

SANDRIDGE ENERGY INC
Form S-4
September 28, 2012
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As filed with the Securities and Exchange Commission on September 28, 2012

Registration No. 333-

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM S-4
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

SANDRIDGE ENERGY, INC.*

(Exact name of Registrant as specified in its Charter)

Delaware
(State or other jurisdiction of

1311
(Primary Standard Industrial

20-8084793
(I.R.S. Employer

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incorporation or organization)

Classification Code Number)

Identification Number)

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

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

Copy to:

Covington & Burling LLP

1201 Pennsylvania Avenue, N.W.

Washington, D.C. 20004

(202) 662-6000

Attn: David H. Engvall, Esq.

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

If the securities being registered on this Form are being offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following box. "

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) 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. "

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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 registration statement for the same offering. "

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):

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

* Includes certain subsidiaries of SandRidge Energy, Inc. identified below.

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Amount to be Registered	Proposed Maximum Offering Price per Note	Proposed Maximum Aggregate Offering Price	Amount of Registration Fee
8 1/8% Senior Notes due 2022	\$750,000,000	100%	\$750,000,000(1)	\$85,950(2)
Guarantees of 8 1/8% Senior Notes due 2022	N/A	N/A	N/A	(3)

- (1) Estimated solely for the purpose of calculating the registration fee pursuant to Rule 457(f)(2) of the rules and regulations under the Securities Act of 1933, as amended.
- (2) Calculated based upon the book value of the securities to be received by the Registrant in the exchange in accordance with Rule 457(f)(2).
- (3) In accordance with Rule 457(n), no separate fee is payable with respect to guarantees of the securities being registered.

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 of 1933, as amended, or until the 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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Exact Name of Additional Registrant as Specified in its Charter	State of Incorporation or Organization	Primary Standard Industrial Classification Code Number	IRS Employer Identification No.
SandRidge Onshore, LLC	Delaware	1311	47-0953489
Lariat Services, Inc.	Texas	1311	75-2500702
SandRidge Operating Company	Texas	1311	75-2541245
Integra Energy, L.L.C.	Texas	1311	75-2887527
SandRidge Exploration and Production, LLC	Delaware	1311	87-0776535
SandRidge Midstream, Inc.	Texas	1311	75-2541148
SandRidge Offshore, LLC	Delaware	1311	11-3758786
SandRidge Holdings, Inc.	Delaware	1311	20-5878401
Bandon Oil and Gas GP, LLC	Delaware	1311	20-4839172
Bandon Oil and Gas, LP	Delaware	1311	20-4839266
DBH, LLC	Delaware	1311	27-1008714
Dynamic Offshore Resources, LLC	Delaware	1311	26-1084494
Dynamic Offshore Resources NS Acquisition, Inc.	Delaware	1311	26-2977639
Dynamic Offshore Resources NS, LLC	Texas	1311	35-2190156
Dynamic Offshore Resources NS Parent, Inc.	Delaware	1311	20-4499452
SPN Resources, LLC	Louisiana	1311	16-1671971

* Each Guarantor has the same principal executive office and agent for service as SandRidge Energy, Inc.

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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 relating to these securities is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED SEPTEMBER 28, 2012

PROSPECTUS

SandRidge Energy, Inc.

Offer to Exchange \$750,000,000 of 8¹/₈% Senior Notes due 2022

We are offering to exchange, on the terms and subject to the conditions described in this prospectus and the accompanying letter of transmittal, 8¹/₈% Senior Notes due 2022 that we will register under the Securities Act of 1933, as amended (the Securities Act), for all of our outstanding unregistered 8¹/₈% Senior Notes due 2022. We refer to these registered notes as the new notes and all outstanding unregistered 8¹/₈% Senior Notes due 2022 as the old notes. We refer to the new notes and the old notes collectively as the notes.

We are offering the new notes in order to satisfy our obligations under the registration rights agreement entered into in connection with the private placement of the old notes. In the exchange offer, we will exchange an equal principal amount of new notes that are freely tradable for all old notes that are validly tendered and not validly withdrawn. The exchange offer expires at 5:00 p.m., Eastern time, on _____, 2012, unless extended. You may withdraw tenders of outstanding old notes at any time prior to the expiration of the exchange offer. We will accept for exchange any and all old notes validly tendered and not withdrawn prior to the expiration of the exchange offer.

The exchange offer is subject to the conditions discussed under The Exchange Offer Conditions to the Exchange Offer, including, among other things, the effectiveness of the registration statement of which this prospectus forms a part.

The exchange of old notes for new notes in the exchange offer will not be a taxable event for U.S. federal income tax purposes. We will not receive any proceeds from the exchange offer.

The old notes are, and the new notes will be, unconditionally guaranteed, jointly and severally, on a senior unsecured basis, by certain of our existing subsidiaries and by certain of our future domestic restricted subsidiaries.

The new notes are being issued under the indenture under which we previously issued the old notes and the terms of the new notes are identical to the terms of the old notes, except that the transfer restrictions, registration rights and provisions for additional interest relating to the old notes do not apply to the new notes.

The new notes will not be listed on any securities exchange. Currently, there is no public market for the old notes. As of the date of this prospectus, \$750,000,000 in aggregate principal amount of old notes are outstanding.

See Risk Factors beginning on page 8 for a discussion of certain risks that you should consider before participating in the exchange offer.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of the new notes or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this prospectus is _____, 2012.

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We are incorporating by reference into this prospectus important business and financial information that is not included in or delivered with this prospectus. In making your investment decision, you should rely only on the information contained or incorporated by reference in this prospectus. We have not authorized anyone to provide you with any other information. If you receive any other information, you should not rely on it. We are not making an offer to sell these securities in any state or jurisdiction where the offer is not permitted. You should not assume that the information contained in this prospectus is accurate as of any date other than the date on the front cover of this prospectus.

The information incorporated herein by reference is available without charge to holders upon written or oral request to: SandRidge Energy, Inc., 123 Robert S. Kerr Avenue, Oklahoma City, Oklahoma 73102, Attention: Corporate Secretary, (405) 429-5500. In order to ensure timely delivery of such documents, holders must request this information no later than five days before the date they must make their investment decision. The exchange offer is expected to expire on _____, 2012 and you must make your exchange decision by the expiration date. Accordingly, any request for documents should be made by _____, 2012 to ensure timely delivery of the documents prior to the expiration of the exchange offer.

Each broker-dealer that receives new notes for its own account pursuant to the exchange offer must acknowledge that it will deliver a prospectus in connection with any resale of such new notes. The letter of transmittal states that by so acknowledging and by delivering a prospectus, a broker-dealer will not be deemed to admit that it is an underwriter within the meaning of the Securities Act. This prospectus, as it may be amended or supplemented from time to time, may be used by a broker-dealer in connection with resales of new notes received in exchange for old notes where such old notes were acquired by such broker-dealer as a result of market-making activities or other trading activities. We have agreed that, for a period of 180 days after the consummation of the exchange offer, we will make this prospectus available to any broker-dealer for use in connection with any such resale. Please read Plan of Distribution.

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WHERE YOU CAN FIND MORE INFORMATION

We file annual, quarterly and current reports, proxy statements and other information with the United States Securities and Exchange Commission (the "SEC") (File No. 001-33784) pursuant to the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Our SEC filings are available to the public through the SEC's website at <http://www.sec.gov>. You may read and copy any document we file at the SEC's public reference room, which is located at 100 F Street, N.E., Washington, D.C. 20549. You can obtain further information about the operation of the public reference room by calling the SEC at 1-800-SEC-0330.

The SEC allows us to incorporate by reference information that we file with it, which means that we can disclose important information to you by referring you to documents previously filed with the SEC. The information incorporated by reference is an important part of this prospectus, and the information that we later file with the SEC will automatically update and supersede this information. We incorporate by reference into this prospectus the documents listed below that we have filed with the SEC:

Our Annual Report on Form 10-K for the year ended December 31, 2011, filed with the SEC on February 27, 2012, as amended by Amendment No. 1, filed with the SEC on March 20, 2012;

Our Quarterly Reports on Form 10-Q for the periods ended March 31, 2012 and June 30, 2012, which were filed with the SEC on May 7, 2012 and August 6, 2012, respectively; and

Our Current Reports on Form 8-K filed with the SEC on February 3, 2012, February 27, 2012, April 2, 2012 (two Current Reports on Form 8-K filed on such date, excluding a Current Report on Form 8-K furnished under Item 7.01 on such date), April 4, 2012, April 9, 2012, April 17, 2012, April 18, 2012, April 24, 2012, May 18, 2012, June 6, 2012, June 22, 2012 (as amended by Amendment No. 1 filed on August 31, 2012), August 6, 2012, August 10, 2012 and August 21, 2012.

We also hereby incorporate by reference into this prospectus any future filings that we make with the SEC under Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act (excluding any information furnished under Item 2.02 or Item 7.01 on any Current Report on Form 8-K) after the filing of the registration statement to which this prospectus relates and prior to the effectiveness of such registration statement, and all such future filings that we make with the SEC prior to the completion or termination of the exchange offer to which this prospectus relates.

You may request a copy of these filings at no cost by writing or telephoning us at the address and telephone number below. We will not send exhibits to such documents unless such exhibits are specifically incorporated by reference in such documents. Please direct requests for documents incorporated by reference to:

Philip T. Warman

Corporate Secretary

SandRidge Energy, Inc.

123 Robert S. Kerr Avenue

Oklahoma City, Oklahoma 73102-6406

(405) 429-5500

Exhibits to the filings will not be sent, however, unless those exhibits have specifically been incorporated by reference in this prospectus. **In order to ensure timely delivery of documents, holders must request this information no later than five business days before the date they must make their investment decision. Accordingly, any request for documents should be made by _____, 2012 to ensure timely delivery of the documents prior to the expiration of the exchange offer.**

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

Various statements contained in or incorporated by reference into this prospectus, including those that express a belief, expectation, or intention, as well as those that are not statements of historical fact, are forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act. These statements express a belief, expectation or intention and generally are accompanied by words that convey projected future events or outcomes. These forward-looking statements may include projections and estimates concerning capital expenditures, our liquidity and capital resources, the timing and success of specific projects, outcomes and effects of litigation, claims and disputes, elements of our business strategy, compliance with governmental regulation of the oil and natural gas industry, including environmental regulations, the effects of our acquisition of Dynamic Offshore Resources, LLC, and other statements concerning our operations, economic performance and financial condition. Forward-looking statements are generally accompanied by words such as estimate, assume, target, project, predict, believe, expect, anticipate, potential, could, may, foresee, plan, goal, should, intend or other words that indicate uncertainty of future events or outcomes. We have based these forward-looking statements on our current expectations and assumptions about future events. These statements are based on certain assumptions and analyses made by us in light of our experience and our perception of historical trends, current conditions and expected future developments as well as other factors we believe are reasonable and appropriate under the circumstances. The actual results or developments anticipated may not be realized, or even if substantially realized, they may not have the expected consequences to or effects on our business or results. These forward-looking statements speak only as of the date of this prospectus. We disclaim any obligation to update or revise these statements unless required by law, and we caution you not to rely on them unduly. While our management considers these expectations and assumptions to be reasonable, they are inherently subject to significant business, economic, competitive, regulatory and other risks, contingencies and uncertainties relating to, among other matters, the risks and uncertainties discussed under the heading Risk Factors in this prospectus, including the following:

risks associated with drilling oil and natural gas wells;

the volatility of oil and natural gas prices;

uncertainties in estimating oil and natural gas reserves;

the need to replace the oil and natural gas we produce;

our ability to execute our growth strategy by drilling wells as planned;

risks to our ability to drill productive, economically viable oil and natural gas wells;

risks and liabilities associated with acquired properties and risks related to the integration of acquired businesses;

amount, nature and timing of capital expenditures, including future development costs, required to develop our undeveloped areas;

concentration of operations in the Mid-Continent, west Texas and the Gulf of Mexico;

economic viability of certain natural gas production in west Texas due to high CO₂ content;

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availability of natural gas production for our midstream services operations;

limitations of seismic data;

the potential adverse effect of commodity price declines on the carrying value of our oil and natural gas properties;

severe or unseasonable weather that may adversely affect production;

availability of satisfactory oil and natural gas marketing and transportation;

availability and terms of capital to fund capital expenditures;

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amount and timing of proceeds of asset sales and asset monetizations;

substantial existing indebtedness;

limitations on operations resulting from debt restrictions and financial covenants;

potential financial losses or earnings reductions from commodity derivatives;

potential elimination or limitation of tax incentives;

competition in the oil and natural gas industry;

general economic conditions, either internationally or domestically or in the jurisdictions in which we operate;

costs to comply with current and future governmental regulation of the oil and natural gas industry, including environmental, health and safety laws and regulations, and regulations with respect to hydraulic fracturing; and

the need to maintain adequate internal control over financial reporting.

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PROSPECTUS SUMMARY

The following summary may not contain all of the information that may be important to you and should be read in conjunction with the more detailed information, financial statements and related notes appearing elsewhere in or incorporated by reference in this prospectus. References in this prospectus to SandRidge, the Company, we, our, or us, refer to SandRidge Energy, Inc. and its subsidiaries on a consolidated basis, unless otherwise indicated or the context requires otherwise.

Our Company

We are an independent oil and natural gas company concentrating on development and production activities in the Mid-Continent, west Texas and the Gulf of Mexico. Our primary areas of focus are the Mississippian formation in the Mid-Continent area of Oklahoma and Kansas and the Permian Basin in west Texas. We own and operate additional interests in the Mid-Continent, Gulf of Mexico, West Texas Overthrust (WTO) and Gulf Coast. We also operate businesses that are complementary to our primary development and production activities, including gas gathering and processing facilities, an oil and natural gas marketing business and an oil field services business, including its wholly owned drilling rig business.

Our principal executive offices are located at 123 Robert S. Kerr Avenue, Oklahoma City, Oklahoma 73102 and our telephone number is (405) 429-5500. Our website is <http://www.sandridgeenergy.com>. Our common stock is listed on the New York Stock Exchange under the symbol SD.

Recent Developments

Issuance of 2021 Notes and 2023 Notes

On August 20, 2012, we issued \$275 million aggregate principal amount of 7.5% Senior Notes due 2021 (the 2021 notes) and \$825 million aggregate principal amount of 7.5% Senior Notes due 2023 (the 2023 notes) to qualified institutional buyers eligible under Rule 144A of the Securities Act and to persons outside the United States under Regulation S under the Securities Act. Net proceeds from the offering were approximately \$1,080.5 million after deducting offering expenses, and were used to fund our tender offer for, and subsequent redemption of, \$350 million aggregate principal amount of our Senior Floating Rate Notes due 2014 (the 2014 notes), as described below, and for general corporate purposes, including funding our capital expenditure program. The 2021 notes and 2023 notes are jointly and severally guaranteed unconditionally, in full, on an unsecured basis by certain of our wholly owned subsidiaries. In conjunction with the issuance of the 2021 notes and 2023 notes, we entered into registration rights agreements requiring that we commence a registered exchange offer for these notes no later than August 20, 2013. Concurrent with the filing of the registration statement of which this prospectus forms a part, we are filing a Registration Statement on Form S-4 to conduct a registered exchange offer for the 2021 notes and 2023 notes. See Description of Other Indebtedness Outstanding Senior Notes.

Extinguishment of Senior Floating Rate Notes due 2014

On August 20, 2012, we purchased \$329.9 million, or 94.26%, of the aggregate principal amount of our 2014 notes pursuant to a tender offer and consent solicitation, to holders who tendered 2014 notes prior to August 17, 2012. We paid consideration for tendered 2014 notes of \$1,002.50 per \$1,000 principal amount of such notes tendered, plus accrued and unpaid interest from July 1, 2012. On September 4, 2012, we redeemed the remaining outstanding \$20.1 million aggregate principal amount of 2014 notes at 100% of the aggregate principal amount, plus accrued and unpaid interest from July 1, 2012.

Acquisition of Gulf of Mexico Properties

On June 20, 2012, we acquired oil and natural gas properties located on approximately 184,000 gross (103,000 net) acres in the Gulf of Mexico (the Gulf of Mexico Properties) for approximately \$38.5 million, net of purchase price adjustments, subject to post-closing adjustments. The acquisition of the Gulf of Mexico Properties added oil and natural gas reserves and production to our existing asset base in the Gulf of Mexico. The Gulf of Mexico Properties were producing approximately 3,000 barrels of oil equivalent per day at the time this transaction was completed.

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Sale of Tertiary Recovery Properties

On June 4, 2012, we sold our tertiary recovery properties located in the Permian Basin area of west Texas for approximately \$130.0 million, subject to post-closing adjustments. The divested areas were producing approximately 1,100 barrels of oil equivalent per day at the time of this transaction.

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The Exchange Offer

*On April 17, 2012, we completed a private placement of the outstanding, unregistered old notes. In connection with that issuance, we entered into a registration rights agreement in which we agreed, among other things, to deliver this prospectus to you and to use our best efforts to complete the exchange offer. The following is a summary of the exchange offer. See *The Exchange Offer* on page 33 for a full description of the terms of the exchange offer.*

Old Notes	\$750,000,000 of our 8 ¹ / ₈ % Senior Notes due 2022, which were issued on April 17, 2012.
New Notes	\$750,000,000 of our 8 ¹ / ₈ % Senior Notes due 2022. The terms of the new notes are identical to the terms of the old notes, except that the transfer restrictions, the registration rights and provisions for additional interest relating to the old notes do not apply to the new notes.
The Exchange Offer	We are offering to exchange up to \$750,000,000 aggregate principal amount of our new notes, which will be registered under the Securities Act, for up to \$750,000,000 aggregate principal amount of our old notes, on the terms and subject to the conditions set forth in this prospectus and the accompanying letter of transmittal, which we refer to as the exchange offer. You may tender old notes only in denominations of \$1,000 and integral multiples of \$1,000 in excess thereof. The old notes we are offering to exchange hereby were issued under an indenture dated as of April 17, 2012, as supplemented and amended by supplemental indentures dated April 17, 2012 and June 1, 2012.
Resale of New Notes	Based on interpretations of the SEC staff in no-action letters issued to third parties, we believe that you may resell and transfer the new notes issued pursuant to the exchange offer in exchange for old notes without compliance with the registration and prospectus delivery provisions of the Securities Act if:

you are acquiring the new notes in the ordinary course of your business;

you have no arrangement or understanding with any person to participate in the distribution of the new notes within the meaning of the Securities Act;

you are not an affiliate of ours, as such term is defined in Rule 405 under the Securities Act; and

you are not a broker-dealer and you are not engaged in and do not intend to engage in the distribution of the new notes.

If you fail to satisfy any of these conditions, you must comply with the registration and prospectus delivery requirements of the Securities Act in connection with resales of the new notes, unless an exemption therefrom is applicable to you.

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Broker-dealers that acquired the old notes directly from us, but not as a result of market-making activities or other trading activities, must comply with the registration and prospectus delivery requirements of the Securities Act in connection with resales of the new notes.

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Consequences If You Do Not Exchange Your Old Notes	<p>Each broker-dealer that receives new notes for its own account pursuant to the exchange offer in exchange for old notes that it acquired as a result of market-making or other trading activities must deliver a prospectus in connection with any resale of the new notes and provide us with a signed acknowledgement of this obligation.</p> <p>Old notes that are not tendered in the exchange offer or that are not accepted for exchange will continue to bear legends restricting their transfer. You will not be able to offer or sell the old notes unless:</p> <p style="padding-left: 40px;">an exemption from the registration requirements of the Securities Act is available to you;</p> <p style="padding-left: 40px;">we register the resale of old notes under the Securities Act; or</p> <p style="padding-left: 40px;">the transaction requires neither an exemption from nor registration under the Securities Act.</p> <p>After the completion of the exchange offer, we will no longer have an obligation to register the old notes, except in limited circumstances.</p>
Expiration Date	<p>The exchange offer will expire at 5:00 p.m., Eastern time, on _____, 2012, unless we decide to extend it.</p>
Conditions to the Exchange Offer	<p>The registration rights agreement we entered into in connection with the issuance of the old notes does not require us to accept old notes for exchange if the exchange offer or the making of any exchange by a holder of the old notes would not be permissible under applicable law or SEC policy. The exchange offer is also conditioned upon the effectiveness of the registration statement to which this prospectus relates and certain other customary conditions, as discussed in The Exchange Offer Conditions to the Exchange Offer.</p>
Procedures for Tendering Old Notes	<p>If you wish to accept the exchange offer, you must deliver to the exchange agent:</p> <p style="padding-left: 40px;">either a completed and signed letter of transmittal or, for old notes tendered electronically, an agent's message from The Depository Trust Company, or DTC, stating that the tendering participant agrees to be bound by the letter of transmittal and the terms of the exchange offer;</p> <p style="padding-left: 40px;">your old notes, either by tendering them in certificated form or by timely confirmation of book-entry transfer through DTC; and</p> <p style="padding-left: 40px;">all other documents required by the letter of transmittal.</p> <p>These actions must be completed before the expiration of the exchange offer. If you hold old notes through DTC, you must comply with its standard for electronic tenders, by which you will agree to be bound by the letter of transmittal.</p>

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There is no procedure for guaranteed late delivery of the old notes.

By signing, or by agreeing to be bound by, the letter of transmittal, you will be representing to us that:

you will be acquiring the new notes in the ordinary course of your business;

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you have no arrangement or understanding with any person to participate in the distribution of the new notes within the meaning of the Securities Act;

you are not an affiliate of ours, as such term is defined in Rule 405 under the Securities Act; and

if you are not a broker-dealer, you are not engaged in and do not intend to engage in the distribution of the new notes.

See The Exchange Offer Terms of the Exchange and The Exchange Offer Procedures for Tendering.

Special Procedures for Beneficial Holders

If you beneficially own old notes that are registered in the name of a broker, dealer, commercial bank, trust company or other nominee and you wish to tender your old notes in the exchange offer, you should contact the registered holder promptly and instruct such person to tender on your behalf. If you wish to tender your old notes in the exchange offer on your own behalf, you must, prior to completing and executing the letter of transmittal and delivering your old notes, either arrange to have the old notes registered in your name or obtain a properly completed bond power from the registered holder. The transfer of registered ownership may take considerable time.

Withdrawal Rights

You may withdraw your tender of old notes at any time prior to 5:00 p.m., Eastern time, on the expiration date. Any withdrawn old notes will be credited to the tendering holder's account at DTC or, if the withdrawn old notes are held in certificated form, will be returned to the tendering holder. We will accept for exchange any and all old notes validly tendered and not withdrawn prior to the expiration of the exchange offer.

Acceptance of Old Notes and Delivery of New Notes

If you fulfill all conditions required for proper acceptance of old notes we will accept any and all old notes that you validly tender in the exchange offer before 5:00 p.m., Eastern time, on the expiration date of the exchange offer. We will return any old note that we do not accept for exchange, without expense, promptly after the expiration date. We will deliver the new notes promptly after the expiration date and acceptance of the old notes for exchange. Please read The Exchange Offer Terms of the Exchange Offer.

U.S. Federal Income Tax Considerations

The exchange of new notes for old notes in the exchange offer will not be a taxable event for U.S. federal income tax purposes. See Material U.S. Federal Tax Considerations for more information regarding the tax consequences to you of the exchange offer.

Use of Proceeds

We will not receive any proceeds from the exchange or the issuance of new notes in connection with the exchange offer.

Fees and Expenses

We will pay all of our expenses related to the exchange offer.

Accounting Treatment

We will record the new notes in our accounting records at the same carrying value as the old notes. Accordingly, we will not recognize any gain or loss for accounting purposes in connection with the exchange offer.

Exchange Agent

We have appointed Wells Fargo Bank, National Association, as exchange agent for the exchange offer. The address, telephone number and facsimile number of the exchange agent are set forth below under The Exchange Offer Exchange Agent.

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The New Notes

The form and terms of the new notes are the same as the form and terms of the old notes, except that:

the new notes will be registered under the Securities Act and will therefore not bear legends restricting their transfer; and

specified rights under the registration rights agreement we entered into in connection with the issuance of the old notes, including provisions providing for registration rights and the payment of additional interest in specified circumstances, will be limited or eliminated.

The new notes will evidence the same indebtedness as the old notes for which they will be exchanged and will rank equally with the old notes. The indenture governing the old notes will also govern the new notes. Unless the context otherwise requires, when we refer to the old notes, we also refer to the guarantees associated with the old notes, and when we refer to the new notes, we also refer to the guarantees associated with the new notes.

The following is a brief summary of the material terms of the new notes. For a more complete description of the terms of the new notes, please read [Description of the Notes](#) below.

Issuer	SandRidge Energy, Inc.
Securities offered	<p>\$750,000,000 aggregate principal amount of 8 ¹/₈% Senior Notes due 2022.</p> <p>The new notes are being offered under an indenture dated as of April 17, 2012, as supplemented and amended by supplemental indentures dated April 17, 2012 and June 1, 2012, pursuant to which we previously issued the old notes.</p>
Maturity date	The new notes will mature on October 15, 2022.
Interest payment dates	Interest is payable semi-annually in cash in arrears on April 15 and October 15 of each year. Interest accrued through the expiration date of the exchange offer on old notes that are exchanged for new notes will be paid to holders of record of the new notes on the next regular payment date.
Guarantees	The payment of the principal, premium, if any, and interest on the new notes will be fully and unconditionally guaranteed on a senior unsecured basis by our existing material subsidiaries and by certain of our future domestic restricted subsidiaries.
Ranking	The new notes and guarantees will be our and the guarantors' senior unsecured obligations and will:

rank equally in right of payment with all of our and the guarantors' existing and future senior indebtedness;

rank senior in right of payment to all of our and the guarantors' existing and future subordinated indebtedness;

be effectively subordinated in right of payment to all of our and the guarantors' existing and future secured indebtedness to the extent of the value of the collateral securing such indebtedness; and

be effectively subordinated in right of payment to all existing and future indebtedness and other liabilities of any of our subsidiaries that are not also a guarantor of the new notes.

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As of June 30, 2012, our total indebtedness was approximately \$3.5 billion (or approximately \$4.3 billion on an as adjusted basis to give effect to the issuance of the 2023 notes and additional 2021 notes and the extinguishment of the 2014 notes), and as of June 30, 2012 the total liabilities of our consolidated subsidiaries (other than the guarantors) were approximately \$21.4 million, including trade payables. We have no current borrowings under our senior credit facility, which has a borrowing base of \$775.0 million.

Optional redemption	We have the option to redeem all or a portion of the new notes at any time on or after April 15, 2017, at the redemption prices described in this prospectus. In addition, before April 15, 2015, we may redeem up to 35% of the aggregate principal amount of the new notes with the net proceeds of certain equity offerings at the redemption price equal to 108.125% of the aggregate principal amount of the notes redeemed, provided that at least 65% of the original principal amount of the new notes remain outstanding after the redemption. We may, on any one or more occasions, redeem some or all of the new notes at any time prior to April 15, 2017, at a price equal to 100% of the aggregate principal amount of the new notes redeemed, plus a make-whole premium. Please see Description of the Notes Optional Redemption. The new notes will not be subject to any sinking fund provision.
Change of control	If we experience specific kinds of changes of control, we must offer to repurchase all of the notes at 101% of their principal amount, plus accrued and unpaid interest, if any, to the repurchase date.
Covenants	The indenture governing the notes contains restrictive covenants. For a more detailed description, please see Description of the Notes Certain Covenants.
Covenant suspension	If at any time the notes are rated investment grade by either Standard & Poor's or Moody's and no default has occurred and is continuing under the indenture, certain of the restrictions and related events of default under the indenture will terminate and will not apply to us or our subsidiaries so long as the notes retain such a rating. Please see Description of the Notes Suspension of Covenants when Notes Rated Investment Grade

Risk Factors

Prospective investors should carefully consider all of the information set forth or incorporated by reference in this prospectus. Investing in the new notes involves substantial risk and investors should evaluate the specific factors set forth under Risk Factors beginning on page 8 for a discussion of risks involved with an investment in the new notes.

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RISK FACTORS

You should carefully consider these risk factors together with the other information included or incorporated by reference in this prospectus in evaluating us, our business and your participation in the exchange offer, which could materially affect our business, financial condition or future results.

Risks Related to Our Business

Drilling for and producing oil and natural gas are high risk activities with many uncertainties that could adversely affect our business, financial condition or results of operations.

Our drilling and operating activities are subject to numerous risks, including the risk that we will not discover commercially productive reservoirs. Drilling for oil and natural gas can be unprofitable if dry wells are drilled and if productive wells do not produce sufficient revenues to return a profit. Decisions to develop properties depend in part on the evaluation of data obtained through geophysical and geological analyses, production data and engineering studies, the results of which are often inconclusive or subject to varying interpretations. The estimated cost of drilling, completing and operating wells is uncertain before drilling commences. Overruns in budgeted expenditures are common risks that can make a particular project uneconomical. In addition, our drilling and producing operations may be curtailed, delayed or canceled as a result of various factors, including the following:

delays imposed by or resulting from compliance with regulatory requirements including permitting;

unusual or unexpected geological formations and miscalculations;

shortages of or delays in obtaining equipment and qualified personnel;

shortages of or delays in obtaining water for hydraulic fracturing operations;

equipment malfunctions, failures or accidents;

lack of available gathering facilities or delays in construction of gathering facilities;

lack of available capacity on interconnecting transmission pipelines;

lack of adequate electrical infrastructure;

unexpected operational events and drilling conditions;

pipe or cement failures and casing collapses;

pressures, fires, blowouts and explosions;

lost or damaged drilling and service tools;

loss of drilling fluid circulation;

uncontrollable flows of oil, natural gas, brine, water or drilling fluids;

natural disasters;

environmental hazards, such as oil and natural gas leaks, pipeline ruptures and discharges of toxic gases or fluids;

adverse weather conditions such as extreme cold, fires caused by extreme heat or lack of rain, and severe storms, tornadoes or hurricanes;

reductions in oil and natural gas prices;

oil and natural gas property title problems; and

market limitations for oil and natural gas.

Any of these risks can cause substantial losses, including personal injury or loss of life, damage to or destruction of property, natural resources and equipment, environmental contamination or loss of wells and regulatory fines or penalties.

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Oil and natural gas prices fluctuate due to a number of factors that are beyond our control, and a decline in oil and natural gas prices could significantly affect our financial results and impede our growth.

Our revenues, profitability and cash flow are highly dependent upon the prices we realize from the sale of oil and natural gas. The markets for these commodities are very volatile. Oil and natural gas prices can fluctuate widely in response to a variety of factors that are beyond our control. These factors include, among others:

regional, domestic and foreign supply of, and demand for, oil and natural gas, as well as perceptions of supply of, and demand for, oil and natural gas;

the price and quantity of foreign imports;

U.S. and worldwide political and economic conditions;

weather conditions and seasonal trends;

anticipated future prices of oil and natural gas, alternative fuels and other commodities;

technological advances affecting energy consumption and energy supply;

the proximity, capacity, cost and availability of pipeline infrastructure, treating, transportation and refining capacity;

natural disasters and other acts of force majeure;

domestic and foreign governmental regulations and taxation;

energy conservation and environmental measures; and

the price and availability of alternative fuels.

For oil, from January 1, 2008 through June 30, 2012, the highest monthly NYMEX settled price was \$140.00 per Bbl and the lowest was \$41.68 per Bbl. For natural gas, from January 1, 2008 through June 30, 2012, the highest monthly NYMEX settled price was \$13.11 per MMBtu and the lowest was \$2.04 per MMBtu. In addition, the market price of oil and natural gas is generally higher in the winter months than during other months of the year due to increased demand for oil and natural gas for heating purposes during the winter season.

Lower oil and natural gas prices may not only decrease our revenues on a per share basis, but also may ultimately reduce the amount of oil and natural gas that we can produce economically and, therefore, could have a material adverse effect on our financial condition and results of operations. This also may result in our having to make substantial downward adjustments to our estimated proved reserves.

Future price declines may result in further reductions of the asset carrying values of our oil and natural gas properties.

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We utilize the full cost method of accounting for costs related to our oil and natural gas properties. Under this accounting method, all costs for both productive and nonproductive properties are capitalized and amortized on an aggregate basis over the estimated lives of the properties using the unit-of-production method. However, the amount of these costs that can be carried as capitalized assets is subject to a ceiling, which limits such pooled costs to the aggregate of the present value of future net revenues of proved oil and natural gas reserves attributable to proved properties, discounted at 10%, plus the lower of cost or market value of unevaluated properties. The full cost ceiling is evaluated at the end of each quarter using the most recent 12-month average prices for oil and natural gas, adjusted for the impact of derivatives accounted for as cash flow hedges. In the event any of our derivatives are accounted for as cash flow hedges, the impact of these derivative contracts will be included in the determination of our full cost ceiling. We had no full cost ceiling impairments during the years ended December 31, 2011 or 2010, while our ceiling limitations during 2009 resulted in non-cash impairment charges totaling \$1,693.3 million. Future declines in oil and natural gas prices, without other mitigating circumstances, could result in additional losses of future net revenues, including losses attributable to quantities that cannot be economically produced at lower prices, which could cause us to record additional write-downs of capitalized costs of our oil and natural gas properties and non-cash charges against future earnings. The amount of such future write-downs and non-cash charges could be substantial.

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We have a substantial amount of indebtedness and other obligations and commitments, which may adversely affect our cash flow and our ability to operate our business.

As of June 30, 2012, our total indebtedness was \$3.5 billion (or \$4.3 billion on an as adjusted basis to give effect to the issuance of the 2023 notes and additional 2021 notes and the extinguishment of the 2014 notes), and we had preferred stock outstanding with an aggregate liquidation preference of \$765.0 million. Our substantial level of indebtedness and the dividends payable on our preferred stock outstanding increases the possibility that we may be unable to generate cash sufficient to pay, when due, the principal of, interest on or other amounts due in respect of our indebtedness and/or the preferred stock dividends. Our indebtedness and outstanding preferred stock, combined with our lease and other financial obligations and contractual commitments, such as our obligations to drill development wells for multiple royalty trusts, could have other important consequences to us. For example, it could:

make us more vulnerable to adverse changes in general economic, industry and competitive conditions and adverse changes in government regulation;

require us to dedicate a substantial portion of our cash flow from operations to payments on our indebtedness, thereby reducing the availability of our cash flows to fund working capital, capital expenditures, acquisitions and other general corporate purposes;

limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate;

place us at a disadvantage compared to our competitors that are less leveraged and, therefore, may be able to take advantage of opportunities that our indebtedness prevents us from pursuing; and

limit our ability to borrow additional amounts for working capital, capital expenditures, acquisitions, debt service requirements, execution of our business strategy or other purposes.

Any of the above listed factors could have a material adverse effect on our business, financial condition and results of operations.

Our estimated reserves are based on many assumptions that may turn out to be inaccurate. Any significant inaccuracies in these reserve estimates or underlying assumptions could materially affect the quantities and present value of our reserves. Our current estimates of reserves could change, potentially in material amounts, in the future.

The process of estimating oil and natural gas reserves is complex and inherently imprecise, requiring interpretations of available technical data and many assumptions, including assumptions relating to production rates and economic factors such as oil and natural gas prices, drilling and operating expenses, capital expenditures, the assumed effect of governmental regulation and availability of funds. Any significant inaccuracies in these interpretations or assumptions could materially affect the estimated quantities and present value of our reserves. See our Annual Report on Form 10-K for the year ended December 31, 2011 for information on our oil and natural gas reserves.

Actual future production, oil and natural gas prices, revenues, taxes, development expenditures, operating expenses and quantities of recoverable oil and natural gas reserves most likely will vary from our estimates. Any significant variance could materially affect the estimated quantities and present value of reserves shown in our Annual Report on Form 10-K for the year ended December 31, 2011, which in turn could have a negative effect on the value of our assets. In addition, from time to time in the future, we may adjust estimates of proved reserves, potentially in material amounts, to reflect production history, results of exploration and development, oil and natural gas prices and other factors, many of which are beyond our control.

The present value of future net cash flows from our proved reserves will not necessarily be the same as the current market value of our estimated oil and natural gas reserves.

We base the estimated discounted future net cash flows from our proved reserves on 12-month average prices and costs. Actual future net cash flows from our oil and natural gas properties also will be affected by factors such as:

actual prices we receive for oil and natural gas;

the accuracy of our reserve estimates;

the actual cost of development and production expenditures;

the amount and timing of actual production;

supply of and demand for oil and natural gas; and

changes in governmental regulations or taxation.

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The timing of both our production and our incurrence of expenses in connection with the development and production of oil and natural gas properties will affect the timing of actual future net cash flows from proved reserves, and thus their actual present value. In addition, we use a 10% discount factor when calculating discounted future net cash flows, which may not be the most appropriate discount factor based on interest rates in effect from time to time and risks associated with us or the oil and natural gas industry in general.

Unless we replace our oil and natural gas reserves, our reserves and production will decline, which would adversely affect our business, financial condition and results of operations.

Our future oil and natural gas reserves and production, and therefore our cash flow and income, are highly dependent on our success in efficiently developing and exploiting our current reserves and economically finding or acquiring additional recoverable reserves. We may not be able to develop, find or acquire additional reserves to replace our current and future production at acceptable costs.

We will not know conclusively prior to drilling whether oil or natural gas will be present in sufficient quantities to be economically producible.

The use of seismic data and other technologies and the study of producing fields in the same area does not enable us to know conclusively prior to drilling whether oil or natural gas will be present or, if present, whether oil or natural gas will be present in sufficient quantities to be economically viable. Even if sufficient amounts of oil or natural gas exist, we may damage the potentially productive hydrocarbon bearing formation or experience mechanical difficulties while drilling or completing the well, resulting in a reduction in production from the well or abandonment of the well. During 2011, we completed a total of 936 gross wells, of which three were identified as dry wells. If we drill additional wells that we identify as dry wells in our current and future prospects, our drilling success rate may decline and materially harm our business. In summary, the cost of drilling, completing and operating any well is often uncertain, and new wells may not be productive.

Production of oil, natural gas and natural gas liquids could be materially and adversely affected by natural disasters or severe or unseasonable weather.

Production of oil, natural gas and natural gas liquids could be materially and adversely affected by natural disasters or severe weather. Repercussions of natural disasters or severe weather conditions may include:

evacuation of personnel and curtailment of operations;

damage to drilling rigs or other facilities, resulting in suspension of operations;

inability to deliver materials to worksites; and

damage to, or shutting in of, pipelines and other transportation facilities.

In addition, our hydraulic fracturing operations require significant quantities of water. Regions in which we operate have recently experienced drought conditions. Any diminished access to water for use in hydraulic fracturing, whether due to usage restrictions or drought or other weather conditions, could curtail our operations or otherwise result in delays in operations or increased costs.

Volatility in the capital markets could affect our ability to obtain capital, cause us to incur additional financing expense or affect the value of certain assets.

In recent periods, global financial markets and economic conditions have been volatile due to multiple factors, including significant write-offs in the financial services sector and weak economic conditions. In some cases, the markets have produced downward pressure on stock prices and credit capacity for certain issuers without regard to those issuers' underlying financial and/or operating strength. Due to this volatility, for many companies the cost of raising money in the debt and equity capital markets has been greater in recent periods than has historically been the case. Continued market volatility may from time to time adversely affect our ability to access capital and credit markets or to obtain funds at low interest rates or on other advantageous terms. These factors may adversely affect our business, results of operations or liquidity.

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These factors may adversely affect the value of certain of our assets and our ability to draw on our senior credit facility. Adverse credit and capital market conditions may require us to reduce the carrying value of assets associated with derivative contracts to account for non-performance by, or increased credit risk from, counterparties to those contracts. If financial institutions that have extended credit commitments to us are adversely affected by volatile conditions of the United States and international capital markets, they may become unable to fund borrowings under their credit commitments to us, which could have a material adverse effect on our financial condition and our ability to borrow additional funds, if needed, for working capital, capital expenditures and other corporate purposes.

Properties that we buy may not produce as projected, and we may be unable to determine reserve potential, identify liabilities associated with the properties or obtain protection from sellers against them.

Our initial technical reviews of properties we acquire are inherently incomplete because an in-depth review of every individual property involved in each acquisition generally is not feasible. Even a detailed review of records and properties may not necessarily reveal existing or potential problems, nor will it permit a buyer to become sufficiently familiar with the properties to assess fully their deficiencies and potential. Inspections may not always be performed on every well and environmental problems, such as soil or ground water contamination, are not necessarily observable even when an inspection is undertaken. Even when problems are identified, we may assume certain environmental and other risks and liabilities in connection with acquired properties, and such risks and liabilities could have a material adverse effect on our results of operations and financial condition.

The development of our proved undeveloped reserves may take longer and may require higher levels of capital expenditures than we currently anticipate.

As of December 31, 2011, 51% of our total reserves were proved undeveloped reserves. Development of these reserves may take longer and require higher levels of capital expenditures than we currently anticipate. Therefore, ultimate recoveries from these fields may not match current expectations. Delays in the development of our reserves or increases in costs to drill and develop such reserves will reduce the PV-10 value of our estimated proved undeveloped reserves and future net revenues estimated for such reserves.

A significant portion of our operations are located in northwest Oklahoma, Kansas, west Texas and the Gulf of Mexico, making us vulnerable to risks associated with operating in a limited number of major geographic areas.

As of June 30, 2012, approximately 96.9% of our production was located in the Mid-Continent, Permian Basin and Gulf of Mexico. This concentration could disproportionately expose us to operational and regulatory risk in these areas. This relative lack of diversification in location of our key operations could expose us to adverse developments in these areas or the oil and natural gas markets, including, for example, transportation or treatment capacity constraints, curtailment of production or treatment plant closures for scheduled maintenance. These factors could have a significantly greater impact on our financial condition, results of operations and cash flows than if our properties were more diversified.

Our development and exploration operations require substantial capital, and we may be unable to obtain needed capital or financing on satisfactory terms, which could lead to a loss of properties and a decline in our oil and natural gas reserves.

The oil and natural gas industry is capital intensive. We make substantial capital expenditures in our business and operations for the exploration, development, production and acquisition of oil and natural gas reserves. Historically, we have financed capital expenditures primarily with proceeds from asset sales and from the sale of equity, debt and cash generated by operations. We expect to finance our future capital expenditures with the sale of equity and debt securities, cash flow from operations, asset sales and other financing arrangements. Our cash flow from operations and access to capital are subject to a number of variables, including:

our proved reserves;

the level of oil and natural gas we are able to produce from existing wells;

the prices at which oil and natural gas are sold; and

our ability to acquire, locate and produce new reserves.

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If our revenues decrease as a result of lower oil and natural gas prices, operating difficulties, declines in reserves or for any other reason, we may have limited ability to obtain the capital necessary to sustain our operations at current levels. In order to fund our capital expenditures, we may seek additional financing. However, our senior credit facility contains covenants limiting our ability to incur additional indebtedness, which our lenders may withhold in their sole discretion. Our senior note indentures also contain covenants that may restrict our ability to incur additional indebtedness if we do not satisfy certain financial metrics. If we are unable to obtain additional financing, it may be necessary for us to reduce or suspend our capital expenditures.

Disruptions in the global financial and capital markets also could adversely affect our ability to obtain debt or equity financing on favorable terms, or at all. The failure to obtain additional financing could result in a curtailment of our operations relating to exploration and development of our prospects, which in turn could lead to a possible loss of properties and a decline in our oil and natural gas reserves.

The agreements governing our existing indebtedness have restrictions, financial covenants and borrowing base redeterminations which could adversely affect our operations.

Our senior credit facility and the indentures governing our senior notes restrict our ability to obtain additional financing, make investments, lease equipment, sell assets and engage in business combinations. We also are required to comply with certain financial covenants and ratios. Our ability to comply with these restrictions and covenants in the future is uncertain and could be affected by the levels of cash flow from our operations and events or circumstances beyond our control. If commodity prices decline, this could adversely affect our ability to meet such restrictions and covenants. Our failure to comply with any of the restrictions and covenants under the senior credit facility, senior notes or other debt financing could result in a default under those instruments, which could cause all of our existing indebtedness to be immediately due and payable.

Our senior credit facility limits the amounts we can borrow to a borrowing base amount. The borrowing base is subject to review semi-annually; however, the lenders reserve the right to have one additional re-determination of the borrowing base per calendar year. Unscheduled re-determinations may be made at our request, but are limited to two requests per year. Borrowing base determinations are based upon proved developed producing reserves, proved developed non-producing reserves and proved undeveloped reserves. Outstanding borrowings exceeding the borrowing base must be repaid promptly, or we must pledge other oil and natural gas properties as additional collateral. We may not have the financial resources in the future to make any mandatory principal prepayments under the senior credit facility, which are required, for example, when the committed line of credit is exceeded, proceeds of asset sales in new oil and natural gas properties are not reinvested, or indebtedness that is not permitted by the terms of the senior credit facility is incurred. If the indebtedness under our senior credit facility and senior notes were to be accelerated, our assets may not be sufficient to repay such indebtedness in full.

Our derivative activities could result in financial losses and could reduce our earnings.

To achieve a more predictable cash flow and to reduce our exposure to adverse fluctuations in the prices of oil and natural gas, we currently have entered, and may in the future enter, into derivative contracts for a portion of our oil and natural gas production, including fixed price swaps, collars and basis swaps. We have not and do not plan to designate any of our derivative contracts as hedges for accounting purposes and, as a result, record all derivative contracts on our balance sheet at fair value with changes in the fair value recognized in current period earnings. Accordingly, our earnings may fluctuate significantly as a result of changes in fair value of our derivative contracts. Derivative contracts also expose us to the risk of financial loss in some circumstances, including when:

production is less than expected;

the counterparty to the derivative contract defaults on its contract obligations; or

there is a change in the expected differential between the underlying price in the derivative contract and actual prices received.

In addition, these types of derivative contracts limit the benefit we would receive from increases in the prices for oil and natural gas.

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All of our consolidated drilling and services revenues are derived from companies in the oil and natural gas industry.

Companies to which we provide drilling and related services are affected by the oil and natural gas industry risks mentioned above. Market prices of oil and natural gas, limited access to capital and reductions in capital expenditures could result in oil and natural gas companies canceling or curtailing their drilling programs, which could reduce the demand for our drilling and related services. Any prolonged reduction in the overall level of exploration and development activities, whether resulting from changes in oil and natural gas prices or otherwise, could impact our drilling and services segment by negatively affecting:

revenues, cash flow and profitability;

our ability to retain skilled rig personnel whom we would need in the event of an upturn in the demand for drilling and related services; and

the fair value of our rig fleet.

Our use of 2-D and 3-D seismic data is subject to interpretation and may not accurately identify the presence of oil and natural gas. In addition, the use of such technology requires greater predrilling expenditures, which could adversely affect the results of our drilling operations.

A significant aspect of our exploration and development plan involves seismic data. Even when properly used and interpreted, 2-D and 3-D seismic data and visualization techniques are only tools used to assist geoscientists in identifying subsurface structures and hydrocarbon indicators and do not enable the interpreter to know whether hydrocarbons are present in those structures. Other geologists and petroleum professionals, when studying the same seismic data, may have significantly different interpretations than our professionals.

In addition, the use of 2-D and 3-D seismic and other advanced technologies requires greater predrilling expenditures than traditional drilling strategies, and we could incur losses due to such expenditures. As a result, our drilling activities may not be geologically successful or economical, and our overall drilling success rate or our drilling success rate for activities in a particular area may not improve.

We may often gather 2-D and 3-D seismic data over large areas. Our interpretation of seismic data delineates for us those portions of an area that we believe are desirable for drilling. Therefore, we may choose not to acquire option or lease rights prior to acquiring seismic data, and in many cases, we may identify hydrocarbon indicators before seeking option or lease rights in the location. If we are not able to lease those locations on acceptable terms, we will have made substantial expenditures to acquire and analyze 2-D and 3-D seismic data without having an opportunity to attempt to benefit from those expenditures.

Oil and natural gas wells are subject to operational hazards that can cause substantial losses for which we may not be adequately insured.

There are a variety of operating risks inherent in oil and natural gas production and associated activities, such as fires, leaks, explosions, mechanical problems, major equipment failures, blowouts, uncontrollable flow of oil, natural gas and natural gas liquids, water or drilling fluids, casing collapses, abnormally pressurized formations and natural disasters. The occurrence of any of these or similar accidents that temporarily or permanently halt the production and sale of oil and natural gas at any of our properties could have a material adverse impact on our business activities, financial condition and results of operations.

Additionally, if any of such risks or similar accidents occur, we could incur substantial losses as a result of injury or loss of life, severe damage or destruction of property, natural resources and equipment, regulatory investigation and penalties and environmental damage and clean-up responsibility. If we experience any of these problems, our ability to conduct operations could be adversely affected. While we maintain insurance coverage that we deem appropriate for these risks, our operations may result in liabilities exceeding such insurance coverage or liabilities not covered by insurance.

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Shortages or increases in costs of equipment, services and qualified personnel could adversely affect our ability to execute our exploration and development plans on a timely basis and within our budget.

The demand for qualified and experienced personnel to conduct field operations, geologists, geophysicists, engineers and other professionals in the oil and natural gas industry can fluctuate significantly, often in correlation with oil and natural gas prices, causing periodic shortages. Historically, there have been shortages of drilling rigs and other equipment as demand for rigs and equipment has increased along with the number of wells being drilled. These factors also cause significant increases in costs for equipment, services and personnel. Higher oil and natural gas prices generally stimulate demand and result in increased prices for drilling rigs, crews and associated supplies, equipment and services. Shortages of field personnel and equipment or price increases could significantly affect our ability to execute our exploration and development plans as projected.

Market conditions or operational impediments may hinder our access to oil and natural gas markets or delay our production.

Market conditions or a lack of satisfactory oil and natural gas transportation arrangements may hinder our access to oil and natural gas markets or delay our production. The availability of a ready market for our oil and natural gas production depends on a number of factors, including the demand for and supply of oil and natural gas and the proximity of reserves to pipelines and terminal facilities. Our ability to market our production depends, in substantial part, on the availability and capacity of gathering systems, pipelines and treating facilities. Our failure to obtain such services on acceptable terms in the future or to expand our midstream assets could have a material adverse effect on our business. We may be required to shut in wells for a lack of a market or because access to natural gas pipelines, gathering system capacity or treating facilities may be limited or unavailable. We would be unable to realize revenue from any shut-in wells until production arrangements were made to deliver the production to market.

Competition in the oil and natural gas industry is intense, which may adversely affect our ability to succeed.

The oil and natural gas industry is intensely competitive, and we compete with companies that have greater resources than we do. Many of these companies not only explore for and produce oil and natural gas, but also conduct refining operations and market petroleum and other products on a regional, national or worldwide basis. These companies may be able to pay more for productive oil and natural gas properties and exploratory prospects or identify, evaluate, bid for and purchase a greater number of properties and prospects than our financial or human resources permit. In addition, these companies may have a greater ability to continue exploration activities during periods of low oil and natural gas market prices. Our larger competitors may be able to absorb the burden of present and future federal, state, local and other laws and regulations more easily than we can, which would adversely affect our competitive position. Our ability to acquire additional properties and to discover reserves in the future will be dependent upon our ability to evaluate and select suitable properties and to consummate transactions in a highly competitive environment. In addition, because we have fewer financial and human resources than many companies in our industry, we may be at a disadvantage in bidding for exploratory prospects and producing oil and natural gas properties.

Downturns in oil and natural gas prices can result in decreased oil field activity which, in turn, can result in an oversupply of service providers and drilling rigs. This oversupply can result in severe reductions in prices received for oil field services or a complete lack of work for crews and equipment.

Many of our prospects in the WTO may contain natural gas that is high in CO₂ content, which can negatively affect our economics.

The reservoirs of many of our prospects in the WTO may contain natural gas that is high in CO₂ content. The natural gas produced from these reservoirs must be treated for the removal of CO₂ prior to marketing. If we cannot obtain sufficient capacity at treatment facilities for our natural gas with a high CO₂ concentration, or if the cost to obtain such capacity significantly increases, we could be forced to delay production and development or experience increased production costs. We will not know the amount of CO₂ that we will encounter in any well until it is drilled. As a result, sometimes we encounter CO₂ levels in our wells that are higher than expected. Since the treatment expenses are incurred on a Mcf basis, we will incur a higher effective treating cost per MMBtu of natural gas sold for natural gas with a higher CO₂ content. As a result, high CO₂ gas wells must produce at much higher rates than low CO₂ gas wells to be economic, especially in a low natural gas price environment.

Furthermore, when we treat the gas for the removal of CO₂, some of the methane is used to run the treatment plant as fuel gas and other methane and heavier hydrocarbons, such as ethane, propane and butane, cannot be separated from the CO₂ and is lost. This is known as plant shrink. During 2012, our plant shrink has been approximately 5% in the WTO. After giving effect to plant shrink, as many as 3.3 Mcf of high CO₂ natural gas must be produced to sell one MMBtu of natural gas. We report our volumes of natural gas reserves and production net of CO₂ volumes that are removed prior to sales.

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The cost to construct the Century Plant may exceed estimated costs.

We are constructing the Century Plant, a CO₂ treatment plant in Pecos County, Texas, and associated compression and pipeline facilities pursuant to an agreement with a subsidiary of Occidental Petroleum Corporation (Occidental). The Century Plant will be owned and operated by Occidental for the purpose of separating and removing CO₂ from natural gas delivered by us. The cost to construct the Century Plant may exceed current estimated costs, which as of June 30, 2012 were expected to exceed the contract amount by approximately \$140.0 million. In addition, there are significant risks associated with the operation and performance of a facility such as the Century Plant, and no guarantee that the Century Plant will operate at its designed capacity or otherwise perform as anticipated.

Significant or prolonged decreases in natural gas production in the WTO, due to declines in production from existing wells, depressed commodity prices or otherwise, adversely affect our ability to satisfy certain contractual obligations and revenues and cash flow from our midstream gas services segment.

We have entered into a 20-year gas gathering agreement with Piñon Gathering Company, LLC (PGC) and a 30-year gas treating agreement with Occidental. These agreements require us annually to deliver certain minimum volumes of natural gas to PGC and CO₂ to Occidental and to compensate PGC and Occidental to the extent we do not satisfy the contractual delivery requirements. A material decrease in production in the WTO, where the applicable natural gas assets are located, would result in a decline in the volume of natural gas and CO₂ delivered to PGC and Occidental, respectively, and to our own pipelines and facilities for gathering, transporting and treating. We have no control over many factors affecting production activity in the WTO, including prevailing and projected energy prices, demand for hydrocarbons, the level of reserves, geological considerations, governmental regulation and the availability and cost of capital. As a consequence of these factors, we may not be able to find, produce and deliver sufficient quantities of natural gas or CO₂ to meet our contractual delivery obligations. In addition, if we fail to connect new wells to our gathering systems, the amount of natural gas we gather, transport and treat will decline substantially over time and could, upon exhaustion of the current wells, cause us to abandon our gathering systems and, possibly cease gathering, transporting and treating operations.

We are subject to complex federal, state, local and other laws and regulations that could adversely affect the cost, manner or feasibility of conducting our operations or expose us to significant liabilities.

Our oil and natural gas exploration, production, transportation and treatment operations are subject to complex and stringent laws and regulations. In order to conduct our operations in compliance with these laws and regulations, we must obtain and maintain numerous permits, approvals and certificates from various federal, state and local governmental authorities. We may incur substantial costs in order to maintain compliance with these existing laws and regulations. Further, in light of the explosion and fire on the drilling rig Deepwater Horizon in the Gulf of Mexico, as well as recent incidents involving the release of oil and natural gas and fluids as a result of drilling activities in the United States, there have been a variety of regulatory initiatives at the federal and state levels to restrict oil and natural gas drilling operations in certain locations. Any increased regulation or suspension of oil and natural gas exploration and production, or revision or reinterpretation of existing laws and regulations, that arises out of these incidents or otherwise could result in delays and higher operating costs. Such costs or significant delays could have a material adverse effect on our business, financial condition and results of operations. We must also comply with laws and regulations prohibiting fraud and market manipulations in energy markets. To the extent we are a shipper on interstate pipelines, we must comply with the tariffs of such pipelines and with federal policies related to the use of interstate capacity.

Laws and regulations governing oil and natural gas exploration and production may also affect production levels. We are required to comply with federal and state laws and regulations governing conservation matters, including provisions related to the unitization or pooling of the oil and natural gas properties; the establishment of maximum rates of production from wells; the spacing of wells; and the plugging and abandonment of wells. These and other laws and regulations can limit the amount of oil and natural gas we can produce from our wells, limit the number of wells we can drill, or limit the locations at which we can conduct drilling operations.

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New laws or regulations, or changes to existing laws or regulations may unfavorably impact us, could result in increased operating costs and have a material adverse effect on our financial condition and results of operations. For example, Congress has recently considered, and may continue to consider, legislation that, if adopted in its proposed form, would subject companies involved in oil and natural gas exploration and production activities to, among other items, additional regulation of and restrictions on hydraulic fracturing of wells, and the elimination of most U.S. federal tax incentives and deductions available to oil and natural gas exploration and production activities. In addition, the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act) and rules promulgated thereunder could reduce trading positions in the energy futures or swaps markets and materially reduce hedging opportunities for us, which could adversely affect our revenues and cash flows during periods of low commodity prices, and which could adversely affect our ability to restructure our hedges when it might be desirable to do so.

Additionally, state and federal regulatory authorities may expand or alter applicable pipeline safety laws and regulations, compliance with which may increase capital costs for us and third party downstream oil and natural gas transporters. These and other potential regulations could increase our operating costs, reduce our liquidity, delay our operations, increase direct and third party post production costs or otherwise alter the way we conducts our business, which could have a material adverse effect on our financial condition, results of operations and cash flows and which could reduce cash received by or available for distribution, including any amounts paid by us for transportation on downstream interstate pipelines.

Our operations are subject to environmental laws and regulations that could adversely affect the cost, manner or feasibility of conducting operations or result in significant costs and liabilities.

Our oil and natural gas exploration and production operations are subject to stringent and comprehensive federal, state and local laws and regulations governing the discharge of materials into the environment or otherwise relating to environmental protection. These laws and regulations may impose numerous obligations that are applicable to our operations, including the acquisition of a permit before conducting drilling; water withdrawal or waste disposal activities; the restriction of types, quantities and concentration of materials that can be released into the environment; the limitation or prohibition of drilling activities on certain lands lying within wilderness, wetlands and other protected areas; the imposition of regulations designed to protect employees from exposure to hazardous substances; and the imposition of substantial liabilities for pollution resulting from operations. Numerous governmental authorities, such as the Environmental Protection Agency (EPA) and analogous state agencies, have the power to enforce compliance with these laws and regulations and the permits issued under them, often requiring difficult and costly actions. Failure to comply with these laws and regulations may result in litigation; the assessment of administrative, civil or criminal penalties; the imposition of investigatory or remedial obligations; and the issuance of injunctions limiting or preventing some or all of our operations.

There is inherent risk of incurring significant environmental costs and liabilities in the performance of our operations due to our handling of petroleum hydrocarbons and wastes, because of air emissions and wastewater discharges related to our operations, and as a result of historical industry operations and waste disposal practices. Under certain environmental laws and regulations, we could be subject to joint and several strict liability for the investigation, removal or remediation of previously released materials or property contamination regardless of whether we were responsible for the release or contamination or if the operations were not in compliance with all applicable laws at the time those actions were taken. Private parties, including the owners of properties upon which our wells are drilled and facilities where our petroleum hydrocarbons or wastes are taken for reclamation or disposal may also have the right to pursue legal actions to enforce compliance, as well as to seek damages for contamination even in the absence of non-compliance, with environmental laws and regulations or for personal injury, natural resources damage or property damage. In addition, the risk of accidental spills or releases could expose us to significant liabilities that could have a material adverse effect on our financial condition or results of operations. Changes in environmental laws and regulations occur frequently, and any changes that result in more stringent or costly construction, drilling, water management, completion, waste handling, storage, transport, disposal or cleanup requirements could require us to incur significant expenditures to attain and maintain compliance and may otherwise have a material adverse effect on our results of operations, competitive position or financial condition. We may not be able to recover some or any of these costs from insurance. As a result of the increased cost of compliance, we may decide to discontinue drilling.

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Repercussions from terrorist activities or armed conflict could harm our business.

Terrorist activities, anti-terrorist efforts or other armed conflict involving the United States or its interests abroad may adversely affect the United States and global economies and could prevent us from meeting our financial and other obligations. If events of this nature occur and persist, the attendant political instability and societal disruption could reduce overall demand for oil and natural gas, potentially putting downward pressure on prevailing oil and natural gas prices and causing a reduction in our revenues. Oil and natural gas production facilities, transportation systems and storage facilities could be direct targets of terrorist attacks, and our operations could be adversely impacted if infrastructure integral to our operations is destroyed by such an attack. Costs for insurance and other security may increase as a result of these threats, and some insurance coverage may become more difficult to obtain, if available at all.

If we fail to maintain an adequate system of internal control over financial reporting, it could adversely affect our ability to accurately report our results.

Management is responsible for establishing and maintaining adequate internal control over financial reporting. Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with generally accepted accounting principles. A material weakness is a deficiency, or a combination of deficiencies, in our internal control over financial reporting that results in a reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis. Effective internal controls are necessary for us to provide reliable financial reports and deter and detect any material fraud. If we cannot provide reliable financial reports or prevent material fraud, our reputation and operating results would be harmed. Our efforts to develop and maintain our internal controls may not be successful, and we may be unable to maintain adequate controls over our financial processes and reporting in the future, including future compliance with the obligations under Section 404 of the Sarbanes-Oxley Act of 2002. Any failure to develop or maintain effective controls, or difficulties encountered in their implementation, including those related to acquired businesses, or other effective improvement of our internal controls could harm our operating results. Ineffective internal controls could also cause investors to lose confidence in our reported financial information.

Certain U.S. federal income tax preferences currently available with respect to oil and natural gas production may be eliminated as a result of future legislation.

In recent years, the Obama administration's budget proposals and other proposed legislation have included the elimination of certain key U.S. federal income tax incentives currently available to oil and gas exploration and production. If enacted into law, these proposals would eliminate certain tax preferences applicable to taxpayers engaged in the exploration or production of natural resources. These changes include, but are not limited to (i) the repeal of the percentage depletion allowance for oil and gas properties, (ii) the elimination of current deductions for intangible drilling and development costs, (iii) the elimination of the deduction for U.S. production activities and (iv) the increase in the amortization period from two years to seven years for geophysical costs paid or incurred in connection with the exploration for, or development of, oil and gas within the United States. It is unclear whether any such changes will be enacted or how soon any such changes would become effective. The passage of any legislation as a result of these proposals or any other similar changes in U.S. federal income tax laws could negatively affect our financial condition and results of operations.

New derivatives legislation and regulation could adversely affect our ability to hedge risks associated with our business.

The Dodd-Frank Act creates a new regulatory framework for oversight of derivatives transactions by the Commodity Futures Trading Commission (the CFTC) and the SEC. Among other things, the Dodd-Frank Act subjects certain swap participants to new capital, margin and business conduct standards. In addition, the Dodd-Frank Act contemplates that where appropriate in light of outstanding exposures, trading liquidity and other factors, swaps (broadly defined to include most hedging instruments other than futures) will be required to be cleared through a registered clearing facility and traded on a designated exchange or swap execution facility. The Dodd-Frank Act also establishes a new Energy and Environmental Markets Advisory Committee to make recommendations to the CFTC regarding matters of concern to exchanges, firms, end users and regulators with respect to energy and environmental markets and also expands the CFTC's power to impose position limits on specific categories of swaps (excluding swaps entered into for *bona fide* hedging purposes).

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There are some exceptions to these requirements for entities that use swaps to hedge or mitigate commercial risk. However, although we may qualify for exceptions, our derivatives counterparties may be subject to new capital, margin and business conduct requirements imposed as a result of the new legislation, which may increase our transaction costs or make it more difficult for us to enter into hedging transactions on favorable terms. Our inability to enter into hedging transactions on favorable terms, or at all, could increase our operating expenses and put us at increased exposure to risks of adverse changes in oil and natural gas prices, which could adversely affect the predictability of cash flows from sales of oil and natural gas.

In November 2011, the CFTC finalized rules to establish a position limits regime on certain core physical-delivery contracts and their economically equivalent derivatives, some of which reference major energy commodities, including oil and natural gas. The final rules became effective on January 17, 2012 and compliance with the rules is required by October 12, 2012. Regulations that subject us or our derivatives counterparties to limits on commodity positions could have an adverse effect on our ability to hedge risks associated with our business or on the cost of our hedging activity.

Federal and state legislative and regulatory initiatives as well as governmental reviews relating to hydraulic fracturing could result in increased costs and additional operating restrictions or delays as well as adversely affect our level of production.

Hydraulic fracturing is an important and common practice that is used to stimulate production of hydrocarbons from tight formations, such as shales. The process involves the injection of water, sand and chemicals under pressure into formations to fracture the surrounding rock and stimulate production. The process is typically regulated by state oil and gas commissions. Certain states in which we operate, including Texas and Oklahoma, and municipalities have adopted, or are considering adopting, regulations that have imposed, or that could impose, more stringent permitting, disclosure, disposal and well construction requirements on hydraulic fracturing operations. For example, in December 2011, the Railroad Commission of Texas finalized regulations requiring public disclosure of all the chemicals in fluids used in the hydraulic fracturing process. Local ordinances or other regulations may regulate or prohibit the performance of well drilling in general and hydraulic fracturing in particular. If new laws or regulations that significantly restrict or regulate hydraulic fracturing are adopted, such legal requirements could cause project delays and make it more difficult or costly for us to perform fracturing to stimulate production from a formation. These delays or additional costs could adversely affect the determination of whether a well is commercially viable. Restrictions on hydraulic fracturing could also reduce the amount of oil and natural gas that we are ultimately able to produce in commercial quantities.

In addition, a number of federal entities are analyzing, or have been requested to review, a variety of environmental issues associated with hydraulic fracturing. In April 2012, President Obama issued an executive order that established a working group for the purpose of coordinating policy, information sharing, and planning among federal agencies and offices regarding unconventional natural gas production, including hydraulic fracturing. In April 2012, the EPA issued final Clean Air Act regulations governing performance standards, including standards for the capture of air emissions released during hydraulic fracturing that will take effect in 2015. The EPA also has commenced a study of the potential environmental effects of hydraulic fracturing on drinking water and groundwater, with initial results expected to be available by late 2012 and final results by 2014, and a study regarding wastewater resulting from hydraulic fracturing activities. Moreover, the EPA plans to propose by 2014 standards that such wastewater must meet before being transported to a treatment plant. In May 2012, the U.S. Department of the Interior issued a proposed rule addressing disclosure of chemicals used, flowback fluid management requirements and other mandates for hydraulic fracturing on federal lands. Additionally, a committee of the United States House of Representatives has conducted an investigation of hydraulic fracturing practices, and certain members of Congress have called upon the U.S. Government Accountability Office to investigate how hydraulic fracturing might adversely affect water resources; the SEC to investigate the natural gas industry and any possible misleading of investors or the public regarding the economic feasibility of pursuing natural gas deposits in shales by means of hydraulic fracturing; and the U.S. Energy Information Administration to provide a better understanding of that agency's estimates regarding natural gas reserves, including reserves from shale formations, as well as uncertainties associated with those estimates. Bills introduced in both the Senate and the House of Representatives in 2011 would, among other things, amend the federal Safe Drinking Water Act to repeal provisions that currently exempt hydraulic fracturing operations from restrictions that otherwise would apply to underground injection of fluids or propping agents. The studies and initiatives described above, depending on their degree of pursuit and any meaningful results obtained, could spur efforts to further regulate hydraulic fracturing under the Safe Drinking Water Act or other regulatory mechanisms.

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Climate change laws and regulations restricting emissions of greenhouse gases could result in increased operating costs and reduced demand for the oil and natural gas that we produce while the physical effects of climate change could disrupt our production and cause us to incur significant costs in preparing for or responding to those effects.

In December 2009, the EPA published its findings that emissions of greenhouse gases (GHGs) present a danger to public health and the environment. These findings allow the agency to adopt and implement regulations that would restrict emissions of GHGs under existing provisions of the federal Clean Air Act. Accordingly, the EPA has adopted rules that require a reduction in emissions of GHGs from motor vehicles and also trigger Clean Air Act construction and operating permit review for GHG emissions from certain stationary sources. The EPA's rules relating to emissions of GHGs from stationary sources of emissions are currently subject to a number of political and legal challenges, but the federal courts have thus far declined to issue any injunctions to prevent EPA from implementing, or requiring state environmental agencies to implement, the rules. In addition, the EPA has adopted rules requiring the reporting of GHG emissions from onshore oil and natural gas production facilities in the United States on an annual basis. Both houses of Congress have from time to time considered legislation to reduce emissions of GHGs and almost one-half of the states, either individually or through multi-state regional initiatives, already have begun implementing legal measures to reduce emissions of GHGs. The adoption and implementation of any regulations imposing reporting obligations on, or limiting emissions of GHGs from, our equipment and operations could require us to incur additional costs to reduce emissions of GHGs associated with our operations or could adversely affect demand for the oil and natural gas that we produce. Finally, some scientists have concluded that increasing concentrations of GHGs in the Earth's atmosphere may produce climate changes that could have significant physical effects, such as increased frequency and severity of storms, droughts, and floods and other climatic events; if any such effects were to occur, they could have an adverse effect on our assets and operations.

We may not realize the anticipated benefits of our acquisitions of Dynamic and the Gulf of Mexico Properties or other future acquisitions, and integration of acquisitions may disrupt our business and management.

We acquired Dynamic and the Gulf of Mexico Properties in the second quarter of 2012, and we may acquire other companies or large asset packages in the future as we have done in the past. We may not realize the anticipated benefits of these acquisitions or other future acquisitions, and each acquisition has numerous risks. These risks include:

difficulty in assimilating the operations and personnel of the acquired company;

difficulty in maintaining controls, procedures and policies during the transition and integration;

disruption of our ongoing business and distraction of our management and employees from other opportunities and challenges;

difficulty integrating the acquired company's accounting, management information, human resources and other administrative systems;

inability to retain key personnel of the acquired business;

inability to achieve the financial and strategic goals for the acquired and combined businesses;

inability to take advantage of anticipated tax benefits;

potential failure of the due diligence processes to identify significant problems, liabilities or other shortcomings or challenges of an acquired business;

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exposure to litigation and other potential liabilities in connection with environmental laws regulating exploration and production activities related to entities that we acquire, or that were previously acquired by such entities;

exposure to litigation or other claims in connection with, or inheritance of claims or litigation risk as a result of, an acquisition, including but not limited to, claims from terminated employees, customers, former stockholders or other third-parties;

potential inability to assert that internal controls over financial reporting are effective; and

potential incompatibility of business cultures.

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Offshore operations involve special risks that could adversely affect operations.

Offshore operations are subject to a variety of operating risks specific to the marine environment, such as capsizing, collisions and damage or loss from hurricanes or other adverse weather conditions. These conditions can cause substantial damage to facilities and interrupt production. As a result, our acquisition of Dynamic and the Gulf of Mexico Properties could cause us to incur substantial liabilities that could reduce or eliminate the funds available for exploration, development or leasehold acquisitions or result in loss of equipment and properties.

In addition, as a result of our acquisition of Dynamic and the Gulf of Mexico Properties, an oil spill on or related to offshore properties and operations could expose us to joint and several strict liability, without regard to fault, under applicable law for all containment and oil removal costs and a variety of public and private damages including, but not limited to, the costs of responding to a release of oil, natural resource damages, and economic damages suffered by persons adversely affected by an oil spill. If an oil discharge or substantial threat of discharge were to occur, we may be liable for costs and damages, which costs and damages could be material to our business, financial condition or results of operations.

Reserves associated with Gulf of Mexico properties will have relatively short production periods or reserve lives.

High production rates generally result in recovery of a relatively higher percentage of reserves from properties in the Gulf of Mexico during the initial few years when compared to other regions in the United States. Due to high initial production rates, production of reserves from reservoirs in the Gulf of Mexico generally decline more rapidly than from other producing reservoirs. As a result, our reserve replacement needs from new prospects in the Gulf of Mexico may be greater than reserve replacement needs for other properties with longer-life reserves in other producing areas. Also, expected revenue and return on capital for Gulf of Mexico properties will depend on prices prevailing during these relatively short production periods.

Our operations in the Gulf of Mexico may face broad adverse consequences resulting from increased regulation of offshore drilling operations as a result of the Deepwater Horizon incident, some of which may be unforeseeable.

The April 2010 explosion and fire on the drilling rig Deepwater Horizon and resulting major oil spill produced significant economic, environmental and natural resource damage in the Gulf Coast region. In response to the explosion and spill, there have been many proposals by governmental and private constituencies to address the direct impact of the disaster and to prevent similar disasters in the future. The Bureau of Ocean Energy, Management, Regulation and Enforcement (the BOEMRE), the agency within the U.S. Department of Interior formerly responsible for regulation of offshore energy production, issued a series of Notices to Lessees and Operators (NLTs), which imposed a variety of new safety measures and permitting requirements, and implemented a temporary moratorium on deepwater drilling activities in the Gulf of Mexico that effectively shut down deepwater drilling activities for six months in 2010. Despite the fact that the drilling moratorium was lifted, this spill and its aftermath have led to delays in obtaining drilling permits. We must interact with both the Bureau of Energy Management and the Bureau of Safety and Environmental Enforcement, which assumed the responsibilities of BOEMRE on October 1, 2011, to obtain approval of exploration and development plans and issuance of drilling permits for our Gulf of Mexico properties, which may result in added plan approval or drilling permit delays. While legislation has been introduced in the U.S. Congress to expedite the process for obtaining offshore permits that include limitations on the timeframe for environmental and judicial review, there is no guarantee that this or similar legislation will pass.

In addition to the drilling restrictions, new safety measures and permitting requirement, there have been numerous additional proposed changes in laws, regulations, guidance and policy in response to the Deepwater Horizon explosion and oil spill that could affect offshore operations and cause us to incur substantial losses or expenditures. Implementation of any one or more of the various proposed responses to the disaster could materially adversely affect operations in the Gulf of Mexico by raising operating costs, increasing insurance premiums, delaying drilling operations and increasing regulatory costs and, further, could lead to a wide variety of other unforeseeable consequences that could make operations in the Gulf of Mexico more difficult, time consuming and costly.

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New regulatory requirements could significantly delay our ability to obtain permits to drill new wells in offshore waters.

Following the Deepwater Horizon incident, the BOEMRE issued a series of NTLs and other regulatory requirements imposing new standards and permitting procedures for new wells to be drilled in federal waters of the Outer Continental Shelf. These requirements include the following:

The Environmental NTL, which imposes new and more stringent requirements for documenting the environmental impacts potentially associated with the drilling of a new offshore well and significantly increases oil spill response requirements.

The Compliance and Review NTL, which imposes requirements for operators to secure independent reviews of well design, construction and flow intervention processes, and also requires certifications of compliance from senior corporate officers.

The Drilling Safety Rule, which prescribes tighter cementing and casing practices, imposes standards for the use of drilling fluids to maintain wellbore integrity, and stiffens oversight requirements relating to blowout preventers and their components, including shear and pipe rams.

The Workplace Safety Rule, which requires operators to have a comprehensive safety and environmental management system (SEMS) in order to reduce human and organizational errors as root causes of work-related accidents and offshore spills.

On September 14, 2011, BOEMRE proposed rules that would amend the Workplace Safety Rule by requiring the imposition of certain added safety procedures to a company s SEMS not covered by the original rule and revising existing obligations that a company s SEMS be audited by requiring the use of an independent third party auditor who has been pre-approved by the agency to perform the auditing task.

As a result of the issuance of these new regulatory requirements, the Bureau of Safety and Environmental Enforcement has been taking much longer than in the past to review and approve permits for drilling operations. As a result, we may encounter increased costs associated with regulatory compliance and delays in obtaining permits for other operations such as recompletions, workovers and abandonment activities. We are unsure what long-term effect, if any, additional regulatory requirements and permitting procedures will have on offshore operations. Consequently, as a result of our acquisition of Dynamic, we may become subject to a variety of unforeseen adverse consequences arising directly or indirectly from the Deepwater Horizon incident.

As a result of our acquisition of Dynamic and the Gulf of Mexico Properties, new regulatory requirements could have a significant impact on our estimates of future asset retirement obligations from period to period.

We are responsible for plugging and abandoning wellbores and decommissioning associated platforms, pipelines and facilities on our acquired oil and natural gas properties. In addition to the NTLs discussed previously, the BOEMRE issued an NTL that became effective in October 2010, which establishes more stringent requirements for the timely decommissioning of wells, platforms and pipelines that are no longer producing or serving exploration or support functions related to an operator s lease in the Gulf of Mexico. This NTL requires that any well that has not been used during the past five years for exploration or production on an active lease and is no longer capable of producing in paying quantities must be permanently plugged or temporarily abandoned within three years. Plugging or abandonment of wells may be delayed by two years if all of the well s hydrocarbon and sulphur zones are appropriately isolated. Similarly, platforms or other facilities that are no longer useful for operations must be removed within one year of the cessation of operations. These new regulations affecting plugging, abandonment and removal activities may serve to increase, perhaps materially, the future plugging, abandonment and removal costs associated with Dynamic s properties, which may translate into a need to increase our estimate of future asset retirement obligations required to meet such increased costs. Moreover, implementation of this NTL could likely result in increased demand for salvage contractors and equipment, resulting in increased estimates of plugging, abandonment and removal costs and increases in related asset retirement obligations.

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Our estimates of future asset retirement obligations may increase significantly and become more variable from period to period due to our increased operations in the Gulf of Mexico.

We are required to record a liability for the present value of asset retirement obligations to plug and abandon inactive, non-producing wells, to remove inactive or damaged platforms, facilities and equipment, and to restore the land or seabed at the end of oil and natural gas production operations. These costs are typically considerably more expensive for offshore operations as compared to most land-based operations, due to increased regulatory scrutiny and the logistical issues associated with working in waters of various depths. Estimating future restoration and removal costs in the Gulf of Mexico is especially difficult because most of the removal obligations may be many years in the future, regulatory requirements are subject to change or more restrictive interpretation, and asset removal technologies are constantly evolving, which may result in additional or increased costs. As a result, our acquisitions of Dynamic and the Gulf of Mexico Properties may require us to make significant increases or decreases to estimated asset retirement obligations in future periods. For example, our platforms, facilities and equipment in the Gulf of Mexico are subject to damage or destruction as a result of hurricanes. The estimated cost to plug and abandon a well or dismantle a platform can change dramatically if the host platform from which the work was anticipated to be performed is damaged or toppled, rather than structurally intact. Accordingly, our increased operations in the Gulf of Mexico could cause our estimates of future asset retirement obligations to differ dramatically from what we may ultimately incur as a result of damage from a hurricane.

Insurance may not protect us against business and operating risks associated with our Gulf of Mexico properties.

We maintain insurance for some, but not all, of the potential risks and liabilities associated with Dynamic's business. For some risks, we may not obtain insurance if we believe the cost of available insurance is excessive relative to the risks presented. Due to market conditions, premiums and deductibles for certain insurance policies can increase substantially and, in some instances, certain insurance policies are economically unavailable or available only for reduced amounts of coverage. Although we will maintain insurance at levels we believe are appropriate and consistent with industry practice, we will not be fully insured against all risks, including high-cost business interruption insurance and drilling and completion risks that are generally not recoverable from third parties or insurance. In addition, pollution and environmental risks generally are not fully insurable. Losses and liabilities from uninsured and underinsured events and delay in the payment of insurance proceeds could have a material adverse effect on our business, financial condition and results of operations.