SandRidge Energy, Inc. (SD)— Proxy Contest with TPG Axon

ISS Recommendation: Replace a majority of the board by

- **Removing incumbent directors Dobson, Gilliland, Jordan, Oliver, and Serota, and**
- **Electing dissident nominees Beasley, Moneypenny, Singh, Weber, and Westbrook.**

SandRidge Energy, Inc. (SD)	
Consent Period	January 16, 2013—March 15, 2013
Record Date	December 13, 2012

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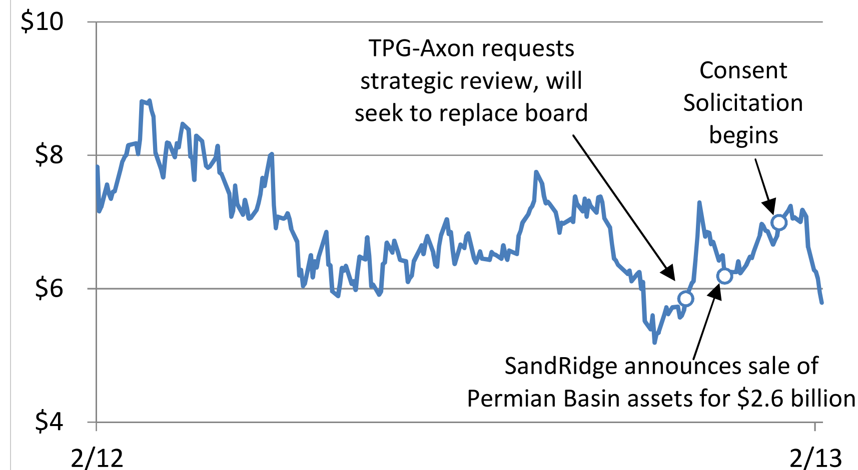
CHART FOCUS

SandRidge Energy— Share Price Performance



Sources: Bloomberg LP (share prices) media reports and regulatory filings (annotations)

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Executive Summary

TPG-Axon, a 6.7% shareholder, is seeking shareholder consent to remove all 7 incumbent directors, including the founder Chairman/CEO, of SandRidge Energy, and elect 7 dissident nominees in their stead.

In making its case that such drastic change is needed, the dissidents have not only pointed to the erosion of more than 70% of market value over the nearly six years since IPO, but have advanced a credible narrative that the company's abrupt, piecemeal approach to corporate strategy and concomitant lack of capital discipline have increasingly limited the company's financial flexibility, and engendered a deep distrust in the market.

The dissidents have also highlighted significant compensation issues with compensation levels and structures, which escalated pay-for-failure in the C-suite. Finally, the dissidents retained a private investigative team from Kroll to investigate numerous related-party transactions which have benefitted the CEO and his family through a family trust (WCT).

ISS is reluctant to recommend for a majority change in a board, given the risks of unintended consequences, and generally looks for evidence of extensive advance planning from the dissident nominees, including a well-reasoned and detailed business plan, a transition plan that describes how the change in control of the company will be effected, and where management continuity may be an issue, the identification of a qualified and credible new management team.

In this case, however, the apparent failures of stewardship on this board are legion.

From a stutter-stepping business strategy and weak capital discipline which reduced financial flexibility so far that the sale of the company's most valuable non-core asset cannot close its anticipated funding gap—to a compensation program which failed to tie

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pay to performance, making the CEO one of the highest paid in his industry even as shareholder value declined by nearly three-quarters over his tenure—to approving numerous related-party transactions which, under public scrutiny, begin to look more like front-running the company's own lease acquisitions than adding value unavailable through a less conflicted means—there is little reason to believe the outside directors who are specially charged with looking out for the interests of unaffiliated shareholders are best equipped to effect the necessary change at SandRidge.

Given the fact pattern underlying the dissidents' extensive case for change, and the evidence of appropriately extensive advance planning to mitigate risks of unintended consequences, shareholder support for a majority change of the SandRidge board is warranted.

Aside, obviously, from a clear sense of accountability to shareholders for both governance and results, a new board will require experience not only in the oil and gas industry, but also successful experience in capital allocation and budgeting under constraints. Deep capital markets experience will also likely be a significant factor in its success.

Among the dissident nominees, there is extensive oil and gas operating experience in nominees Beasley and Westbrook. There is also significant relevant CFO experience in Moneypenny, who was CFO of three energy companies, two of them ranked in the Fortune 500. Among these three, there is also what would appear to be substantial first-hand experience with capital allocation and budgeting, and to some extent with the capital markets.

Dissident nominees Singh, by virtue of his current work with TPG-Axon and his prior experience as a partner at Goldman Sachs, appears to have both deep capital markets experience and, as a large shareholder, a vested interest in evaluating strategy and results from a shareholder perspective.

There is no "governance" nominee on the dissident ballot, presumably from conviction—as the dissidents' critique of the current board's performance implies repeatedly—that maintaining effective governance structures and practices, and accountability to shareholders for results, are core responsibilities of every director. Certainly the wealth of boardroom experience among the dissident nominees—particularly recent experience, incorporating shareholder expectations about corporate governance shaped in the corporate scandals of the early 2000's and the financial crisis of 2008-9—suggests an antidote to the company's chronic compensation issues and related-party transactions. In particular, however, the broad current experience of dissident nominee Weber—who also has extensive financial markets experience—may prove valuable.

We cannot endorse Ward's continuation as chair. We strongly urge the reconstituted board to elect an independent chair at its initial meeting.

Compelling though the company's current portfolio of oil and gas assets may be in the abstract, there is considerable question, even among third party equity analysts who have no dog in this fight, whether Ward's leadership has left the company sufficient financial flexibility to realize the potential of those assets. Ward benefitted directly from increasingly outsized pay packages over his tenure, even the company lost more than 70% of its market value. As CEO he also benefitted not only from a perk allowing him to take 3% of the upside on wells the company drilled—but also, when the bottom fell out of that market in 2008, to sell his stake to the company he led as Chairman and CEO. As a director he had the same fiduciary duties as any of the outside directors. As the director with the most leverage to forestall conflicted or questionable transactions involving his family, however, he appears, in the most promising interpretation of events, to have done nothing to stop them.

As shareholders are replacing most of the other incumbent directors, however, they should pause to consider whether also removing the CEO, without a fully vetted and orderly succession plan in place and with no other continuity on the board, is the most robust plan at this moment. It is true, contrary to the company's assertions, there is compelling senior oil & gas sector management experience among the dissident nominees. It is also clear the dissidents have completed significant advance planning to mitigate the risks of a majority change—and that the lead dissident in particular, as a large shareholder who would be unable to trade out of the stock easily once on the board, has significant risk if any transition is not managed well. But while these factors should give shareholders comfort in changing out a majority of the board, they should also note that the dissidents have not yet identified the new CEO they would hire to lead the company back from the wilderness.

This recommendation on the CEO is not an endorsement of his tenure, but a recognition that

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there is no other CEO candidate at the moment, with transition to a new CEO expected quickly if dissidents are elected. Out of prudence, then, and for what we expect—based on the dissidents' frank presentation to shareholders—will be a finite transition period, it may be the lesser of two unpalatable alternatives to leave the CEO on the board for now, and allow the reconstituted board to take further action once it has control of the company.

For similar reasons, we also believe shareholders may want to retain for a transition period the newest outside director, Brewer, who appears from the company's filings to have the most directly relevant operating experience of the current outside directors. The company's presentations to shareholders do not shed any light on who among the outside directors vetted and approved the related party transactions, giving shareholders little evidence to assess Brewer's culpability. As he only joined the board in 2011, however, it appears unlikely he was as deeply involved as the longer-serving outside directors. This fact, coupled with his operating experience, may make it prudent to retain him for continuity over the transitional period.

Because we have recommended shareholders remove only 5 of the 7 current directors, we have not recommended they vote to elect the sixth and seventh dissident nominees, Reynolds and Rothschild. This is purely a matter of math—having too many qualified nominees for the limited number of open seats. Reynolds and Rothschild each appear to have extensive experience, including board experience, which would be valuable to the reconstituted board as it faces the challenges ahead. In neither case do we have reservations about the qualifications, commitment, or abilities of these nominees.

Because the dissidents have made a compelling case that a change in the majority of the board is warranted, shareholders should PROVIDE CONSENT to:

- remove incumbent directors Dobson, Gilliland, Jordan, Oliver, and Serota, and
- elect dissident nominees Beasley, Moneypenny, Singh, Weber, and Westbrook.

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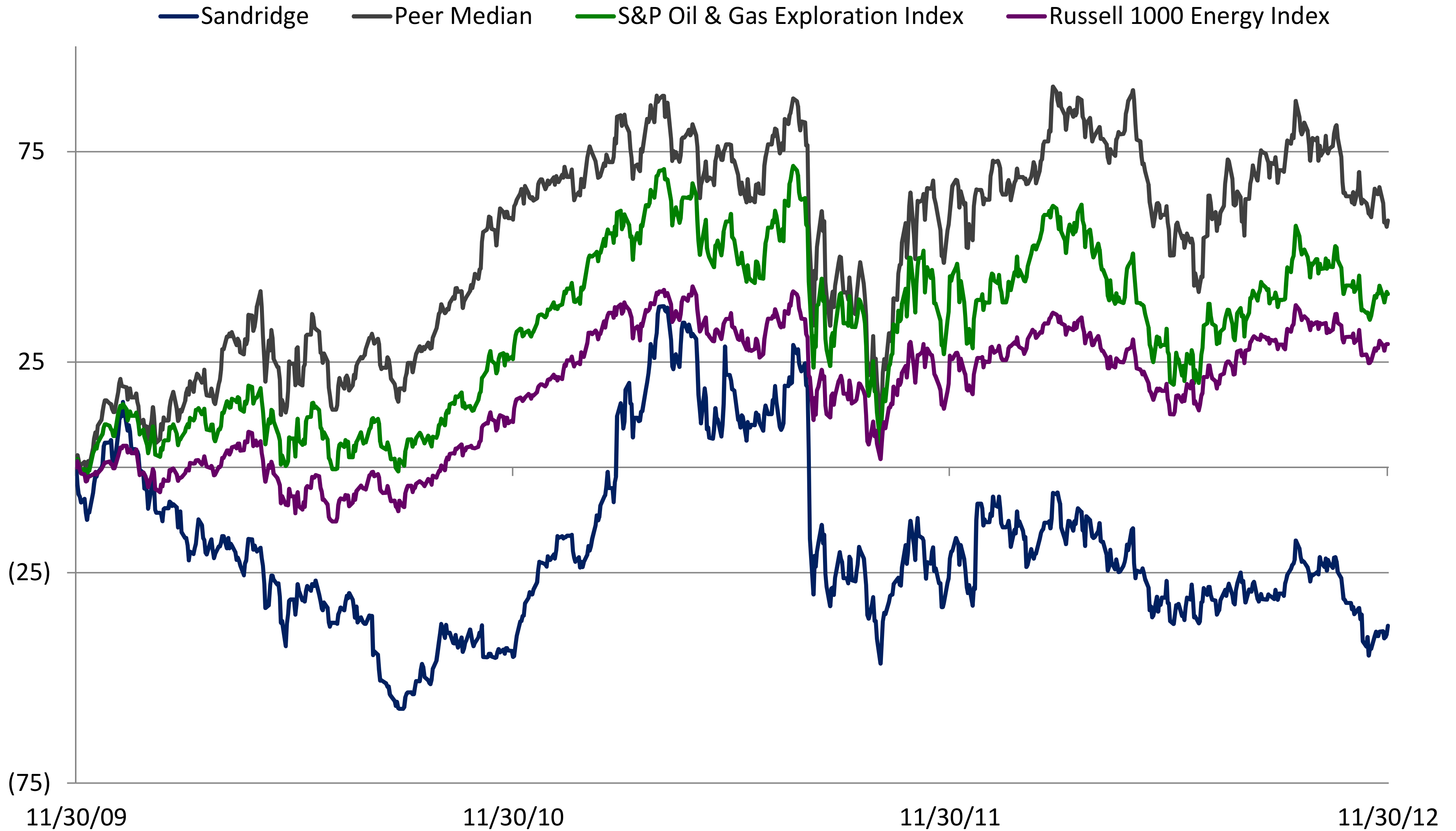
Historical Performance: 3-Year TSR



Source: Bloomberg LP

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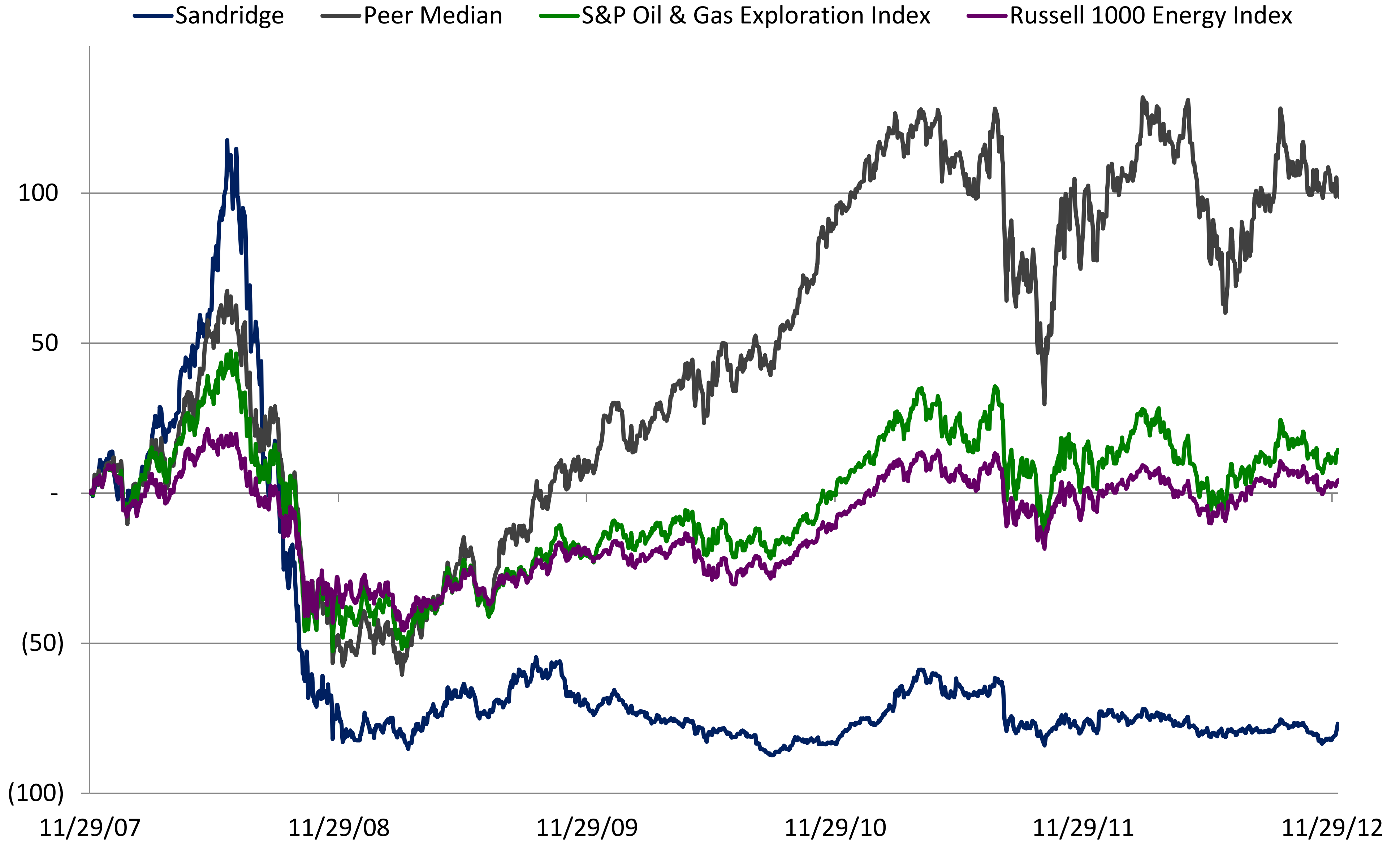
Historical Performance: 5-Year TSR



Source: Bloomberg LP

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Historical Performance—Financial Metrics

	FY 2011	FY2010	FY 2009	FY 2008	FY 2007	CAGR
Revenue	$ 1,415.2	$ 931.7	$ 591.0	$ 1,181.8	$ 677.5	20.2 %
Exploration and Production	$ 322.9	$ 237.9	$ 169.9	$ 159.5	$ 106.2	32.0 %
General and Administrative Costs	$ 148.6	$ 179.6	$ 100.3	$ 109.4	$ 61.8	24.5 %
Total Operating Expense	$ 1,024.4	$ 938.5	$ 2,196.1	$ 2,520.0	$ 490.6	20.2 %
Interest Expense	$ (237.6)	$ (247.7)	$ (185.7)	$ (147.0)	$ (117.2)	19.3 %
Net Income Before Taxes	$ 156.6	$ (251.7)	$ (1,782.0)	$ (1,478.8)	$ 79.5	18.5 %
Diluted EPS	$ 0.13	$ 0.52	$ (10.20)	$ (9.37)	$ 0.09	9.6 %
Cash & Equivalents	$ 207.7	$ 5.9	$ 7.9	$ 0.6	$ 63.1	34.7 %
Oil & Natural Gas Properties - Proved	$ 8,969.3	$ 8,159.9	$ 5,913.4	$ 4,676.1	$ 2,848.5	33.2 %
Capital Expenditures	$ (1,743.6)	$ (1,044.4)	$ (715.2)	$ (2,058.4)	$ (1,280.8)	8.0 %
Total Assets	$ 6,219.6	$ 5,231.4	$ 2,780.3	$ 3,655.1	$ 3,630.6	14.4 %
Total Long Term Debt	$ 2,813.1	$ 2,901.8	$ 2,566.9	$ 2,358.8	$ 1,052.3	27.9 %
Cash Flow from						
Operations	$ 475.5	$ 390.1	$ 311.6	$ 579.2	$ 357.5	7.4 %
Investing	$ (918.9)	$ (962.8)	$ (1,247.1)	$ (1,909.4)	$ (1,385.6)	
Financing	$ 645.2	$ 570.6	$ 942.7	$ 1,267.8	$ 1,052.3	
Net Change in Cash	$ 201.8	$ (2.0)	$ 7.2	$ (62.5)	$ 24.2	

Source: Reuters Knowledge. All data in millions except EPS, which is per-share.

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Peer Comparison—Trading Multiples

	Company	Enterprise Value (mils)		Enterprise Value / EBITDA for: LTM	2013	2014	Price/Earnings Trailing	Forward	Price/ Cash Flow
CLR	Continental Resources Inc.	$	18,553	10.2x	9.9x	7.1x	46.9x	26.7x	10.0x
CXO	Concho Resources Inc	$	13,698	9.7x	9.3x	8.0x	23.2x	25.3x	7.7x
DNR	Denbury Resources Inc	$	10,331	5.9x	6.8x	7.4x	12.5x	13.6x	5.2x
LINE	Linn Energy LLC	$	14,273	13.3x	10.7x	8.4x	47.1x	26.3x	40.6x
NFX	Newfield Exploration Co	$	7,073	4.4x	4.6x	4.6x	10.0x	12.4x	3.3x
PXD	Pioneer Natural Resources Co	$	19,297	9.2x	10.1x	8.2x	33.5x	34.1x	8.5x
PXP	Plains Exploration & Product	$	10,423	6.1x	6.2x	3.2x	36.4x	26.6x	5.1x
WLL	Whiting Petroleum Corp	$	7,375	5.4x	5.2x	4.5x	13.4x	15.2x	4.3x
	Peer Median	$	12,060	7.6x	8.0x	7.2x	28.3x	25.8x	6.5x
SD	Sandridge Energy Inc	$	8,779	10.4x	8.0x	8.5x	52.6x	36.9x	3.5x
	H/(L) Peer Median	$	(3,282)	2.7x	-0.1x	1.3x	24.3x	11.1x	-2.9x

Source: Bloomberg LP. Data as of 2/8/2013.

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Peer Comparison— Operating & Credit Metrics

	Company	Enterprise Value (mils)	Operating Metrics: Recycle Ratio	Operating Metrics: EBITDAX / BOE	Operating Metrics: Annual Production	Credit Metrics (at 9/30/12): Credit Rating	Credit Metrics (at 9/30/12): Total Debt/LTM... EBITDA	Credit Metrics (at 9/30/12): Total Debt/LTM... FCF
CLR	Continental Resources Inc.	$ 18,553	3.7x	56.0	22.6	BB+	1.8x	0.5x
CXO	Concho Resources Inc	$ 13,698	3.5x	56.8	23.5	BB+	2.6x	0.7x
DNR	Denbury Resources Inc	$ 10,331	9.1x	61.5	24.0	BB	1.9x	0.6x
LINE	Linn Energy LLC	$ 14,273	2.1x	31.0	22.4	B+	6.1x	1.2x
NFX	Newfield Exploration Co	$ 7,073	1.5x	34.8	48.9	BBB-	1.9x	0.8x
PXD	Pioneer Natural Resources Co	$ 19,297	1.6x	36.1	45.6	BBB-	2.0x	0.4x
PXP	Plains Exploration & Product	$ 10,423	1.9x	33.0	36.5	BB-	3.1x	1.0x
WLL	Whiting Petroleum Corp	$ 7,375	1.9x	53.4	24.8	BB+	1.2x	0.5x
	Peer Median	$ 12,060	2.0x	44.7	24.4	BB+	2.0x	0.6x
SD	Sandridge Energy Inc	$ 8,779	2.0x	30.6	23.4	B	4.8x	1.1x
	H/(L) Peer Median	$ (3,282)	0.1x	(14.1)	(1.0)	(4) notches	2.8x	0.5x

Source: Bloomberg LP. Data as of 2/8/2013.

Recycle Ratio measures the efficiency of turning a barrel of reserves into a barrel of production. More profitable companies have higher ratios relative to their peers. EBITDAX is EBITDA including exploration expense. BOE is Barrel of Oil Equivalent. Total Production is measured in millions of BOEs. Credit Rating is S&P.

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Sandridge Energy Shareholder Base

Rank	Investor	% O/S	Incr/(Decr) (ppts)	Market Value (mils)	Investor Characteristics: Style	Country	Source
1	Fairfax Financial Holdings Ltd	11.12	11.12	$ 324.0	Insurer	Canada	13G
2	Riverstone Holdings LLC	10.47	(0.00)	$ 305.1	VC/Private Equity	United States	13F
3	TPG-Axon Capital Management, L.P.	6.73	3.13	$ 196.0	Hedge Fund	United States	13D
4	Goldman Sachs Asset Management (US)	4.65	0.22	$ 135.6	Core Growth	United States	13F
5	Mount Kellett Capital Management LP	4.53	0.00	$ 132.0	Hedge Fund	United States	13G
6	Ward (Tom L)	4.32	0.38	$ 126.0	Executive	United States	Insider Update
7	The Vanguard Group, Inc.	3.51	0.09	$ 102.3	Index	United States	13F
8	BlackRock Institutional Trust Company, N.A.	2.66	(0.06)	$ 77.6	Index	United States	13F
9	Wallace R. Weitz & Company	1.88	0.08	$ 54.9	GARP	United States	13F
10	Elliott International Capital Advisors, Inc.	1.56	0.00	$ 45.5	Hedge Fund	United States	13F
11	St. Denis J. Villere & Company, LLC	1.53	(0.03)	$ 44.5	Growth	United States	13F
12	Guggenheim Investments	1.47	0.18	$ 42.7	Core Value	United States	13F
13	State Street Global Advisors (US)	1.46	0.05	$ 42.4	Index	United States	13F
14	S.A.C. Capital Advisors, LP	1.41	(0.35)	$ 41.1	Hedge Fund	United States	13F
15	DW Investment Management, LP	1.22	0.20	$ 35.6	Hedge Fund	United States	13F
16	Cerberus Capital Management, L.P.	1.19	(0.00)	$ 34.7	Hedge Fund	United States	13F
17	Kalmar Investments Inc.	1.01	0.00	$ 29.4	GARP	United States	13F
18	3G Capital Management, Inc.	0.98	0.98	$ 28.4	Hedge Fund	United States	13F
19	Hamblin Watsa Investment Counsel Ltd.	0.89	0.00	$ 25.9	GARP	Canada	13F
20	Citadel Investment Group, L.L.C.	0.8	(0.81)	$ 23.2	Hedge Fund	United States	13F
	Top 20 Holders	63.39		$ 1,847.1			

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Background

TPG-Axon, the company's third-largest shareholder at 6.7%, is requesting shareholders act by written consent to replace all 7 incumbents, including the founder CEO/Chairman, on the board of SandRidge Energy.

To achieve this through a consent solicitation, the dissidents require the support of a majority of outstanding shares for three interlinked proposals:

Proposal 1 would amend the bylaws to (i) de-stagger the board beginning with the 2013 annual meeting, (ii) allow the size of the board to be fixed by either a majority vote of the board or vote of the stockholders, (iii) allow board vacancies to be filled shareholders or by a majority vote of the remaining directors of the board, and (iv) provide that directors may be removed with or without cause.

Proposal 2 would remove all incumbent directors.

Proposal 3 would elect seven dissident nominees to fill the resulting vacancies.

Though the dissident is seeking to replace the entire incumbent board, Proposals 2 and 3 are structured such that shareholders may vote out any or all of the seven incumbents, and replace any ousted incumbents with any of the dissident nominees—in effect making the consent solicitation a form of universal proxy.

Key Events

Nov 8, 2012—TPG-Axon, a 4.5% holder, delivers letter to SandRidge board requesting declassification and reconstitution of the board in consultation with large shareholders; replacement of CEO "whose credibility has been damaged due to extensive conflicts of interest and self-dealing;" and exploration of strategic alternatives.

Nov 20—Board adopts a poison pill, and amends bylaws to require that shareholders seeking written consent for certain bylaw amendments receive the approval of a majority of outstanding shares.

Nov. 30—TPG-Axon, now a 6.5% holder, sends a second letter to the board, expressing concerns over management's ability to restore stockholder value, overspending, self-dealing and "incoherent" corporate strategy. TPG also indicates it intends to replace directors through written consent, and requests the board fix a record date for that consent solicitation.

Dec 3—Board sets Dec. 13, 2012, as the record date.

Dec 13—SandRidge registers an additional 6 million common shares for issuance to employees under its stock incentive plan.

Dec 21—SandRidge announces it has received written consents, dated December 19, 2012, thus establishing an Initial Consent Date and commencing the 60-day solicitation period under Delaware law.

Dec 24—TPG, now at 6.7%, sues in Delaware Chancery Court to have the company's purported Initial Consent Date invalidated. TPG also sends a third letter to the board expressing concerns about "the self-dealing aspects of certain past transactions between the Company and WCT Resources, an investment vehicle established by Mr. Ward for the benefit of his children."

Jan 15, 2013—Sandridge and TPG settle the Chancery Court action by agreeing that no written consents filed prior to the date of TPG's definitive consent statement filing with the SEC will be deemed valid, and that the 60-day consent solicitation period would commence no earlier than that date.

Jan 15—TPG files definitive consent solicitation statement with the SEC.

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Dissident Critique

The dissidents point out that share prices have fallen more than 70% in the half decade since the company's IPO, making it the single worst-performing energy stock in the Russell 1000 index over that period. Book value has declined 77% since the IPO, a greater degree of decline than any of its peers over the same period. That enormous loss of value reflects not a single macroeconomic shock, but an inexorable trend which goes well beyond sector challenges: the company has underperformed its peer group over the 1, 3 and 5-year periods leading up to the consent solicitation.

Strategy and Capital Discipline

Some of this decline may be due to the dramatically lower outlook for the natural gas business since the company's public markets debut as a natural gas producer. To a much greater degree, the dissidents assert, this market decline reflects a growing discount applied by an increasingly skeptical market as the company—which has gone through at least five strategic changes since the IPO—has often appeared to behave in an unpredictable manner. From a natural gas pure play at IPO, the strategy moved toward mature, conventional oil and gas production in the Permian Basin, then unconventional oil and gas production in the Mississippian, then "high declining" offshore assets in the Gulf of Mexico—then an exit from the initial oil strategy through a sale of the Permian assets to fund operations in the Mississippian. The company's focus and asset mix have oscillated significantly as a result.

Giving investors further cause for doubt, the company has been undisciplined in its capital strategy. Capital budgets have been frequently exceeded; in just the past two years, the dissidents point out, the company has raised its capital guidance five times, significantly in excess of cash flow with which to fund it. As a result, the income statement suffers from high financing costs, shareholders have suffered "massive dilution" of nearly 250%—a figure more than three times worse than the next-worst peer—and the company has now turned to the sale of high-quality assets—until recently, "core" assets—to fund its shortfalls in cash flow. Though the company recently announced a sale of the Permian Basin assets at deal multiples stronger than even equity analysts expected, the dissident argues that shareholders should be all the more concerned: this "home run" on the Permian, the last large, valuable asset left to sell, has still left the company with a massive shortfall to fund development of all the Mississippian assets it now considers core.

Not all the failures in capital strategy are related to assets with revenue potential, moreover. Corporate overhead is $200 million a year, "each and every year"—making it, at about 6% of market capitalization, "the single highest of any peer company, and as much as triple that of some peers." As a result, cash flow which could have gone to meet production needs—thus generating additional future cash flows—is diverted instead into apparently excessive, non-core activities, exacerbating the funding deficit.

At the current rate of well cost and corporate spending, the dissidents calculate, the company would need "as much as $40 billion to develop its wells in the Mississippian." Even at more efficient spending levels, the dissidents calculate, the figure would still be more than $30 billion.

Compensation and Related Party Transactions

If the market performance of the stock reflects not only growing misgivings about a hopscotch corporate strategy and poor capital discipline, the dissidents contend, current shareholders should also be concerned about "the failure of directors to prevent leakage of value from stockholders" through poorly structured and excessive management compensation as well as numerous related party transactions benefitting the CEO and his family. The CEO—at $25 million in 2011—CFO, and COO are "among the highest paid of any peer companies, all of which have outperformed SandRidge." The company also provides the CEO with "unlimited personal use of the company's four corporate jets," personal accounting services at a cost of nearly $1 million per year, and pays sponsorship and suite licensing fees of $3.5 million to the Oklahoma City NBA franchise in which the CEO has a 19% ownership interest. In 2012, moreover, "SandRidge paid him $0.3 million for tickets" to games the CEO was unable to use.

In one of the more unusual compensation perks, now eliminated, the CEO had the right to co-invest for up to 3% on wells the company drills through its Executive Well Participation Plan. The company ended that plan in October 2008, the dissidents point out, by paying the CEO $67 million for his rights to gas wells as natural gas prices were in a free fall from which they have never recovered, "the company had less than $1 million in cash," and the CEO was

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making public statements about “the need to abandon [its] natural gas focus and shift toward oil exploration and development.”

Beyond approving these compensation arrangements, however, the board has approved a number of related-party transactions with a trust (WCT) established by the CEO for the benefit of his adult children. The dissidents estimate WCT has accumulated 300-500 acres in the Mississippian, making it one of the top four or five players—despite having just seven employees—in what is now SandRidge’s core geography. Because SandRidge’s disclosure has been limited, the dissidents have retained private investigators to dig through lease information in court houses and record offices of the 37 Kansas and Oklahoma counties covered by the Mississippian. In just the first 3 of the 22 counties in which there are “overlaps” between WCT and SandRidge holdings, the investigations uncovered instances of WCT acquiring leases it quickly “flipped” to SandRidge within as little as one week; WCT acquiring leases from another company owned by the CEO, TLW Land & Cattle, then flipping those leases to SandRidge within months (but without the company disclosing the role of the CEO’s company), and WCT acquiring leases adjacent to leases SandRidge was about to acquire, then flipping those leases shortly thereafter. The dissidents have provided examples of these transactions, including copies of original legal documents unearthed by the investigative team, on their investor website.

Putting the issue most broadly, the dissidents question “how is it appropriate that the family of the CEO is a frequent competitor to SandRidge in the company’s primary business?” Noting that WCT is run by the CEO’s son—until 2011, from the same business address as SandRidge—and employs a COO who “appears to have been a land manager at SandRidge until as recently as 2011,” the dissidents question why, “if WCT has no involvement with SandRidge… they repeatedly show up at the same places? How can this apparently small company repeatedly beat SandRidge and its 2,500 full-time employees to the punch?” Though the company states the CEO “retains no financial interest nor has any management or operational involvement,” the dissidents note that “in some prior years, based on a comparison of signatures, it appears that [SandRidge CEO] Tom Ward signed company documents.”

Dissident Plan

Given the dismal performance, the lack of capital discipline which begat a significant shortfall in cash for development of the Mississippian assets, and the board’s questionable oversight of compensation and related party transactions benefitting the CEO and his family, the dissidents believe that replacement of the entire board has become necessary.

In planning for that outcome, they have provided investors an outline of the tactical and strategic actions the dissident nominees would pursue, founded on “exhaustive analysis and planning for the ‘first 100 days’ ...including formation of Board Committees, hiring of external advisors, etc.” The dissidents are clear that they would replace the CEO, who they believe could be fired for cause, and have already begun a search process.

Though they would consider a sale of the entire company, the core of the dissidents’ strategic plan assumes that “long-term value will be maximized through efficient and focused development of the Mississippian assets.” Since the company faces a significant funding gap to develop its assets—development on leases must generally begin within 5 years, under standard lease terms—many of their immediate business initiatives would drive for quick efficiencies in non-production activities, to free up cash flow. In particular they target overhead spending—which has been around $200 million per year, more than 6% of its current market capitalization, for years—on such line items as “management compensation, travel, advertising and promotion, and excessive real estate.”

They would also seek to monetize through joint ventures or asset sales both the Mississippian acreage the company could not otherwise develop on its own, and non-core assets such as the recently-purchased Gulf of Mexico (Dynamic) assets. They would pursue strategic options for the infrastructure assets as well, all with an eye toward reducing debt and the company’s cost of capital. They would also address the “massive capital expenditure needs of the company” through additional reduction or sale of working interest in the Mississippian.

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Management Response

The company contends the board's actions are creating significant shareholder value, both by making the company the most efficient driller in the Mississippian—which has among the highest drilling returns in the US—and by repositioning the balance sheet—especially through the $2.8 billion of increased liquidity from the sale of the Permian assets—to support the strategic focus on the Mississippian. Replacing the incumbent board with the dissident nominees risks disrupting that strategy, the board argues, and a change in control of the board "would not provide shareholders with any control premium."

Strategy and Capital Discipline

Far from being a disjointed strategy, the board argues, its strategic shifts over the past half decade have been bold responses to unforeseen macro events which saved—and have now positioned the company to create—significant shareholder value. Founded in 2006 as a natural gas pure play, the company faced a crisis soon after its 2007 IPO when natural gas prices fell by more than 85% in 2008, from ~$13.50/Mcf to less than $2.00/Mcf. The board took strategic actions to pivot the company away from gas and into oil production, acquiring assets first in the Permian, then the Mississippian, and most recently in the shallow waters of the Gulf of Mexico (the Dynamic acquisition).

Where 65% of 2009 revenues came from natural gas, 86% today come from oil. Within the Mississippian—where the company holds leases on nearly a third of total acreage—more than 80% of cash flows results from oil production, where production has increased 18x from 3Q 2010 to 3Q 2012. Having drilled approximately 45% of all horizontal wells within the Mississippian, the board contends, the company has advanced significantly along the learning curve, lowering spud-to-spud times by about 20% in 2012 alone and with an average spud-to-first-sales time more than 10 days below peers. The company has put significant investment into a salt water disposal system and electrical system to support its Mississippian operations; in aggregate these infrastructure investments—whose development costs drive a higher G&A than peers—have helped the company lower its Lease Operating Expense (LOE) by 15% since 1Q 2012. The company expects drilling and completion costs to continue to decline over 2013 to less than $3 million per well, giving SandRidge the competitive lead on development and infrastructure costs.

In announcing the Permian asset sale, the board continued to reposition the company toward assets with some of the highest returns in the US, in the process realizing $1.4 billion more than its net investment. The deal also brought more than $2 billion in cash, and will help reduce net debt/EBITDA from 3.2x (at the end of 3Q 2012) to under 2.0x. The recent acquisition of the Dynamic assets "provided attractively-priced EBITDA and production and enhanced [SandRidge] credit metrics," adding high cash flow assets with relatively low maintenance CAPEX requirements. (The company "will continue to look to opportunistically acquire small bolt-on properties with minimal development requirements," the board notes.) To help improve the company's financial position, the board has also reduced total 2013 capital expenditure budget by nearly 20%. The company notes that it has exceeded analyst consensus EBITDA estimates in three of the last four quarters, and consensus EPS estimates in each of the last five quarters.

Related Party Transactions

The dissidents' allegations regarding transactions with WCT and other entities affiliated with the CEO's family are misleading, the company asserts in its presentation to shareholders. Across the Mississippian "the company competes with numerous other companies—WCT is just one of many." WCT is an independent company over which the CEO has no control, and whose managers, including the CEO's son, "have no access to non-public information concerning SandRidge's land and mineral acquisition programs. Transactions with WCT have been "thoroughly reviewed and approved in advance by disinterested board members," the company asserts, and disclosed "in [SandRidge's] public filings, as appropriate."

Potential Consequences of Replacing the Current Board

The dissident nominees, the board argues, "lack the relevant oil and gas exploration and production operating experience necessary to drive SandRidge's future growth." Moreover, replacing a majority of the board "would also result in the accelerated vesting of a substantial number of shares of restricted stock held by senior management, thereby removing a key element of the company's retention program and potentially depriving the company of its experienced leadership."

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Analyst Views

Equity analysts are generally positive on the company's oil and gas assets, but have raised questions about the credibility of the company's strategy, particularly as investors have been caught off-guard by major shifts over a relatively short time-span. Though not a uniform view of events, a survey of responses to the announcement the Permian assets would be put up for sale gives voice to what seems to be a growing consensus embodied, as the dissidents have pointed out, in the fact that "nine major research analysts have downgraded their rating on the company's shares since October, and not one has raised their rating."

"Management's decision to sell its higher oil cut Permian properties at a time when its Mississippian volume are becoming gassier," wrote Raymond James, "is clearly a tough pill to swallow for the market. ...The declining oil cut from the Mississippian shouldn't be taken lightly and SandRidge's projected capital outspend in 2013 (close to $900 million at strip pricing) keeps us on the sidelines until we get more details on well performance in the Mississippian and/or more prudent capital spending from management." In particular, the analyst wrote, the strategic rationale for the sale made it "a bit of a head scratcher under the pretext of management wanting to become oilier given ...the Permian is more oily than the Mississippian (67% vs. ~40%)."

JPMorgan was "less enthused" but, given the market's still-more dour outlook, kept the stock at an "Outperform" rating because "the stock still is cheap and has catalysts," notably the two large shareholders agitating for changes in the executive suite. Before accounting for proceeds from the Permian sale, the analyst's model forecast a net funding gap through 2017 of $2.1 billion, to be raised either through adding additional debt or through asset sales. In aggregate, this suggested the markets had begun to look less at the economics of a single action, such as the Permian sale, and more at the signaling—particularly the inadvertent signaling—of the strategic announcements: "Since the market seems to lack confidence in the company's financial position and strategy, we think the company will trade at a discount to the group median until that confidence grows."

"The biggest casualty of a Permian sale," wrote Deutsche Bank after the announcement those assets would be put up for sale, "may be investors' confidence in management, with its second significant strategic change in less than a year." That sentiment was echoed by Simmons, observing that the decision to sell the Permian was "a surprising move" and "particularly interesting following yesterday's Activist Shareholder letter to SandRidge's board by TPG-Axon." Though the analyst welcomed the potential to "meaningfully delever the balance sheet" through the Permian sale, "our outlook remains constrained by current capital structure and funding gap need to drill its extensive [Mississippian] position." With this latest strategic switch "and significant moving parts we are unsure if it is prudent to give SandRidge the benefit of the doubt." SunTrust, which believed the proposed sale "improves the company's longer-term position" by improving liquidity, and estimated "the net asset value is over $10/sh given the sizeable amount of proven reserves and acreage" nonetheless dropped its price target from $11.50 to $9.50 because the asset mix without the Permian would be gassier, and warned that its target "would fall further if SandRidge sold its non-royalty tied Permian acreage as planned."

Wunderlich Securities, noting that "the biggest concerns at SandRidge have been financial given the asset performances," applauded the decision to sell the Permian since it would both focus the company and provide "significant funds that can be deployed into the Mississippian." BMO Capital Markets observed that the company now seemed to be "finding religion on spending" by pulling back on the Permian. "We like the sale and reduced activity as we believe Permian after-tax IRRs were only ~10% and production had been declining," the analyst added, but with spending now forecast more in line with funding, "we struggle getting to the oil guidance… which drives all future growth…. We think from late 2008 when SandRidge was a Pinon field pure play (PDP isn't even worth much) with $2.4 billion in debt, to today, management has done a good job in righting the ship and creating significant value and a path to FCF breakeven is beginning to emerge."

After the sale was announced—at a valuation significantly higher than most analysts had forecast—Stifel Nicolaus commented approvingly on the stronger-than-expected deal metrics, noting that "most importantly, it meaningfully helps reduce the debt load, which should help the stock since the company is still expected to outspend Cash Flow by $2.3 billion over the coming two years." The balance sheet "and some investor concern about management have been the two key reasons for the discount to its underlying NAV," the

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analyst added. SunTrust reiterated its view that the deal was "best for the company in the long run," even as the asset mix grew gassier, and noted that "disciplined capital allocation would be quite positive." The analyst also observed, however, that "SandRidge likely appears more appealing to a larger company after the latest Permian sale as the company is now nearly a pure play with ample production growth."

Writing in early February after the start of the consent solicitation, JPMorgan—changing its rating from "Overweight" to "Underweight," observing that "regardless of the near-term stock move [in response to the outcome of the consent solicitation], SandRidge seemingly has to go through extraordinary measures to avoid a financial crunch, and we think too much risk exists relative to the stock upside." Though shares likely "would react positively with a TPG win and get hit hard if TPG loses … the hardest part starts when the proposed new board tries to avoid future financial problems." The analyst's own scenario modeling through 2020 "lead to the conclusion that SandRidge's current outspend is just too great to handle for SandRidge's balance sheet," suggesting that the "best option is to sell itself."

Analytic Framework

When analyzing proxy contests, ISS focuses on two central questions:

1. Have the dissidents made a compelling case that change is warranted?

2. Which nominees are more likely to effect the necessary change?

When, as here, the dissidents are seeking board control, ISS looks for a well-reasoned and detailed business plan (including the dissidents' strategic initiatives), a transition plan that describes how the change in control of the company will be effected, and where management continuity may be an issue, the identification of a qualified and credible new management team.

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Question #1: Have the Dissidents Made a Compelling Case that Change is Necessary?

Total Shareholder Return

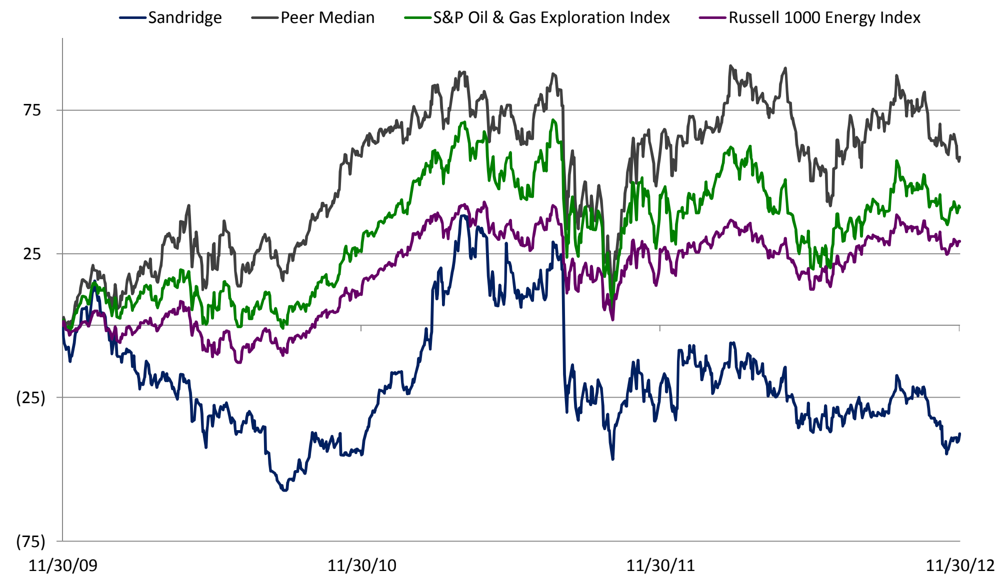
In compiling a peer group to gauge relative performance, ISS looked first for peers on which both the company and the dissidents relied in their presentations, then winnowed a larger sample of nominees from the company and dissident presentations as well as Bloomberg-nominated peers. This latter group was evaluated based for comparability in terms of size, business mix (oil vs. gas production), and location of assets (and therefore to some extent similarity drilling challenges and techniques).

Four companies—Continental Resources, Pioneer Natural Resources, Plains Exploration and Production, and Newfield Exploration—were considered appropriate peers by both the company and the dissidents in their presentations to shareholders. In addition, ISS added Concho Resources, a member of the company's self-selected peer group, and Denbury Resources, Linn Energy, and Whiting Petroleum from the dissident's selected peer group. For measuring TSR, ISS also used two relevant energy indices, the S&P Oil & Gas Exploration Index and the Russell 1000 Energy Index.

Over each of the 1-, 3-, and 5-year periods ending Nov. 30, 2012—the date the dissidents' intentions became public—the company substantially underperformed both this peer group and each of the two indices. SandRidge TSR was (20.4)% for the 1-year period, 14.7 percentage points worse than peers and 17.5 and 22.0 percentage points, respectively, worse than the S&P and Russell 1000 energy indices. Over the 3-year period the company's TSR was (37.6)%, 96 percentage points worse than peers and 79 and 67 percentage points worse than the respective indices. Over the 5-year period—a span of all but half a year of the company's public life at that point—TSR was (81.4)%, 185 percentage points worse than peers and 93 and 85 percentage points worse than the respective indices.

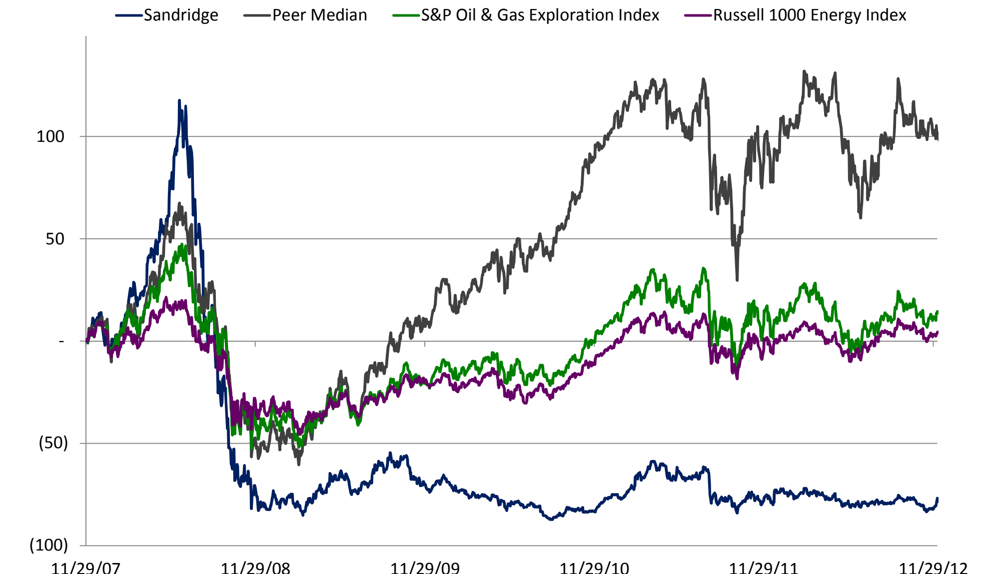
After the end of these standard measurement periods the company announced it had sold the Permian assets for a valuation significantly higher than equity analysts had forecast. The market reacted sharply, getting TSR essen-

3-Year TSR



Source: Bloomberg LP

5-Year TSR



Source: Bloomberg LP

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tially back to breakeven, for example, from the 1-year performance. Since then, however, shares have again fallen significantly, giving up all those Permian-induced gains even as the sector rallied further.

Using the same starting points for each of the 1-, 3, and 5-year measurements, but measuring through Feb. 8, 2013 (when ISS pulled the data for this report), performance was slightly worse on both an absolute and relative basis. For the extended 1-year period, TSR was (21.4)% , 33 percentage points worse than peers and 31 and 34 percentage points worse than the S&P and the Russell 1000 energy indices. For the extended 3-year period TSR was (38.2)%, 123 percentage points worse than peers and 98 and 80 percentage points worse, respectively, than the two indices. Over the extended 5-year period TSR was (81.6)%, 196 percentage points worse than peers and 107 and 95 percentage points worse, respectively, than the two indices.

Strategy and Capital Discipline

The overriding question about the company's strategy is whether it is driven by a long-term vision of value, or simply reactive to opportunities and risks as they manifest. This is particularly a concern for shareholders since the former would necessarily provide flexibility for the unknown, particularly in the long-term planning assumptions around commodity prices, competitive developments, and other macro and sector-specific events.

There is now little doubt the company had to pivot away from a pure-play natural gas business model when the bottom fell out of that market in 2008, though it is not clear—as the dissident has pointed out about the board's willingness to repurchase the CEO's well participation for $67 million, even as the market for natural gas was falling rapidly—how prescient were the CEO or the board. More to the strategic mind-set, however, the natural gas business model was an all-in play to begin with, which may say something more enduring about the board's and management's appetite for both risk and risk-management. Most notably, the board itself does not appear to have required management to build in many protections or risk mitigation features. The dissidents, in their Nov. 30 letter to the board, point out one example: "at the absolute peak of the [natural gas] market" in mid-2008, the CEO negotiated a 30-year agreement to provide guaranteed minimum volumes of carbon dioxide, a byproduct of natural gas production, to Occidental. Now, years after natural gas prices made that production uneconomical and the company has pivoted to oil, it is also "incurring tens of millions in annual payments to Occidental."

Even within the company's current focus on oil, there little evidence—as equity analysts have noted—of a single coherent strategy . Conventional vertical drilling in the Permian may actually have lower IRRs than horizontal drilling in the Mississippian—but the development in the Permian was still a core part of the oil strategy until suddenly, just after the dissidents appeared, it wasn't, and the asset was put up for sale. Similarly, off-shore exploration and production in the Gulf wasn't core to the company's oil strategy until suddenly, when the Dynamic assets offered a chance to improve financial metrics and provide more funding capacity, they were. In both cases the strategy, as the dissidents and equity analysts have all suggested, appears driven not by an overarching plan and strategic focus, but by financial necessity.

There is also evidence that this financial necessity is , as the dissident contend, self-induced. The company has argued that its overhead costs are higher than peers because it chose to invest in electrical and water disposal infrastructure to help lower its lease operating expenses—effectively investing up front for a return, through lower costs and improved free cash flow, in the future. The dissidents point out, however, this may be something of a red herring: G&A expenses since 2009 have increased by an incremental $22 million for senior executives, an incremental $15 million for legal and consulting services, and an incremental $4 million for advertising. The company owns four private planes, which in turn require additional support staff, yet its principal assets in the Mississippian "are within driving distance of Oklahoma City."

As a strategic initiative, moreover, the infrastructure investment makes sense if the business this infrastructure supports is a proven, mature business around which you can reliably forecast future cash flows and returns. If the business is an unproven development and new drilling technique about which you have a good hunch, it's a much riskier "investment." As a go-it-alone investment in development you're still proving out, moreover, it is an increasingly questionable strategy when you're already regularly exceeding your capital budgets, in excess of free cash flow, and thus further limiting your financial flexibility.

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The company has indicated it would consider monetizing the assets—the water disposal system in particular has capacity in excess of SandRidge's needs. One has to wonder, however, if there weren't already other options to finance it—a joint venture, or a long-term contract to induce a third-party provider, for example—which might have helped an increasingly capital-constrained SandRidge redirect more of its cash to the exploration and production which would produce new revenue and cash flow.

Taken individually, many of the company's actions have a certain logic. The Permian assets did fetch a price substantially above market expectations, and provided a healthy return on net investment over a relatively short time period. The acquisition of the Dynamic assets in the Gulf did bring EBITDA and incremental free cash flow, and improved financial metrics. The infrastructure investments in the Mississippian may well be delivering a good return on investment by lowering lease operating expenses. But in aggregate—which is how the market, and investors, look at it, these look more like strategic lurches—in which luck and the unanticipated may play an outsized role—than an overarching, coherent strategic vision one could buy into. No one, including the dissidents, appears to doubt that the oil and gas portfolio in the Mississippian has good assets. Collecting a portfolio of good assets, however, is no substitute for a great strategy flawlessly executed, particularly if the company has become so capital constrained that it must deciding what assets are core by whether it needs to liquidate them, moreover, there may be significantly more cause for concern.

Compensation and Related Party Transactions

As ISS has reported in reviewing the company's executive compensation practices, and recommending withhold votes against Compensation Committee members, for several years, the company has persistent problematic compensation practices which undermine any potential links between pay and company performance.

The company does not utilize any performance criteria under its short- and long-term incentive programs. Annual cash bonuses are fully discretionary, not awarded pursuant to a formal plan, and not based on specific company or individual performance targets. Equity grants at the company consist entirely of time-based restricted stock not linked to any performance conditions.

The CEO's total compensation, which has been consistently higher than ISS' derived peers year after year, was $20.7 million in FY2012. The CEO's employment agreement, effective December 2011, entitles him to a minimum base salary of $1.5 million and multi-year guaranteed restricted stock grants with a value of at least $16.25 million annually. These large annual equity grants require only time-based vesting, are not linked to any performance criteria, and are guaranteed even in the event of company underperformance.

If the CEO is terminated within two years following a change in control event, his restricted stock will accelerate and he will receive cash or shares equal to the annual equity grants he would have been entitled to receive over the subsequent three years had his employment not been terminated. The value of this change-in-control provision is $48.75 million, which contributes to a total of $97.4 million in severance if he is terminated as a result of a change-in-control. More generally, if he is terminated without cause, his estimated severance is $90.9 million, though he would not be entitled to any compensation if he is terminated for cause. His employment agreement also provides for an excise tax gross-up of $6.7 million.

Moreover, the company provides significant perquisites to the CEO, covering costs relating to his personal use of company aircraft, personal travel expenses, club membership dues, and a sizable reimbursement ($725,862 in FY2012) of costs for accounting services for his personal investments.

Given the persistent and numerous problematic pay practices, ISS recommended a vote against the company's say-on-pay proposal in FY2010, and further recommended a full-board withhold in FY2011 for lack of responsiveness to previously raised issues. For FY2012, however, it does not appear that the company made any significant compensation changes to address these recurring concerns. In an uncontested annual shareholder meeting, therefore, ISS would likely once again recommend shareholders withhold votes from the Compensation Committee members for perpetuating these poor pay practices.

Though the dissidents' investigations into the related-party transactions with WCT are still in an early stage, the results to date raise serious questions for unaffiliated shareholders about the judgment, and the practical independence, of the outside directors who reviewed and approved them. These concerns are

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only amplified by the company's comparative silence—a handful of broad bullet points on a single page of its investor presentation—in the face of a 30-page synopsis from the dissidents of their findings thus far, supported by dozens of source documents made public on the dissident's contest website.

The issue is not, as the company has attempted to frame it, whether any firm active in the Mississippian would at some point hold leases adjacent to the company's. The issue is the remarkably close relationship illuminated in the dissident's presentation and source documents between SandRidge's activity in the region and WCT's apparently speculative land deals in adjacent, or the same, lease properties. In some examples the dissidents have provided, where WCT acquired leases it flipped to the company within weeks, these actions look disconcertingly like a real-estate equivalent of front-running the company's development plans.

That the independent directors reviewed and approved the transactions, and the company disclosed them "as appropriate," is not the panacea it might seem when the disclosure appears to omit, as the dissidents have documented, that the CEO first flipped assets to WCT before WCT then flipped them to SandRidge. At the least, the lack of that sort of fulsome disclosure raises further questions about whether the disclosures the company did make were drafted to obscure as much as to reveal.

The overarching questions for unaffiliated shareholders, which they might expect would be foremost in the minds of the independent directors evaluating these transactions, are not just why it is appropriate for the CEO and his family to compete with the company he is hired to manage, but how WCT has apparently been so effective in that competition, when it lacks anything near the size and resources which inform the SandRidge lease acquisitions.

ISS Conclusion: Is Change Necessary?

The dissidents have raised serious questions on a number of dimensions about the board's stewardship. Some of these are obvious from historical data, such as the failure to stem the inexorable loss of shareholder value, in absolute terms and relative to peers, over every measurement period since the company went public, or the persistent problematic pay practices which have increased CEO compensation even as shareholder value continued to erode. The dissidents have also made a compelling case, however, that the root cause of the market's response over time has been the board and management's lack of a single, coherent strategic framework informing its tactical decisions, coupled with weak capital discipline which exacerbated concerns by gradually limiting the company's financial flexibility.

Though some of the company's strategic actions, taken in isolation, have yielded impressive short-term results—most notably the valuation the company realized through the sale of its Permian assets—the durable market response to even these home runs has been pessimistic. Less than two months after the Permian sale was announced, the stock had given up all the announcement-induced gains, even as peers and the energy indices continued to advance. Coupled with the disconcerting revelations about the related party transactions with the trust established by the CEO for the benefit of his adult children, the dissidents have made a compelling case that substantial change at the board level is necessary.

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Question #2: Which Nominees Are More Likely to Effect the Necessary Change?

Nominees

The dissidents have nominated seven director candidates:

Stephen C. Beasley (61) founded and is currently CEO of Eaton Group, Inc. He was previously President of El Paso Corp's Eastern Pipeline Group, and Chairman and President of Tennessee Gas Pipeline Co. and ANR Pipeline Co. He is currently a director of independent E&P firm BPZ Resources, Inc., and was previously a director of Williams Pipeline Partners LP and Southern Union Co.

Edward W. Moneypenny (70), who retired as CFO of 7-Eleven Inc. in 2006, was previously CFO of Covanta Energy Corp. and two former Fortune 500 energy companies Florida Progress Corp. (now Duke Energy) and Oryx Energy Corp. (now part of Kerr-McGee Corp.). in 1999. He was previously a director of New York & Co. and Timberland Co.

Fredric G. Reynolds (62), who retired as CFO of CBS Corp. in 2009, held a number of executive positions within Viacom Inc., CBS, and its predecessor Westinghouse Electric Corp., and PepsiCo, Inc. He is currently a director of Mondelez International (formerly Kraft Foods, Inc.) and AOL, Inc., and a former director of Reader's Digest Holdings Inc.

Peter H. Rothschild (57) is Managing Member of Daroth Capital LLC, and has held senior investment banking positions at Dresdner Kleinwort Wasserstein and its predecessor Wasserstein Perella, and at Bear, Stearns & Co. and Drexel Burnham Lambert. He is a director of The Wendy's Company.

Dinakar Singh (43) is founder and President of TPG-Axon Capital, at 6.7% the third-largest shareholder of SandRidge Energy, and was previously a partner at Goldman Sachs & Co.

Alan J. Weber (63), an Operating Partner at private equity firm Arsenal Capital Partners, LLC., was formerly Chairman and CEO of US Trust Co., a 150 year old firm specializing in trusts, investment management, tax and estate planning, private banking, alternative investments and philanthropic consulting, and has held other senior financial and operating executive positions with Aetna and Citicorp. He is currently a director of iTransfer, Inc., Broadridge Financial Services, Inc., Diebold, Inc., and OnForce, Inc.

Dan A. Westbrook (60), was an executive with BP plc and Amoco Corporation, with responsibility for combined upstream and liquefied natural gas business with multiple offshore operations, and for developing energy and petroleum business in China, South America, Russia, the North Sea, the Netherlands and the Middle East. He is currently a director of Enbridge Energy Company, and formerly a director of Ivanhoe Mines. Ltd., Knowledge Systems, Inc., and Synenco Energy Inc., and Dapeng LNG– China.

In order to elect these nominees, the dissidents are requesting shareholder consent to remove all seven incumbent directors:

Tom L. Ward (53) has been Chairman and CEO of SandRidge Energy since June 2006, and was formerly co-founder, President and COO of Chesapeake Energy Corp.

Jim J. Brewer (53) is co-founder and President of J-Brex Co., a private oil and gas and real estate company. He also co-founded and is currently a director of Energynet.com, an on-line oil and gas property auction service. He has been a director of SandRidge since 2011.

Everett R. Dobson(53) was founder, Chairman and CEO of NASDAQ-listed telecom Dobson Communications Corp., and is currently CEO of Dobson Technologies, a private landline, fiber optic and data storage business. He has been a director of SandRidge since 2009.

William A. Gilliland (74)was the founder, Chairman, Chief Executive Officer and President of Cross-Continent Auto Retailers, Inc., and currently manages several personal and family investment partnerships. He has been a director of SandRidge since 2006.

Daniel W. Jordan (56) founded and was Chairman and CEO of Jordan Drilling Fluids, Inc. until its sale in 2005. From 2003-2005 he was a director and Vice President of Lariat Compression Co., and from October 2005 through August 2006 the Vice President, Business of Riata Energy, Inc., the predecessor to SandRidge. He has been a director of SandRidge since 2006.

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Roy T. Oliver, Jr. (60) founded and was President of U.S. Rig and Equipment, Inc. until its sale in 2003. He has been President of R.T. Oliver Investments, Inc., a diversified investment company with interests in energy, energy services, media and real estate, since 2001, and Chairman and President of Valliance Bank, N.A. since August 2004. He has been a SandRidge director since 2006.

Jeffrey S. Serota (46) is a Senior Partner in the Private Equity Group of Ares Management LLC, an alternative asset investment firm, and was previously an investment banker with Bear Stearns. He is currently a director of EXCO Resources, Inc. and WCA Waste Corp., and previously served on the boards of Douglas Dynamics, Inc. and Lyondell Bassell, N.V. He has been a director of SandRidge since 2007.

Potential Consequences of Changing a Majority of the Board

The company's credit agreement and bond indentures both contain change–in-control provisions under which a change in the majority of the board membership during any 24 month period may force the company to repay the outstanding amounts. As the credit agreement had no outstanding balance as of the last financial statement, no repayment would be forced. As of Sept. 30, 2012, the company had approximately $4.3 billion of senior notes outstanding which could theoretically be put to the company if there were a change in the majority of the board. As both the company and the dissidents have noted, however, all of the outstanding senior notes currently trade at significant premiums to par, and above the 101% of par (plus accrued interest) at which the indentures stipulate a repurchase offer would have to be made. As a result, it is unlikely any significant repurchase of the senior notes would be required.

The dissidents have asserted, however, that even if all of the outstanding notes were tendered for repurchase pursuant to the change in control requirement, the new board would be able to refinance the debt due to the current availability of credit on favorable terms, the company's cash position (including proceeds from the Permian sale), the ability of its substantial asset base to support a financing if required, and what the dissidents expect will be an "increase in the company's credit rating resulting from the change in the composition of the board."

In addition, as both the company and the dissidents have noted in their the presentations to shareholders, vesting of all equity awards under the company's 2009 incentive plan would accelerate if there is a change in the composition of the Board "whereby the members of the Board as of June 5, 2009 no longer constitute a majority of the Board for any reason." Unlike the debt indentures, this represents no cash risk to the company. It is an unusual provision, however—a change in control could be triggered simply by director resignations in the ordinary course, eliminating all incentive or retention aspects of the employee equity awards. In the event the dissidents are successful in this contest, however, this "dead hand" feature would force shareholders to bear additional dilution simply to incent and retain employees whose employment was never at risk.

The board has also asserted that replacing a majority of directors with dissident nominees "would not provide stockholders with any control premium." A change in the majority of the board, however, would have no effect on shareholders' control of the company through the ability to elect directors (it would, by contrast, demonstrate their effective control of the company), nor would it change their economic rights of ownership—situations in which a control premium would be appropriate compensation.

ISS Assessment

The apparent failures of stewardship on this board are legion.

From a stutterstepping business strategy and weak capital discipline which reduced financial flexibility so far that the sale of the company's most valuable non-core asset cannot close its anticipated funding gap—to a compensation program which failed to tie pay to performance, making the CEO one of the highest paid in his industry even as shareholder value declined by nearly three-quarters over his tenure—to approving numerous related-party transactions which, under public scrutiny, begin to look more like front-running the company's own lease acquisitions than adding value unavailable through a less conflicted means—there is little reason to believe the outside directors who are specially charged with looking out for the interests of unaffiliated shareholders are best equipped to effect the necessary change at SandRidge.

Aside, obviously, from a clear sense of accountability to shareholders for both

governance and results, a new board will require experience not only in the oil and gas industry, but also successful experience in capital allocation and budgeting under constraints. It is also likely that deep capital markets experience will be a significant factor in its success.

Among the dissident nominees, there is extensive oil and gas operating experience in nominees Beasley and Westbrook. There is also significant relevant CFO experience in Moneypenny, who was CFO of three energy companies, two of them ranked in the Fortune 500. Among these three, there is also what would appear to be substantial first-hand experience with capital allocation and budgeting, and to some extent with the capital markets.

Dissident nominees Singh, by virtue of his current work with TPG-Axon and his prior experience as a partner at Goldman Sachs, appears to have both deep capital markets experience and, as a large shareholder, a vested interest in evaluating strategy and results from a shareholder perspective.

There is no "governance" nominee on the dissident ballot, presumably from conviction—as the dissidents' critique of the current board's performance implies repeatedly—that maintaining effective governance structures and practices, and accountability to shareholders for results, are core responsibilities of every director. Certainly the wealth of boardroom experience among the dissident nominees—particularly recent experience, incorporating shareholder expectations about corporate governance shaped in the corporate scandals of the early 2000's and the financial crisis of 2008-9—suggests an antidote to the company's chronic compensation issues and related-party transactions. In particular, however, the broad current experience of dissident nominee Weber—who also has extensive financial markets experience—may prove valuable.

We cannot endorse Ward's continuation as chair. We strongly urge the reconstituted board to elect an independent chair at its initial meeting.

Compelling though the company's current portfolio of oil and gas assets may be in the abstract, there is considerable question, even among third party equity analysts who have no dog in this fight, whether Ward's leadership has left the company sufficient financial flexibility to realize the potential of those assets. Ward benefitted directly from increasingly outsized pay packages over his tenure, even the company lost more than 70% of its market value. As CEO he also benefitted not only from a perk allowing him to take 3% of the upside on wells the company drilled—but also, when the bottom fell out of that market in 2008, to sell his stake to the company he led as Chairman and CEO. As a director he had the same fiduciary duties as any of the outside directors. As the director with the most leverage to forestall conflicted or questionable transactions involving his family, however, he appears, in the most promising interpretation of events, to have done nothing to stop them.

As shareholders are replacing most of the other incumbent directors, however, they should pause to consider whether also removing the CEO, without a fully vetted and orderly succession plan in place and with no other continuity on the board, is the most robust plan at this moment. It is true, contrary to the company's assertions, there is compelling senior oil & gas sector management experience among the dissident nominees. It is also clear the dissidents have completed significant advance planning to mitigate the risks of a majority change—and that the lead dissident in particular, as a large shareholder who would be unable to trade out of the stock easily once on the board, has significant risk if any transition is not managed well. But while these factors should give shareholders comfort in changing out a majority of the board, they should also note that the dissidents have not yet identified the new CEO they would hire to lead the company back from the wilderness.

This recommendation on the CEO is not an endorsement of his tenure, but a recognition that there is no other CEO candidate at the moment, with transition to a new CEO expected quickly if dissidents are elected. Out of prudence, then, and for what we expect—based on the dissidents' frank presentation to shareholders—will be a finite transition period, it may be the lesser of two unpalatable alternatives to leave the CEO on the board for now, and allow the reconstituted board to take further action once it has control of the company.

For similar reasons, we also believe shareholders may want to retain for a transition period the newest outside director, Brewer, who appears from the company's filings to have the most directly relevant operating experience of the current outside directors. The company's presentations to shareholders do not shed any light on who among the outside directors vetted and approved the related party transactions, giving shareholders little evidence to assess

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Brewer's culpability. As he only joined the board in 2011, however, it appears unlikely he was as deeply involved as the longer-serving outside directors. This fact, coupled with his operating experience, may make it prudent to retain him for continuity over the transitional period.

Because we have recommended shareholders remove only 5 of the 7 current directors, we have not recommended they vote to elect the sixth and seventh dissident nominees, Reynolds and Rothschild. This is purely a matter of math—having too many qualified nominees for the limited number of open seats. Reynolds and Rothschild each appear to have extensive experience, including board experience, which would be valuable to the reconstituted board as it faces the challenges ahead. In neither case do we have reservations about the qualifications, commitment, or abilities of these nominees.

ISS Conclusion and Vote Recommendation

Because the dissidents have made a compelling case that a change in the majority of the board is warranted, shareholders should PROVIDE CONSENT to:

- remove incumbent directors Dobson, Gilliland, Jordan, Oliver, and Serota, and
- elect dissident nominees Beasley, Moneypenny, Singh, Weber, and Westbrook.

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