SANDRIDGE ENERGY INC
Form 424B4
April 07, 2011
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Filed Pursuant to Rule 424(b)(4)
Registration Nos. 333-171551 and 333-173341

PROSPECTUS

SandRidge Mississippian Trust I

15,000,000 Common Units

This is an initial public offering of common units representing beneficial interests in SandRidge Mississippian Trust I. 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 common and subordinated units collectively representing a 46.4% beneficial interest in the trust (without giving effect to the exercise of the underwriters over-allotment option), as well as all of the net proceeds of this offering. SandRidge will also enter into an agreement with the trust to provide the trust with the benefit of certain hedging arrangements with respect to a portion of the anticipated oil and natural gas production covered by the royalty interests.

Prior to this offering, there has been no public market for the common units. The common units have been approved for listing on the New York Stock Exchange under the symbol SDT.

The Trust Units. Trust units, consisting of the common and subordinated units, are units of beneficial interest 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 oil and natural gas properties leased by SandRidge in the Mississippian formation in Alfalfa, Garfield, Grant, Major and Woods counties in Oklahoma. These royalty interests will entitle the trust to receive (a) 90% of the proceeds attributable to SandRidge s net revenue interest in the sale of production from 37 horizontal producing wells and (b) 50% of the proceeds attributable to SandRidge s net revenue interest in the sale of production from 123 horizontal development wells to be drilled on drilling locations included within an Area of Mutual Interest consisting of approximately 64,200 gross acres (42,900 net acres) held by SandRidge. The number of wells required to be drilled may increase or decrease in proportion to SandRidge s actual net revenue interest in each well. 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 and natural gas subject to the royalty interests held by the trust.

Ownership of Trust Units by SandRidge. After the completion of this offering (without giving effect to the exercise of the underwriters over-allotment option), SandRidge will own 6,000,000 common units and 7,000,000 subordinated units, together representing 46.4% of all outstanding trust units. If the underwriters exercise their over-allotment option, SandRidge will own 3,750,000 common units and 7,000,000 subordinated units, together representing 38.4% of trust units.

Incentive Distributions and Subordinated Units. SandRidge will be entitled to receive incentive distributions equal to 50% of the amount, if any, by which the cash available for distribution on all of the trust units in any quarter during the subordination period described herein exceeds certain target distribution levels by more than 20%. Trust unitholders, including SandRidge, will be entitled to receive the remaining 50% of such amount on a pro rata basis. A portion of the trust units owned by SandRidge will be subordinated units and will not be entitled to receive distributions to the extent necessary to support specified distribution levels on the common units. The subordinated units will convert into common units following SandRidge s satisfaction of its drilling obligation. Please see Target Distributions and Subordination and Incentive Thresholds.

Investing in the common units involves a high degree of risk. Before buying any common units, you should read the discussion of material risks of investing in the common units in Risk Factors beginning on page 18 of this prospectus.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

	Per Common Unit		Total
Price to the public	$	21.00	$ 315,000,000
Underwriting discounts and commissions (1)	$	1.365	$ 20,475,000
Proceeds to the trust (before expenses) (1)	$	19.635	$ 294,525,000

(1) Excludes a structuring fee equal to 0.50% of the gross proceeds of this offering, or approximately $1.6 million, payable to Raymond James & Associates, Inc.

The underwriters may also purchase up to an additional 2,250,000 common units at the initial public offering price, less underwriting discounts and commissions, to cover over-allotments, if any, within 30 days of the date of this prospectus. If the underwriters exercise this option in full, the total underwriting discounts and commissions will be $23,546,250, and the trust s total proceeds, after deducting underwriting discounts and commissions and before expenses, will be $338,703,750, which proceeds will be paid to SandRidge.

The underwriters are offering the common units as set forth under Underwriting. Delivery of the common units will be made on or about April 12, 2011.

Joint Book-Runners

RAYMOND JAMES **MORGAN STANLEY**

Lead Managers

WELLS FARGO SECURITIES **RBC CAPITAL MARKETS**

Co-Managers

OPPENHEIMER & CO. **BAIRD**

MADISON WILLIAMS AND COMPANY **MORGAN KEEGAN** **WUNDERLICH SECURITIES**

April 6, 2011

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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 May 1, 2011 (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 and natural gas reserves as of December 31, 2010 included in this prospectus. These estimates are contained in summaries prepared by Netherland Sewell of its reserve reports for (i) the Underlying Properties held by SandRidge, dated January 4, 2011, and (ii) the royalty interests held by the trust, dated January 5, 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 royalty interests held by the trust are sometimes referred to herein as the trust properties. Unless otherwise indicated, all information in this prospectus assumes no exercise of the underwriters over-allotment option.

SandRidge Mississippian Trust I

SandRidge Mississippian Trust I is a Delaware statutory trust formed in December 2010 to own (a) royalty interests to be conveyed to the trust by SandRidge in 37 horizontal wells producing from the Mississippian formation in Alfalfa, Garfield, Grant, Major and Woods counties in Oklahoma (the Producing Wells), and (b) royalty interests in 123 horizontal development wells to be drilled in the Mississippian formation (the PUD Wells or development wells) within an Area of Mutual Interest, or AMI, as identified on the inside front cover of this prospectus. SandRidge presently holds approximately 64,200 gross acres (42,900 net acres) in the AMI. SandRidge is obligated to drill, or cause to be drilled, the PUD Wells from drilling locations in the AMI by December 31, 2014. Until SandRidge has satisfied its drilling obligation, it will not be permitted to drill and complete any well on lease acreage included within the AMI for its own account.

The royalty interests will be conveyed from SandRidge s interest in the Producing Wells and the PUD Wells in the Mississippian formation (the Underlying Properties). The royalty interest in the Producing Wells (the PDP Royalty Interest) entitles the trust to receive 90% 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 and natural gas attributable to SandRidge s net revenue interest in the Producing Wells. The royalty interest in the PUD Wells (the PUD Royalty Interest) entitles the trust to receive 50% 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 and natural gas production attributable to SandRidge s net revenue interest in the PUD Wells.

Generally, the percentage of production proceeds to be received by the trust with respect to a well will equal the product of (i) the percentage of proceeds to which the trust is entitled under the terms of the conveyances (90% for the Producing Wells and 50% for the PUD Wells) multiplied by (ii) SandRidge s net revenue interest in the well. SandRidge on average owns a 56.3% net revenue interest in the Producing Wells. Therefore, the trust will have an average 50.7% net revenue interest in the Producing Wells. SandRidge on average owns a 57.0% net revenue interest in the properties in the AMI on which the PUD Wells will be drilled, and based on this net revenue

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interest, the trust would have an average 28.5% net revenue interest in the PUD Wells. SandRidge s actual net revenue interest in any particular PUD Well may differ from this average, and will depend on SandRidge s working interest and the royalty interests as well as similar revenue burdens owed to third parties with respect to such well.

The trust will not be responsible for any costs related to the drilling of the PUD Wells or any other operating and capital 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 PUD Royalty Interest. Post-production costs will generally consist of costs incurred to gather, store, compress, transport, process, treat, dehydrate and market the oil and natural gas produced. The trust s cash receipts will be adjusted to account for hedging arrangements under a derivatives agreement with SandRidge and will be reduced by trust general and administrative expenses.

SandRidge will enter into a derivatives agreement with the trust to provide the trust with the benefit of hedging contracts entered into between SandRidge and third parties. Under this arrangement, approximately 54% of the expected production and approximately 60% of the expected revenues upon which the target distributions are based from April 1, 2011 through December 31, 2015 will be hedged. Under the agreement, SandRidge will pay the trust amounts it receives from its counterparties under the hedge contracts, and the trust will be required to pay SandRidge any amounts that SandRidge is required to pay its counterparties under such hedge contracts. The trust will not bear any costs related to the establishment of these arrangements. Volumes hedged under the derivatives agreement will include production from both the Producing Wells and the PUD Wells. 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 December 31, 2030. The first distribution, which will cover the first and second quarters of 2011, is expected to be made on or about August 30, 2011 to record unitholders as of August 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 December 31, 2030 (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 PUD Royalty Interest will revert automatically to SandRidge. The remaining 50% of each of the PDP Royalty Interest and the PUD 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 pro rata. SandRidge will have a right of first refusal to purchase the royalty interests retained by the trust at the Termination Date.

SandRidge will retain 10% of the proceeds from the sale of oil and natural gas attributable to its net revenue interest in the Producing Wells, as well as 50% of the proceeds from the sale of future production attributable to its net revenue interest in the PUD Wells. SandRidge initially will own 46.4% 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 PUD Wells, as well as its ownership of 46.4% of the trust units, it will have an effective average net revenue interest of 29.2% in the Producing Wells and 41.7% in the PUD Wells, compared with an effective average net revenue interest for the holders of trust units other than SandRidge of 27.1% in the Producing Wells and 15.3% in the PUD Wells.

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SandRidge operates 73% of the Producing Wells. SandRidge owns a majority working interest in approximately 75% of the locations on which it expects to drill the PUD Wells, and it expects to operate such wells during the subordination period described herein. In addition, for those wells it operates, SandRidge has agreed to continue operating the properties to which the PDP Royalty Interest and the PUD Royalty Interest relate and to cause to be marketed oil and natural gas produced from these properties in the same manner it would if such properties were not burdened by the royalty interests.

As of December 31, 2010 and after giving effect to the conveyance of the PDP Royalty Interest and the PUD Royalty Interest to the trust, the total reserves estimated to be attributable to the trust were 19,276 MBoe (48% oil). This amount includes 6,860 MBoe attributable to the PDP Royalty Interest and 12,416 MBoe attributable to the PUD Royalty Interest, respectively.

The business and affairs of the trust will be managed by The Bank of New York Mellon Trust Company, N.A., as trustee. SandRidge will operate a substantial number 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. Please see 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, 123 PUD Wells in the AMI by December 31, 2014. In the event of delays, SandRidge will have until December 31, 2015 to fulfill its drilling obligation. SandRidge will be credited for drilling one full development well if the perforated length of the well is equal to or greater than 2,500 feet and SandRidge s net revenue interest in the well is equal to 57.0%. For wells with a perforated length of less than 2,500 feet, SandRidge will receive proportionate partial credit. For wells in which SandRidge has a net revenue interest greater than or less than 57.0%, SandRidge will receive credit for such well in the proportion that its net revenue interest in the well bears to 57.0%. As a result, SandRidge may be required to drill more or less than 123 wells in order to fulfill its drilling obligation. See The Trust Development Agreement.

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 property. Accordingly, SandRidge expects that average perforated interval lengths for future wells will be generally consistent with the perforated interval length of the completed Producing Wells within the AMI and other Mississippian wells outside of the AMI that have been drilled exclusively for SandRidge s account. However, due to the complexity of well completions, it may be appropriate in some instances to complete wells with shorter perforated interval lengths. In fact, completions to date reflect that greater than anticipated reserve recoveries may be achieved from producing perforated interval lengths substantially shorter than 2,500 feet. For example, the four Producing Wells completed to less than 2,500 feet of perforated interval length have an average estimated ultimate reserve recovery that exceeds the median estimated ultimate reserve recovery for all Producing Wells.

The PUD reserves reflected in the reserve report assume that SandRidge will drill and complete the 123 PUD Wells with the same completion technique, and bearing the same capital and other costs, as the 37 Producing Wells. These 37 Producing Wells produce from perforated interval lengths ranging from less than 500 feet to more than 4,500 feet. The average perforated

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interval length contributing to production of the 37 Producing Wells is approximately 3,900 feet, which is longer than the 2,500 foot perforated interval length upon which the definition of one full development well is based.

Because (a) the average perforated interval length of the wells assumed for purposes of calculating the PUD reserves is substantially longer than the minimum perforated interval length required for SandRidge to receive credit for one full development well and (b) there is no guarantee that wells drilled with shorter perforated interval lengths will achieve the same reserve recoveries as wells drilled with longer perforated interval lengths, you may not receive the benefit of the total amount of PUD reserves reflected in the reserve report, notwithstanding the fact that SandRidge has satisfied its drilling obligation. In addition to its obligation to act as a reasonably prudent operator, SandRidge s significant retained economic interest in the trust and its opportunity to earn incentive distributions provide it with substantial incentives to pursue well completions with perforated interval lengths greater than 2,500 feet to the extent necessary to optimize reserve recoveries for the benefit of the trust.

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 PUD Wells (the Drilling Support Lien). The amount obtained by the trust pursuant to the Drilling Support Lien may not exceed $166.1 million. As SandRidge fulfills its drilling obligation over time, the total dollar amount that may be recovered will be proportionately reduced and the drilled PUD 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.

Mississippian Formation

The Mississippian formation is located on the Anadarko Shelf in northern Oklahoma and south-central Kansas. The top of this expansive carbonate hydrocarbon system is encountered between 4,000 feet and 7,000 feet and lies stratigraphically between the Pennsylvanian-aged Morrow formation and the Devonian-aged Woodford Shale formation. The Mississippian formation may reach 1,000 feet in gross thickness and the targeted porosity zone is between 50 and 100 feet in thickness. The formation s geology is well understood as a result of the thousands of vertical wells drilled and produced there since the 1940s, including 123 vertical wells drilled on the Underlying Properties. Beginning in 2007, the application of horizontal cased-hole drilling and multi-stage hydraulic fracturing treatments have demonstrated the potential for extracting significant additional quantities of oil and natural gas from the formation.

Since the beginning of 2009, there have been over 140 horizontal wells drilled in the Mississippian formation in Oklahoma and Kansas, including 39 completed by SandRidge. As of March 1, 2011, there were 20 horizontal rigs drilling in the formation, with eight of those rigs drilling for SandRidge. While horizontal wells are more expensive than vertical wells, a horizontal

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well bore increases the production of hydrocarbons and adds significant recoverable reserves per well. In addition, an operator can drill one horizontal well, which is the equivalent of several vertical wells, and as a result achieve better returns on drilling investments with horizontal drilling. SandRidge has approximately 880,000 net acres leased in the Mississippian formation in Oklahoma and Kansas.

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, 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 and natural gas 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 January and February 2011, and that prices received for such production were based on settled NYMEX prices for January, February and March 2011 and NYMEX forward pricing as of March 18, 2011 for the 33-month period ending December 31, 2013. In addition, we have assumed price increases after December 31, 2013 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 per Bbl for oil and the price per MMBtu for natural gas would reach their respective caps in 2022. The target distributions also give effect to estimated post-production expenses and projected trust general and administrative expenses.

In order to provide support for cash distributions on the common units, SandRidge has agreed to subordinate 7,000,000 of the trust units it will retain following this offering, which will constitute 25% of the outstanding trust units. The subordinated units will be entitled to receive pro rata distributions 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. 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 portion 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 $0.80, then the subordination threshold would be $0.64 and the incentive threshold would be $0.96 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 $0.64, the distribution to be made with respect to

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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 $0.96, then SandRidge would receive 50% of the amount by which the cash available for distribution on all the trust units exceeds $0.96, 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 PUD 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 December 31, 2014 and that, accordingly, the subordinated units will convert into common units on or before December 31, 2015. In the event of delays, SandRidge will have until December 31, 2015 under its contractual obligation to drill all the PUD Wells, in which event the subordinated units would convert into common units on or before December 31, 2016. 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 projected cash 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.

The prospective financial information included in this prospectus has been prepared by, and is the responsibility of, SandRidge s management. PricewaterhouseCoopers LLP, the trust s and SandRidge s independent registered public accountant, has neither examined, compiled nor performed any procedures with respect to the accompanying prospective financial information and, accordingly, PricewaterhouseCoopers LLP does not express 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 Underlying Properties. The reports do not extend to the prospective financial information and should not be read to do so.

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The following table sets forth the target distributions and subordination and incentive thresholds for each calendar quarter through the fourth quarter of 2016. The effective date of the conveyance of the royalty interests is January 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 first and second quarters of 2011, is expected to be made on or about August 30, 2011 to record unitholders as of August 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 and natural gas for five months. Thereafter, quarterly distributions will generally include royalties attributable to sales of oil and natural gas for three months, including 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:			
First and Second Quarters(2)	$ 0.81	$ 1.01	$ 1.22
Third Quarter	0.53	0.67	0.80
Fourth Quarter	0.51	0.63	0.76
2012:			
First Quarter	0.52	0.65	0.78
Second Quarter	0.56	0.70	0.84
Third Quarter	0.59	0.74	0.88
Fourth Quarter	0.58	0.73	0.87
2013:			
First Quarter	0.59	0.74	0.89
Second Quarter	0.61	0.76	0.92
Third Quarter	0.61	0.77	0.92
Fourth Quarter	0.61	0.76	0.91
2014:			
First Quarter	0.62	0.78	0.93
Second Quarter	0.66	0.82	0.99
Third Quarter	0.70	0.87	1.04
Fourth Quarter	0.72	0.89	1.07
2015:			
First Quarter	0.67	0.84	1.01
Second Quarter	0.62	0.77	0.93
Third Quarter	0.58	0.72	0.86
Fourth Quarter	0.54	0.68	0.81
2016:			
First Quarter	0.52	0.65	0.78
Second Quarter	0.50	0.62	0.75
Third Quarter	0.48	0.60	0.72
Fourth Quarter	0.46	0.58	0.69

(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 January 1, 2011 to May 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.

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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.

Calculation of Target Distributions

The following table presents the calculation of the target distributions for each quarter through and including the quarter ending March 31, 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. Generally, 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 and natural gas produced from the Underlying Properties, the prices received for oil and natural gas 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.

Period	**June 30, 2011(1)**	**September 30, 2011**	**December 31, 2011**	**March 31, 2012**
		(In thousands, except volumetric and per unit data)		
Estimated production from trust properties				
Oil sales volumes (MBbl)	257	154	146	149
Natural gas sales volumes (MMcf)	1,624	959	910	921
Total sales volumes (MBoe)	527	314	298	302
% PDP sales volumes	86%	69%	63%	56%
% PUD sales volumes	14%	31%	37%	44%
% Oil volumes	49%	49%	49%	49%
% Natural gas volumes	51%	51%	51%	51%
Commodity price and derivative contract positions				
NYMEX futures price(2)				
Oil ($/Bbl)	$ 94.78	$ 102.88	$ 103.59	$ 103.58
Natural gas ($/MMBtu)	$ 4.17	$ 4.37	$ 4.53	$ 5.00
Assumed realized weighted unhedged price(3)				
Oil ($/Bbl)	$ 89.78	$ 97.88	$ 98.59	$ 98.58
Natural gas ($/Mcf)	$ 3.79	$ 4.00	$ 4.15	$ 4.58
Assumed realized weighted hedged price				
Oil ($/Bbl)				