

Industry Veterans Form New Companies With Unique Strategies

By Colter Cookson

Successful oilmen say they find the oil and gas industry exciting and challenging. Whether they are connecting geological dots to find new trends, refining completion designs to improve already solid returns, or deploying technology to extend the life of aging wells, independent oilmen get the chance to develop and test ideas on a daily basis.

Companies with great success records often are acquired. When that happens, the people behind the success look for ways to continue leveraging their knowledge, skills and connections. Sometimes that means establishing a new company.

That is as true today as it always has been. Although business models vary, these new and reconstituted companies are masters of opportunity. They are turning their passion for exploration and production into fun and profitable enterprises, whether through discovering and developing trends, acquiring producing properties at solid prices, or putting once-abandoned wells back on production.



Value Finder

White Marlin E&P formed in January 2010 to take advantage of the industry's shift to shales, says President and CEO Terry Clark. "We are going to acquire conventional properties at the right price," he maintains.

"If the industry shifts back to conventional plays in a few years, as we think it will, the large independents and majors will come back and look at some of the properties they just sold," Clark predicts.

He says his company anticipates a shift because 30 years in the industry have taught its executives that "as technology develops, what is out of favor today has a good chance of coming back into favor in a few years."

"It is happening already," he contends. "Fracturing and drilling technology have improved so dramatically in the past few years, that the technology people are using in shales is migrating into conventional tight-oil and tight-gas plays."

As proof, he points to the James Lime, Granite Wash, Bone Spring, Spraberry and Wolfcamp plays.

Clark describes White Marlin as a value-oriented acquisition and exploitation company. "We try to find undiscovered resources in what we are buying. Then we bring our expertise into developing and exploiting those properties," he says.

According to Clark, White Marlin focuses on four areas:

- The Permian Basin;
- East Texas and North Louisiana;
- North Texas, Oklahoma and Kansas; and
- The state and inland waters of Texas and Louisiana.

"Our management team has been involved in all four areas, so we have the expertise to exploit the assets we acquire," he says.

The company has been successfully negotiating its financing, Clark reports. "We have a number of sources available, whether they be private equity, senior debt, or even mezzanine," he says. "There is money out there for the right situations."

Hunting for Opportunities

For White Marlin, the key to acquisitions is paying the right price. "We have been involved in 10 bids or offers for fields this year," Clark relates. "We have



TERRY CLARK
President & CEO
White Marlin E&P



not bought anything yet. We try to buy at a price that is a good value for our investors, and we will keep working until we get it."

Finding value often means expanding on what the seller and a third-party reserve reviewer see, Clark says. "We look at the third-party report and the operator's viewpoint, and try to find additional exploitation opportunities," he details. "For example, if we have a large acreage position, it is easy for us to add on potential through probable and possible reserve additions based on our team's expertise. We put value on those, and we will pay to get it."

The company also tries to think long term, Clark says. To illustrate, he uses the Cotton Valley. "Right now, you can still drill vertical wells there, but they are economically challenged at today's natural gas prices. However, if prices return to \$6 three or four years from now, a tremendous amount of acreage opens for development with horizontal drilling and improved hydrocarbon recovery," he assesses. "In an acquisition strategy, you want to pay for some of the potential value."

To decide how much weight to give that potential, White Marlin tries to anticipate where prices are going. "We typically use the New York Mercantile Ex-

change forward strip as our base evaluation," Clark outlines. "It is a great tool, if not conservative. Then we look at what happens if gas or oil accelerates above that, and what happens if prices stay flat."

Because of lease maintenance programs and the influx of joint venture capital, prices will stay in the \$3.50-\$4.00 range for the short term, Clark predicts. However, he says prices should increase over the next five or six years. He explains White Marlin's reasoning by pointing out that most companies are focusing on oil rather than natural gas and will continue to do so while prices remain low. "Couple that with what is going on in the Gulf of Mexico with permitting, and there eventually will be a drop in delivered natural gas," he predicts.

Other Acquisition Criteria

Expanding on White Marlin's strategy, Clark says the company needs to see a good acreage position associated with an acquisition. "We have to have that acreage to expand if we are successful with our exploitation ideas," he says.

"We like to see a reasonable amount of proved, developed and producing reserves, as well as proved undeveloped opportunities associated with the package," Clark continues.

He says the company tries to find acquisitions where production is 50-70 percent of the overall value.

Environmental protection is a must, Clark adds. "We want to make sure we buy properties that have been properly maintained, and that the people selling them have the same standards we do," he reports, noting this reduces risk.

Offshore, White Marlin focuses on properties with manageable abandonment liability, Clark says. "We look for properties in shallow water that have a deck height that meets the American Petroleum Institute's standards for wave-in-deck loading. That way, we minimize our exposure to hurricanes," he expands.

Although White Marlin participates in auctions, Clark says he prefers to negotiate. "That gives you a chance to work in a more rational environment and directly with the operator," he says. "It also lets you work in the time frame needed to properly structure the deal." □