

SANDRIDGE ENERGY INC
Form S-1/A
July 29, 2011

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As filed with the Securities and Exchange Commission on July 29, 2011

Registration No. 333-174492

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

REGISTRATION STATEMENT

UNDER
THE SECURITIES ACT OF 1933

Amendment No. 3
to

FORM S-1

SandRidge Permian Trust

(Exact name of co-registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

1311

(Primary Standard Industrial Classification Code Number)

45-6276683

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

**919 Congress Avenue, Suite 500
Austin, Texas 78701
(512) 236-6599**

(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

**Michael J. Ulrich
The Bank of New York Mellon Trust Company, N.A.
919 Congress Avenue, Suite 500
Austin, Texas 78701
(512) 236-6599**

Amendment No. 3
to

FORM S-3

SandRidge Energy, Inc.

(Exact name of co-registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

1311

(Primary Standard Industrial Classification Code Number)

20-8084793

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

**123 Robert S. Kerr Avenue
Oklahoma City, Oklahoma 73102
(405) 429-5500**

(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

**Tom L. Ward
Chairman and Chief Executive Officer
SandRidge Energy, Inc.
123 Robert S. Kerr Avenue
Oklahoma City, Oklahoma 73102
(405) 429-5500**

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(Name, address, including zip code, and telephone number, including area code, of agent for service)

(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copies to:

Philip T. Warman, Esq.
SandRidge Energy, Inc.
123 Robert S. Kerr Avenue
Oklahoma City, Oklahoma 73102
(405) 429-5500

David H. Engvall, Esq.
Covington & Burling LLP
1201 Pennsylvania Avenue, N.W.
Washington, D.C. 20004
(202) 662-6000

David P. Oelman, Esq.
Matthew R. Pacey, Esq.
Vinson & Elkins L.L.P.
First City Tower
1001 Fannin Street, Suite 2500
Houston, Texas 77002-6760
(713) 758-2222

Approximate date of commencement of proposed sale to the public:
As soon as practicable after this Registration Statement becomes effective.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box: o

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

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. (Check one):

SandRidge Permian Trust

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

SandRidge Energy, Inc.

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

The Registrants hereby amend this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrants shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act, or until this Registration Statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

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The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and we are not soliciting offers to buy these securities in any state where the offer or sale is not permitted.

PROSPECTUS (Subject to Completion)

Issued July 29, 2011

31,500,000 Common Units

SandRidge Permian Trust

Representing Beneficial Interests

This is an initial public offering of common units representing beneficial interests in SandRidge Permian Trust. The trust is selling all of the units offered hereby. SandRidge Energy, Inc. ("SandRidge") will convey to the trust certain royalty interests in exchange for the net proceeds of this offering, as well as common and subordinated units collectively representing a 40% beneficial interest in the trust (without giving effect to the exercise of the underwriters' over-allotment option). SandRidge anticipates that the initial public offering price will be between \$19.00 and \$21.00 per common unit.

The common units representing beneficial interests have been approved for listing on the New York Stock Exchange under the symbol "PER."

The Trust Units. Trust units, consisting of the common and subordinated units, are units representing beneficial interests in the trust and represent undivided beneficial interests in the property of the trust. They do not represent any interest in SandRidge.

The Trust. The trust will own term and perpetual royalty interests in certain of SandRidge's properties in the Permian Basin in Andrews County, Texas. These royalty interests will entitle the trust to receive, after the deduction of certain costs, (a) 80% of the proceeds attributable to SandRidge's net revenue interest in the sale of production from 509 producing wells and (b) 70% of the proceeds attributable to SandRidge's net revenue interest in the sale of production from 888 development wells to be drilled on drilling locations included within an area of mutual interest consisting of approximately 16,800 gross acres (15,900 net acres) held by SandRidge. The trust will not be responsible for any costs related to the drilling of the development wells. The trust will be treated as a partnership for U.S. federal income tax purposes.

The Trust Unitholders. As a trust unitholder, you will receive quarterly distributions of cash from the proceeds that the trust receives from SandRidge's sale of oil, natural gas and natural gas liquids subject to the royalty interests to be held by the trust. The distributions will also reflect hedges entered into pursuant to a derivatives agreement between the trust and SandRidge, as well as hedges entered into by the trust directly with unaffiliated hedge counterparties. For information on target distributions and related matters pertinent to trust unitholders, please see "Target Distributions and Subordination and Incentive Thresholds."

Investing in the common units involves risks. See "Risk Factors" beginning on page 19.

These risks include the following:

Drilling risks could delay the anticipated drilling schedule for the development wells to be drilled by SandRidge, which could adversely affect future production and decrease distribution to unitholders.

Oil and natural gas price fluctuations could reduce proceeds to the trust and cash distributions to unitholders.

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Actual reserves and future production may be less than current estimates.

Estimates of target distributions to unitholders are based on assumptions that are inherently subjective and are subject to significant risks and uncertainties.

The hedging arrangements will cover only a portion of the expected production attributable to the trust, and such arrangements will limit the trust's ability to benefit from commodity price increases for hedged volumes above the corresponding hedge price.

If the trust were treated as a corporation for U.S. federal income tax purposes, then its cash available for distribution to unitholders would be substantially reduced.

If the IRS contests the tax positions the trust takes, the value of the trust units may be adversely affected, the cost of any IRS contest will reduce the trust's cash available for distribution and income, gain, loss and deduction may be reallocated among trust unitholders.

The tax treatment of an investment in trust units could be affected by potential legislative changes, possibly on a retroactive basis.

	<u>PRICE \$</u>	<u>A COMMON UNIT</u>	
	<i>Price to Public</i>	<i>Underwriting Discounts and Commissions(1)</i>	<i>Proceeds to Trust(2)</i>
<i>Per Common Unit</i>	\$	\$	\$
<i>Total</i>	\$	\$	\$

(1) Excludes a structuring fee equal to 0.50% of the gross proceeds of this offering, or approximately \$ million, payable to Morgan Stanley & Co. LLC.

(2) The trust will deliver all of the proceeds it receives in this offering to one or more SandRidge subsidiaries. See "Use of Proceeds."

The trust has granted the underwriters the right to purchase up to an additional 4,725,000 common units to cover over-allotments.

The Securities and Exchange Commission and state securities regulators have not approved or disapproved these securities, or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The underwriters expect to deliver the common units to purchasers on _____, 2011.

<p>MORGAN STANLEY Deutsche Bank Securities Baird Wunderlich Securities , 2011</p>	<p>RAYMOND JAMES Goldman, Sachs & Co. Oppenheimer & Co. SunTrust Robinson Humphrey</p>	<p>RBC CAPITAL MARKETS Morgan Keegan Johnson Rice & Company L.L.C.</p>	<p>WELLS FARGO SECURITIES J.P. Morgan Sanders Morris Harris Inc. Tuohy Brothers</p>
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IMPORTANT NOTICE ABOUT INFORMATION IN THIS PROSPECTUS

You should rely only on the information contained in this prospectus or in any free writing prospectus the trust may authorize to be delivered to you. Until (25 days after the date of this prospectus), federal securities laws may require all dealers that effect transactions in the common units, whether or not participating in this offering, to deliver a prospectus. This is in addition to the dealers' obligation to deliver a prospectus when acting as underwriters and with respect to their unsold allotments or subscriptions.

The trust and SandRidge have not, and the underwriters have not, authorized anyone to provide you with additional or different information. If anyone provides you with additional, different or inconsistent information, you should not rely on it. This prospectus is not an offer to sell or a solicitation of an offer to buy the common units in any jurisdiction where such offer and sale would be unlawful. You should not assume that the information contained in this prospectus is accurate as of any date other than the date on the front of this document. The trust's and SandRidge's business, financial condition, results of operations and prospects may have changed since such date.

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SUMMARY

This summary provides a brief overview of information contained elsewhere in this prospectus. To understand this offering fully, you should read the entire prospectus carefully, including the risk factors and the financial statements and notes to those statements. Definitions for terms relating to the oil and natural gas business can be found in "Glossary of Certain Oil and Natural Gas Terms and Terms Related to the Trust." Netherland, Sewell & Associates, Inc., referred to in this prospectus as "Netherland Sewell," an independent engineering firm, provided the estimates of proved oil, natural gas and natural gas liquids reserves as of March 31, 2011 included in this prospectus. These estimates are contained in summaries prepared by Netherland Sewell of their reserve reports for (1) the Underlying Properties held by SandRidge, dated May 23, 2011, and (2) the royalty interests to be held by the trust, dated May 24, 2011. These summaries are included as Annex A to this prospectus and are referred to in this prospectus as the "reserve report."

References to "SandRidge" in this prospectus are to SandRidge Energy, Inc. and, where the context requires, its subsidiaries. The term "Arena Properties" refers to all of the oil and natural gas properties owned by Arena Resources, Inc. ("Arena") at the time of its acquisition by SandRidge in July 2010. The term "Underlying Properties" means the portion of the Arena Properties from which SandRidge will convey the royalty interests to the trust. The royalty interests to be conveyed to the trust are sometimes referred to as the "trust properties."

Unless otherwise indicated, all information in this prospectus assumes an initial public offering price of \$20.00 per common unit and no exercise of the underwriters' over-allotment option.

SandRidge Permian Trust

SandRidge Permian Trust is a Delaware statutory trust formed to own royalty interests to be conveyed to the trust by SandRidge in (a) 509 producing wells, including 13 wells currently awaiting completion (the "Producing Wells"), and (b) 888 development wells to be drilled (the "Development Wells") within an "Area of Mutual Interest," or "AMI." The AMI consists of the Grayburg/San Andres formation in the Permian Basin in Andrews County, Texas on the acreage identified on the inside front cover of this prospectus. SandRidge presently holds approximately 16,800 gross acres (15,900 net acres) in the AMI. SandRidge is obligated to drill, or cause to be drilled, the Development Wells from drilling locations in the AMI on or before March 31, 2016. Except in limited circumstances, until SandRidge has satisfied its drilling obligation to the trust, it will not be permitted to drill and complete any wells for its own account within the AMI. See "The Trust Development Agreement and Drilling Support Lien Additional Provisions."

SandRidge acquired the Underlying Properties in July 2010 and expects to operate substantially all of the Underlying Properties. The royalty interest in the Producing Wells (the "PDP Royalty Interest") entitles the trust to receive 80% of the proceeds (exclusive of any production or development costs but after deducting post-production costs and any applicable taxes) from the sale of production of oil, natural gas and natural gas liquids attributable to SandRidge's net revenue interest in the Producing Wells. The royalty interest in the Development Wells (the "Development Royalty Interest") entitles the trust to receive 70% of the proceeds (exclusive of any production or development costs but after deducting post-production costs and any applicable taxes) from the sale of oil, natural gas and natural gas liquids production attributable to SandRidge's net revenue interest in the Development Wells.

As of March 31, 2011 and after giving effect to the conveyance of the PDP Royalty Interest and the Development Royalty Interest to the trust, the total reserves estimated to be attributable to the trust were 21.8 million barrels of oil equivalent ("MMBoe"). This amount includes 5.8 MMBoe attributable to the PDP Royalty Interest and 16.0 MMBoe attributable to the Development Royalty Interest. The reserves consist of 96% liquids (87% oil and 9% natural gas liquids) and 4% natural gas.

The percentage of production proceeds to be received by the trust with respect to a well will equal the product of (a) the percentage of proceeds to which the trust is entitled under the terms of the conveyances

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(80% for the Producing Wells and 70% for the Development Wells) multiplied by (b) SandRidge's net revenue interest in the well. SandRidge on average owns a 73.0% net revenue interest in the Producing Wells. Therefore, the trust will have an average 58.4% net revenue interest in the Producing Wells. SandRidge on average owns a 69.3% net revenue interest in the properties in the AMI on which the Development Wells will be drilled, and based on this net revenue interest, the trust would have an average 48.5% net revenue interest in the Development Wells. SandRidge's actual net revenue interest in any particular Development Well may differ from this average.

The trust will not be responsible for any costs related to the drilling of the Development Wells or any other operating and capital costs, except for certain taxes and other post-production costs. The trust's cash receipts in respect of the trust properties will be determined after deducting post-production costs and any applicable taxes associated with the PDP Royalty Interest and the Development Royalty Interest. Post-production costs and applicable taxes will generally consist of production and severance taxes and costs incurred to gather, store, compress, transport, process, treat, dehydrate and market the oil, natural gas and natural gas liquids produced. Cash distributions to unitholders will reflect hedging arrangements, as well as trust general and administrative expenses.

Hedging arrangements covering a portion of expected production will be implemented in two ways. First, SandRidge will enter into a derivatives agreement with the trust to provide the trust with the effect of specified hedge contracts entered into between SandRidge and third parties. Under the derivatives agreement, SandRidge will pay the trust amounts it receives from its hedge counterparties, and the trust will pay SandRidge any amounts that SandRidge is required to pay such counterparties. Second, the trust will enter into hedge contracts directly with unaffiliated hedge counterparties. As a party to these contracts, the trust will receive payments directly from its counterparties, and be required to pay any amounts owed directly to its counterparties. Under the combined hedging arrangements, approximately 73% of the expected production and 79% of the expected revenues upon which the target distributions are based from August 1, 2011 through March 31, 2015 will be hedged. Under the derivatives agreement, as Development Wells are drilled, SandRidge will have the right to assign or novate to the trust any of the SandRidge-provided hedges in certain circumstances. Please see "The Trust Hedging Arrangements" and "Target Distributions and Subordination and Incentive Thresholds."

The trust will make quarterly cash distributions of substantially all of its cash receipts, after deducting the trust's administrative expenses, on or about 60 days following the completion of each quarter through (and including) the quarter ending March 31, 2031. The first distribution, which will cover the second and third quarters of 2011 (consisting of proceeds attributable to five months of production), is expected to be made on or about November 30, 2011 to record unitholders as of November 15, 2011. The trustee intends to withhold \$1.0 million from the first distribution to establish a cash reserve available for trust administrative expenses. The trust will dissolve and begin to liquidate on March 31, 2031 (the "Termination Date") and will soon thereafter wind up its affairs and terminate. At the Termination Date, 50% of the PDP Royalty Interest and 50% of the Development Royalty Interest will revert automatically to SandRidge. The remaining 50% of each of the PDP Royalty Interest and the Development Royalty Interest will be retained by the trust at the Termination Date and thereafter sold, and the net proceeds of the sale, as well as any remaining trust cash reserves, will be distributed to the unitholders in accordance with their interests. SandRidge will have a right of first refusal to purchase the royalty interests retained by the trust at the Termination Date.

SandRidge will retain 20% of the proceeds from the sale of oil, natural gas and natural gas liquids attributable to its net revenue interest in the Producing Wells, as well as 30% of the proceeds from the sale of future production attributable to its net revenue interest in the Development Wells. SandRidge initially will own 40% of the trust units (without giving effect to the exercise of the underwriters' over-allotment option). By virtue of SandRidge's retained interest in the Producing Wells and the Development Wells, as well as its ownership of 40% of the trust units, it will have an effective average net revenue interest of 38.0% in the Producing Wells and 40.2% in the Development Wells, compared with an effective average

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net revenue interest for the holders of trust units other than SandRidge of 35.0% in the Producing Wells and 29.1% in the Development Wells.

SandRidge operates all of the Producing Wells. SandRidge owns a majority working interest in substantially all of the drilling locations on which it expects to drill the Development Wells, and expects to operate such wells during the subordination period described herein. In addition, for those wells it operates, SandRidge has agreed to operate the properties and cause to be marketed oil, natural gas and natural gas liquids produced from these properties in the same manner it would if such properties were not burdened by the royalty interests.

The business and affairs of the trust will be managed by The Bank of New York Mellon Trust Company, N.A., as trustee. The trustee will have no ability to manage or influence the operation of the Underlying Properties. SandRidge expects to operate substantially all of the Underlying Properties, but will have no ability to manage or influence the management of the trust except through its limited voting rights as a holder of trust units and its limited ability to manage the hedging program. Please see "The Trust Hedging Arrangements," "The Trust Administrative Services Agreement" and "Description of the Trust Units Voting Rights of Trust Unitholders."

The Development Wells

Pursuant to a development agreement with the trust, SandRidge is obligated to drill, or cause to be drilled, 888 Development Wells in the AMI on or before March 31, 2015. In the event of delays, SandRidge will have until March 31, 2016 to fulfill its drilling obligation. SandRidge will be credited for drilling one full Development Well if the well is drilled and completed in the Grayburg/San Andres formation and SandRidge's net revenue interest in the well is equal to 69.3%. For wells in which SandRidge has a net revenue interest greater than or less than 69.3%, SandRidge will receive credit for such well in the proportion that its net revenue interest in the well bears to 69.3%. As a result, SandRidge may be required to drill more or less than 888 wells in order to fulfill its drilling obligation. In addition, in certain circumstances, SandRidge may receive additional Development Well credit for drilling horizontal wells. See "The Trust Development Agreement and Drilling Support Lien."

SandRidge is required to adhere to a reasonably prudent operator standard, which requires that it act with respect to the Underlying Properties as it would act with respect to its own properties, disregarding the existence of the royalty interests as burdens affecting such properties. Accordingly, SandRidge expects that the drilling and completion techniques used for the Development Wells will be generally consistent with those used for the Producing Wells within the AMI and other producing wells outside of the AMI that have targeted the Grayburg/San Andres formation. The proved undeveloped reserves reflected in the reserve report assume that SandRidge will drill and complete the 888 Development Wells with the same completion technique, and bearing the same capital and other costs, as the 509 Producing Wells.

SandRidge Exploration and Production, LLC ("SandRidge E&P"), a wholly owned subsidiary of SandRidge, will grant to the trust a lien on its interest in the AMI (except the Producing Wells and any other wells which are already producing and not subject to the royalty interests) in order to secure the estimated amount of the drilling costs for the trust's interests in the Development Wells (the "Drilling Support Lien"). The amount obtained by the trust pursuant to the Drilling Support Lien may not exceed approximately \$295 million. As SandRidge fulfills its drilling obligation over time, the total dollar amount that may be recovered will be proportionately reduced and the drilled Development Wells will be released from the lien. After SandRidge has satisfied its drilling obligation under the development agreement, it may sell, without the consent or approval of the trust unitholders, all or any part of its interest in the Underlying Properties, as long as such sale is subject to and burdened by the royalty interests.

As of the date of this prospectus, SandRidge's drilling activity with respect to the Development Wells is consistent with the drilling schedule contemplated by the development agreement.

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Underlying Properties

The Underlying Properties are located in the greater Fuhrman-Mascho field area, a region in Andrews County, Texas that primarily produces oil from the Grayburg/San Andres formation within the Permian Basin. SandRidge currently operates three drilling rigs within the AMI and, as of March 31, 2011, had drilled 101 wells since acquiring the properties in July 2010. Within the AMI, SandRidge operates 509 wells and has 888 proven undeveloped locations as of March 31, 2011. These 888 proven locations are a combination of 5-acre, 10-acre and 20-acre infill spacing locations. As of March 31, 2011, average daily production from the Underlying Properties was approximately 3,400 Boe/d.

Permian Basin. The Permian Basin extends throughout southwest Texas and southeast New Mexico over an area approximately 250 miles wide and 300 miles long. It is one of the largest, most active and longest-producing oil basins in the United States. In 2010, production from the Permian Basin accounted for approximately 17% of total U.S. crude oil production, making this basin the second largest oil producing area after the Gulf of Mexico. The Permian Basin has been producing oil for over 80 years resulting in cumulative production of approximately 29 billion barrels.

SandRidge currently operates approximately 2,600 gross producing wells in the Permian Basin, with an average working interest of 94%. SandRidge's average daily net production for the month of March 2011 in the Permian Basin was approximately 28,800 Boe/d. SandRidge was operating 16 rigs in the basin as of March 2011. SandRidge drilled 484 wells in this area in 2010 and expects to drill over 800 wells in 2011.

Fuhrman-Mascho Field. The Fuhrman-Mascho field is located near the center of the Central Basin Platform in the Permian Basin. The field produces from the Grayburg/San Andres formation from average depths of approximately 4,000 to 5,000 feet. The Fuhrman-Mascho field is the fifth largest producing field in the Permian Basin and since its discovery in 1930, the field has produced approximately 142 MMBoe. SandRidge currently operates eight drilling rigs in the area and has drilled 307 wells as of March 31, 2011 since acquiring the properties in July 2010.

Target Distributions and Subordination and Incentive Thresholds

SandRidge has calculated quarterly target levels of cash distributions to unitholders for the life of the trust as set forth on Annex B to this prospectus. The amount of actual quarterly distributions may fluctuate from quarter to quarter, depending on the proceeds received by the trust, payments under the hedge arrangements, the trust's administrative expenses and other factors. Annex B reflects that while target distributions initially increase as SandRidge completes its drilling obligation and production increases, over time target distributions decline as a result of the depletion of the reserves in the Underlying Properties. While these target distributions do not represent the actual distributions you will receive with respect to your common units, they were used to calculate the subordination and incentive thresholds described in more detail below. The target distributions were derived by assuming that oil, natural gas and natural gas liquids production from the trust properties will equal the volumes reflected in the reserve report attached as Annex A to this prospectus, adjusted for actual volumes realized in April, May and June 2011, and that prices received for such production will be consistent with settled NYMEX pricing for April through June 2011, monthly NYMEX forward pricing as of July 15, 2011 for the remainder of the period ending March 31, 2014, and assumed price increases after March 31, 2014 of 2.5% annually, capped at \$120.00 per Bbl of oil and \$7.00 per MMBtu of natural gas. Using these assumptions, the price of oil would reach the \$120.00 per Bbl cap in 2023, and the price of natural gas would reach the \$7.00 per MMBtu cap in 2022. The target distributions also give effect to estimated post-production expenses and assumed trust general and administrative expenses.

In order to provide support for cash distributions on the common units, SandRidge has agreed to subordinate 13,125,000 of the trust units it will retain following this offering, which will constitute 25% of the total trust units outstanding. The subordinated units will be entitled to receive pro rata distributions

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from the trust 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 of the 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 the common units, including the common units held by SandRidge. Each quarterly subordination threshold is 20% below the target distribution level for the corresponding quarter (each, a "subordination threshold").

In exchange for agreeing to subordinate a majority of its trust units, and in order to provide additional financial incentive to SandRidge to satisfy its drilling obligation and perform operations on the Underlying Properties in an efficient and cost-effective manner, SandRidge will be entitled to receive incentive distributions equal to 50% of the amount by which the cash available for distribution on all of the trust units in any quarter is 20% greater than the target distribution for such quarter (each, an "incentive threshold"). The remaining 50% of cash available for distribution in excess of the incentive thresholds will be paid to trust unitholders, including SandRidge, on a pro rata basis.

By way of example, if the target distribution per unit for a particular quarterly period is \$.55, then the subordination threshold would be \$.44 and the incentive threshold would be \$.66 for such quarter. This means that if the cash available for distribution to all holders for that quarter would result in a per unit distribution below \$.44, the distribution to be made with respect to subordinated units will be reduced or eliminated in order to make a distribution, to the extent possible, up to the amount of the subordination threshold, on the common units. If, on the other hand, the cash available for distribution to all holders would result in a per unit distribution above \$.66, then SandRidge would receive 50% of the amount by which the cash available for distribution on all the trust units exceeds \$.66, with all trust unitholders (including SandRidge on a pro rata basis) sharing in the other 50% of such excess amount. See "Target Distributions and Subordination and Incentive Thresholds."

At the end of the fourth full calendar quarter following SandRidge's satisfaction of its drilling obligation with respect to the Development Wells, the subordinated units will automatically convert into common units on a one-for-one basis and SandRidge's right to receive incentive distributions will terminate. After such time, the common units will no longer have the protection of the subordination threshold, and all trust unitholders will share on a pro rata basis in the trust's distributions. SandRidge currently expects that it will complete its drilling obligation on or before March 31, 2015 and that, accordingly, the subordinated units will convert into common units on or before March 31, 2016. In the event of delays, SandRidge will have until March 31, 2016 under its contractual obligation to drill all the Development Wells, in which event the subordinated units would convert into common units on or before March 31, 2017. The period during which the subordinated units are outstanding is referred to as the "subordination period."

SandRidge's management has prepared the prospective financial information set forth below to present the target distributions to the holders of the trust units based on the estimates and assumptions described under "Target Distributions and Subordination and Incentive Thresholds." The accompanying prospective financial information was not prepared with a view toward complying with the guidelines of the U.S. Securities and Exchange Commission ("SEC") or the guidelines established by the American Institute of Certified Public Accountants with respect to preparation and presentation of prospective financial information. More specifically, such information omits items that are not relevant to the trust. SandRidge's management believes the prospective financial information was prepared on a reasonable basis, reflects the best currently available estimates and judgments, and presents, to the best of management's knowledge and belief, the expected course of action and the expected future financial performance of the royalty interests. However, this information is based on estimates and judgments, and readers of this prospectus are cautioned not to place undue reliance on the prospective financial information.

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The prospective financial information included in this prospectus has been prepared by, and is the responsibility of, SandRidge's management. Neither PricewaterhouseCoopers LLP, the trust's and SandRidge's independent registered public accountant, nor Hansen Barnett & Maxwell, P.C., Arena Resources, Inc.'s independent registered public accountant, has examined, compiled or performed any procedures with respect to the accompanying prospective financial information and, accordingly, neither PricewaterhouseCoopers LLP nor Hansen Barnett & Maxwell, P.C. expresses an opinion or any other form of assurance with respect thereto. The reports of PricewaterhouseCoopers LLP included in this prospectus relate to the Statement of Assets and Trust Corpus of the trust and the historical Statements of Revenues and Direct Operating Expenses of the Arena Properties, and the report of Hansen Barnett & Maxwell, P.C. included in this prospectus relates to the historical consolidated financial statements of Arena Resources, Inc. The foregoing reports do not extend to the prospective financial information and should not be read to do so.

The following table sets forth the target distributions and subordination and incentive thresholds for each calendar quarter through the first quarter of 2017. The effective date of the conveyance of the royalty interests is April 1, 2011, which means that the trust will be credited with the proceeds of production attributable to the royalty interests from that date even though the trust properties will not be conveyed to the trust until the closing of this offering. Please see " Calculation of Target Distributions" below. The first distribution, which will cover the second and third quarters of 2011, is expected to be made on or about November 30, 2011 to record unitholders as of November 15, 2011. Due to the timing of the payment of production proceeds to the trust, the trust expects that the first distribution will include sales for oil, natural gas and natural gas liquids for five months. Thereafter, quarterly distributions will generally include royalties attributable to sales of oil, natural gas and natural gas liquids for three months, including

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one month of the prior quarter. The trustee intends to withhold \$1.0 million from the first distribution to establish a cash reserve available for trust administrative expenses.

Period	Subordination Threshold ⁽¹⁾	Target Distribution (per unit)	Incentive Threshold ⁽¹⁾
2011:			
Second and Third Quarters ⁽²⁾	\$.53	\$.66	\$.79
Fourth Quarter	.39	.49	.59
2012:			
First Quarter	.42	.53	.63
Second Quarter	.44	.55	.66
Third Quarter	.47	.58	.70
Fourth Quarter	.49	.62	.74
2013:			
First Quarter	.51	.64	.77
Second Quarter	.53	.66	.80
Third Quarter	.56	.70	.84
Fourth Quarter	.58	.73	.87
2014:			
First Quarter	.61	.76	.91
Second Quarter	.63	.79	.95
Third Quarter	.65	.82	.98
Fourth Quarter	.66	.82	.98
2015:			
First Quarter	.64	.80	.96
Second Quarter	.61	.77	.92
Third Quarter	.56	.70	.85
Fourth Quarter	.54	.68	.81
2016:			
First Quarter	.53	.67	.80
Second Quarter	.52	.65	.78
Third Quarter	.51	.64	.77
Fourth Quarter	.50	.63	.75
2017:			
First Quarter	.49	.61	.74

(1) The subordination and incentive thresholds terminate after the fourth full calendar quarter following SandRidge's completion of its drilling obligation.

(2) Includes proceeds attributable to the first five months of production from April 1, 2011 to August 31, 2011, and gives effect to \$1.0 million of reserves for general and administrative expenses withheld by the trustee and additional administrative costs relating to the formation of the trust.

For additional information with respect to the subordination and incentive thresholds, please see "Target Distributions and Subordination and Incentive Thresholds" and "Description of the Royalty Interests."

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Calculation of Target Distributions

The following table presents the calculation of the target distributions for each quarter through and including the quarter ending June 30, 2012. The target distributions were prepared by SandRidge based on assumptions of production volumes, pricing and other factors. The production forecasts used to calculate target distributions are based on estimates by Netherland Sewell. Payments to unitholders will generally be made 60 days following each calendar quarter. SandRidge will make payments to the trust that will include cash from production from the first two months of the quarter just ended as well as the last month of the immediately preceding quarter. Actual cash distributions to the trust unitholders will fluctuate quarterly based on the quantity of oil, natural gas and natural gas liquids produced from the Underlying Properties, the prices received for oil, natural gas and natural gas liquids production, when SandRidge receives payment for such production and other factors. Please read "Target Distributions and Subordination and Incentive Thresholds Significant Assumptions Used to Calculate the Target Distributions."

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On a pro forma basis, cash available for distribution was \$60.7 million for the year ended December 31, 2010, and \$19.7 million for the three months ended March 31, 2011. See "Unaudited Pro Forma Financial Information."