The Deal

SandRidge Energy Misses Debt Payments, Prepack Expected

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SandRidge Energy Inc. (SDOC) has missed interest payments on $590.5 million in bonds, and sources believe it's likely the natural gas and oil producer will restructure through a prepackaged bankruptcy filing.

The Oklahoma City-based natural gas and oil producer announced Wednesday that it has the liquidity to make $21.7 million in interest payments due that day, but decided to skip them and enter into a 30-day grace period to continue negotiations with its stakeholders.

Kim Brady, senior managing director at advisory firm SOLIC Capital LLC, believes this move was designed to preserve cash and gain leverage with lenders in bankruptcy talks.

"I expect they are negotiating some sort of prepack that will lead to a Chapter 11 filing," he said by phone.

Brady believes SandRidge's senior unsecured bonds would likely be the fulcrum security and be converted to equity in a restructuring.

The extended nature of the energy industry downturn will make it easier for Sandridge and other oil companies with unsustainable debt loads to convince creditors to sign on to prepackaged plans, Brady said.

Debtholders who would be impaired in these prepacks "really don't have any other choice. They are better off converting to equity, becoming owners of the company, and simply riding it out," he said.

SandRidge's president and CEO, James Bennett said in a statement Wednesday, "With a strong cash balance, we will continue operations without interruption, including paying employees, vendors and service providers. Today's actions will preserve liquidity and flexibility as we continue to engage in constructive dialogue with our stakeholders."

SandRidge noted Wednesday that it had decided to skip payments on its $543.6 million in 7.5% senior unsecured notes due Feb. 15, 2023, and on its $46.9 million principal amount of 7.5% convertible senior unsecured notes due Feb. 16, 2023.

The company is being advised by Kirkland & Ellis LLP's James Sprayregen, Christopher Marcus, Steven Serajeddini, Matthew Pacey, William Bos, and Lucas Spivey. Sandridge's financial adviser is Houlihan Lokey Inc.

Holders of SandRidge's $1.25 billion in 8.75% second-lien notes due June 1, 2020, are getting legal counsel from a Davis Polk & Wardwell LLP team led by Damian Schaible and Eli Vonnegut and financial advice from Centerview Partners LLC.

Representatives for Kirkland & Ellis and Houlihan Lokey declined to comment, while officials at SandRidge, Davis Polk, and Centerview didn't respond to requests for comment.

The oil and gas producer had revealed Jan. 25 that it drew down the remaining amount of a $1 billion senior secured revolving credit facility due March 2, 2020, and hired advisers to evaluate "financial, transactional and strategic alternatives."

Brady expects the timing of the revolver draw down was designed to get ahead of SandRidge's spring borrowing base re-determination, which would likely cut the allowable borrowing amount.

In addition to the debt mentioned above, SandRidge has $996.31 million in 7.5% senior unsecured notes due March 15, 2021, $601.19 million in 8.125% senior unsecured notes due Oct. 15, 2022, $401.15 million in outstanding 8.75% senior unsecured notes due Jan. 15, 2020, and $36.41 million on its $269.4 million in 8.125% convertible senior unsecured notes due Oct. 16, 2022.

SandRidge shares closed up nearly 37% Wednesday on news that it had entered into a grace period, trading at 5.7 cents with a $33.06 million market cap after closing at 4.2 cents on Tuesday. The stock has lost about 97% of its value over the past year.

As of Sept. 30, SandRidge recorded $4.1 billion in assets and $4.51 billion in liabilities. The company is primarily focused on the Mississippi Lime, with a minor Permian business.
SandRidge is one of three oil and gas companies that have missed interest payments so far this week, joined by Venoco Inc. and Energy XXI Ltd. (EXXI).

Deloitte LLP published a report Monday suggesting that 35% of pure-play oil and gas exploration and production companies worldwide, or about 175 companies, are in a "high risk" financial position due to a combination of high leverage and low debt service coverage ratios.

The report noted that between July 1, 2014 and Dec. 31, 2015, 35 oil and gas exploration and production companies with about $18 billion in total debt have filed for bankruptcy.

All of that action has given energy industry investors and lenders a lot of time to think about restructuring strategies.

Doug Sheridan, founder of oilfield supply research firm EnergyPoint Research Inc., told The Deal, "the significant levels of activity in the sector over the last few years means that stakeholders are willing and able to knowledgeably move quickly forward with prepacks that have the look and feel----and effects----of non-bankruptcy recapitalizations."

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