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**IN THE UNITED STATES BANKRUPTCY COURT
FOR THE NORTHERN DISTRICT OF TEXAS
DALLAS DIVISION**

In re:	§	
	§	**Case No. 09-31797-bjh-11**
CRUSADER ENERGY GROUP INC., *et al.*	§	
	§	**Chapter 11**
Debtors.[1]	§	
	§	**Jointly Administered**
	§	
	§	**Expedited Hearing Noticed for**
	§	**10/6/2009 at 02:30 p.m.**
	§	
	§	**[Re Docket No. 666]**

**AMENDED OBJECTION OF JONES ENERGY, LTD.
TO THE DEBTORS' PROPOSED BID PROCEDURES**

Jones Energy, Ltd. ("Jones Energy"), a creditor and party in interest, hereby submits this objection (the "Objection") to the *Expedited Motion to (A) Approve the Procedures for the Solicitation of Higher or Better Offers; (B) Approve the Form and Manner of Notice; (C) Approve Procedures for Determining Cure Amounts for Executory Contracts and Unexpired Leases; (D) Approve the Stock Purchase Agreement and Authorize the Debtors to Enter into the Stock Purchase Agreement and Comply with their Obligations thereunder; (E) Approve a Break-Up Fee in Connection with the Transaction Contemplated by the Stock Purchase Agreement;*

[1] The Debtors include Crusader Energy Group, Inc., Crusader Energy Group, LLC, Hawk Energy Fund I, LLC, Knight Energy Group, LLC, Knight Energy Group II, LLC, Knight Energy Management, LLC, RCH Upland Acquisition, LLC, and Crusader Management Corporation.

and (F) Grant Related Relief [Docket No. 666] (the "Motion"), filed by the above-captioned debtors (the "Debtors"), and respectfully states as follows:[2]

PRELIMINARY STATEMENT

1. Although the Motion may appear on its face to be a relatively plain vanilla motion to establish auction procedures for the Debtors and their assets, a closer inspection reveals it is anything but. Rather, the Motion seeks approval of Bid Procedures[3] that are designed to prevent, not encourage, competitive bidding. Indeed, the Bid Procedures are by their very nature designed to do nothing more than give the appearance of legitimacy to a sale that is facially defective. Through the Bid Procedures, the Debtors in effect preclude anyone but the stalking horse from bidding on the Debtors' assets. Accordingly, the Bid Procedures are inherently unfair and do not comply with the fundamental purpose for bidding procedures—to maximize the sale price for the Debtors' assets.

2. Although the proposed stalking horse bid contains a modest cash component, it primarily consists of restricted stock and warrants (the "Restricted Securities") of SandRidge Energy, Inc. ("SandRidge Energy"), a publicly-traded energy company. The stock of SandRidge Energy is thinly-traded, particularly volatile and the Restricted Securities at issue here are illiquid in that they cannot be sold for at least 180 days after issuance at closing. Under the guise of establishing bid protections and procedures, the Motion seeks to set an insurmountable hurdle for competing bids. Rather than properly discounting the Restricted Securities for inherent risk, price fluctuations and lack of marketability, the Bid Procedures inexplicably seek to establish a premium to the current market price of SandRidge Energy's unrestricted securities that potential

[2] Capitalized terms not otherwise defined herein shall have the same meanings as ascribed to them in the Motion and exhibits attached thereto.

[3] The Bid Procedures are attached to the Motion as Exhibit C.

bidders must then top if they wish to compete against the stalking horse. Such procedures ensure there will be no competing offers, qualified bids or a legitimate auction.

3. In virtually any auction, cash is king. Here, however, bidders such as Jones Energy who would offer the estates cash are at a distinct disadvantage because of the stalking horse's inflated bidding currency. On October 2, 2009, SandRidge Energy's shares closed at a price of $12.06, which at 13,015,797 shares, yields a market value of $156,970,511.82 for the stocking horse's proposed stock consideration. The Bid Procedures, however, ensure that SandRidge Energy's stock consideration is valued at $13.44, resulting in a premium of $18,029,488.18 above the market, which does not even account for the basic 25%–35% discount methodologies that should apply to the Restricted Securities (as explained below). No rational bidder will make a competing proposal where the Debtors' stalking horse enjoys an unjustifiable 25%–35% bidding advantage on its stock consideration relative to any cash bids, which in virtually any other auction (particularly one in a bankruptcy scenario) would be preferred. Indeed, Jones Energy's expert, Perella Weinberg Partners LP, has performed an analysis of the value of the Restricted Securities and concluded that "the artificially inflated value of the SandRidge Energy Restricted Securities in the Bid Procedures can be expected to meaningfully chill the auction process."[4] Such a process abandons any pretense of establishing a fair auction in favor of seeking this Court's sanction of a process that by its very nature presupposes its outcome—an auction of one where the winning bid is predetermined.

BACKGROUND

4. On March 30, 2009 (the "Petition Date"), the Debtors each filed a voluntary petition for relief under chapter 11 of title 11 of the United States Code (the "Bankruptcy

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[4] *See* Expert Report In Support of Objection of Jones Energy, Ltd. to the Debtors' Proposed Bid Procedures (the "Perella Weinberg Report") **attached hereto as Exhibit A**, at p. 7 (emphasis in original).

Code”), thereby commencing the above-captioned bankruptcy cases (the “Cases”). These Cases have been consolidated for procedural joint administration only pursuant to Rule 1015(b) of the Federal Rules of Bankruptcy Procedure.

5. The Debtors filed the Motion on September 22, 2009. That same day, the Plan Proponents—comprised of the major constituencies in these Cases—filed their *Joint Plan of Reorganization for the Debtors* [Docket No. 665] (the “Plan”), which is premised on the transactions contemplated by the Stock Purchase Agreement dated as of September 22, 2009 (the “Stock Purchase Agreement”) among SandRidge Energy and SandRidge Exploration and Production, LLC (the “Potential Buyer”) and the Debtors (the “Transaction”). The Stock Purchase Agreement is subject to confirmation and the consummation of the Plan and is purportedly subject to termination in the event the Debtors receive a higher or better offer.

6. On September 23, 2009, Debtors filed (i) a motion to expedite the hearing on the Motion [Docket No. 668] (the “Motion to Expedite”), for the Court to consider approval of the Bid Procedures, and (ii) a notice of the hearing on the proposed Bid Procedures [Docket No. 669]. An order granting the Motion to Expedite has not been entered in these Cases.

7. As a Potential Bidder and creditor, Jones Energy is a party in interest within the meaning of 11 U.S.C. § 1109.

ARGUMENT AND AUTHORITIES

I. The Bid Procedures Are Defective Because They Are Designed to Chill the Bidding Process Rather Than Induce an Open and Fair Auction that Maximizes Value for the Estates.

8. Bidding procedures are intended to facilitate a fair sale of a chapter 11 debtor’s assets through a process that maximizes the value of the estate. *See, e.g., In re Food Barn Stores, Inc.*, 107 F.3d 558, 564 (8th Cir. 1997) (in bankruptcy sales, “a primary objective of the Code [is] to enhance the value of the estate at hand”); *In re E-Z Serve Convenience Stores, Inc.*,

289 B.R. 45, 54 (Bankr. M.D.N.C. 2003) (denying approval of a sale where it was not in the best interest of the estate and the auction procedures were "patently unfair and inequitable"); *In re Edwards*, 228 B.R. 552, 561 (Bankr. E.D. Pa. 1998) ("The purpose of procedural bidding orders is to facilitate an open and fair public sale designed to maximize value for the estate."); *In re President Casinos, Inc.*, 314 B.R. 784, 786 (Bankr. E.D. Mo. 2004) (authorizing debtor to conduct asset sale but refusing to approve bid procedures that could have chilled bidder interest).

9. To that end, courts have recognized that procedures intended to enhance competitive bidding are consistent with the goal of maximizing the value received by the estate and, therefore, are appropriate in the context of bankruptcy sales. *In re Wintz Cos.*, 230 B.R. 840, 846 (B.A.P. 8th Cir. 1999), *aff'd*, 219 F.3d 807 (8th Cir. 2000). "Structured bid procedures should provide a vehicle to enhance the bid process and should not be a mechanism to chill prospective bidders' interests." *President Casinos*, 314 B.R. at 786.

10. Here, the Bid Procedures must be rejected because they are contrary to these fundamental principles. Rather than facilitate an open sale designed to maximize value to the estates, the Bid Procedures are designed to chill bidding. By attributing an artificial and arbitrary high valuation to the Restricted Securities, the Bid Procedures effectively inflate the real cost of the Bid Requirements and the Bid Protections, creating an impermissible barrier to entry.

A. <u>The Restricted Securities are not worth $186 million</u>

11. Under the proposed Bid Procedures, a Potential Bidder must meet all of the Bid Requirements in order to qualify for consideration. Bid Procedures at p. 4. Among the Bid Requirements is the following:

> "The Bid must provide for an aggregate consideration (whether in cash, some other form, or combination thereof), valued as determined in the sole and absolute discretion of the Debtors, of at least $500,000.00 greater than the sum of: (i) $7,000,000.00 (ii) the Cash Consideration under the Stock Purchase Agreement (subject

> to adjustment as provided in the Stock Purchase Agreement), and (iii) $186,000,000.00."

Bid Procedures at p. 5. Thus, **an initial topping bid must be at least $248.5 million in value in order to qualify for consideration**. This amount is comprised of the following components: a $500,000 overbid amount; $7,000,000 Break-Up Fee; $55,000,000 in Cash Consideration (subject to certain adjustments); and $186,000,000. The $186 million is an arbitrary value for the Restricted Securities, consisting of $175 million for 13,015,797 restricted common shares of SandRidge Energy at an assigned value of $13.44 per share and $11 million for five-year warrants to purchase up to 2,000,000 common shares of SandRidge Energy at a strike price of $15.00. Motion at ¶¶ 9, 15.

12. It defies logic and customary valuation methodologies to suggest that the Restricted Securities should be ascribed a value of $186 million in setting an initial topping bid. Rather than attributing any premium for such shares, the value of the illiquid Restricted Securities must instead be discounted for lack of marketability—the 180-day holding period imposed under securities laws and section 5.1 of the Plan Support Agreement—and for the size of the block, the limited float of the issuer and for any transaction costs that would be incurred in a disposition of such securities along with risk inherent in holding equity securities. The holding period, which is disclosed in SandRidge Energy's public SEC filings,[5] does not become effective until the Transaction closes. Assuming a closing at year end, this trading restriction prevents the trading of the stock consideration until at least June 2010. Given the volatility of the underlying stock, the trading restrictions impose meaningful risk to achieving the value ascribed to the equity component of the consideration. Furthermore, the current market value of freely-tradable "unrestricted" shares of SandRidge Energy, which on Friday, October 2, 2009,

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[5] *See* SandRidge Energy, Inc., SEC Form 8k, item 1.01, dated September 28, 2009.

closed at $ 12.06 per share, is $1.38 below the value arbitrarily assigned to the Restricted Securities under the Bid Procedures. Illiquid equity securities and cash are not equal and in virtually every other circumstance, cash is preferred. Stated simply, an illiquid asset should be worth less than cash to reflect the economic reality that the marketplace covets the liquidity and certain valuation of cash.

13. Discounting the value of equity interests for a lack of marketability, often referred to as "DLOM," is a customary valuation standard. *See generally* Robert Reilly, Aaron Rotkowski, *The Discount for Lack of Marketability: Update on Current Studies and Analysis of Current Controversies*, 61 TAX LAW 241 (2007). Empirical studies on the amount of DLOM for restricted shares suggest a discount of 30% to 35%, depending on such factors as revenue, earnings, the duration of the restrictions, distributions and industry risk. Russell T. Glazer, *Understanding the Valuation Discount for Lack of Marketability*, THE CPA JOURNAL (August 2005); Reilly, *The Discount for Lack of Marketability*, 61 TAX LAW at 248–55 (surveying DLOM studies). At least two Bankruptcy Courts have employed a DLOM valuation of 35% or greater. *See e.g. In re Colonial Realty Co.*, 226 B.R. 513, 523–24 (Bankr. D. Conn. 1998) (finding in the context of a fraudulent transfer action that "35% is an appropriate discount for lack of marketability."); *In re Minnelusa Co.*, 176 B.R. 954, 956 (Bankr. M.D. Fla. 1994) (finding that a 40% discount for lack of marketability on shares in a closely held corporation was appropriate). As explained in greater detail on the attached **Exhibit A**, "DLOM is appropriate when valuing a block of restricted stock, and Perella Weinberg Partners has determined that the appropriate discount for SandRidge Energy's restricted stock is in the range of 25%–35%." Perella Weinberg Report at p. 7.

14. The value of the Restricted Securities is also artificially inflated in that it does not accurately reflect the current market value and volatility of SandRidge Energy's freely tradable stock. The $175 million value of the restricted common stock consideration is based on a per-share value of $13.44 (the "Premium Price"). Attached hereto as **Exhibit B** is the closing price history for SandRidge Energy's stock for the previous 180 days. During this period, shares of SandRidge Energy have had an average closing price of just $10.27, and have traded as low as $7.27.[6] Even more significantly, during the relevant 180-day period, SandRidge Energy's stock has only closed at or above the Premium Price on five isolated instances.[7] On September 25, 2009, three days after the execution of the Stock Purchase Agreement, the stock closed at $12.08 per share, yielding a market value of the stock consideration (if it were freely tradable) of $154,757,826.33—roughly a $20 million difference from the value bestowed upon the Restricted Securities by the Bid Procedures.[8] The inflated value attributed to the Restricted Securities by the Bid Procedures does not remotely reflect actual market value,[9] and yet a potential cash bidder still must cover the Premium Price just to qualify. Furthermore, Potential Bidders wishing to offer their own stock consideration have no assurance that their stock would be afforded the same premium. The Bidding Procedures essentially disincentivize the offer of any consideration other than the Potential Buyer's.

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[6] SandRidge Energy (NYSE ticker symbol "SD") had a closing price of $7.27 per share on April 7, 2009. *See* Exhibit B.

[7] Instances of a closing price above the Premium Price are highlighted in blue on Exhibit B.

[8] This $20 million difference does not even account for the true value of the Restricted Securities, which as stated above should also be discounted to reflect lack of marketability, the volatility and thinly-traded nature of the SandRidge shares, and for the other factors discussed in paragraphs 12 and 15 herein.

[9] Perella Weinberg has concluded that the value of the Restricted Securities should be downwardly adjusted by 10.8% (even before a discount for lack of marketability) to reflect current trading value. *See* Exhibit A, Perella Weinberg Report at p.7–8.

15. Even when the liquidity restrictions lapse, the ability of the holders of SandRidge Energy common stock to achieve the then-prevailing market price will be limited due to several factors: (i) the size of the block of 13 million shares relative to the total float of SandRidge Energy's stock; (ii) the "overhang" such a block of shares will have on the share price when the stock comes off lockup; and (iii) any trading commissions to be paid to a market maker in selling the shares. Taken together, the 180-day lockup, the underlying volatility of the stock, the size of the block and potential fees in disposing of the shares imply that the SandRidge Energy shares should be discounted as much as 35% relative to their current trading price.

16. By requiring bidders to top the inflated Restricted Securities, the Debtors and the Potential Buyer have obstructed anyone else from becoming a Qualified Bidder, effectively eliminating the estates' opportunity to obtain a more attractive alternative. Indeed, applying the proper adjustments to the required initial topping bid of $248.5 million "suggests a more appropriate initial topping bid of $178.5 million, or $70 million lower." *See* **Exhibit A**, Perella Weinberg Report at p. 7. The result of the "artificially inflated value of the SandRidge Energy Restricted Securities" is that "any all-cash bid lower than the current initial topping bid amount ($248.5 million) would be deemed to be inadequate." *Id.* Given that the Bid Procedures are not designed to encourage higher bids, but rather to lock up the Transaction, they must be rejected. *President Casinos*, 314 B.R. at 786.

B. <u>The Bid Protections are excessive</u>

17. In seeking approval of the Bid Procedures, the Debtors characterize the Break-Up Fee as approximately 3% of the proposed transaction. Importantly, however, this calculation assumes that the Restricted Securities are worth $186 million, fully ignoring how the Premium Price operates as an additional (and inappropriate) bid protection in favor of the stalking horse. After properly discounting the value of the Restricted Securities, and accounting for the cost of

topping the inflated Restricted Securities, the bid protections are patently excessive and outside the range of bid protections typically accepted in this Court.

18. Courts generally consider three factors in determining whether to approve a break-up fee: (i) the relationship between the initial bidder and the seller; (ii) whether the fee is designed to encourage bidding; and (iii) the size of the fee in relation to the purchase price. See *In re Integrated Res., Inc.*, 147 B.R. 650, 662 (S.D.N.Y. 1990), *appeal dismissed by* 3 F.3d 49 (2d Cir. 1993). Furthermore, "[a] break-up fee should constitute a fair and reasonable percentage of the proposed price, and should be reasonably related to the risk, effort and expenses of the prospective purchaser." *Id.* As the Debtors note in the Motion, break-up fees of approximately 3% of the proposed sale price are within the spectrum fees reasonably approved by courts in chapter 11 cases, citing examples from this and other courts where such fees were approved. Motion ¶ 39.

19. Excessive overbid requirements should be discouraged as they chill the bidding process. *In re Mama's Original Foods, Inc.*, 234 B.R. 500, 505 (C.D. Cal. 1999) (reducing an overbid requirement to avoid chilling the bid process). One court denied a request to impose $100,000 incremental overbids, which the court believed would "serve to hamper, rather than enhance, any prospects for a higher bid." *In re Twenver, Inc.*, 149 B.R. 954, 956–57 (Bankr. D. Col. 1992).

20. If the current market value[10] of the stock consideration were properly discounted by 30% to reflect the lack of market ability, volatility and the other factors discussed above, it would be worth only $109,879,358.27, yielding a true aggregate purchase price of

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[10] SandRidge Energy's stock closed at $12.06 per share on October 2, 2009.

$175,879,358.27 worth of consideration. When compared to this properly adjusted price, the Break-Up Fee amounts to 4%, not the 3% suggested in the Motion.

21. The full cost of the aggregate bid protections, however, must include the premium afforded the potential stalking horse. By requiring Potential Bidders to top the Premium Price, the Bid Procedures impose an additional overbid requirement. After discounting for lack of marketability and the other factors discussed above, the aggregate topping bid requirement proposed in this case—the $7 million Break-Up Fee, the $500,000 overbid amount, and the $65,120,641.73 premium on the Restricted Securities—amounts to ***30%*** of the proposed purchase price of $241 million.[11] The Bid Procedures vastly over-compensate the proposed stalking horse, discourage bidding, and serve as an impermissible and insurmountable barrier to entry.

22. Even if the Court were to accept the inflated proposed purchase price and not discount for lack of marketability or for any of the other discount factors discussed above, there is still a premium afforded to the potential stalking horse over and above the current market value of the stock consideration. By this measure, the proposed aggregate topping bid requirement—the $7 million Break-Up Fee, the $500,000 overbid amount, and a $18,029,488.18 premium on the Restricted Securities—amounts to ***10.6%*** of the proposed purchase price of $241 million.[12]

23. To be sure, the following table summarizes precedent from the Northern District of Texas regarding aggregate bid protections as a percentage of the proposed sale price:

[11] The calculation of the premium on the Restricted Securities is based on the difference between $109,879,358.27 (the 30% discounted value as of October 2, 2009) and the inflated value of $175,000,000. The difference between $175,000,000 and $109,879,358.27 is $65,120,641.73.

[12] This calculation of the premium on the Restricted Securities is based on the closing share price of $12.06 on October 2, 2009. At 13,015,797 shares of common stock, the current market value of the stock consideration is $156,970,511.82. The difference between $175,000,000 and $156,970,511.82 is $18,029,488.18.

Case[13]	Proposed Sale Price	Bid Protections	Initial over-bid requirement[14]	Aggregate overbid requirement as a percentage of the proposed sale price[15]
In re Hereford Biofuels, L.P., et al., Case No. 09-30453 (SGJ)	$15 million (ultimate purchase price was $25 million)	$350,000 expense reimbursement (2.3%)	$400,000 (2.6%) Subsequent overbid increment equal to $100,000 (.6%)	2.6%
In re Pilgrim's Pride Corp., Case No. 08-45664 (DML), (Farmersville Sale)	$80 million	$2.4 million break up fee (3%) $500,000 expense reimbursement (.625)	Subsequent overbid increment equal to $1 million (1.25%)	3.625%
In re Bag 'n Baggage, Ltd., et al., Case No. 08-32096 (SGJ)	$8.54 million (ultimate purchase price $10.5 million)	$165,000 topping fee (1.93%) $75,000 expense reimbursement (.88%) In no event was the total of topping fee and expense reimbursement to exceed 2.89% of the purchase price.	Subsequent overbid increment $25,000 (.29%)	2.81% (not to exceed 2.89%)

13 In the Motion, in support of the Break-Up Fee, the Debtors cite to *In re Datavon, Inc. et al.*, Case No. 02-38600 (SAF). Data points from *Datavon Inc.* are not included in this chart as such could not be calculated to create a meaningful comparison given the unique stalking horse bid in that situation.

14 This amount includes the bid protection amounts where applicable.

15 Calculation does not include subsequent overbid amounts.

Case[13]	Proposed Sale Price	Bid Protections	Initial over-bid requirement[14]	Aggregate overbid requirement as a percentage of the proposed sale price[15]
In re VarTec Telecom, Inc., et al., Case No. 04-81694 (SAF), (Bid Procedures Order entered 04/15/05)	$4.5 million	$135,000 break up fee (3%)	$200,000 (4.44%) Subsequent overbid increments equal to $50,000	4.44%
In re VarTec Telecom, Inc., et al., Case No. 04-81694 (SAF), (Bid Procedures Order entered 11/23/04)	$6.5 million	$200,000 break up fee (3.08%)	$300,000 (4.62%) Subsequent overbid increment equal to $100,000	4.62%
In re Mirant Corp., et al., Case No. 03-46590 (DML), (04/07/05)	$85 million	$2,125,000 break up fee (2.5%) $300,000 expense reimbursement (.35%)	$2,750,000 (3.24%) Subsequent overbid increment equal to $500,000 (.58%)	3.24%

Case[13]	Proposed Sale Price	Bid Protections	Initial over-bid requirement[14]	Aggregate overbid requirement as a percentage of the proposed sale price[15]
In re Mirant Corp., et al., Case No. 03-46590 (DML), (10/28/04)	$46.5 million (3 turbines)	$600,000 expense reimbursement (1.29%) and $1.395 million topping fee (3%) for 3 turbines	$2,145,000 (4.61%) for 3 turbines	4.61 % for 3 turbines
	$31 million (2 turbines)	$400,000 expense reimbursement (1.29%) and $1.395 million topping fee (4.5%) for 2 turbines	$2,000,000 (6.45%) for 2 turbines	6.45 % for 2 turbines
	$15.5 million (1 turbine)	$200,000 expense reimbursement (1.29%) and $697,500 topping fee (4.5%) for 1 turbine	$1,000,000 (6.45%) for 1 turbine	6.45% for 1 turbine

24. As reflected by such precedent, the 10.6%–30% aggregate bid protections proposed by the Bid Procedures far exceeds the norm in this or any other District and should not be approved.

C. The Court Should Not Approve the Plan Support Agreement

25. By the Motion, the Debtors seek court approval of the Plan Support Agreement. Jones Energy objects to the approval the Plan Support Agreement inasmuch as it relates to the agreements and covenants between non-debtors; namely, the agreements and covenants among

the proposed stalking horse, on one hand, and the non-debtor creditor constituents and creditors' committee, on the other hand. While Bankruptcy Code section 363 authorizes the Court to approve a trustee's or debtor in possession's use or sale of property outside the ordinary course, it does not provide a basis to judicially sanction private contractual arrangements among non-debtors or create a basis for issuing an advisory opinion. Such approval is especially improper where the agreement in question blatantly seeks to further insulate the stalking horse from competition and deny the estates the benefit of a competitive bid process to maximize value for the benefit of all stakeholders.

26. By its terms, the Plan Support Agreement prohibits negotiations with any potential bidder or key creditor constituents in connection with an alternative transaction or plan of reorganization. Specifically, Section 3.1 of the Plan Support Agreement provides that each of the key creditor constituents, the First Lien Claimants, the Second Lien Claimants and even the creditors' Committee shall not:

> (c) directly or indirectly (i) solicit, initiate or take any action to facilitate or encourage the submission of any offer, proposal or inquiry relating to any Alternative Transaction, (ii) furnish any non-public information relating to any Debtor or afford access to any properties, assets, books or records of any Debtor or the business of the Debtors to, or otherwise knowingly assist, participate in, facilitate or encourage any effort by, any Third Party (as defined in the Purchase Agreement) that, to its Knowledge (as defined in the Purchase Agreement), is considering or seeking to make, or has made, any offer, proposal or inquiry relating to an Alternative Transaction, (iii) enter into or participate in any discussions or negotiations relating to any Alternative Transaction with any Third Party (as defined in the Purchase Agreement) that is considering or seeking to make, or has made, any offer, proposal or inquiry relating to any Alternative Transaction except as necessary to ascertain the terms of and understand any such offer, proposal or inquiry relating to an Alternative Transaction or (iv) enter into any agreement in principle, letter of intent, term sheet, merger agreement, acquisition agreement, option agreement or other similar instrument relating to an Alternative Transaction;

> (d) at any time prior to the date when an Alternative Transaction is determined to be the Successful Bid at the Auction (in each case, as defined in the Bid Procedures), not vote in favor of or otherwise support any Alternative Transaction or any plan of reorganization, other than the Plan, for one o[r] more Debtors that contemplates an Alternative Transaction;
>
> (e) cease immediately any discussions regarding any potential Alternative Transactions; and
>
> (f) not take any other action that is inconsistent with, or that would reasonably be expected to prevent, delay, or impede the Plan, the Purchase Agreement or the consummation of the Transactions in accordance with the terms and conditions thereof, or any approval or confirmation thereof.

Plan Support Agreement at Section 3.1.

27. While the Debtors struggle mightily to suggest this Court's opinion in *In re Heritage Org., LLC*, 376 B.R. 783, 791, 93 (Bankr. N.D. Tex. 2007) provides a basis for the Court to approve up-front, lock-out agreements among non-debtors, the *Heritage* opinion is not apposite to the case at bar. The issue in *Heritage* is whether votes on a chapter 11 plan should be designated under 11 U.S.C. § 1126(e) for improper solicitation. The Court was not asked in *Heritage* to provide an advisory opinion regarding the appropriateness and enforceability of agreements among non-debtors, as is the case here.

CONCLUSION

WHEREFORE, Jones Energy respectfully requests the Court deny the Motion unless and until the Bid Procedures are amended to address the issues raised herein and at the hearing, and deny approval of the Plan Support Agreement.

Date: October 5, 2009

Respectfully submitted,

BAKER BOTTS L.L.P.

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COUNSEL TO JONES ENERGY, LTD.

CERTIFICATE OF SERVICE

I hereby certify that the foregoing Objection was electronically filed on October 5, 2009, and served electronically on the parties listed below and on all other parties receiving electronic notice from the Court's ECF notification system in the above-referenced bankruptcy cases. I further certify that on October 5, 2009, the foregoing Objection was served by regular US Mail on those parties designated to receive such service as set forth on the Master Service List (as of September 24, 2009) in the above-referenced bankruptcy case.

/s/ Ian E. Roberts
Ian E. Roberts

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Exhibit A

Expert Report In Support of Objection of Jones Energy, Ltd. to the Debtors' Proposed Bid Procedures

Exhibit B

Closing Price History for SandRidge Energy, Inc. Stock