

## **Samson Resource makes dramatic moves; analyst predicts bankruptcy**

By ROD WALTON World Business Editor | Posted: Thursday, April 2, 2015 2:00 pm

One Samson Resource Co. official put it this way: The company has "somewhat of a runway" to elevate from its financial struggles, "but it's not very long."

A Tulsa money manager put it more bluntly: Samson is probably headed for bankruptcy.

[Tulsa-based Samson not only is laying off one-third of its workforce](#), but also has stopped all drilling operations and has an amended deal with lenders that gives it very little financial flexibility in the short-term.

Only recently one of the nation's largest privately held oil and gas producers, Samson Resource has struggled mightily to deal with its huge debtload since the leveraged acquisition by New York private equity firm KKR & Co. in 2011. A [conference call and slide show](#) this week followed last week's reduction that claimed 196 jobs at the Tulsa headquarters and 270 companywide.

And it seems there is more pain to come, if the conference call is any indication.

Samson ceased all drilling and completion activities earlier this year. There is no timeline to resume them, a company spokesman said.

The "steep reduction" in crude oil prices has "increased the severity of some of the issues and forced us to more extreme steps than we initially believed was necessary," CEO Randy Limbacher said in the call to analysts and media.

The year 2014 was not kind to Samson, which already was struggling with shifting its natural gas-heavy portfolio and debt burdens. The company burned through \$325 million in free cash flow and pushed its debt balance to nearly \$3.9 billion, according to the presentation.

Samson also tried to sell some of its non-core assets but found no acceptable bids, except for a \$48 million deal in the Arkoma Basin of Oklahoma.

Lenders agreed to amended terms that lowered the borrowing base by \$50 million, waived the "going concern" provision and required that Samson maintain \$150 million in cash by July 1.

The company had only \$175 million on-hand as of its last interest payments.

"We're fully drawn on our revolver (revolving credit line) at \$947 million," Phil Cook, Samson's chief financial officer, said in the call.

All of this leads Tulsa money manager Fred Russell, a longtime observer of Samson Resource, to conclude that the company is headed for Chapter 11 bankruptcy reorganization. In fact, Russell said he is "99 percent" certain that Samson will head to court in the coming months, if not earlier.

"A financial astrology might say the future looks cloudy," said Russell, who is CEO of Tulsa-based Fredric E. Russell Investment Management Co.

Russell said Samson Resource is "another chapter in the long history of the toxic confluence of high energy prices falling rapidly and lots of debt."

He does not see how Samson could maneuver through its tight credit limitations with such high debt and without new drilling production revenue. Samson was forced to pay a 9.75-percent interest rate on its senior notes to investors, he noted.

"That number alone suggests a tremendous risk," Russell added.

And the fact that lenders waived the "going concern" requirement is significant, he said. "Going concern" is an accounting assumption that a business will stay in operation for the foreseeable future, according to [bizfinance.about.com](http://bizfinance.about.com).

In February, it was reported that Samson hired [restructuring specialists Kirkland & Ellis LLP](#) and Blackstone Group to review its options.

"I think they see the writing on the wall," Russell said. "They figure they might as well go into bankruptcy and put their finger in the dike."

Samson has never indicated it planned to go into bankruptcy. At Wednesday's conference call, Limbacher told analysts he was not prepared to disclose other steps in the restructuring.

The company is seeking advice on restructuring its debt. The layoffs, which will total about 35 percent of workforce, will extend through the second quarter.

Limbacher, who took over as Samson CEO two years ago to help right the ship, said the company is narrowing its expenditures and focus to core drilling operations and ready to cut back anything more.

"I can assure you we're making the balance sheet a better fit for the assets we own," he said.

Chief operating officer Richard Fraley said Samson is ready to resume drilling in the Williston Basin of North Dakota — where the Bakken Shale formation lies — if crude oil prices can revive back up to \$65 per barrel. The company has wells and leases in the Williston, Rockies, east Texas, Louisiana and the Granite Wash play of western Oklahoma and the Texas Panhandle.

And layoffs are still going on.

"We're currently evaluating field operations personnel, which will be completed in approximately four weeks and will result in reductions," Fraley said in the call.

The Tulsa firm, started by Charles Schusterman in the 1970s, [was sold by the family to New York-based equity firm KKR & Co. for \\$7.2 billion in 2011](#). The co-CEO of KKR is native Tulsan Henry Kravis.

KKR is known for leveraged buyouts, in which acquisitions are financed by debt then put on the company's books. Kravis has argued that KKR buys companies to hold them and improve them.

Once the Schusterman family sold off Samson Investment Co., the name was changed to Samson Resources and David Adams was named CEO. Adams retired in 2012 and was replaced by Limbacher in April 2013.

Russell contended that the Schusterman family was shrewd about selling out when they did. Samson CEO Stacy Schusterman is now heading up a completely separate company based in Tulsa, Samson Energy Co., which owns assets along the Gulf Coast and in the deepwater Gulf of Mexico.

"She saw the confluence of greed and high oil prices (several years ago) and she took advantage of it," Russell said. "That's very smart and very humble. Part of being very shrewd is being very realistic."

Samson Energy also was impacted by the 50-percent drop in crude oil prices and laid off 26 employees last week, including some in Tulsa.

But her challenges are nothing near as formidable as those of her family's forerunner, Russell pointed out. Samson's debt, partially accumulated in the leveraged buyout by KKR & Co., has given it little to no room for error.

"They are at the mercy of their lenders," Russell said.



Samson

Tulsa-based Samson Resources Corp.'s headquarters in downtown Tulsa.

MATT BARNARD/Tulsa World file