SANDRIDGE ENERGY INC
Form 10-Q
May 08, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2014

OR

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

For the transition period from to

Commission File Number: 001-33784

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes R No £

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

Large accelerated filer	R	Accelerated filer	£
Non-accelerated filer	£ (Do not check if a smaller reporting company)	Smaller reporting company	£

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

The number of shares outstanding of the registrant’s common stock, par value $0.001 per share, as of the close of business on April 30, 2014, was 494,367,908.

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References in this report to the “Company” and “SandRidge” mean SandRidge Energy, Inc., including its consolidated subsidiaries and variable interest entities of which it is the primary beneficiary.

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, 2013 (the “2013 Form 10-K”).

SANDRIDGE ENERGY, INC.
FORM 10-Q
Quarter Ended March 31, 2014

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PART I. Financial Information

ITEM 1. Financial Statements
SANDRIDGE ENERGY, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except per share data)

	March 31, 2014 (Unaudited)	December 31, 2013
ASSETS		
Current assets		
Cash and cash equivalents	$1,179,644	$814,663
Accounts receivable, net	293,765	349,218
Derivative contracts	9,002	12,779
Costs in excess of billings and contract loss	4,144	4,079
Prepaid expenses	13,567	39,253
Other current assets	25,823	21,831
Total current assets	1,525,945	1,241,823
Oil and natural gas properties, using full cost method of accounting		
Proved	10,443,534	10,972,816
Unproved	292,459	531,606
Less: accumulated depreciation, depletion and impairment	(6,043,109)	(5,762,969)
	4,692,884	5,741,453
Other property, plant and equipment, net	559,342	566,222
Derivative contracts	18,048	14,126
Other assets	82,038	121,171
Total assets	$6,878,257	$7,684,795

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

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SANDRIDGE ENERGY, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS - Continued
(In thousands, except per share data)

	March 31, 2014 (Unaudited)	December 31, 2013
LIABILITIES AND EQUITY		
Current liabilities		
Accounts payable and accrued expenses	$581,764	$812,488
Derivative contracts	14,175	34,267
Asset retirement obligations	—	87,063
Other current liabilities	16,467	—
Total current liabilities	612,406	933,818
Long-term debt	3,195,036	3,194,907
Derivative contracts	—	20,564
Asset retirement obligations	53,103	337,054
Other long-term obligations	20,173	22,825
Total liabilities	3,880,718	4,509,168
Commitments and contingencies (Note 10)		
Equity		
SandRidge Energy, Inc. stockholders' equity		
Preferred stock, $0.001 par value, 50,000 shares authorized		
8.5% Convertible perpetual preferred stock; 2,650 shares issued and outstanding at March 31, 2014 and December 31, 2013; aggregate liquidation preference of $265,000	3	3
6.0% Convertible perpetual preferred stock; 2,000 shares issued and outstanding at March 31, 2014 and December 31, 2013; aggregate liquidation preference of $200,000	2	2
7.0% Convertible perpetual preferred stock; 3,000 shares issued and outstanding at March 31, 2014 and December 31, 2013; aggregate liquidation preference of $300,000	3	3
Common stock, $0.001 par value, 800,000 shares authorized; 495,719 issued and 494,651 outstanding at March 31, 2014 and 491,609 issued and 490,290 outstanding at December 31, 2013	485	483
Additional paid-in capital	5,302,051	5,298,301
Additional paid-in capital—stockholder receivable	(3,750)	(3,750)
Treasury stock, at cost	(6,898)	(8,770)
Accumulated deficit	(3,602,358)	(3,460,462)
Total SandRidge Energy, Inc. stockholders' equity	1,689,538	1,825,810
Noncontrolling interest	1,308,001	1,349,817
Total equity	2,997,539	3,175,627
Total liabilities and equity	$6,878,257	$7,684,795

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

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

	Three Months Ended March 31,	
	2014	2013
	(Unaudited)	
Revenues		
Oil, natural gas and NGL	$405,316	$478,017
Drilling and services	17,080	17,370
Midstream and marketing	17,910	13,032
Other	2,750	3,271
Total revenues	443,056	511,690
Expenses		
Production	98,535	132,501
Production taxes	7,807	9,439
Cost of sales	12,481	16,317
Midstream and marketing	16,000	11,803
Depreciation and depletion—oil and natural gas	115,185	157,526
Depreciation and amortization—other	15,522	15,336
Accretion of asset retirement obligations	5,746	9,779
Impairment	164,779	—
General and administrative	38,538	79,444
Loss on derivative contracts	42,491	40,897
(Gain) loss on sale of assets	(19)	398,174
Total expenses	517,065	871,216
Loss from operations	(74,009)	(359,526)
Other income (expense)		
Interest expense	(62,043)	(85,910)
Loss on extinguishment of debt	—	(82,005)
Other income, net	2,094	611
Total other expense	(59,949)	(167,304)
Loss before income taxes	(133,958)	(526,830)
Income tax expense	127	4,429
Net loss	(134,085)	(531,259)
Less: net loss attributable to noncontrolling interest	(6,070)	(51,919)
Net loss attributable to SandRidge Energy, Inc.	(128,015)	(479,340)
Preferred stock dividends	13,881	13,881
Loss applicable to SandRidge Energy, Inc. common stockholders	$(141,896)	$(493,221)
Loss per share		
Basic	$(0.29)	$(1.03)
Diluted	$(0.29)	$(1.03)
Weighted average number of common shares outstanding		
Basic	484,798	477,826
Diluted	484,798	477,826

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

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SANDRIDGE ENERGY, INC.
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
(In thousands)

	SandRidge Energy, Inc. Stockholders								
	Convertible Perpetual Preferred Stock		Common Stock		Additional Paid-In Capital	Treasury Stock	Accumulated Deficit	Non-controlling Interest	Total
	Shares	Amount	Shares	Amount					
	(Unaudited)								
Three Months Ended March 31, 2014									
Balance at December 31, 2013	7,650	$8	490,290	$483	$5,294,551	$(8,770)	$(3,460,462)	$ 1,349,817	$3,175,627
Acquisition of ownership interest	—	—	—	—	(2,074)	—	—	(656)	(2,730)
Sale of royalty trust units	—	—	—	—	4,091	—	—	18,028	22,119
Distributions to noncontrolling interest owners	—	—	—	—	—	—	—	(53,118)	(53,118)
Purchase of treasury stock	—	—	—	—	—	(3,677)	—	—	(3,677)
Retirement of treasury stock	—	—	—	—	(3,677)	3,677	—	—	—
Stock distributions, net of purchases - retirement plans	—	—	251	—	(2,031)	1,872	—	—	(159)
Stock-based compensation	—	—	—	—	7,441	—	—	—	7,441
Stock-based compensation excess tax benefit	—	—	—	—	2	—	—	—	2
Issuance of restricted stock awards, net of cancellations	—	—	4,110	2	(2)	—	—	—	—
Net loss	—	—	—	—	—	—	(128,015)	(6,070)	(134,085)
Convertible perpetual preferred stock dividends	—	—	—	—	—	—	(13,881)	—	(13,881)
Balance at March 31, 2014	7,650	$8	494,651	$485	$5,298,301	$(6,898)	$(3,602,358)	$ 1,308,001	$2,997,539

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

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

	Three Months Ended March 31, 2014	2013
	(Unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$(134,085)	$(531,259)
Adjustments to reconcile net loss to net cash provided by operating activities		
Depreciation, depletion and amortization	130,707	172,862
Accretion of asset retirement obligations	5,746	9,779
Impairment	164,779	—
Debt issuance costs amortization	2,361	3,008
Amortization of discount, net of premium, on long-term debt	129	672
Loss on extinguishment of debt	—	82,005
Deferred income tax provision	—	4,359
Loss on derivative contracts	42,491	40,897
Cash paid on settlement of derivative contracts	(39,164)	(21,684)
(Gain) loss on sale of assets	(19)	398,174
Stock-based compensation	6,786	19,850
Other	188	(285)
Changes in operating assets and liabilities	(89,468)	(56,921)
Net cash provided by operating activities	90,451	121,457
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures for property, plant and equipment	(331,016)	(421,876)
Acquisition of assets	(2,352)	(5,048)
Proceeds from sale of assets	707,366	2,559,374
Net cash provided by investing activities	373,998	2,132,450
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayments of borrowings	—	(1,115,500)
Premium on debt redemption	—	(61,997)
Debt issuance costs	—	(91)
Proceeds from sale of royalty trust units	22,119	—
Noncontrolling interest distributions	(53,118)	(51,256)
Acquisition of ownership interest	(2,730)	—
Stock-based compensation excess tax benefit	2	—
Purchase of treasury stock	(4,350)	(12,041)
Dividends paid — preferred	(17,263)	(17,263)
Cash (paid) received on settlement of financing derivative contracts	(44,128)	3,208
Net cash used in financing activities	(99,468)	(1,254,940)
NET INCREASE IN CASH AND CASH EQUIVALENTS	364,981	998,967
CASH AND CASH EQUIVALENTS, beginning of year	814,663	309,766
CASH AND CASH EQUIVALENTS, end of period	$1,179,644	$1,308,733
Supplemental Disclosure of Cash Flow Information		
Cash paid for interest, net of amounts capitalized	$(92,896)	$(127,181)
Cash received for income taxes	$—	$476
Supplemental Disclosure of Noncash Investing and Financing Activities		
Deposit on pending sale	$—	$(255,000)
Change in accrued capital expenditures	$55,242	$33,164

Asset retirement costs capitalized	$818	$1,102

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

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SANDRIDGE ENERGY, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Basis of Presentation

Nature of Business. SandRidge Energy, Inc. is an oil and natural gas company with a principal focus on exploration and production activities in the Mid-Continent region of the United States. The Company owns and operates additional interests in west Texas. The Company also operates businesses and infrastructure systems that are complementary to its primary exploration and production activities, including gas gathering and processing facilities, marketing operations, a saltwater disposal system, an electrical transmission system and a drilling rig and related oil field services business.

Principles of Consolidation. The consolidated financial statements include the accounts of the Company and its wholly owned or majority owned subsidiaries and variable interest entities (“VIEs”) for which the Company is the primary beneficiary. Noncontrolling interest represents third-party ownership interests in the Company’s subsidiaries and consolidated VIEs and is included as a component of equity in the consolidated balance sheets and consolidated statement of changes in equity. All significant intercompany accounts and transactions have been eliminated in consolidation.

Variable Interest Entities. An entity is referred to as a VIE if it possesses one of the following criteria: (i) it is thinly capitalized, (ii) the residual equity holders do not control the entity, (iii) the equity holders are shielded from the economic losses, (iv) the equity holders do not participate fully in the entity’s residual economics, or (v) the entity was established with non-substantive voting interests. The Company consolidates a VIE when it has determined it is the primary beneficiary, which requires significant judgment. The primary beneficiary of a VIE is that variable interest holder possessing a controlling financial interest through (i) its power to direct the activities of the VIE that most significantly impact the VIE’s economic performance and (ii) its obligation to absorb losses or its right to receive benefits from the VIE that could potentially be significant to the VIE. In order to determine whether the Company owns a variable interest in a VIE and the significance of the variable interest, the Company performs a qualitative analysis of the entity’s design, organizational structure, primary decision makers and related financial agreements. In addition to the VIEs that the Company consolidates, the Company also holds a variable interest in another VIE that is not consolidated as it was determined that the Company is not the primary beneficiary. The Company monitors both consolidated and unconsolidated VIEs to determine if any events have occurred that could cause the primary beneficiary to change. See Note 3 for discussion of the Company’s significant associated VIEs.

Interim Financial Statements. The accompanying condensed consolidated financial statements as of December 31, 2013 have been derived from the audited financial statements contained in the Company’s 2013 Form 10-K. The unaudited interim condensed consolidated financial statements have been prepared by the Company in accordance with the accounting policies stated in the audited consolidated financial statements contained in the 2013 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, all adjustments, which consist only of normal recurring adjustments, necessary to state fairly the information in the Company’s accompanying unaudited condensed consolidated financial statements have been included. These unaudited condensed consolidated financial statements should be read in conjunction with the financial statements and notes thereto included in the 2013 Form 10-K.

Significant Accounting Policies. For a description of the Company’s significant accounting policies, see Note 1 of the consolidated financial statements included in the 2013 Form 10-K.

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 accompanying 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; cash flow estimates used in the valuation of guarantees; impairment tests of long-lived assets; depreciation, depletion and amortization; asset retirement obligations; assignments of fair value and allocations of purchase price in connection with business combinations; determinations of significant alterations to the full cost pool and related estimates of fair value used to allocate the full cost pool net book value to divested properties, as necessary; 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.

2. Divestitures

Sale of Permian Properties

On February 26, 2013, the Company sold all of its oil and natural gas properties in the Permian Basin in west Texas, excluding the assets attributable to the SandRidge Permian Trust's (the "Permian Trust") area of mutual interest, (the "Permian Properties") for $2.6 billion. This transaction resulted in a significant alteration of the relationship between the Company's capitalized costs and proved reserves and, accordingly, the Company recorded a $399.1 million loss on the sale for the three-month period ended March 31, 2013. The loss is included in (gain) loss on sale of assets in the accompanying unaudited condensed consolidated statement of operations for the three-month period ended March 31, 2013. The loss was calculated based on a comparison of proceeds received and the asset retirement obligations attributable to the Permian Properties that were assumed by the buyer to the sum of (i) an allocation of the historical net book value of the Company's proved oil and natural gas properties attributable to the Permian Properties, (ii) the historical cost of unproved acreage sold and (iii) costs incurred by the Company to sell these properties. The allocated net book value attributable to the Permian Properties was calculated based on the relative fair value of the Permian Properties and the remaining proved oil and natural gas properties retained by the Company as of the date of sale. A portion of the loss, totaling $71.7 million, was allocated to noncontrolling interests and is reflected in net income attributable to noncontrolling interest in the accompanying unaudited condensed consolidated statement of operations for the three-month period ended March 31, 2013.

The following table presents revenues and direct operating expenses of the Permian Properties included in the accompanying unaudited condensed consolidated statement of operations for the three-month period ended March 31, 2013 (in thousands):

	Three Months Ended March 31, 2013(1)
Revenues	$68,027
Direct operating expenses	$17,453

(1) Includes revenues and direct operating expenses through February 26, 2013, the date of sale.

Sale of Gulf of Mexico and Gulf Coast Properties

On February 25, 2014, the Company sold subsidiaries that owned the Company's Gulf of Mexico and Gulf Coast oil and natural gas properties (the "Gulf Properties") for approximately $705.0 million, net of working capital adjustments and subject to post-closing adjustments, and the buyer's assumption of approximately $366.0 million of related asset retirement obligations to Fieldwood Energy LLC ("Fieldwood"). This transaction did not result in a significant alteration of the relationship between the Company's capitalized costs and proved reserves and, accordingly, the Company recorded the proceeds as a reduction of its full cost pool with no gain or loss on the sale. See Note 14 for discussion of Fieldwood's related party affiliation with the Company.

Under the equity purchase agreement, the Company agreed to guarantee on behalf of Fieldwood certain plugging and abandonment obligations associated with the Gulf Properties for a period of up to one year from the date of closing. The Company recorded a liability equal to the fair value of these guarantees, or $9.4 million, at the time the transaction closed. As of March 31, 2014, the fair value of the guarantees was approximately $9.5 million. See Note 4 for additional discussion of the determination of the guarantees' fair value. The guarantees do not include a limit on the potential future payments for which the Company could be obligated; however, Fieldwood has agreed to indemnify the Company for any costs it may incur as a result of the guarantees and to use its best efforts to pay any amounts sought from the Company by the Bureau of Ocean Energy Management that may arise prior to the expiration of the guarantees. Additionally, Fieldwood will maintain, for a period of up to one year from the closing date, restricted deposits totaling approximately $28.0 million held in escrow for plugging and abandonment obligations associated with the Gulf Properties. Upon expiration of the guarantees, the Company will receive payment for half of such restricted deposits, or approximately $14.0 million, from Fieldwood. Accordingly, the Company recorded a receivable for this payment in conjunction with the closing of the sale, which is included in other current assets in the accompanying unaudited condensed consolidated balance sheet at March 31, 2014.

The following table presents revenues and expenses, including direct operating expenses, depletion, accretion of asset retirement obligations and general and administrative expenses, for the Gulf Properties included in the accompanying unaudited condensed consolidated statements of operations for the three-month periods ended March 31, 2014 and 2013 (in thousands):

	Three Months Ended March 31,	
	2014(1)	2013
Revenues	$90,920	$175,055
Expenses	$63,674	$129,169

(1) Includes revenues and expenses through February 25, 2014, the date of the sale.

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

3. Variable Interest Entities

The Company's significant associated VIEs, including those for which the Company has determined it is the primary beneficiary and those for which it has determined it is not, are described below.

Royalty Trusts. SandRidge owns beneficial interests in three Delaware statutory trusts. SandRidge Mississippian Trust I (the "Mississippian Trust I"), the Permian Trust and SandRidge Mississippian Trust II (the "Mississippian Trust II") (each individually, a "Royalty Trust" and collectively, the "Royalty Trusts") completed initial public offerings of their common units in April 2011, August 2011 and April 2012, respectively. Concurrent with the closing of each offering, the Company conveyed certain royalty interests to each Royalty Trust in exchange for the net proceeds of the offering and units representing beneficial interests in the Royalty Trust. Royalty interests conveyed to the Royalty Trusts are in certain existing wells and wells to be drilled on oil and natural gas properties leased by the Company in defined areas of mutual interest. The following table summarizes information about each Royalty Trust upon completion of its initial public offering:

	Mississippian Trust I	Permian Trust	Mississippian Trust II
Net proceeds of offering (in thousands)	$336,893	$580,635	$587,087
Total outstanding common units	21,000,000	39,375,000	37,293,750
Total outstanding subordinated units	7,000,000	13,125,000	12,431,250
Beneficial interest owned by Company(1)	38.4 %	34.3 %	39.9 %
Liquidation date(2)	12/31/2030	3/31/2031	12/31/2031

(1) Subsequent to the initial public offerings, the Company sold common units of the Royalty Trusts it owned in transactions exempt from registration under Rule 144 under the Securities Act. These transactions decreased the Company's beneficial interests in the Royalty Trusts. See further discussion of the unit sales below.

(2) At the time each Royalty Trust terminates, 50% of the royalty interests conveyed to the Royalty Trust will automatically revert to the Company, and the remaining 50% will be sold with the proceeds distributed to the Royalty Trust unitholders.

The Royalty Trusts make quarterly cash distributions to unitholders based on calculated distributable income. In order to provide support for cash distributions on the common units, the Company agreed to subordinate a portion of the units it owns in each Royalty Trust (the "subordinated units"), which constitute 25% of the total outstanding units of each Royalty Trust. The subordinated units are entitled to receive pro rata distributions from the Royalty Trusts each quarter if and to the extent there is sufficient cash to provide a cash distribution on the common units that is no less than the applicable quarterly subordination threshold. If there is not sufficient cash to fund such a distribution on all common units, the distribution to be made with respect to the subordinated units will be reduced or eliminated for such quarter in order to make a distribution, to the extent possible, of up to the subordination threshold amount on all common units, including common units held by the Company. In exchange for agreeing to subordinate a portion of its Royalty Trust units, SandRidge is entitled to receive incentive distributions equal to 50% of the amount by which the cash available for distribution on all of the Royalty Trust units exceeds the applicable quarterly incentive threshold.

The Royalty Trusts declared and paid quarterly distributions during the three-month periods ended March 31, 2014 and 2013 as follows (in thousands):

	Three Months Ended March 31,	
	2014(1)	2013
Total distributions	$68,313	$76,361
Distributions to third-party unitholders	$53,118	$51,256

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(1) Subordination thresholds were not met for the Mississippian Trust I's and Mississippian Trust II's distributions, resulting in reduced distributions to the Company on its subordinated units for this period.

See Note 18 for discussion of the Royalty Trusts' distributions announced in April 2014.

Pursuant to the trust agreements governing the Royalty Trusts, SandRidge has a loan commitment to each Royalty Trust, whereby SandRidge will loan funds to the Royalty Trust on an unsecured basis, with terms substantially the same as would be obtained in an arm's length transaction between SandRidge and an unaffiliated party, if at any time the Royalty Trust's cash is not sufficient to pay ordinary course administrative expenses as they become due. Any funds loaned may not be used to satisfy indebtedness of the Royalty Trust or to make distributions. There were no amounts outstanding under the loan commitments at March 31, 2014 or December 31, 2013.

The Company and one of its wholly owned subsidiaries entered into a development agreement with each Royalty Trust that obligates the Company to drill, or cause to be drilled, a specified number of wells within respective areas of mutual interest, which are also subject to the royalty interests granted to the Mississippian Trust I, the Permian Trust and the Mississippian Trust II, by December 31, 2015, March 31, 2016 and December 31, 2016, respectively. At the end of the fourth full calendar quarter following satisfaction of the Company's drilling obligation (the "subordination period"), the subordinated units of each Royalty Trust will automatically convert into common units on a one-for-one basis and the Company's right to receive incentive distributions will terminate. One of the Company's wholly owned subsidiaries also granted to each Royalty Trust a lien on the Company's interests in the properties where the development wells will be drilled in order to secure the estimated amount of drilling costs for the Royalty Trust's interests in the wells. As the Company fulfills its drilling obligation to each Royalty Trust, development wells that have been drilled and perforated for completion are released from the lien and the total amount that may be recovered by each Royalty Trust is proportionately reduced. In the second quarter of 2013, the Company fulfilled its drilling obligation to the Mississippian Trust I. As of March 31, 2014, the total maximum amount recoverable by the Permian Trust and the Mississippian Trust II under the remaining liens was approximately $85.0 million.

Additionally, the Company and each Royalty Trust entered into an administrative services agreement, pursuant to which the Company provides certain administrative services to the Royalty Trust, including hedge management services to the Permian Trust and the Mississippian Trust II. The Company also entered into derivatives agreements with each Royalty Trust, pursuant to which the Company provides to the Royalty Trust the economic effects of certain of the Company's derivative contracts. Substantially concurrent with the execution of the derivatives agreements with the Permian Trust and the Mississippian Trust II, the Company novated certain of the derivative contracts underlying the respective derivatives agreements to the Permian Trust and the Mississippian Trust II. The Company novated certain additional derivative contracts underlying the derivatives agreements to the Permian Trust in April 2012 and to the Permian Trust and the Mississippian Trust II in March 2013. The tables below present the open oil and natural gas commodity derivative contracts at March 31, 2014 underlying the derivatives agreements. The combined volume in the tables below reflects the total volume of the Royalty Trusts' open oil and natural gas commodity derivative contracts.

Oil Price Swaps Underlying the Royalty Trust Derivatives Agreements

	Notional (MBbls)	Weighted Average Fixed Price
April 2014 - December 2014	1,426	$100.70
January 2015 - December 2015	630	$101.03

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Natural Gas Collars Underlying the Royalty Trust Derivatives Agreements

	Notional (MMcf)	Collar Range
April 2014 - December 2014	706	$4.00 — $7.78
January 2015 - December 2015	1,010	$4.00 — $8.55

Oil Price Swaps Underlying the Derivatives Agreements and Novated to the Royalty Trusts

	Notional (MBbls)	Weighted Average Fixed Price
April 2014 - December 2014	722	$100.78
January 2015 - March 2015	141	$100.90

See Note 8 for further discussion of the derivatives agreement between the Company and each Royalty Trust.

The Royalty Trusts are considered VIEs due to the lack of voting or similar decision-making rights of the Royalty Trusts' equity holders regarding activities that have a significant effect on the economic success of the Royalty Trusts. The Company has determined it is the primary beneficiary of the Royalty Trusts as it has (a) the power to direct the activities that most significantly impact the economic performance of the Royalty Trusts through (i) its participation in the creation and structure of the Royalty Trusts, (ii) the manner in which it fulfills its drilling obligations to the Royalty Trusts and (iii) its operation of a majority of the oil and natural gas properties that are subject to the conveyed royalty interests and marketing of the associated production and (b) the obligation to absorb losses and right to receive residual returns, through its variable interests in the Royalty Trusts, including ownership of common and subordinated units, that could potentially be significant to the Royalty Trusts. As a result, the Company began consolidating the activities of the Royalty Trusts into its results of operations upon conveyance of the royalty interests to each Royalty Trust. The common units of the Royalty Trusts owned by third parties are reflected as noncontrolling interest in the consolidated financial statements.

As noted above, the Company fulfilled its drilling obligation to the Mississippian Trust I in the second quarter of 2013. Accordingly, the Mississippian Trust I's subordinated units, all of which are held by SandRidge, will convert to common units at the end of the subordination period. After this conversion, the Company will continue to consolidate the activities of the Mississippian Trust I as its primary beneficiary due to the Company's continued (a) power to direct the activities that most significantly impact the economic performance of the Royalty Trust and (b) obligation to absorb losses and right to receive residual returns through its variable interests in the Royalty Trust, including ownership of common units, that could potentially be significant to the Mississippian Trust I.

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Each Royalty Trust's assets can be used to settle only that Royalty Trust's obligations and not other obligations of the Company or another Royalty Trust. The Royalty Trusts' creditors have no contractual recourse to the general credit of the Company. Although the Royalty Trusts are included in the Company's consolidated financial statements, the Company's legal interest in the Royalty Trusts' assets is limited to its ownership of the Royalty Trusts' units. At both March 31, 2014 and December 31, 2013, $1.3 billion of noncontrolling interest in the accompanying unaudited condensed consolidated balance sheets were attributable to the Royalty Trusts. The Royalty Trusts' assets and liabilities, after considering the effects of intercompany eliminations, included in the accompanying unaudited condensed consolidated balance sheets at March 31, 2014 and December 31, 2013 consisted of the following (in thousands):

	March 31, 2014	December 31, 2013
Cash and cash equivalents(1)	$7,241	$7,912
Accounts receivable, net	22,453	22,540
Derivative contracts	3,300	4,983
Total current assets	32,994	35,435
Investment in royalty interests(2)	1,325,942	1,325,942
Less: accumulated depletion and impairment(3)	(243,971)	(186,095)
	1,081,971	1,139,847
Derivative contracts	—	1,476
Total assets	$1,114,965	$1,176,758
Accounts payable and accrued expenses	$2,157	$3,393
Total liabilities	$2,157	$3,393

(1) Includes $3.0 million held by the trustee at March 31, 2014 and December 31, 2013 as reserves for future general and administrative expenses.

(2) Investment in royalty interests is included in oil and natural gas properties in the accompanying unaudited condensed consolidated balance sheets.

(3) Accumulated depletion and impairment at March 31, 2014 includes full cost ceiling limitation impairment allocated to the Royalty Trusts of $42.3 million. There was no full cost ceiling limitation impairment allocated to the Royalty Trusts as of December 31, 2013.

During the three-month period ended March 31, 2014, the Company sold Permian Trust common units it owned in a transaction exempt from registration pursuant to Rule 144 under the Securities Act, which further reduced its beneficial interest in the Permian Trust. Total proceeds from the transaction were $22.1 million for the three-month period ended March 31, 2014. The sale was accounted for as an equity transaction with no gain or loss recognized. The Company continues to be the primary beneficiary of the Permian Trust, after consideration of this transaction, as well as the primary beneficiary of the Mississippian Trust I and Mississippian Trust II and accordingly, continues to consolidate the activities of the Royalty Trusts. The Company's beneficial interests in the Royalty Trusts at March 31, 2014 and December 31, 2013 were as follows:

	March 31, 2014	December 31, 2013
Mississippian Trust I	26.9 %	26.9 %
Permian Trust	25.0 %	28.5 %
Mississippian Trust II	37.6 %	37.6 %

See Note 10 for discussion of the Company’s legal proceedings to which the Mississippian Trust I and Mississippian Trust II are also parties.

Grey Ranch Plant, L.P. Primarily engaged in treating and transportation of natural gas, Grey Ranch Plant, L.P. (“GRLP”) is a limited partnership that operated the Company’s Grey Ranch plant (the “Plant”) located in Pecos County, Texas. As of December 31, 2013, the Company owned a 50% interest in GRLP, which represented a variable interest. Income or loss of GRLP was allocated to the partners based on ownership percentage and any operating or cash shortfalls required contributions from the partners. The Company determined that GRLP qualified as a VIE because certain equity holders lacked the ability to participate in decisions impacting GRLP. Agreements related to the ownership and operation of GRLP provided for GRLP to pay management fees to the

Company to operate the Plant and lease payments for the Plant. Under the operating agreements, lease payments were reduced if throughput volumes were below those expected. The Company determined that it was the primary beneficiary of GRLP as it had both (i) the power, as operator of the Plant, to direct the activities of GRLP that most significantly impact its economic performance and (ii) the obligation to absorb losses, as a result of the operating and gathering agreements, that could potentially be significant to GRLP and, therefore, consolidated the activity of GRLP in its consolidated financial statements. The 50% ownership interest not held by the Company as of December 31, 2013 is presented as noncontrolling interest in the accompanying unaudited condensed consolidated financial statements. In March 2014, one of the Company’s wholly owned subsidiaries acquired from a third party the remaining 50% ownership interest of GRLP. Because the Company was the primary beneficiary and consolidated GRLP, the acquisition of additional ownership interest was recorded as an equity transaction with no gain or loss recognized. Additionally, as a wholly owned subsidiary of the Company, GRLP is no longer considered a VIE for reporting purposes.

Prior to the Company’s acquisition of the remaining ownership of GRLP in March 2014, GRLP’s assets could only be used to settle its own obligations and not other obligations of the Company and GRLP’s creditors had no recourse to the general credit of the Company. At December 31, 2013, $0.7 million of noncontrolling interest in the accompanying unaudited condensed consolidated balance sheet was related to GRLP. GRLP’s assets and liabilities, after considering the effects of intercompany eliminations, included in the accompanying unaudited condensed consolidated balance sheet at December 31, 2013 consisted of the following (in thousands):

	December 31, 2013
Cash and cash equivalents	$132
Accounts receivable, net	16
Prepaid expenses	32
Other current assets	109
Total current assets	289
Other property, plant and equipment, net	1,163
Total assets	$1,452
Accounts payable and accrued expenses	$129
Total liabilities	$129

Grey Ranch Plant Genpar, LLC. As of December 31, 2013, the Company owned a 50% interest in Grey Ranch Plant Genpar, LLC ("Genpar"), the managing partner and 1% owner of GRLP. The Company served as Genpar's administrative manager. Genpar's ownership interest in GRLP was its only asset. As managing partner of GRLP, Genpar had the sole right to manage, control and conduct the business of GRLP. However, Genpar was restricted from making certain major decisions, including the decision to remove the Company as operator of the Plant. The rights afforded the Company under the Plant operating agreement and the restrictions on Genpar limited Genpar's ability to make decisions on behalf of GRLP. Therefore, Genpar was considered a VIE. Although both the Company and Genpar's other equity owner shared equally in Genpar's economic losses and benefits and also had agreements that may be considered variable interests, the Company determined it was the primary beneficiary of Genpar due to (i) its ability, as administrative manager and operator of the Plant, to direct the activities of Genpar that most significantly impact its economic performance and (ii) its obligation or right, as operator of the Plant, to absorb the losses of or receive benefits from Genpar that could potentially be significant to Genpar. As the primary beneficiary, the Company consolidated Genpar's activity. However, its sole asset, the investment in GRLP, was eliminated in consolidation. Genpar had no liabilities. In March 2014, one of the Company's wholly owned subsidiaries acquired from a third party the remaining 50% ownership interest of Genpar. Because the Company was the primary beneficiary and consolidated Genpar, the acquisition of additional ownership interest was recorded as an equity transaction with no gain or loss recognized. Additionally, as a wholly owned subsidiary of the Company, Genpar is no longer considered a VIE for reporting purposes.

Piñon Gathering Company, LLC. The Company has a gas gathering and operations and maintenance agreement with Piñon Gathering Company, LLC ("PGC") through June 30, 2029. Under the gas gathering agreement, the Company is required to compensate PGC for any throughput shortfalls below a required minimum volume. By guaranteeing a minimum throughput, the Company absorbs the risk that lower than projected volumes will be gathered by the gathering system. Therefore, PGC is a VIE. Other than as required under the gas gathering and operations and maintenance agreements, the Company has not provided any support to PGC. While the Company operates the assets of PGC as directed under the operations and management agreement, the member and managers of PGC have the authority to directly control PGC and make substantive decisions regarding PGC's activities including terminating the Company as operator without cause. As the Company does not have the ability to control the activities of PGC that most significantly impact PGC's economic performance, the Company is not the primary beneficiary of PGC and does not consolidate the results of PGC's activities into the its financial statements.

Amounts due from and due to PGC as of March 31, 2014 and December 31, 2013 included in the accompanying unaudited condensed consolidated balance sheets are as follows (in thousands):

	March 31, 2014	December 31, 2013
Accounts receivable due from PGC	$1,050	$741
Accounts payable due to PGC	$3,827	$3,634

4. 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 following levels of the fair value hierarchy:

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 as Level 1, Level 2 and Level 3 as of March 31, 2014 or December 31, 2013, as described below.

Level 1 Fair Value Measurements

Restricted deposits. The fair value of restricted deposits invested in mutual funds or municipal bonds is based on quoted market prices. For restricted deposits held in savings accounts, carrying value approximates fair value. Restricted deposits are included in other assets in the accompanying unaudited condensed consolidated balance sheet at December 31, 2013. There were no restricted deposits outstanding at March 31, 2014.

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 are included in other assets in the accompanying unaudited condensed consolidated balance sheets.

Level 2 Fair Value Measurements

Derivative contracts. The fair values of the Company's oil and natural gas fixed price swaps and collars 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 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.

Level 3 Fair Value Measurements

Guarantees. As discussed in Note 2, the Company has guaranteed on Fieldwood's behalf certain plugging and abandonment obligations associated with the Gulf Properties. The fair value of these guarantees is based on the present value of estimated future payments for plugging and abandonment obligations associated with the Gulf Properties, adjusted for the cumulative probability of Fieldwood's default prior to expiration of the guarantee by February 25, 2015 (3.71% at March 31, 2014). The discount and probability of default rates are based upon inputs that are readily available in the public market, such as historical option adjusted spreads of the Company's senior notes, which are publicly traded, and historical default rates of publicly traded companies with credit ratings similar to Fieldwood's. The significant unobservable input used in the fair value measurement of the guarantees is the estimate of future payments for plugging and abandonment, which was developed based upon third-party quotes and current actual costs. Significant increases (decreases) in the estimate of these payments could result in a significantly higher (lower) fair value measurement. The significant unobservable input used in the fair value measurement of the Company's financial guarantee liability at March 31, 2014 is included in the table below (in thousands).

Unobservable Input	
Estimated future payments for plugging and abandonment	$426,661

Derivative contracts. The fair value of the Company's oil basis swaps outstanding during the three-month period ended March 31, 2013 was based upon quotes obtained from counterparties to the derivative contracts. These values were reviewed internally for reasonableness through the use of a discounted cash flow model using non-exchange traded regional pricing information. Additionally, the Company applied a weighted average credit default risk rating factor for its counterparties or gave effect to its credit risk, as applicable, in determining the fair value of these derivative contracts. The significant unobservable input used in the fair value measurement of the Company's oil basis swaps is the estimate of future oil basis differentials. Significant increases (decreases) in oil basis differentials could result in a significantly higher (lower) fair value measurement. All of the oil basis swaps outstanding during the three-month period ended March 31, 2013 contractually matured during 2013.

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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):

March 31, 2014

	Fair Value Measurements Level 1	Level 2	Level 3	Netting(1)	Assets/Liabilities at Fair Value
Assets					
Commodity derivative contracts	$—	$30,803	$—	$(3,753)	$ 27,050
Investments	12,030	—	—	—	12,030
	$12,030	$30,803	$—	$(3,753)	$ 39,080
Liabilities					
Guarantees	$—	$—	$9,480	$—	$ 9,480
Commodity derivative contracts	—	17,928	—	(3,753)	14,175
	$—	$17,928	$9,480	$(3,753)	$ 23,655

December 31, 2013

	Fair Value Measurements Level 1	Level 2	Level 3	Netting(1)	Assets/Liabilities at Fair Value
Assets					
Restricted deposits	$27,955	$—	$—	$—	$ 27,955
Commodity derivative contracts	—	50,274	—	(23,369)	26,905
Investments	13,708	—	—	—	13,708
	$41,663	$50,274	$—	$(23,369)	$ 68,568
Liabilities					
Commodity derivative contracts	$—	$78,200	$—	$(23,369)	$ 54,831
	$—	$78,200	$—	$(23,369)	$ 54,831

(1)Represents the impact of netting assets and liabilities with counterparties with which the right of offset exists.

The tables below set forth a reconciliation of the Company's Level 3 fair value measurements during the three-month periods ended March 31, 2014 and 2013 (in thousands):

Level 3 Fair Value Measurements - Guarantees	Three Months Ended March 31, 2014
Beginning balance	$—
Issuances(1)	9,446
Loss on guarantees	34
Ending balance	$9,480

(1) Represents the fair value of the guarantees of certain plugging and abandonment obligations on behalf of Fieldwood as of February 25, 2014, the closing date for the sale of the Gulf Properties.

Quarterly, the fair value of the guarantees will be determined with changes in fair value recorded as an adjustment to the full cost pool. See Note 2 for discussion of the sale of the Gulf Properties. The fair value of the guarantees as of March 31, 2014 is included in other current liabilities in the accompanying unaudited condensed consolidated balance sheet.

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Level 3 Fair Value Measurements - Commodity Derivative Contracts	Three Months Ended March 31, 2013
Beginning balance	$(512)
Loss on derivative contracts	(873)
Settlements paid	1,174
Ending balance	$(211)

Losses due to changes in fair value of the Company's Level 3 commodity derivative contracts outstanding at March 31, 2013 were $0.9 million for the three-month period ended March 31, 2013 and are included in loss on derivative contracts in the accompanying unaudited condensed consolidated statements of operations. There were no outstanding Level 3 commodity derivative contracts at March 31, 2014.

See Note 8 for further discussion of the Company's derivative contracts.

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. During the three-month periods ended March 31, 2014 and 2013, the Company did not have any transfers between Level 1, Level 2 or Level 3 fair value measurements.

Fair Value of Financial Instruments

The Company measures the fair value of its senior notes using pricing for the senior notes that is readily available in the public market. The Company classifies these inputs as Level 2 in the fair value hierarchy. The estimated fair values and carrying values of the Company's senior notes at March 31, 2014 and December 31, 2013 were as follows (in thousands):

	March 31, 2014		December 31, 2013	
	Fair Value	Carrying Value	Fair Value	Carrying Value
8.75% Senior Notes due 2020(1)	$484,875	$444,899	$486,000	$444,736
7.5% Senior Notes due 2021(2)	1,251,375	1,178,816	1,230,813	1,178,922
8.125% Senior Notes due 2022	815,625	750,000	795,000	750,000
7.5% Senior Notes due 2023(3)	878,625	821,321	837,375	821,249

(1)Carrying value is net of $5,101 and $5,264 discount at March 31, 2014 and December 31, 2013, respectively.
(2)Carrying value includes a premium, applicable to notes issued in August 2012, of $3,816 and $3,922 at March 31, 2014 and December 31, 2013, respectively.
(3)Carrying value is net of $3,679 and $3,751 discount at March 31, 2014 and December 31, 2013, respectively.

See Note 7 for discussion of the Company's long-term debt.

5. Property, Plant and Equipment

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

	March 31, 2014	December 31, 2013
Oil and natural gas properties		
Proved(1)	$10,443,534	$10,972,816
Unproved	292,459	531,606
Total oil and natural gas properties	10,735,993	11,504,422
Less accumulated depreciation, depletion and impairment	(6,043,109)	(5,762,969)
Net oil and natural gas properties capitalized costs	4,692,884	5,741,453
Land	18,404	18,423
Non-oil and natural gas equipment(2)	602,706	600,603
Buildings and structures(3)	237,578	233,405
Total	858,688	852,431
Less accumulated depreciation and amortization	(299,346)	(286,209)
Other property, plant and equipment, net	559,342	566,222
Total property, plant and equipment, net	$5,252,226	$6,307,675

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(1) Includes cumulative capitalized interest of approximately $25.9 million and $23.4 million at March 31, 2014 and December 31, 2013, respectively.

(2) Includes cumulative capitalized interest of approximately $4.3 million at both March 31, 2014 and December 31, 2013.

(3) Includes cumulative capitalized interest of approximately $13.4 million and $12.0 million at March 31, 2014 and December 31, 2013, respectively.

Accumulated depreciation, depletion and impairment on oil and natural gas properties includes cumulative full cost ceiling limitation impairment of $3.7 billion and $3.5 billion at March 31, 2014 and December 31, 2013, respectively. During the three-month period ended March 31, 2014, the Company reduced the net carrying value of its oil and natural gas properties by $164.8 million as a result of its quarterly full cost ceiling analysis.

Drilling Carry Commitments

The Company has agreements with two partners, which contain drilling carry commitments to fund a portion of its future drilling and completion costs within areas of mutual interest. The Company recorded approximately $72.3 million for Repsol E&P USA, Inc.'s ("Repsol") drilling carry during the three-month period ended March 31, 2014, and a combined $123.3 million for both Atinum MidCon I, LLC's and Repsol's drilling carries during the three-month periods ended March 31, 2013, which reduced the Company's capital expenditures for the respective periods. Atinum MidCon I, LLC fully funded its drilling carry commitment in the third quarter of 2013. Under the agreement with Repsol, the remaining drilling carry commitment may be reduced if a certain number of wells are not drilled within the area of mutual interest during a 12-month period. However, the Company expects Repsol to fully fund its drilling carry commitment during 2014.

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6. Other Assets

Other assets consist of the following (in thousands):

	March 31, 2014	December 31, 2013
Debt issuance costs, net of amortization	$59,562	$61,923
Investments	12,030	13,708
Deferred tax asset	6,987	—
Restricted deposits(1)	—	27,955
Notes receivable on asset retirement obligations(1)	—	11,640
Other	3,459	5,945
Total other assets	$82,038	$121,171

(1) Assets reflected at December 31, 2013 were included in the sale of the Gulf Properties in February 2014, as discussed in Note 2.

7. Long-Term Debt

Long-term debt consists of the following (in thousands):

	March 31, 2014	December 31, 2013
Senior credit facility	$—	$—
Senior notes		
8.75% Senior Notes due 2020, net of $5,101 and $5,264 discount, respectively	444,899	444,736
7.5% Senior Notes due 2021, including premium of $3,816 and $3,922, respectively	1,178,816	1,178,922
8.125% Senior Notes due 2022	750,000	750,000
7.5% Senior Notes due 2023, net of $3,679 and $3,751 discount, respectively	821,321	821,249
Total debt	3,195,036	3,194,907
Less: current maturities of long-term debt	—	—
Long-term debt	$3,195,036	$3,194,907

Senior Credit Facility

The senior secured revolving credit facility (the “senior credit facility”) is available to be drawn on subject to limitations based on its terms and certain financial covenants, as described below. As of March 31, 2014, the senior credit facility contained financial covenants, including maintenance of agreed upon levels for the (i) ratio of total net debt to EBITDA, which may not exceed 4.5:1.0 at each quarter end, calculated using the last four completed fiscal quarters and (ii) ratio of current assets to current liabilities, which must be at least 1.0:1.0 at each quarter end. If no amounts are drawn under the senior credit facility when calculating the ratio of total net debt to EBITDA, the Company’s debt is reduced by its cash balance in excess of $10.0 million. In the current ratio calculation, any amounts available to be drawn under the senior credit facility are included in current assets, and unrealized assets and liabilities resulting from mark-to-market adjustments on the Company’s derivative contracts are disregarded. The senior credit facility matures in March 2017.

The senior credit facility also contains various covenants that limit the ability of the Company and certain of its subsidiaries 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 ability of the Company and certain of its subsidiaries to incur additional indebtedness with certain exceptions. As of and during the three-month period ended March 31, 2014, the Company was in compliance with all applicable financial covenants under the senior credit facility.

The obligations under the senior credit facility are guaranteed by certain Company subsidiaries and are secured by first priority liens on all shares of capital stock of certain of the Company’s material present and future subsidiaries, certain intercompany debt of the Company, and substantially all of the Company’s assets, including proved oil, natural gas and NGL reserves representing at least 80.0% of the discounted present value (as defined in the senior credit facility) of proved oil, natural gas and NGL reserves considered by the lenders in determining the borrowing base for the senior credit facility.

At the Company’s election, interest under the senior credit facility is determined by reference to (a) the London Interbank Offered Rate (“LIBOR”) plus an applicable margin between 1.75% and 2.75% per annum or (b) the “base rate,” which is the highest of (i) the federal funds rate plus 0.5%, (ii) the prime rate published by Bank of America or (iii) the Eurodollar rate (as defined in the senior credit facility) plus 1.00% per annum, plus, in each case under scenario (b), an applicable margin between 0.75% and 1.75% per annum. Interest is payable quarterly for base 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 is paid at the end of each three-month period. Quarterly, the Company pays a commitment fee assessed at an annual rate of 0.5% on any available portion of the senior credit facility.

Borrowings under the senior credit facility may not exceed the lower of the borrowing base or the committed amount. The Company’s borrowing base was $775.0 million as of March 31, 2014 and was reaffirmed for the same amount at the April 2014 redetermination. With respect to each redetermination, the administrative agent and the lenders under the senior credit facility consider several factors, including the Company’s proved reserves and projected cash requirements, and make assumptions regarding, among other things, oil and natural gas prices and production. Because the value of the Company’s proved reserves is a key factor in determining the amount of the borrowing base, changing commodity prices and the Company’s success in developing reserves may affect the borrowing base. The Company at times incurs additional costs related to the senior credit facility as a result of amendments to the credit agreement and changes to the borrowing base.

At March 31, 2014, the Company had no amount outstanding under the senior credit facility and $29.3 million in outstanding letters of credit, which reduce the availability under the senior credit facility on a dollar-for-dollar basis.

Senior Fixed Rate Notes

The Company’s unsecured senior fixed rate notes (“Senior Fixed Rate Notes”) bear interest at a fixed rate per annum, payable semi-annually, with the principal due upon maturity. Certain of the Senior Fixed Rate Notes were issued at a discount or a premium. The discount or premium is amortized to interest expense over the term of the respective series of Senior Fixed Rate Notes. The Senior Fixed Rate Notes are redeemable, in whole or in part, prior to their maturity at specified redemption prices and are jointly and severally guaranteed unconditionally, in full, on an unsecured basis by certain of the Company’s wholly owned subsidiaries. See Note 17 for condensed financial information of the subsidiary guarantors.

Debt issuance costs of $70.2 million incurred in connection with the offerings and subsequent registered exchange offers of the Senior Fixed Rate Notes outstanding at March 31, 2014 are included in other assets in the accompanying unaudited condensed consolidated balance sheet and are being amortized to interest expense over the term of the respective series of Senior Fixed Rate Notes.

2013 Activity. In March 2013, the Company redeemed the outstanding $365.5 million aggregate principal amount of its 9.875% Senior Notes due 2016 and $750.0 million aggregate principal amount of its 8.0% Senior Notes due 2018 for total consideration of $1,061.34 per $1,000 principal amount and $1,052.77 per $1,000 principal amount, respectively. The premium paid to redeem these notes and the expense incurred to write off the remaining associated unamortized debt issuance costs, totaling $82.0 million, were recorded as a loss on extinguishment of debt in the accompanying unaudited condensed consolidated statement of operations for the three-month period ended March 31, 2013.

Indentures. Each of the indentures governing the Company’s Senior Fixed Rate Notes contains covenants that restrict the Company’s ability to take a variety of actions, including limitations on the incurrence of indebtedness, payment of dividends, investments, asset sales, certain asset purchases, transactions with related parties and consolidations or mergers. As of and during the three-month period ended March 31, 2014, the Company was in compliance with all of the covenants contained in the indentures governing its outstanding Senior Fixed Rate Notes.

8. Derivatives

The Company has not designated any of its derivative contracts as hedges for accounting purposes. The Company records all derivative contracts at fair value. Changes in derivative contract fair values are recognized in earnings. Cash settlements and valuation gains and losses are included in loss on derivative contracts for commodity derivative contracts and in interest expense for interest rate swaps in the consolidated statement of operations. Commodity derivative contracts are settled on a monthly or quarterly basis. Derivative assets and liabilities arising from the Company's derivative contracts with the same counterparty that provide for net settlement are reported on a net basis in the consolidated balance sheets.

Commodity Derivatives. The Company is exposed to commodity price risk, which impacts the predictability of its cash flows from the sale of oil and natural gas. The Company seeks to manage this risk through the use of commodity derivative contracts. These derivative contracts allow the Company to limit its exposure to commodity price volatility on a portion of its forecasted oil and natural gas sales. None of the Company's derivative contracts may be terminated prior to contractual maturity solely as a result of a downgrade in the credit rating of a party to the contract. At March 31, 2014, the Company's commodity derivative contracts consisted of fixed price swaps and collars, which are described below:

Fixed price swaps	The Company receives a fixed price for the contract and pays a floating market price to the counterparty over a specified period for a contracted volume.
Collars	Two-way collars contain a fixed floor price (put) and a fixed ceiling price (call). If the market price exceeds the call strike price or falls below the put strike price, the Company receives the fixed price and pays the market price. If the market price is between the call and the put strike price, no payments are due from either party. Three-way collars have two fixed floor prices (a purchased put and a sold put) and a fixed ceiling price (call). The purchased put establishes a minimum price unless the market price falls below the sold put, at which point the minimum price would be New York Mercantile Exchange ("NYMEX") plus the difference between the purchased put and the sold put strike price. The call establishes a maximum price (ceiling) the Company will receive for the volumes under the contract.

Interest Rate Swaps. The Company is exposed to interest rate risk on its long-term fixed rate debt and will be exposed to variable interest rates if it draws on its senior credit facility. Fixed rate debt, where the interest rate is fixed over the life of the instrument, exposes the Company to (i) changes in market interest rates reflected in the fair value of the debt and (ii) the risk that the Company may need to refinance maturing debt with new debt at a higher rate. Variable rate debt, where the interest rate fluctuates, exposes the Company to short-term changes in market interest rates as the Company's interest obligations on these instruments are periodically redetermined based on prevailing market interest rates, primarily LIBOR and the federal funds rate.

Prior to its maturity on April 1, 2013, the Company had a $350.0 million notional interest rate swap agreement which effectively fixed the variable interest rate on the Senior Floating Rate Notes due 2014 ("Senior Floating Rate Notes") at an annual rate of 6.69% for periods prior to their repurchase and redemption in the third quarter of 2012. The interest rate swap was not designated as a hedge.

Derivatives Agreements with Royalty Trusts. The Company is party to derivatives agreements with the Mississippian Trust I, Permian Trust and Mississippian Trust II, respectively, that provide each Royalty Trust with the economic effect of certain oil and natural gas derivative contracts entered into by the Company with third parties. The underlying commodity derivative contracts cover volumes of oil and natural gas production through December 31, 2015, March 31, 2015 and December 31, 2014 for the Mississippian Trust I, Permian Trust and Mississippian Trust II, respectively. Under these arrangements, the Company pays the Royalty Trusts amounts it receives from its counterparties in accordance with the underlying contracts, and the Royalty Trusts pay the Company any amounts that the Company is required to pay its counterparties under such contracts.

In accordance with the terms of the respective derivatives agreements, the Company has novated certain of the derivative contracts underlying the derivatives agreements to each of the Permian Trust and the Mississippian Trust II. As a party to these contracts, the Permian Trust and the Mississippian Trust II receive payment directly from the counterparty and pay any amounts owed directly to the counterparty. To secure its obligations under the respective derivative contracts novated to it, each of the Permian Trust and the Mississippian Trust II granted the counterparties liens on the royalty interests held by each respective Royalty Trust. Under the derivatives agreements, as additional development wells are drilled for the benefit of the Permian Trust and the Mississippian Trust II, the Company has the right, under certain circumstances, to assign or novate to the Permian Trust and the Mississippian Trust II additional derivative contracts.

All contracts underlying the derivatives agreements with the Royalty Trusts, including those novated to the Permian Trust and the Mississippian Trust II, have been included in the Company's consolidated derivative disclosures. See Note 3 for the Royalty Trusts' open derivative contracts.

Fair Value of Derivatives. The following table presents the fair value of the Company’s derivative contracts as of March 31, 2014 and December 31, 2013 on a gross basis without regard to same-counterparty netting (in thousands):

Type of Contract	Balance Sheet Classification	March 31, 2014	December 31, 2013
Derivative assets			
Oil price swaps	Derivative contracts-current	$9,952	$15,887
Natural gas price swaps	Derivative contracts-current	1,090	1,598
Oil collars - three way	Derivative contracts-current	1,605	706
Natural gas collars	Derivative contracts-current	108	177
Oil price swaps	Derivative contracts-noncurrent	8,534	19,376
Natural gas price swaps	Derivative contracts-noncurrent	791	—
Oil collars - three way	Derivative contracts-noncurrent	8,466	12,189
Natural gas collars	Derivative contracts-noncurrent	257	341
Derivative liabilities			
Oil price swaps	Derivative contracts-current	(3,181)	(38,396)
Natural gas price swaps	Derivative contracts-current	(7,634)	(1,460)
Oil collars - three way	Derivative contracts-current	(7,113)	—
Oil price swaps	Derivative contracts-noncurrent	—	(38,344)
Total net derivative contracts		$12,875	$(27,926)

See Note 4 for additional discussion of the fair value measurement of the Company’s derivative contracts.

Master Netting Agreements and the Right of Offset. The Company has master netting agreements with all of its derivative counterparties and has presented its derivative assets and liabilities with the same counterparty on a net basis in the consolidated balance sheets. As a result of the netting provisions, the Company's maximum amount of loss under derivative transactions due to credit risk is limited to the net amounts due from its counterparties. As of March 31, 2014, the counterparties to the Company’s open derivative contracts consisted of 11 financial institutions, 10 of which are also lenders under the Company’s senior credit facility. The Company is not required to post additional collateral under its derivative contracts as the majority of the counterparties to the Company’s derivative contracts share in the collateral supporting the Company’s senior credit facility. To secure their obligations under the derivative contracts novated by the Company, the Permian Trust and the Mississippian Trust II have each given the counterparties to such contracts a lien on its royalty interests. The following tables summarize (i) the Company's derivative contracts on a gross basis, (ii) the effects of netting assets and liabilities for which the right of offset exists based on master netting arrangements and (iii) for the Company’s net derivative liability positions, the applicable portion of shared collateral under the senior credit facility (for SandRidge's derivative contracts) and under liens granted on royalty interests (for the Permian Trust’s and the Mississippian Trust II’s novated derivative contracts) (in thousands):

March 31, 2014

	Gross Amounts	Gross Amounts Offset	Amounts Net of Offset	Financial Collateral	Net Amount
Assets					
Derivative contracts - current	$12,755	$(3,753)	$9,002	$—	$9,002
Derivative contracts - noncurrent	18,048	—	18,048	—	18,048

Total	$30,803	$(3,753)	$27,050	$—	$27,050
Liabilities					
Derivative contracts - current	$17,928	$(3,753)	$14,175	$(14,175)	$—
Total	$17,928	$(3,753)	$14,175	$(14,175)	$—

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(Unaudited)

December 31, 2013

	Gross Amounts	Gross Amounts Offset	Amounts Net of Offset	Financial Collateral	Net Amount
Assets					
Derivative contracts - current	$18,368	$(5,589)	$12,779	$—	$12,779
Derivative contracts - noncurrent	31,906	(17,780)	14,126	—	14,126
Total	$50,274	$(23,369)	$26,905	$—	$26,905
Liabilities					
Derivative contracts - current	$39,856	$(5,589)	$34,267	$(34,267)	$—
Derivative contracts - noncurrent	38,344	(17,780)	20,564	(20,564)	—
Total	$78,200	$(23,369)	$54,831	$(54,831)	$—

The Company recorded a loss on commodity derivative contracts of $42.5 million and $40.9 million for the three-month periods ended March 31, 2014, and 2013, respectively, as reflected in the accompanying unaudited condensed consolidated statements of operations, which includes net cash payments upon settlement of $23.4 million and $16.1 million, respectively. For the three-month periods ended March 31, 2014 and 2013, $69.6 million of the cash payments related to settlements of commodity derivative contracts with contractual maturities after the period in which they were settled (“early settlements”) as a result of the sale of the Gulf Properties and $29.6 million of the cash payments related to early settlements of commodity derivative contracts as a result of the sale of the Permian Properties, respectively.

At March 31, 2014, the Company’s open commodity derivative contracts consisted of the following:

Oil Price Swaps

	Notional (MBbls)	Weighted Average Fixed Price
April 2014 - December 2014	2,936	$99.45
January 2015 - December 2015	5,314	$92.55

Natural Gas Price Swaps

	Notional (MMcf)	Weighted Average Fixed Price
April 2014 - December 2014	38,490	$4.27
January 2015 - December 2015	15,400	$4.50

Oil Collars - Three-way

	Notional (MBbls)	Sold Put	Purchased Put	Sold Call
April 2014 - December 2014	6,066	$70.00	$90.21	$100.00
January 2015 - December 2015	2,920	$73.13	$90.82	$103.13

Natural Gas Collars

Collar Range

	Notional (MMcf)		
April 2014 - December 2014	706	$4.00	— $7.78
January 2015 - December 2015	1,010	$4.00	— $8.55

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9. Asset Retirement Obligations

A reconciliation of the beginning and ending aggregate carrying amounts of the asset retirement obligations for the period from December 31, 2013 to March 31, 2014 is as follows (in thousands):

Asset retirement obligations at December 31, 2013	$424,117
Liability incurred upon acquiring and drilling wells	818
Liability settled or disposed in current period(1)	(377,578)
Accretion	5,746
Asset retirement obligations at March 31, 2014	53,103
Less: current portion	—
Asset retirement obligations, net of current	$53,103

(1) Includes $366.0 million associated with the Gulf Properties sold in February 2014.

10. Commitments and Contingencies

Legal Proceedings

On April 5, 2011, Wesley West Minerals, Ltd. and Longfellow Ranch Partners, LP filed suit against the Company and SandRidge Exploration and Production, LLC (collectively, the "SandRidge Entities") in the 83rd District Court of Pecos County, Texas. The plaintiffs, who have leased mineral rights to the SandRidge Entities in Pecos County, allege that the SandRidge Entities have not properly paid royalties on all volumes of natural gas and CO_2 produced from the acreage leased from the plaintiffs. The plaintiffs also allege that the SandRidge Entities have inappropriately failed to pay royalties on CO_2 produced from the plaintiffs' acreage that results from the treatment of natural gas at the Century Plant. The plaintiffs seek approximately $45.5 million in actual damages for the period of time between January 2004 and December 2011, punitive damages and a declaration that the SandRidge Entities must pay royalties on CO_2 produced from the plaintiffs' acreage that results from treatment of natural gas at the Century Plant. The Commissioner of the General Land Office of the State of Texas ("GLO") is named as an additional defendant in the lawsuit as some of the affected oil and natural gas leases described in the plaintiffs' allegations cover mineral classified lands in which the GLO is entitled to one-half of the royalties attributable to such leases. The GLO has filed a cross-claim against the SandRidge Entities asserting the same claims as the plaintiffs with respect to the leases covering mineral classified lands and seeking approximately $13.0 million in actual damages, inclusive of penalties and interest. On February 5, 2013, the Company received a favorable summary judgment ruling that effectively removes a majority of the plaintiffs' and GLO's claims. On April 29, 2013, the court entered an order allowing for an interlocutory appeal of its summary judgment ruling. The Company intends to continue to defend the remaining issues in this lawsuit as well as any appellate proceedings. At the time of the ruling on summary judgment, the lawsuit was still in the discovery stage and, accordingly, an estimate of reasonably possible losses associated with the remaining causes of action, if any, cannot be made until all of the facts, circumstances and legal theories relating to such claims and the SandRidge Entities' defenses are fully disclosed and analyzed. The Company has not established any reserves relating to this action.

On August 4, 2011, Patriot Exploration, LLC, Jonathan Feldman, Redwing Drilling Partners, Mapleleaf Drilling Partners, Avalanche Drilling Partners, Penguin Drilling Partners and Gramax Insurance Company Ltd. filed a lawsuit against the Company, SandRidge Exploration and Production, LLC ("SandRidge E&P") and certain current and former directors and senior executive officers of the Company (collectively, the “defendants”) in the U.S. District Court for the District of Connecticut. On October 28, 2011, the plaintiffs filed an amended complaint alleging substantially the same allegations as those contained in the original complaint. The plaintiffs allege that the defendants made false and misleading statements to U.S. Drilling Capital Management LLC and to the plaintiffs prior to the entry into a participation agreement among Patriot Exploration, LLC, U.S. Drilling Capital Management LLC and SandRidge E&P, which provided for the investment by the plaintiffs in certain of SandRidge E&P's oil and natural gas properties. To date, the plaintiffs have invested approximately $16.0 million under the participation agreement. The plaintiffs seek compensatory and punitive damages and rescission of the participation agreement. On November 28, 2011, the defendants filed a motion to dismiss the amended complaint. On June 29, 2013, the court granted in part and denied in part the defendants’ motion. The Company and the other defendants intend to defend this lawsuit vigorously and believe the plaintiffs' claims are without merit. This lawsuit is in the early stages and, accordingly, an estimate of reasonably possible losses associated with this action, if any, cannot be made until the facts, circumstances and legal theories relating to the plaintiffs' claims and the defendants’ defenses are fully disclosed and analyzed. The Company has not established any reserves relating to this action.

Between December 2012 and March 2013, seven putative shareholder derivative actions were filed in state and federal court in Oklahoma:

- Arthur I. Levine v. Tom L. Ward, et al., and SandRidge Energy, Inc., Nominal Defendant - filed on December 19, 2012 in the U.S. District Court for the Western District of Oklahoma
- Deborah Depuy v. Tom L. Ward, et al., and SandRidge Energy, Inc., Nominal Defendant - filed on January 22, 2013 in the U.S. District Court for the Western District of Oklahoma
- Paul Elliot, on Behalf of the Paul Elliot IRA R/O, v. Tom L. Ward, et al., and SandRidge Energy, Inc., Nominal Defendant - filed on January 29, 2013 in the U.S. District Court for the Western District of Oklahoma
- Dale Hefner v. Tom L. Ward, et al., and SandRidge Energy, Inc., Nominal Defendant - filed on January 4, 2013 in the District Court of Oklahoma County, Oklahoma
- Rocky Romano v. Tom L. Ward, et al., and SandRidge Energy, Inc., Nominal Defendant - filed on January 22, 2013 in the District Court of Oklahoma County, Oklahoma
- Joan Brothers v. Tom L. Ward, et al., and SandRidge Energy, Inc., Nominal Defendant - filed on February 15, 2013 in the U.S. District Court for the Western District of Oklahoma
- Lisa Ezell, Jefferson L. Mangus, and Tyler D. Mangus v. Tom L. Ward, et al., and SandRidge Energy, Inc., Nominal Defendant - filed on March 22, 2013 in the U.S. District Court for the Western District of Oklahoma

Each lawsuit identified above was filed derivatively on behalf of the Company and names as defendants current and former directors of the Company. The Hefner lawsuit also names as defendants certain current and former directors and senior executive officers of the Company. All seven lawsuits assert overlapping claims - generally that the defendants breached their fiduciary duties, mismanaged the Company, wasted corporate assets, and engaged in, facilitated or approved self-dealing transactions in breach of their fiduciary obligations. The Depuy lawsuit also alleges violations of federal securities laws in connection with the Company allegedly filing and distributing certain misleading proxy statements. The lawsuits seek, among other relief, injunctive relief related to the Company's corporate governance and unspecified damages.

On April 10, 2013, the U.S. District Court for the Western District of Oklahoma consolidated the Levine, Depuy, Elliot, Brothers, and Ezell actions (the “Federal Shareholder Derivative Litigation”) under the caption “In re SandRidge Energy, Inc. Shareholder Derivative Litigation,” appointed a lead plaintiff and lead counsel, and ordered the lead plaintiff to file a consolidated complaint by May 1, 2013. On June 3, 2013, the Company and the individual defendants filed their respective motions to dismiss the consolidated complaint. On September 11, 2013, the court granted the defendants’ respective motions to dismiss the consolidated complaint without prejudice, and granted plaintiffs leave to file an amended consolidated complaint. The plaintiffs filed an amended consolidated complaint on October 9, 2013, in which plaintiffs allege that: (i) the Company’s former Chief Executive Officer (“CEO”), Tom Ward, breached his fiduciary duties by usurping corporate opportunities, (ii) certain of the Company’s current and former directors breached their fiduciary duties of care, (iii) Mr. Ward and certain of the Company’s current and former directors wasted corporate assets, (iv) certain entities allegedly affiliated with Mr. Ward aided and abetted Mr. Ward’s breaches of fiduciary duties, (v) Mr. Ward and entities allegedly affiliated with Mr. Ward misappropriated the Company’s confidential and proprietary information, and (vi) entities allegedly affiliated with Mr. Ward were unjustly enriched. The defendants have filed respective motions to dismiss the amended consolidated complaint, which are pending before the court.

The Company and the individual defendants in the Hefner and Romano actions (the “State Shareholder Derivative Litigation”) moved to stay each of the actions in favor of the Federal Shareholder Derivative Litigation, in order to avoid duplicative proceedings, and also requested, in the alternative, the dismissal of the State Shareholder Derivative Litigation.

On June 19, 2013, the court stayed the Hefner action until at least November 29, 2013. The court subsequently lifted its stay for purposes of hearing and deciding the defendants’ respective motions to dismiss. On September 18, 2013, the court denied the defendants’ motions to dismiss.

On May 8, 2013, the court stayed the Romano action pending further order of the court. On October 31, 2013, the plaintiff filed a motion to lift the stay, which was denied by the court on February 7, 2014.

Because the Federal Shareholder Derivative Litigation and the State Shareholder Derivative Litigation are in the early stages, an estimate of reasonably possible losses associated with each of them, if any, cannot be made until the facts, circumstances and legal theories relating to the plaintiffs' claims and the defendants' defenses are fully disclosed and analyzed. The Company has not established any reserves relating to these actions.

On December 5, 2012, James Glitz and Rodger A. Thornberry, on behalf of themselves and all other similarly situated stockholders, filed a putative class action complaint in the U.S. District Court for the Western District of Oklahoma against SandRidge Energy, Inc. and certain current and former executive officers of the Company. On January 4, 2013, Louis Carbone, on behalf of himself and all other similarly situated stockholders, filed a substantially similar putative class action complaint in the same court and against the same defendants. On March 6, 2013, the court consolidated these two actions under the caption "In re SandRidge Energy, Inc. Securities Litigation" (the "Securities Litigation") and appointed a lead plaintiff and lead counsel. On July 23, 2013, plaintiffs filed a consolidated amended complaint, which asserts a variety of federal securities claims against the Company and certain of its current and former officers and directors, among other defendants, on behalf of a putative class of (a) purchasers of SandRidge common stock during the period from February 24, 2011 to November 8, 2012, (b) purchasers of common units of the Mississippian Trust I in or traceable to its initial public offering on or about April 12, 2011, and (c) purchasers of common units of the Mississippian Trust II (together with the Mississippian Trust I, the "Mississippian Trusts") in or traceable to its initial public offering on or about April 23, 2012. The claims are based on allegations that the Company, certain of its current and former officers and directors, and the Mississippian Trusts, among other defendants, are responsible for making false and misleading statements, and omitting material information, concerning a variety of subjects, including oil and natural gas reserves, the Company's capital expenditures, and certain transactions entered into by companies allegedly affiliated with the Company's former CEO Tom Ward. The defendants have filed respective motions to dismiss the consolidated amended complaint, which are pending before the court. Because the Securities Litigation is in the early stages, an estimate of reasonably possible losses associated with it, if any, cannot be made until the facts, circumstances and legal theories relating to the plaintiffs' claims and defendants' defenses are fully disclosed and analyzed. The Company has not established any reserves relating to the Securities Litigation. Each of the Mississippian Trusts has requested that the Company indemnify it for any losses it may incur in connection with the Securities Litigation.

On July 15, 2013, James Hart and fifteen other named plaintiffs filed an Amended Complaint in the United States District Court for the District of Kansas in an action undertaken individually and on behalf of others similarly situated against SandRidge Energy, Inc., SandRidge Operating Company, SandRidge E&P, SandRidge Midstream, Inc., and Lariat Services, Inc. In their Amended Complaint, plaintiffs allege that the defendants failed to properly calculate overtime pay for the plaintiffs and for other similarly situated current and former employees. The plaintiffs further allege that the defendants required the plaintiffs and other similarly situated current and former employees to engage in work-related activities without pay. The plaintiffs assert claims against the defendants for (i) violations of the Fair Labor Standards Act, (ii) violations of the Kansas Wage Payment Act, (iii) breach of contract, and (iv) fraud, and seek to recover unpaid wages and overtime pay, liquidated damages, statutory penalties, economic damages, compensatory and punitive damages, attorneys' fees and costs, and both pre- and post-judgment interest.

On October 3, 2013, the plaintiffs filed a Motion for Conditional Collective Action Certification and for Judicial Notice to Class and a Motion to Toll the Statute of Limitations. On October 11, 2013, the defendants filed a Motion to Dismiss and a Motion to Transfer Venue to the United States District Court for the Western District of Oklahoma.

On April 2, 2014, the court granted the defendants’ Motion to Dismiss and granted plaintiffs leave to file an amended complaint by April 16, 2014, which they did on such date. The Company and the other defendants intend to defend this lawsuit vigorously. This lawsuit is in the early stages and, accordingly, an estimate of reasonably possible losses associated with this action, if any, cannot be made until the facts, circumstances and legal theories relating to the plaintiffs' claims and the defendants’ defenses are fully disclosed and analyzed. The Company has not established any reserves relating to this action.

On December 18, 2013, the Company received a subpoena duces tecum from the U.S. Department of Justice in connection with an ongoing investigation of possible violations of antitrust laws in connection with the purchase or lease of land, oil or gas rights. The Company is cooperating with the investigation.

In addition to the litigation described above, the Company is a defendant in lawsuits from time to time in the normal course of business. While the results of litigation and claims cannot be predicted with certainty, the Company believes the reasonably possible losses of such matters, individually and in the aggregate, are not material. Additionally, the Company believes the probable final outcome of such matters will not have a material adverse effect on the Company’s consolidated financial position, results of operations, cash flows or liquidity.

Treating Agreement Commitment

The Company is party to a 30-year treating agreement with Occidental Petroleum Corporation ("Occidental") for the removal of CO_2 from the Company's delivered natural gas production. Under the agreement, the Company is required to deliver a total of approximately 3,200 Bcf of CO_2 during the agreement period. The Company is obligated to pay Occidental \$0.25 per Mcf to the extent minimum annual CO_2 volume requirements are not met. Additionally, if CO_2 volumes delivered by the Company over the term of the agreement do not reach 3,200 Bcf, the Company is obligated to pay Occidental \$0.70 per Mcf for such undelivered CO_2 volumes at the end of the agreement term in 2042. Based on current projected natural gas production levels, the Company estimates approximately 2,800 Bcf of CO_2 will remain to be delivered under the contract, net of any accrued annual shortfalls, as of December 31, 2014 and expects to accrue between approximately \$30.0 million and \$37.0 million during the year ended December 31, 2014 for amounts related to the Company's anticipated shortfall in meeting its 2014 annual delivery obligation. Due to the sensitivity of drilling activity to market prices for natural gas, the Company is unable to estimate additional amounts it may be required to pay under the agreement in subsequent periods; however, if natural gas prices remain low, drilling activity will likely remain very limited, which would result in additional shortfall payments in future periods.

Guarantees of Plugging and Abandonment Obligations

Under the equity purchase agreement associated with the sale of Gulf Properties, the Company has guaranteed on behalf of Fieldwood certain plugging and abandonment obligations associated with the Gulf Properties for a period of up to one year from the date of closing. See Note 2 for additional information regarding the guarantees.

Risks and Uncertainties

The Company's revenue, profitability and future growth are substantially dependent upon the prevailing and future prices for oil and natural gas, which depend on numerous factors beyond the Company's control such as overall oil and natural gas production and inventories in relevant markets, economic conditions, the global political environment, regulatory developments and competition from other energy sources. Oil and natural gas prices historically have been volatile, and may be subject to significant fluctuations in the future. The Company enters into derivative arrangements in order to mitigate a portion of the effect of this price volatility on the Company's cash flows. See Note 8 for the Company's open oil and natural gas derivative contracts.

Production targets contained in certain gathering and treating agreements require the Company to incur capital expenditures or make associated shortfall payments. Additionally, the Company has a drilling obligation to each of the Permian Trust and the Mississippian Trust II. See Note 3 for discussion of these drilling obligations. The Company depends on cash flows from operating activities, funding commitments from third parties for drilling carries, and, as necessary, borrowings under its senior credit facility to fund its capital expenditures. Additionally, the Company may use proceeds from the issuance of equity and debt securities in the capital markets and from the sales or other monetizations of assets to fund its capital expenditures. Based on current cash balances, including proceeds received from the sale of the Gulf Properties, cash flows from operating activities and funding commitments from third parties for drilling carries, the Company expects to be able to fund its planned capital expenditures budget, debt service requirements and working capital needs for the remainder of 2014. However, a substantial or extended decline in oil or natural gas prices could have a material adverse effect on the Company's financial position, results of operations, cash flows and quantities of oil, natural gas and NGL reserves that may be economically produced, which could adversely impact the Company's ability to comply with the financial covenants under its senior credit facility. See Note 7 for discussion of the financial covenants in the senior credit facility.

11. Equity

Preferred Stock Dividends

All dividend payments to date on the Company’s 8.5%, 6.0% and 7.0% convertible perpetual preferred stock have been paid in cash. Paid and unpaid dividends included in the calculation of loss applicable to the Company’s common stockholders and the Company’s basic loss per share calculation for the three-month periods ended March 31, 2014 and 2013 as presented in the accompanying unaudited condensed consolidated statements of operations, are included in the tables below (in thousands):

	Three Months Ended March 31,					
	2014			2013		
	Dividends Paid	Dividends Unpaid	Total	Dividends Paid	Dividends Unpaid	Total
8.5% Convertible perpetual preferred stock	$2,815	$2,816	$5,631	$2,815	$2,816	$5,631
6.0% Convertible perpetual preferred stock	500	2,500	3,000	500	2,500	3,000
7.0% Convertible perpetual preferred stock	—	5,250	5,250	—	5,250	5,250
Total	$3,315	$10,566	$13,881	$3,315	$10,566	$13,881

Treasury Stock

The Company makes required statutory tax payments on behalf of employees when their restricted stock awards vest and then withholds a number of vested shares of common stock having a value on the date of vesting equal to the tax obligation. The following table shows the number of shares withheld for taxes and the associated value of those shares for the three-month periods ended March 31, 2014 and 2013. These shares were accounted for as treasury stock when withheld and then immediately retired.

	Three Months Ended March 31,	
	2014	2013
	(In thousands)	
Number of shares withheld for taxes	609	1,778
Value of shares withheld for taxes	$3,677	$11,216

Stockholder Receivable

The Company is party to a settlement agreement relating to a third-party claim against its former CEO under Section 16(b) of the Securities Exchange Act of 1934, as amended. Under the settlement agreement, the Company’s former CEO agreed to pay to the Company $5.0 million in four installments over four years commencing October 2013 and to waive his rights under his indemnification agreement with the Company with respect to the Section 16(b) action. The Company agreed to pay the fees of the plaintiff’s lawyers and paid the former CEO’s legal expenses as required under his indemnification agreement.

Based on the nature of the settlement as well as the former CEO’s position as an officer of the Company at the time of the settlement, the receivable is classified as a component of additional paid-in capital in the accompanying unaudited condensed consolidated balance sheets. The amount receivable under the agreement as of March 31, 2014 and December 31, 2013 was $3.8 million.

Restricted Common Stock

Equity compensation provided to employees directly involved in exploration and development activities is capitalized to the Company’s oil and natural gas properties. Equity compensation not capitalized is recognized in general and administrative expenses, production expenses, cost of sales and midstream and marketing expenses in the consolidated statement of operations. For the three-month periods ended March 31, 2014 and 2013, the Company recognized equity compensation expense of $7.4 million, and $18.9 million, net of $1.9 million and $1.6 million capitalized, respectively, related to restricted common stock.

See Note 15 for discussion of the Company’s performance units.

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12. Income Taxes

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 for income taxes on a current year-to-date basis. The provision for income taxes consisted of the following components for the three-month periods ended March 31, 2014 and 2013 (in thousands):

	Three Months Ended March 31,	
	2014	2013
Current		
Federal	$—	$4,359
State	127	70
	127	4,429
Deferred		
Federal	—	—
State	—	—
	—	—
Total provision	127	4,429
Less: income tax provision attributable to noncontrolling interest	82	75
Total provision attributable to SandRidge Energy, Inc.	$45	$4,354

Deferred income taxes are provided to reflect the future tax consequences of temporary differences between the tax basis of assets and liabilities and their reported amounts in the financial statements. The Company’s deferred tax assets have been reduced by a valuation allowance due to a determination that it is more likely than not that some or all of the deferred assets will not be realized based on the weight of all available evidence. The Company continues to closely monitor and weigh all available evidence, including both positive and negative, in making its determination whether to maintain a valuation allowance. As a result of the significant weight placed on the Company's cumulative negative earnings position, the Company continued to maintain the full valuation allowance against its net deferred tax asset at March 31, 2014.

Internal Revenue Code (“IRC”) Section 382 addresses company ownership changes and specifically limits the utilization of certain deductions and other tax attributes on an annual basis following an ownership change. The Company experienced ownership changes within the meaning of IRC Section 382 during 2008 and 2010 that subjected certain of the Company’s tax attributes, including $923.0 million of federal net operating loss carryforwards, to the IRC Section 382 limitation. These limitations could result in a material amount of existing loss carryforwards expiring unused. None of these limitations resulted in a current federal tax liability at March 31, 2014 or December 31, 2013.

At March 31, 2014 and December 31, 2013, the Company had a liability of approximately $1.4 million for unrecognized tax benefits. If recognized, approximately $0.9 million, net of federal tax expense, would be recorded as a reduction of income tax expense and would affect the effective tax rate. Included in the $1.4 million liability for unrecognized tax benefits at March 31, 2014 and December 31, 2013 was $0.1 million for interest and penalties relating to uncertain tax positions.

The Company’s only taxing jurisdiction is the United States (federal and state). The Company’s tax years 2010 to present remain open for federal examination. Additionally, various tax years remain open beginning with tax year

2005 due to federal net operating loss carryforwards. The number of years open for state tax audits varies, depending on the state, but are generally from three to five years. Currently, several examinations are in progress. The Company does not anticipate that any federal or state audits will have a significant impact on the Company's results of operations or financial position. As a result of ongoing negotiations pertaining to the Company's current state audits, it is reasonably possible that the Company's gross unrecognized tax benefits balance may decrease within the next twelve months by approximately $0.8 million.

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13. Earnings (Loss) per Share

The following table summarizes the calculation of weighted average common shares outstanding used in the computation of diluted loss per share, for the three-month periods ended March 31, 2014 and 2013 (in thousands):

	Net Loss	Weighted Average Shares	Loss Per Share
	(In thousands, except per share amounts)		
Three Months Ended March 31, 2014			
Basic loss per share	$(141,896)	484,798	$(0.29)
Effect of dilutive securities			
Restricted stock(1)	—	—	
Convertible preferred stock(2)	—	—	
Diluted loss per share	$(141,896)	484,798	$(0.29)
Three Months Ended March 31, 2013			
Basic loss per share	$(493,221)	477,826	$(1.03)
Effect of dilutive securities			
Restricted stock(1)	—	—	
Convertible preferred stock(2)	—	—	
Diluted loss per share	$(493,221)	477,826	$(1.03)

(1) Restricted stock awards covering 1.0 million shares and 1.2 million shares for the three-month periods ended March 31, 2014 and 2013, respectively, were excluded from the computation of loss per share because their effect would have been antidilutive.

(2) Potential common shares related to the Company's outstanding 8.5%, 6.0% and 7.0% convertible perpetual preferred stock covering 90.1 million shares for both the three-month periods ended March 31, 2014 and 2013 were excluded from the computation of loss per share because their effect would have been antidilutive under the if-converted method.

See Note 11 for discussion of preferred stock dividends.

14. Related Party Transactions

Former Chairman and CEO Severance. On June 28, 2013, the Company's then current CEO separated employment from the Company. As of March 31, 2014, the remaining amounts due under the terms of his employment agreement include $4.3 million to be paid in monthly installments through December 2016. These amounts are included in other current liabilities and other long-term obligations in the accompanying unaudited condensed consolidated balance sheet.

Other Employee Termination Benefits. Certain employees received termination benefits, including severance and accelerated stock vesting, upon separation of service from the Company during the three-month periods ended March 31, 2014 and 2013. Employee termination benefits were $8.1 million primarily as a result of the sale of the Gulf Properties and $10.4 million as a result of an executive's separation from employment for the three-month periods ended March 31, 2014 and 2013, respectively. Termination benefits are included in general and administrative expense in the accompanying unaudited condensed consolidated statements of operations.

2014 Divestiture. See Note 2 for discussion of the sale of the Gulf Properties to Fieldwood and the Company's guarantee on behalf of Fieldwood of certain associated plugging and abandonment obligations associated with the Gulf Properties. Fieldwood is a portfolio company of Riverstone Holdings LLC, affiliates of which own a significant number of shares of the Company's common stock.

Acquisition of Ownership Interest. In March 2014, the Company purchased the additional ownership interest owned by its partner in GRLP and Genpar, which was deemed a related party at the time. See Note 3 for additional discussion.

15. Performance Units

The Company periodically grants performance units to certain members of senior management under the Company's existing long-term incentive plan which vest over a performance period of approximately three years. The value, and ultimate payout, of the performance units is determined based upon the Company's total shareholder return relative to that of a predetermined peer group over a specific performance period. If performance exceeds the minimum thresholds, payout percentages could range from 50% to 200% of specified target values. If minimum target thresholds are not met, the payout is reduced to zero.

The performance units are valued for accounting purposes using a Monte Carlo simulation based on certain assumptions, including (i) a volatility assumption based on the historical realized price volatility of the Company's common stock and the common stock of the predetermined peer group for each grant year and (ii) a risk-free interest rate based on the U.S. Treasury bond yields for a term commensurate with the approximate remaining vesting period for each grant. As of March 31, 2014 and December 31, 2013, the Company's liability associated with performance units totaled $2.5 million and $1.8 million, respectively. The liability represents the fair value of the portion of performance units for which requisite service has been completed. The following table presents a summary of the fair value of the performance units and the related assumptions for all outstanding units as of March 31, 2014.

Expected price volatility range	24.9 % - 71.7%
Weighted-average risk-free interest rate	0.6%
Weighted-average fair value per unit	$87.35

16. Business Segment Information

The Company has three business segments: exploration and production, drilling and oil field services and midstream services. These segments represent the Company's three main business units, each offering different products and services. The exploration and production segment is engaged in the exploration and production of oil and natural gas properties and includes the activities of the Royalty Trusts. The drilling and oil field services segment is engaged in the contract drilling of oil and natural gas wells and provides various oil field services. The midstream services segment is engaged in the purchasing, gathering, treating and selling of natural gas and coordinates the delivery of electricity to the Company's exploration and production operations in the Mid-Continent. The All Other column in the tables below includes items not related to the Company's reportable segments, including the Company's corporate operations.

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Management evaluates the performance of the Company's business segments based on income (loss) from operations. Summarized financial information concerning the Company's segments is shown in the following table (in thousands):

	Exploration and Production(1)	Drilling and Oil Field Services	Midstream Services	All Other	Consolidated Total
Three Months Ended March 31, 2014					
Revenues	$407,338	$ 47,080	$46,294	$969	$501,681
Inter-segment revenue	—	(29,977)	(28,648)	—	(58,625)
Total revenues	$407,338	$ 17,103	$17,646	$969	$443,056
Loss from operations	$(48,154)	$ (3,102)	$(1,411)	$(21,342)	$(74,009)
Interest income (expense), net	143	—	—	(62,186)	(62,043)
Other (expense) income, net	(185)	(398)	—	2,677	2,094
Loss before income taxes	$(48,196)	$ (3,500)	$(1,411)	$(80,851)	$(133,958)
Capital expenditures(2)	$264,243	$ 620	$5,957	$4,954	$275,774
Depreciation, depletion, amortization and accretion	$121,041	$ 7,711	$2,441	$5,260	$136,453
At March 31, 2014					
Total assets	$				