Clock ticking: Cash-strapped Samson mentions bankruptcy potential in report

By: D. Ray Tuttle The Journal Record April 3, 2015

TULSA – Time is running out for Samson Resources Inc.

Filing Chapter 11 bankruptcy protection might offer the best solution to restructuring its heavy debt load, the oil and gas producer said in its annual report.

"Filing under Chapter 11 may provide the most expeditious manner in which to offset a capital structure solution," according to the 2014 annual report filed with the U.S. Securities and Exchange Commission.

The company is working with law firm Kirkland & Ellis LLP and Blackstone Group LP on finding alternatives for dealing with the debt.

A Tulsa-based money manager said a bankruptcy filing is likely.

"They are running out of cash because they have to meet very onerous interest payments," said Fredric E. Russell, owner of the Tulsa-based Fredric E. Russell Investment Management Co.

The company has no wiggle room, Russell said.

"The only option is to forecast bankruptcy, declare it and go into it," Russell said.

Samson has maybe six months to get the company off the ground to remain viable, said Philip W. Cook, executive vice president and chief financial officer, during a conference call with analysts.

"We anticipate that we need to get something done in this time period," Cook said.

The privately held company has a $12 million interest payment due on June 30. About six weeks later, on Aug. 15, the company must make a $110 million payment on its revolving credit, according to the annual report. The company has $175 million in liquidity, Cook said.

Tulsa-based Samson is exploring several strategic initiatives.

Samson is grappling with a $1.4 billion loss in 2014, in addition to its $4.1 billion in debt. The debt is a legacy of the KKR & Co.-led leveraged buyout in 2011.

The loss in 2014 is 29 percent greater than the $1.1 billion loss reported in 2013. Samson reported $1.2 billion in revenues, 9 percent above $1.1 billion in revenues a year earlier.

With the loss and debt, it appears the alternatives are bleak, said Betty Simkins, a finance professor at the Oklahoma State University Spears School of Business.

“It is not a pretty picture,” Simkins said, because the company is heavily leveraged.

“Their book value was $5.6 billion at the end of 2014, while their total debt was $4.1 billion,” Simkins said. “Who knows how this could go, but their future looks cloudy.”

The company is caught between a lack of cash and heavy debt payments, Samson CEO and Director Randy L. Limbacher said.

“Changes in cash flow and liquidity has caused us to take a more aggressive approach to our debt,” Limbacher said during the call.

Through a combination of cost-cutting measures and asset sales, the company is attempting to work through the difficult time, Limbacher said.

The company has halted drilling.

“Many of our assets are not economical in the current price environment,” Limbacher said. “We will continue to invest in our facilities to maintain operational integrity.”

In fact, the company will not be able to drill itself out of debt, Cook said.

In March, Samson made $48 million on the sale of a substantial portion of its Aroma Basin assets in eastern Oklahoma.

The company put together other packages for possible sale, but could not reach any other agreements, Limbacher said.

“With the exception of the Arkoma package, we have not seen acceptable terms in order to move forward,” he said.

The company continues to look at cutting the number of employees.

On March 26, the company laid off 30 percent of its workforce, or 270 people. Samson is looking at eliminating another 75 positions, or an additional 5 percent. At the end of 2014, Samson employed 995.

This month, the company will spend $30 million on severance packages, Cook said.

For the rest of 2015, Samson is focused on reducing costs and strategic asset sales, Limbacher said.

The cash-strapped company is unable to drill, so it cannot generate more revenue, Russell said.

Aug. 15, when the $110 million payment is due, might be the day the company files for bankruptcy, Russell said.

“The debt holders will not have any choice but to agree to the bankruptcy because if they do not agree, they might get even less if the company is forced to liquidate,” Russell said.

Russell saw red flags in 2011 when KKR bought Samson, floating bonds with a 9.75-percent interest rate.

“They took on so much debt,” Russell said. “This put them in a precarious position, unless they could ensure that they had a stable cash flow, which you know oil producers cannot count on.”

The $7.2 billion purchase of Samson Investment Co., by an investment group led by Tulsa native Henry Kravis in November 2011, was the largest leveraged buyout of that year.

The investor group included Natural Gas Partners, Crestview Partners and the Japanese trading company Itochu Corp.

Samson was established in 1971 by the late Charles Schusterman and was operated by his daughter, Stacy Schusterman, at the time of the sale.