

Samson Resources stake once worth \$1 billion sold back for \$1

By **ROD WALTON** World Business Editor | Posted: Thursday, June 25, 2015 12:00 am

A Japanese investor that bought a 25-percent stake in Tulsa-based Samson Resources Corp. four years ago — then worth about \$1.04 billion — has now sold its shares back to the financially troubled oil company — for only \$1.

The once vibrant oil and gas producer is saddled with more than \$4 billion in long-term debt amid fallen crude oil and natural gas prices. Some analysts have wondered whether Samson can avoid Chapter 11 bankruptcy.

“I don’t want to say it will happen,” Tulsa money manager Fred Russell said Wednesday. “Let’s put it this way: I wouldn’t be surprised if bankruptcy occurred.

“This act of writing off an investment once worth \$1 billion for only \$1 is throwing in the towel,” Russell, who heads up Fredric E. Russell Investment Management, added. “It’s kind of mind boggling.”

Itochu Corp. is getting out by selling back 208 million shares at an aggregate price of \$1, according to a U.S. Securities and Exchange Commission filing last week. A subsidiary of Itochu, JD Rockies Resources Ltd., held the Samson stake.

“Whereas, seller desires to sell to the company, and the company desires to repurchase from seller, all of the shares own by seller,” the SEC filing reads. “At the closing, the company shall deliver to seller \$1 and seller shall deliver to the company a duly executed stock transfer.”

And thus ends a transaction that seemed to go south from its very beginning in 2011. Itochu and others joined with New York private equity firm KKR & Co. to buy Samson from the founding Schusterman family for \$7.2 billion, according to reports.

The plan, according to company leaders, was to eventually take Samson public and generate a profit for its private equity investors. The plan hit delays as Samson was forced to shift from its natural gas-heavy drilling portfolio, deal with leadership changes and, finally, devastated by collapsed crude oil prices.

“The chances for any appreciation in the investment are slim,” Russell said about Itochu. “The ability to reduce taxable income is far, far greater than the value of the stock.”

Experts note that the Itochu move does not mean Samson is worth \$4, of course. The company’s enterprise value is still well above \$1 billion, but the sell-off shows that value is moving away from equity holders toward the creditors, sources said.

Samson also has mammoth debt and lack of ongoing capital. Samson has mothballed its drilling program due to the financial constraints. The company suffered a \$490 million net loss in its last reported quarter and has less than \$125 million in liquidity.

Neither Samson nor KKR representatives would comment directly on the Itochu departure by press time. The sell-off forced Itochu-designated Samson board members Toshiyuki Mori and Akihiro Watanabe to resign their positions, according to the SEC filing.

In May, Samson CEO Randy Limbacher and other company leaders updated their situation. The revised lenders’ covenant requires Samson to maintain \$150 million in cash on hand after making interest payments to junior debt holders beginning July 1.

The company had a \$122 million deficit in free cash flow during its quarter. Limbacher told the analysts that it would take about \$300 million in capital to restart the drilling program.

The company is fully drawn on its \$947 million revolving credit facility and cannot borrow from that.

“We would not look to restart a capital program until we address the balance sheet,” Limbacher told the analysts.

In November 2011, KKR, Itochu Corp. and the other investors were hugely optimistic about their buy into the U.S. energy renaissance via Samson.

“Samson has a strong track record of drilling and operational success and a unique portfolio of assets,” the November 2011 press release reads. “The company is one of

the largest private exploration and production companies in the U.S. with interests in over 10,000 wells ...”

Itochu’s optimism eventually died, the last breath culminating in a tax write-off. No one can determine how Samson or KKR will come out of this, Russell noted, but the secured lenders are lining up.

“The day of reckoning is coming,” he said.



Samson Resources offices

The Samson Resources logo appears on the wall in its downtown Tulsa office. Courtesy