ (17,835)	$ 92,693	$ 649,818
Stock offering, net of $1.4 million in offering costs	18	318,652			318,670
Conversion of common stock to redeemable convertible preferred stock	(1)	(9,650)			(9,651)
Accretion on redeemable convertible preferred stock				(1,062)	(1,062)
Purchase of treasury stock	(1)		(1,578)		(1,579)
Common stock issued under retirement plan		379	917		1,296
Stock-based compensation		4,962			4,962
Net income				35,991	35,991
Redeemable convertible preferred stock dividend				(33,322)	(33,322)
Balance, September 30, 2007	$ 108	$ 889,211	$ (18,496)	$ 94,300	$ 965,123

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

Table of Contents

SandRidge Energy, Inc. and Subsidiaries

Condensed Consolidated Statements of Cash Flows

	Nine Months Ended September 30, 2007	2006
	(Unaudited) (In thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 35,991	$ 18,927
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for doubtful accounts		2,458
Depreciation, depletion and amortization	152,421	36,038
Debt issuance cost amortization	14,903	
Deferred income taxes	20,004	2,662
Unrealized gain on derivatives	(36,052)	(2,007)
Gain on sale of assets	(1,704)	(849)
Interest income restricted deposits	(1,024)	
Income from equity investments, net of distributions	(3,399)	(28)
Stock-based compensation	4,962	8,156
Minority interest	321	281
Changes in operating assets and liabilities	53,133	1,862
Net cash provided by operating activities	239,556	67,500
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures for property, plant and equipment	(895,160)	(181,231)
Acquisition of assets	(3,001)	(63,125)
Proceeds from sale of assets	6,458	19,742
Proceeds from sale of investment		2,373
Contributions on equity investments		(3,388)
Restricted deposits	(5,638)	
Restricted cash		2,373
Net cash used in investing activities	(897,341)	(223,256)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from borrowings	1,262,769	295,215
Repayments of borrowings	(879,592)	(177,425)
Dividends paid preferred	(24,366)	
Minority interest contributions (distributions)	192	(390)
Proceeds from issuance of common stock	319,966	3,343
Purchase of treasury shares	(1,579)	
Debt issuance costs	(26,540)	
Net cash provided by financing activities	650,850	120,743

NET DECREASE IN CASH AND CASH EQUIVALENTS		(6,935)		(35,013)
CASH AND CASH EQUIVALENTS, beginning of year		38,948		45,731
CASH AND CASH EQUIVALENTS, end of period	$	32,013	$	10,718
Supplemental Disclosure of Noncash Investing and Financing Activities:				
Insurance premiums financed	$	1,496	$	
Accretion on redeemable convertible preferred stock	$	1,062	$	
Common stock issued in connection with acquisitions	$		$	5,128
Redeemable convertible preferred stock dividends, net of dividends paid	$	8,956	$	
Property, plant and equipment addition due to settlement	$	4,500	$	

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

Table of Contents

SandRidge Energy, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

1. Basis of Presentation

Nature of Business. SandRidge Energy, Inc. and its subsidiaries (collectively, the Company , SandRidge , we , us , or our) is an oil and gas company with its principal focus on exploration, development and production related to oil and gas activities. SandRidge also owns and operates drilling rigs and provides related oil field services, midstream gas services operations, and CO_2 and tertiary oil recovery operations. SandRidge s primary exploration, development and production areas are concentrated in West Texas. The Company also operates significant interests in the Cotton Valley Trend in East Texas and Gulf Coast area.

On November 21, 2006, the Company acquired all of the outstanding membership interests of NEG Oil & Gas LLC (NEG).

Interim Financial Statements. The accompanying condensed consolidated balance sheet as of December 31, 2006 has been derived from our audited financial statements contained in the Company s Registration Statement on Form S-1/A filed October 23, 2007 (the Registration Statement). The unaudited interim condensed consolidated financial statements of SandRidge and its subsidiaries have been prepared by the Company in accordance with the accounting policies stated in the audited consolidated financial statements contained in the Company s S-1/A filed October 23, 2007 pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Certain information and footnote 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 we believe that the disclosures contained herein are adequate to make the information presented not misleading. In the opinion of management, all adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation in accordance with GAAP have been included in these unaudited interim condensed consolidated financial statements. These condensed financial statements should be read in conjunction with the financial statements and notes thereto included in the Registration Statement.

2. Significant Accounting Policies

For a description of the Company s accounting policies, refer to Note 1 of the 2006 consolidated financial statements included in the Company s Registration Statement, as well as Note 10 herein.

Reclassifications. Certain reclassifications have been made in prior period financial statements to conform with current period presentation.

Change in Method of Accounting for Oil and Gas Operations. In the fourth quarter of 2006, the Company changed from the successful efforts method to the full cost method of accounting for its oil and gas operations. Prior period financial statements presented herein have been restated to reflect the change.

SandRidge s financial results have been retroactively restated to reflect the conversion to the full cost method. As prescribed by full cost accounting rules, all costs associated with property acquisition, exploration, and development activities are capitalized. Exploration and development costs include dry hole costs, geological and geophysical costs, direct overhead related to exploration and development activities and other costs incurred for the purpose of finding oil and gas reserves.

SandRidge Energy, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Continued)

A comparison of the Company s previously presented income tax expense, net income, and earnings per share under the successful efforts method of accounting to its results of operations disclosed herein are as follows (in thousands, except per share amounts):

	Three Months Ended September 30, 2006		Nine Months Ended September 30, 2006	
	(As Originally Presented)	(As Restated)	(As Originally Presented)	(As Restated)
Income tax expense	$ 4,844	$ 1,781	$ 8,998	$ 6,931
Net income	$ 13,308	$ 4,895	$ 15,175	$ 18,927
Basic earnings per share	$ 0.18	$ 0.07	$ 0.21	$ 0.26
Diluted earnings per share	$ 0.18	$ 0.07	$ 0.21	$ 0.26

Oil and Natural Gas Operations. The Company uses the full cost method to account for its natural gas and oil properties. Under full cost accounting, all costs directly associated with the acquisition, exploration and development of natural gas and oil reserves are capitalized into a full cost pool. These capitalized costs include costs of all unproved properties, internal costs directly related to the Company s acquisition, exploration and development activities and capitalized interest. These costs are amortized using a unit-of-production method. Under this method, the provision for depreciation, depletion and amortization is computed at the end of each quarter by multiplying total production for such quarter by a depletion rate. The depletion rate is determined by dividing the total unamortized cost base by net equivalent proved reserves at the beginning of the quarter.

Recent Accounting Pronouncements. In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements, which establishes a formal framework for measuring fair values of assets and liabilities in financial statements that are already required by GAAP to be measured at fair value. SFAS No. 157 clarifies guidance in FASB Concepts Statement (CON) No. 7 which discusses present value techniques in measuring fair value. Additional disclosures are also required for transactions measured at fair value. No new fair value measurements are prescribed, and SFAS No. 157 is intended to codify the several definitions of fair value included in various accounting standards. However, the application of this Statement may change current practices for certain companies. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007. The Company is currently evaluating the impact of adopting SFAS No. 157 on the financial statements.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option For Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115 (SFAS No. 159), which permits an entity to choose to measure certain financial assets and liabilities at fair value. SFAS No. 159 also revises provisions of SFAS No. 115 that apply to available-for-sale and trading securities. This statement is effective for fiscal years beginning after November 15, 2007. The Company has not yet evaluated the potential impact of this standard.

3. Acquisitions and Dispositions

On March 15, 2006, the Company acquired from an executive officer and director, an additional 12.5% interest in PetroSource Energy Company, a consolidated subsidiary. The acquisition consisted of the extinguishment of subordinated debt of approximately $1.0 million and a $4.5 million cash payment for the ownership interest acquired for a total acquisition price of approximately $5.5 million.

On May 1, 2006, the Company purchased certain leases in developed and undeveloped properties from an oil and gas company. The purchase price was approximately $40.9 million in cash. The cash consideration was paid in July 2006.

On May 26, 2006, the Company purchased several oil and natural gas properties from an oil and gas company. The purchase price was approximately $12.9 million, comprised of $8.2 million in cash, and 251,351 shares of

SandRidge Energy, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Continued)

SandRidge Energy, Inc. common stock (valued at $4.7 million). The cash and equity consideration was paid in July 2006.

On June 7, 2006, the Company acquired the remaining 1% interest in PetroSource Energy Company, a consolidated subsidiary, from an oil and gas company. The purchase price was 27,749 shares of SandRidge Energy, Inc. common stock (valued at $0.5 million). As a result of this acquisition, the Company became a 100% owner of PetroSource Energy Company.

In July 2006, the Company sold leaseholds and lease and well equipment for $16.0 million. The book basis of the assets at the time of the sale transaction was $3.7 million resulting in a gain of $12.3 million. The sale was accounted for as an adjustment to the full cost pool, with no gain recognized.

4. Property, Plant and Equipment

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

	September 30, 2007	December 31, 2006
Oil and natural gas properties:		
Proved	$ 2,388,534	$ 1,636,832
Unproved	247,757	282,374
Total oil and natural gas properties	2,636,291	1,919,206
Less accumulated depreciation and depletion	(174,552)	(60,752)
Net oil and natural gas properties capitalized costs	2,461,739	1,858,454
Land	1,344	738
Non oil and gas equipment	491,000	337,294
Buildings and structures	37,725	6,564
Total	530,069	344,596
Less accumulated depreciation, depletion and amortization	(102,313)	(68,332)
Net capitalized costs	427,756	276,264
Total property, plant and equipment	$ 2,889,495	$ 2,134,718

The amount of capitalized interest in the nine months ended September 30, 2007 and 2006 was approximately $1.5 million and $1.0 million, respectively, and is included in the above non oil and gas equipment balance.

On July 11, 2007, the Company purchased property to serve as its future corporate headquarters. The 3.51-acre site contains four buildings and is located in downtown Oklahoma City, Oklahoma. The purchase price of the property was approximately $25 million in cash plus the assumption of an obligation to indemnify the sellers in connection with pending litigation involving the property. Payment of the purchase price was funded through a draw on the Company s senior credit facility. The related litigation was settled subsequent to September 30, 2007, resulting in an additional cost to the Company of $4.5 million which was treated as an adjustment to the purchase price of the property. For additional discussion of this settlement, refer to Note 17 herein.

Table of Contents

SandRidge Energy, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Continued)

5. Goodwill

The change in the carrying amount of goodwill from December 31, 2006 to September 30, 2007 was as follows (in thousands):

Balance at December 31, 2006	$ 26,198
Adjustments	878
Balance at September 30, 2007	$ 27,076

The adjustments made in the nine months ended September 30, 2007 related to the preliminary purchase allocation in connection with the NEG acquisition in November 2006. The Company has assigned all of the NEG goodwill to the Exploration and Production segment.

6. Asset Retirement Obligation

A reconciliation of the beginning and ending aggregate carrying amounts of the asset retirement obligations for the period of December 31, 2006 to September 30, 2007 is as follows (in thousands):

Asset retirement obligation, December 31, 2006	$ 45,216
Liability incurred upon acquiring and drilling wells	1,688
Revisions in estimated cash flows	7,747
Liability settled in current period	(9)
Accretion of discount expense	2,866
Asset retirement obligation, September 30, 2007	$ 57,508

7. Long-Term Debt

Long-term obligations consist of the following (in thousands):

	September 30, 2007	December 31, 2006
Senior credit facility	$ 400,000	$ 140,000
Senior bridge facility		850,000
Senior term loan	1,000,000	
Other notes payable:		
Drilling rig fleet and related oil field services equipment	51,261	61,105

Sagebrush				4,000
Insurance financing		199		7,240
Other equipment and vehicles		44		4,486
Total debt		1,451,504		1,066,831
Less: Current maturities of long-term debt		14,293		26,201
Long-term debt	$	1,437,211	$	1,040,630

Senior Credit Facility. On November 21, 2006, the Company entered into a $750 million senior secured revolving credit facility (the senior credit facility). The senior credit facility matures on November 21, 2011.

The proceeds of the senior credit facility were used to (i) partially finance the NEG acquisition, (ii) refinance the existing senior secured revolving credit facility and NEG s existing credit facility**,** and (iii) pay fees and expenses related to the NEG acquisition and the existing credit facility. Future borrowings under the senior credit

SandRidge Energy, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Continued)

facility will be available for capital expenditures, working capital and general corporate purposes and to finance permitted acquisitions of oil and gas properties and other assets related to the exploration, production and development of oil and gas properties. The senior credit facility will be available to be drawn on and repaid without restriction so long as the Company is in compliance with its terms, including certain financial covenants.

The senior credit facility contains various covenants that limit the Company and certain of its subsidiaries ability to grant certain liens; make certain loans and investments; make distributions; redeem stock; redeem or prepay debt; merge or consolidate with or into a third party; or engage in certain asset dispositions, including a sale of all or substantially all of the Company s assets. Additionally, the senior credit facility limits the Company and certain of its subsidiaries ability to incur additional indebtedness with certain exceptions, including under the senior unsecured bridge facility (as discussed below) which was repaid in full during March 2007.

The senior credit facility also contains financial covenants, including maintenance of agreed upon levels for the ratio of (i) total funded debt to EBITDAX (as defined in the senior credit facility), (ii) EBITDAX to interest expense plus current maturities of long-term debt, and (iii) current ratio. The Company was in compliance with these financial covenants as of September 30, 2007.

The obligations under the senior credit facility are secured by first priority liens on all shares of capital stock of each of the Company s present and future subsidiaries; all intercompany debt of the Company and its subsidiaries; and substantially all of the Company assets and the assets of its guarantor subsidiaries, including proven oil and gas reserves representing at least 80% of the present discounted value (as defined in the senior credit facility) of proven oil and gas reserves reviewed in determining the borrowing base for the senior credit facility. Additionally, the obligations under the senior credit facility will be guaranteed by certain Company subsidiaries.

At the Company s election, interest under the senior credit facility is determined by reference to (i) the British Bankers Association LIBOR rate, or LIBOR, plus an applicable margin between 1.25% and 2.00% per annum or (ii) the higher of the federal funds rate plus 0.5% or the prime rate plus, in either case, an applicable margin between 0.25% and 1.00% per annum. Interest will be payable quarterly for prime rate loans and at the applicable maturity date for LIBOR loans, except that if the interest period for a LIBOR loan is six months, interest will be paid at the end of each three-month period. The average interest rates paid on amounts outstanding under our senior credit facility for the three and nine month periods ended September 30, 2007 were 7.08% and 7.62%, respectively.

The borrowing base of proved reserves was initially set at $300.0 million. As of December 31, 2006, the Company had $140.0 million of outstanding indebtedness on the senior credit facility. Proceeds from the Company s sale of common stock on March 20, 2007, as described in Note 14, were used to repay outstanding borrowings under the Company s senior credit facility.

The borrowing base was increased to $400 million on May 2, 2007, and to $700 million on September 14, 2007. At September 30, 2007, the Company had $400 million in outstanding indebtedness under this facility. The Company repaid all amounts outstanding under this facility subsequent to September 30, 2007. See Note 17 for further discussion.

Senior Bridge Facility. On November 21, 2006, the Company also entered into an $850.0 million senior unsecured bridge facility (the senior bridge facility), which was repaid in March 2007. The Company expensed remaining unamortized debt issuance costs related to the senior bridge facility of approximately $12.5 million to interest expense in March 2007.

Together with borrowings under the senior credit facility, the proceeds from the senior bridge facility were used to (i) partially finance the NEG acquisition, (ii) refinance existing senior secured revolving credit facility and NEG s existing credit facility, and (iii) pay fees and expenses related to the NEG acquisition and the existing credit facility.

Senior Term Loans. On March 22, 2007 the Company entered into $1.0 billion in senior unsecured term loans (the senior term loans). The closing of the senior term loans was generally contingent upon closing the private

Table of Contents

SandRidge Energy, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Continued)

placement of common equity as described in Note 14. The senior term loans include both floating rate term loans and fixed rate term loans. The Company issued $350.0 million at a variable rate with interest payable quarterly and principal due on April 1, 2014 (the variable rate term loans). The variable rate term loans bear interest, at the Company s option, at the British Bankers Association LIBOR rate plus 3.625% or the higher of (i) the federal funds rate, as defined, plus 3.125% or (ii) a Bank s prime rate plus 2.625%. After April 1, 2009 the variable rate term loans may be prepaid in whole or in part with certain prepayment penalties. The average interest rates paid on amounts outstanding under our variable term loans for the three and nine month periods ended September 30, 2007 were 8.99% and 8.98%, respectively.

The Company issued $650.0 million at a fixed rate of 8.625% with the principal due on April 1, 2015 (the fixed rate term loans). Under the terms of the fixed rate term loans, interest is payable quarterly and during the first four years interest may be paid, at the Company s option, either entirely in cash or entirely with additional fixed rate term loans. If the Company elects to pay the interest due during any period in additional fixed rate term loans, the interest rate increases to 9.375% during such period. After April 1, 2011 the fixed rate term loans may be prepaid in whole or in part with certain prepayment penalties.

After March 22, 2008, the Company is required to offer to exchange the senior term loans for senior unsecured notes with registration rights and with identical terms and conditions as the term loans. If the Company is unable or does not offer to exchange the senior term loans for senior unsecured notes with registration rights by April 30, 2008, the interest rate on the senior term loans will increase by 0.25% every 90 days up to a maximum of 0.50%.

Debt covenants under the senior term loans include financial covenants similar to those of the senior credit facility and include limitations on the incurrence of indebtedness, payment of dividends, asset sales, certain asset purchases, transactions with related parties, and consolidation or merger agreements. The Company incurred $26.1 million of debt issuance costs in connection with the senior term loans. These costs are included in other assets and amortized over the term of the senior term loans. A portion of the proceeds from the senior term loans was used to repay the Company s $850.0 million senior bridge facility.

For the nine months ended September 30, interest payments, net of amounts capitalized were approximately $59.5 million in 2007 and $4.6 million in 2006.

8. Other Long-Term Obligations

The Company has recorded a long-term obligation for amounts to be paid under a settlement agreement with Conoco, Inc. (Conoco). During January 2007, the Company agreed to pay approximately $25.0 million plus interest to Conoco to settle outstanding litigation. Under this agreement, payments are to be made in $5.0 million increments on April 1, 2007, July 1, 2008, July 1, 2009, July 1, 2010, and July 1, 2011. On March 30, 2007, the Company made the first $5.0 million settlement payment plus accrued interest. The $5.0 million payment to be made on July 1, 2008 has been included in accounts payable-trade in the accompanying condensed consolidated balance sheets as of September 30, 2007. Unpaid settlement amounts of approximately $15.0 million and $20.0 million have been included in other long-term obligations in the accompanying condensed consolidated balance sheets as of September 30, 2007 and December 31, 2006, respectively.

9. Derivatives

The Company has entered into various derivative contracts including collars, fixed price swaps, and basis swaps with counterparties. The contracts expire on various dates through December 31, 2009.

SandRidge Energy, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Continued)

At September 30, 2007, the Company s open commodity derivative contracts consisted of the following:

Period	Commodity	Notional	Weighted Avg. Fix Price
Fixed price swaps:			
April 2007 October 2007	Natural gas	4,280,000 MmBtu	$ 7.02
April 2007 October 2007	Natural gas	4,280,000 MmBtu	$ 7.50
September 2007 December 2007	Natural gas	1,220,000 MmBtu	$ 8.88
October 2007 December 2007	Natural gas	920,000 MmBtu	$ 7.60
October 2007 December 2007	Natural gas	920,000 MmBtu	$ 7.82
October 2007 December 2007	Natural gas	920,000 MmBtu	$ 8.00
October 2007 December 2007	Natural gas	920,000 MmBtu	$ 8.04
October 2007 December 2007	Natural gas	920,000 MmBtu	$ 8.77
October 2007 December 2007	Natural gas	920,000 MmBtu	$ 9.04
November 2007 June 2008	Natural gas	4,860,000 MmBtu	$ 8.05
November 2007 June 2008	Natural gas	9,720,000 MmBtu	$ 8.20
November 2007 March 2008	Natural gas	1,520,000 MmBtu	$ 8.51
January 2008 June 2008	Natural gas	3,640,000 MmBtu	$ 7.99
January 2008 June 2008	Natural gas	3,640,000 MmBtu	$ 7.99
January 2008 December 2008	Natural gas	3,660,000 MmBtu	$ 8.23
January 2008 December 2008	Natural gas	3,660,000 MmBtu	$ 8.48
January 2008 December 2008	Natural gas	3,660,000 MmBtu	$ 9.00
May 2008 August 2008	Natural gas	2,460,000 MmBtu	$ 8.38
July 2008 September 2008	Natural gas	920,000 MmBtu	$ 8.23
July 2008 December 2008	Natural gas	1,840,000 MmBtu	$ 8.31
Collars:			
January 2007 December 2007	Crude oil	60,000 Bbls	$ 50.00 – $84.50
January 2008 June 2008	Crude oil	42,000 Bbls	$ 50.00 – $83.35
July 2008 December 2008	Crude oil	54,000 Bbls	$ 50.00 – $82.60
Waha basis swaps:			
January 2007 December 2007	Natural gas	7,300,000 MmBtu	$ (0.5925)
January 2007 December 2007	Natural gas	14,600,000 MmBtu	$ (0.70)
April 2007 October 2007	Natural gas	4,280,000 MmBtu	$ (0.530)
January 2008 December 2008	Natural gas	10,980,000 MmBtu	$ (0.57)
January 2008 December 2008	Natural gas	7,320,000 MmBtu	$ (0.585)
January 2008 December 2008	Natural gas	7,320,000 MmBtu	$ (0.59)
January 2008 December 2008	Natural gas	3,660,000 MmBtu	$ (0.595)
January 2008 December 2008	Natural gas	3,660,000 MmBtu	$ (0.625)
January 2008 December 2008	Natural gas	7,320,000 MmBtu	$ (0.635)
January 2008 December 2008	Natural gas	7,320,000 MmBtu	$ (0.6525)
May 2008 August 2008	Natural gas	2,460,000 MmBtu	$ (0.45)
January 2009 December 2009	Natural gas	3,650,000 MmBtu	$ (0.47)

January 2009	December 2009	Natural gas	3,650,000 MmBtu	$	(0.49)
January 2009	December 2009	Natural gas	3,650,000 MmBtu	$	(0.4975)

SandRidge Energy, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Continued)

These derivatives have not been designated as hedges and the Company records all derivatives on the balance sheet at fair value. Changes in derivative fair values are recognized in earnings. Cash settlements and valuation gains and losses are included in gain on derivative contracts in the condensed consolidated statements of operations. The following summarizes the cash settlements and valuation gains and losses for the three and nine month periods ended September 30, 2007 and 2006 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Realized gain	$ (19,969)	$ (13,875)	$ (19,176)	$ (14,169)
Unrealized loss (gain)	(19,278)	8,571	(36,052)	(2,007)
Gain on derivative contracts	$ (39,247)	$ (5,304)	$ (55,228)	$ (16,176)

10. Income Taxes

In accordance with applicable generally accepted accounting principles, the Company estimates for each interim reporting period the effective tax rate expected for the full fiscal year and uses that estimated rate in providing income taxes on a current year-to-date basis.

On January 1, 2007, the Company adopted the provisions of FASB Interpretation No. 48 (FIN 48), Accounting for Uncertainty in Income Taxes. The Company has determined that no uncertain tax positions exist where the Company would be required to make additional tax payments. As a result, the Company has not recorded any additional liabilities for any unrecognized tax benefits as of September 30, 2007. The Company and its subsidiaries file income tax returns in the U.S. federal and various state jurisdictions. Tax years 1994 to present remain open for the majority of taxing authorities. The Company s accounting policy is to recognize penalties and interest related to unrecognized tax benefits as income tax expense. The Company does not have an accrued liability for the payment of penalties and interest at September 30, 2007.

For the nine months ended September 30, income tax payments were approximately $2.7 million in 2007 and $1.9 million in 2006.

11. Earnings Per Share

Basic earnings per share are computed using the weighted average number of common shares outstanding during the period. Diluted earnings per share are computed using the weighted average shares outstanding during the year, but also include the dilutive effect of awards of restricted stock. The following table summarizes the calculation of weighted average common shares outstanding used in the computation of diluted earnings per share, for the three and nine month periods ended September 30, 2007 and 2006 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Weighted average basic common shares outstanding	107,554	71,870	102,562	71,692
Effect of dilutive securities:				
Restricted stock	1,495	936	1,216	941
Weighted average diluted common and potential common shares outstanding	109,049	72,806	103,778	72,633

In computing diluted earnings per share, the Company evaluated the if-converted method. Under this method, the Company assumes the conversion of the outstanding redeemable convertible preferred stock to common stock and determines if this is more dilutive than including the preferred stock dividends (paid and unpaid) in the computation of

SandRidge Energy, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Continued)

income available to common stockholders. The Company determined the if-converted method is not more dilutive and has included preferred stock dividends in the determination of income available to common stockholders.

12. Commitments and Contingencies

The Company is a defendant in certain lawsuits from time to time in the normal course of business. In management s opinion, the Company is not currently involved in any legal proceedings other than those specifically identified below, which individually or in the aggregate, could have a material effect on the financial condition, operations and/or cash flows of the Company.

Roosevelt Litigation. On May 18, 2004, the Company commenced a civil action seeking declaratory judgment against Elliot Roosevelt, Jr., E.R. Family Limited Partnership and Ceres Resource Partners, L.P. in the District Court of Dallas County, Texas, 101st Judicial District, SandRidge Energy, Inc. and Riata Energy Piceance, LLC v. Elliot Roosevelt, Jr. et al, Cause No. 92.717-C. This suit sought a declaratory judgment relating to the rights of the parties in and to certain leases in a defined area of mutual interest in the Piceance Basin pursuant to an acquisition agreement entered into in 1989, including the Company s 41,454 gross (16,193 net) acreage position. The Company tried the case to a jury in July 2006. Before the case was submitted to the jury, the trial court granted Roosevelt a directed verdict stating that he owned a 25% deferred interest in the Company s acreage after project payout. The directed verdict is not likely to affect the Company s proved reserves of 11.7 Bcfe, because of the requirement that project payout be achieved before the deferred interest shares in revenue. Other issues of fact were submitted to the jury. The trial court recently entered a judgment favorable to Roosevelt. The Company has filed a motion to modify the judgment and for a new trial. Depending on the outcome of this motion, the Company expects to appeal, at a minimum, from the entry of the directed verdict. If the Company does not ultimately prevail, the deferred interest will reduce the Company s economic returns from the project, if project payout is achieved.

The Company is subject to other claims in the ordinary course of business. However, the Company believes that the ultimate resolution of the above mentioned claims and other current legal proceedings will not have a material adverse effect on its results of operations, financial condition, or cash flows.

13. Redeemable Convertible Preferred Stock

In November 2006, the Company sold 2,136,667 shares of redeemable convertible preferred stock as part of the NEG acquisition and received net proceeds from this sale of approximately $439.5 million after deducting offering expenses of approximately $9.3 million. Each holder of the redeemable convertible preferred stock is entitled to quarterly cash dividends at the annual rate of 7.75% of the accreted value of its redeemable convertible preferred stock. The accreted value is $210 per share as of September 30, 2007. Each share of convertible preferred stock is initially convertible into ten shares of common stock at the option of the holder, subject to certain anti-dilution adjustments.

On January 31, 2007, the Company s Board of Directors declared a dividend on the outstanding shares of redeemable convertible preferred stock. The dividend of $3.21 per share was paid in cash on February 15, 2007. The dividend covered the time period from November 21, 2006, when the shares were issued, through February 1, 2007.

On March 30, 2007, certain holders of the Company s common units (consisting of shares of common stock and a warrant to purchase redeemable convertible preferred stock upon the surrender of common stock) exercised warrants to purchase redeemable convertible preferred stock. The holders converted 526,316 shares of common stock into 47,619 shares of redeemable convertible preferred stock.

On May 8, 2007, the Company s Board of Directors declared a dividend on the outstanding shares of redeemable convertible preferred stock. The dividend of $3.97 per share was paid in cash on May 15, 2007. The dividend covered the time period from February 2, 2007 through May 1, 2007.

SandRidge Energy, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Continued)

On June 8, 2007, the Company s Board of Directors declared a dividend on the outstanding shares of redeemable convertible preferred stock. The dividend of $4.10 per share was paid in cash on August 15, 2007. The dividend covered the time period from May 2, 2007 through August 1, 2007.

On September 24, 2007, the Company s Board of Directors declared a dividend on the outstanding shares of redeemable convertible preferred stock. The dividend of $4.10 per share was paid in cash on November 15, 2007. The dividend covers the time period from August 2, 2007 to November 1, 2007.

Approximately $9.0 million and $29.5 million in paid and unpaid dividends have been included in the Company s earnings per share calculations for the three and nine month periods ended September 30, 2007, respectively, as presented in the accompanying condensed consolidated statements of operations.

14. Stockholders Equity

The following table presents information regarding SandRidge s common stock (in thousands):

	September 30, 2007	December 31, 2006
Shares authorized	400,000	400,000
Shares outstanding at end of period	107,820	91,604
Shares held in treasury	1,452	1,444

The Company is authorized to issue 50,000,000 shares of preferred stock, no par value, of which no shares were outstanding as of September 30, 2007 and December 31, 2006.

Common Stock Issuance. In March 2007, the Company sold approximately 17.8 million shares of common stock for net proceeds of $318.7 million after deducting offering expenses of approximately $1.4 million. The stock was sold in private sales to various investors including Tom L. Ward, the Company s Chairman of the Board of Directors and Chief Executive Officer, who invested $61.4 million in exchange for approximately 3.4 million shares of common stock.

Treasury Stock. The Company makes required tax payments on behalf of employees as their stock awards vest and then withholds a number of vested shares having a value on the date of vesting equal to the tax obligation. As a result of such transactions, the Company withheld 41,095 shares at a total value of $0.7 million during the nine month period ended September 30, 2007. These shares were accounted for as treasury stock.

On June 28, 2007, the Company purchased 39,844 shares of its common stock into treasury through an open market repurchase program in order to fund a portion of its 401(K) matching obligation as described below. Cash consideration for these shares of approximately $0.8 million was paid in July 2007.

On June 29, 2007, the Company transferred 72,044 shares of its treasury stock to the Company s 401k Plan brokerage account. The transfer was made in order to satisfy the Company s $1.3 million accrued payable to match employee contributions made to the plan during 2006. Historical cost of the shares transferred totaled approximately $0.9 million, resulting in an increase to the Company s additional paid-in capital of approximately $0.4 million.

Restricted Stock. The Company issues restricted stock awards under incentive compensation plans which vest over specified periods of time. Awards issued prior to 2006 vest over periods of one, four, or seven years. All awards issued during and after 2006 have four year vesting periods. These shares of restricted common stock are subject to restriction on transfer and certain conditions to vesting.

For the three months ended September 30, the Company recognized stock-based compensation expense related to restricted stock of $2.7 million in 2007 and $3.7 million in 2006. For the nine months ended September 30, the Company recognized stock-based compensation expense related to restricted stock of approximately $5.0 million in 2007 and $8.2 million in 2006. Stock-based compensation expense is reflected in general and administrative expense in the condensed consolidated statements of operations.

SandRidge Energy, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Continued)

15. Related Party Transactions

During the ordinary course of business, the Company has transactions with certain shareholders and other related parties. These transactions primarily consist of purchases of drilling equipment and sales of oilfield service supplies. Following is a summary of significant transactions with such related parties for the three and nine month periods ended September 30, 2007 and 2006 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Sales to and reimbursements from related parties	$ 27,355	$ 4,449	$ 72,434	$ 12,070
Purchases of services from related parties	$ 32,093	$ 1,394	$ 42,544	$ 3,656

On June 1, 2006, the Company purchased certain producing well interest from an executive officer and director. The purchase price was approximately $9.0 million in cash. The cash consideration was paid in July 2006.

In August 2006, the Company sold various non-energy related assets to the Company s former President and Chief Operating Officer, N. Malone Mitchell, 3rd, for approximately $6.1 million in cash. The sale transaction resulted in a $0.8 million gain recognized in earnings by the Company in August 2006. The gain is included in gain on sale of assets in the condensed consolidated statements of operations.

In September 2006, the Company entered into a facilities lease with a member of its Board of Directors. The Company believes that the payments to be made under this lease are at fair market rates. Rent expense related to the lease totaled $1.7 million and $0.1 million for the nine month periods ended September 30, 2007 and 2006, respectively. The lease extends to August 2009.

On May 2, 2007, the Company purchased certain leasehold acreage from a partnership controlled by a director. The purchase price was approximately $8.3 million in cash.

On June 11, 2007, the Company purchased certain producing well interests from a director. The purchase price was approximately $3.5 million in cash.

Larclay, L.P. Larclay is a joint venture between the Company and Clayton Williams Energy, Inc. (CWEI) and was formed to acquire drilling rigs and provide land drilling services. Larclay currently owns 12 rigs, one of which has not been assembled. The Company purchased its investment in 2006 and accounts for it under the equity method of accounting. The Company serves as the operations manager of the joint venture. CWEI is responsible for financing and purchasing of the rigs. The Company had sales to and cost reimbursements from Larclay for the three and nine months ended September 30, 2007 of $20.0 million and $48.9 million, respectively. The Company had sales to and cost reimbursements from Larclay for the three and nine months ended September 30, 2006 of $0.7 million and $0.8 million, respectively. As of September 30, 2007 and December 31, 2006, the Company had accounts receivable related party due from Larclay of $16.0 million and $3.0 million, respectively. Additionally, the Company had purchases from Larclay for the three and nine months ended September 30, 2007 of $10.0 million and $25.6 million, respectively. As of September 30, 2007, the Company had accounts payable related party due to Larclay of $2.2 million. The Company made no purchases from Larclay in 2006.

16. Industry Segment Information

SandRidge has four business segments: Exploration and Production, Drilling and Oilfield Services, Midstream Gas Services, and Other representing its four main business units offering different products and services. The Exploration and Production segment is engaged in the development, acquisition and production of oil and natural gas properties. The Drilling and Oilfield Services segment is engaged in the land contract drilling of oil and natural gas wells. The Midstream Gas Services segment is engaged in the purchasing, gathering, processing and treating of

Table of Contents

SandRidge Energy, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Continued)

natural gas. The Other segment transports CO_2 to market for use by the Company and others in tertiary oil recovery operations and other miscellaneous operations.

Management evaluates the performance of SandRidge s operating segments based on operating income, which is defined as operating revenues less operating expenses and depreciation, depletion and amortization. Summarized financial information concerning our segments is shown in the following table (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Revenues:				
Exploration and production	$ 113,105	$ 20,942	$ 320,984	$ 50,704
Elimination of inter-segment revenue		(142)	(574)	(354)
Exploration and production, net of inter-segment revenue	113,105	20,800	320,410	50,350
Drilling and oilfield services	70,728	55,795	188,887	154,295
Elimination of inter-segment revenue	(53,957)	(19,864)	(131,888)	(48,040)
Drilling and oilfield services, net of inter-segment revenue	16,771	35,931	56,999	106,255
Midstream gas services	55,395	47,405	189,143	137,329
Elimination of inter-segment revenue	(36,364)	(18,081)	(118,012)	(46,115)
Midstream gas services, net of inter-segment revenue	19,031	29,324	71,131	91,214
Other	7,209	3,652	19,780	15,578
Elimination of inter-segment revenue	(2,468)	(57)	(6,545)	(220)
Other, net of inter-segment revenue	4,741	3,595	13,235	15,358
Total revenues	$ 153,648	$ 89,650	$ 461,775	$ 263,177
Operating Income:				
Exploration and production	$ 61,843	$ 241	$ 138,306	$ 8,203
Drilling and oilfield services	5,376	10,153	14,252	27,178
Midstream gas services	3,657	1,361	5,958	3,138
Other	(11,160)	(3,179)	(20,172)	(8,778)
Total operating income	59,716	8,576	138,344	29,741

Interest income	575	51	4,201	448
Interest expense	(28,522)	(2,506)	(88,630)	(4,090)
Other income (expense)	1,071	555	3,078	(241)
Income before income tax expense	$ 32,840	$ 6,676	$ 56,993	$ 25,858
Capital Expenditures:				
Exploration and production	$ 329,430	$ 37,127	$ 706,550	$ 88,861
Drilling and oilfield services	20,883	4,709	104,796	53,832
Midstream gas services	22,297	17,387	45,427	25,406
Other	30,406	7,508	38,387	13,132
Total capital expenditures	$ 403,016	$ 66,731	$ 895,160	$ 181,231
Depreciation, Depletion and Amortization:				
Exploration and production	$ 45,643	$ 6,680	$ 117,329	$ 14,902
Drilling and oilfield services	10,092	5,206	25,962	14,070
Midstream gas services	1,688	845	4,182	2,238
Other	2,036	1,631	4,948	4,828
Total depreciation, depletion and amortization	$ 59,459	$ 14,362	$ 152,421	$ 36,038

Table of Contents

SandRidge Energy, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Continued)

	September 30, 2007	December 31, 2006
Identifiable Asset(1):		
Exploration and production	$ 2,712,621	$ 2,091,459
Drilling and oilfield services	264,272	175,169
Midstream gas services	108,031	75,606
Other	85,532	46,150
Total	$ 3,170,456	$ 2,388,384

(1) Identifiable assets are those used in SandRidge s operations in each industry segment.

17. Subsequent Events

Acquisitions. On October 9, 2007, the Company purchased developed and undeveloped properties located in West Texas from an oil and gas company. The purchase price was approximately $74 million, comprised of $25 million in cash and a $49 million note payable. The $25 million cash consideration paid was funded through a draw on the Company s senior credit facility. All principal and accrued interest (interest at 7% annually) due on the note payable were repaid on November 9, 2007 with proceeds from the Company s initial public offering.

On November 28, 2007, the Company purchased a gas treatment plant and related gathering system located in Pecos County, Texas. The purchase price of approximately $10.0 million was paid in cash.

On November 29, 2007, the Company purchased leasehold acreage and producing well interests located predominately in the WTO from a group of entities. The purchase price of approximately $32.0 million was paid in cash.

Litigation Settlement. On October 29, 2007, the Company entered into an agreement whereby it settled outstanding litigation related to certain property purchased by the Company during July 2007. Under the terms of the agreement, the Company paid $4.5 million to the counterparties on November 15, 2007 and the litigation was dismissed. The amount paid has been included in accounts payable and accrued expenses in the accompanying condensed consolidated balance sheet as of September 30, 2007.

Note Payable. On November 15, 2007, the Company entered into a note payable in the amount of $20 million with a lending institution as a mortgage on the downtown Oklahoma City property purchased by the Company during July 2007 (see additional discussion in Note 4). This note is fully secured by one of the buildings and a parking garage located on the downtown property, bears interest at 6.08% annually, and matures November 15, 2022. Payments of principal and interest in the amount of approximately $0.5 million are due on a quarterly basis through the maturity date. During the next twelve months, the Company expects to make payments of principal and interest on this note totaling $1.0 million and $1.1 million, respectively.

Initial Public Offering. On November 9, 2007, the Company completed an initial public offering (the IPO) of its common stock. The Company sold 28,700,000 shares of SandRidge common stock, including 4,170,000 shares sold directly to an entity controlled by Tom L. Ward. The shares were sold at a price of $26 per share. After deducting underwriting discounts of approximately $38.3 million and estimated offering expenses of approximately $2.5 million, the Company received net proceeds of approximately $705.4 million. This transaction priced after market close on November 5, 2007. In conjunction with the IPO, the underwriters were granted an option to purchase 3,679,500 additional shares of the Company s common stock. The underwriters fully exercised this option and purchased the additional shares on November 6, 2007. After deducting underwriting discounts of approximately $5.7 million, the Company received net proceeds of approximately $89.9 million from

Table of Contents

SandRidge Energy, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Continued)

these additional shares. This offering generated total gross proceeds to the Company of $841.8 million and total net proceeds of approximately $795.3 million to us after deducting total underwriting discounts of approximately $44.0 million and other offering expenses estimated to be approximately $2.5 million. The aggregate net proceeds of approximately $795.3 million received by the Company at closing on November 9, 2007 were utilized as follows (in millions):

Repayment of outstanding balance and accrued interest on senior credit facility	$ 515.9
Repayment of note payable and accrued interest incurred in connection with recent acquisition	49.1
Excess cash to fund future capital expenditures	230.3
Total	$ 795.3

Table of Contents

ITEM 2. ***Management s Discussion and Analysis o***