

**IN THE UNITED STATES BANKRUPTCY COURT  
FOR THE DISTRICT OF DELAWARE**

|                                                            |   |                         |
|------------------------------------------------------------|---|-------------------------|
|                                                            | ) |                         |
| In re:                                                     | ) | Chapter 11              |
|                                                            | ) |                         |
| SAMSON RESOURCES CORPORATION, <i>et al.</i> , <sup>1</sup> | ) | Case No. 15-11934 (CSS) |
|                                                            | ) |                         |
| Debtors.                                                   | ) | (Jointly Administered)  |
|                                                            | ) |                         |

**DECLARATION OF DOUGLAS J. FRISKE IN  
SUPPORT OF THE DEBTORS’ GLOBAL SETTLEMENT  
JOINT CHAPTER 11 PLAN OF REORGANIZATION OF  
SAMSON RESOURCES CORPORATION AND ITS DEBTOR AFFILIATES**

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I, Douglas J. Friske, hereby declare under penalty of perjury:

1. I am a Managing Director at Willis Towers Watson PLC (“Willis Towers Watson”). In February 2015, Samson Resources Corporation (“Samson”), one of the above captioned debtors and debtors in possession (the “Debtors”)<sup>2</sup> engaged Willis Towers Watson to provide compensation consulting services both before and after the commencement of these chapter 11 cases. I am familiar with the pre- and postpetition structure of the Debtors’ compensation plans as well as the structure of the Debtors’ performance award program (the “Performance Award Program”)—as it is set forth in the *Disclosure Statement for the Global Settlement Joint Chapter 11 Plan of Reorganization of Samson Resources Corporation and its Debtor Affiliates* [Docket No. 1882] (the “Disclosure Statement”).

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<sup>1</sup> The Debtors in these chapter 11 cases, along with the last four digits of each Debtor’s federal tax identification number, include: Geodyne Resources, Inc. (2703); Samson Contour Energy Co. (7267); Samson Contour Energy E&P, LLC (2502); Samson Holdings, Inc. (8587); Samson-International, Ltd. (4039); Samson Investment Company (1091); Samson Lone Star, LLC (9455); Samson Resources Company (8007); and Samson Resources Corporation (1227). The location of parent Debtor Samson Resources Corporation’s corporate headquarters and the Debtors’ service address is: Two West Second Street, Tulsa, Oklahoma 74103.

<sup>2</sup> All capitalized terms used but otherwise not defined herein shall have the meanings set forth in the Disclosure Statement (as defined herein).

2. I submit this declaration (this “Declaration”) on behalf of Willis Towers Watson in support of the *Global Settlement Joint Chapter 11 Plan of Reorganization of Samson Resources Corporation and Its Debtor Affiliates* [Docket No. 1882] (the “Plan”). Except as otherwise indicated, I have personal knowledge of all facts in this declaration, based on my review of the Debtors’ operations and finances, my research into compensation practices for companies in the energy industry and those that have recently filed for chapter 11 protection, and information supplied to me by members of the Debtors’ management team and the Debtors’ other advisors. For the reasons described below, it is my opinion that the Debtors’ Performance Award Program is reasonable and consistent with market practice both for companies in the Exploration & Production industry and those in chapter 11. If called upon to testify, I could and would testify competently to the facts and opinions set forth herein.

**Background and Qualifications**

3. I received my Bachelor’s degree in Finance from the University of Illinois in 1986. After working at Allstate and Chubb Insurance Companies, I returned to school at Northwestern University. I received a Master’s degree in Management from Northwestern University’s J.L. Kellogg Graduate School of Management in 1990. Since that time, I have been employed by Willis Towers Watson (effective January 5, 2016, Willis and Towers Watson have formally merged to form Willis Towers Watson).

4. Willis Towers Watson is an international professional services firm that offers a wide variety of services to public and private clients, including expert analysis of executive and management compensation. Willis Towers Watson designs and delivers solutions that manage risk, optimize benefits, cultivate talent, and expand the power of capital to protect and strengthen institutions and individuals. Willis Towers Watson focuses on four key business segments:

corporate risk and broking, human capital and benefits, exchange solutions, and investment, risk and reinsurance.

5. My responsibilities at Willis Towers Watson have primarily involved consulting to large companies, specifically with regard to executive compensation. I have worked with numerous Fortune 1000 companies, and have participated in the development and design of hundreds of management and employee incentive plans for companies inside and outside of bankruptcy.

6. I am frequently retained by large companies to advise them on their employee compensation strategies, programs, and pay levels. I am also retained by companies performing specific searches for management personnel, for which I provide guidelines on general market practice and the level and form of current market compensation for those positions.

7. I am highly experienced in executive, management, and employee compensation matters with over 26 years of experience in the field. During this time, I have been the lead or supporting employee compensation expert in more than 40 bankruptcy cases, and have frequently testified as to the reasonableness of a variety of postpetition compensation arrangements. Specifically, I have been involved in the review and design of key employee incentive plans, management incentive plans, and other similar-type plans in the chapter 11 cases of, among others, American Airlines, AMF, ATA Airlines, Breitburn Energy Partners, Calpine, Chemtura, Collins & Aikman, Conexant, Delta Airlines, Dura Automotive, Energy Future Holdings, Frontier Airlines, The Great Atlantic & Pacific Tea Company, Hayes Lemmerz, Keystone Automotive, Kimball Hill Homes, Lear, Leiner Health Products, Longview Power, Mark IV, Midstates, Muzak, Neff, Northwest Airlines, Orchard Brands, Penn Virginia, RadioShack, Reader's Digest

Association, Round Table Pizza, Sabine Oil & Gas, Sbarro, School Specialty, TOUSA, United Airlines, Visteon, and Xerium.

**Willis Towers Watson's Collaboration with the Debtors**

8. Since Willis Towers Watson was retained by Samson in February 2015, I have familiarized myself with the Debtors' operations and unique business and restructuring challenges. At the start of our engagement, Willis Towers Watson discussed with the Debtors and their advisors the Debtors' operational history, financial performance, restructuring process, and various issues regarding the Debtors' workforce and employee programs. Willis Towers Watson reviewed the structure of the Debtors' existing management incentive programs, paying specific attention to the various incentive plans' performance metrics, participating employees, payout frequency, and target payout levels.

9. The Debtors performed significant due diligence in developing the Performance Award Program, and my team and I collaborated regularly with the Debtors' management and other outside advisors in reviewing and advising on the Performance Award Program throughout our engagement. As previously described in my October 29, 2015 and January 28, 2016 declarations, during the course of Willis Towers Watson's engagement, my team and I provided relevant market data and advice to Samson's management team and the compensation committee of its board of directors with respect to the design and target award levels for the incentive program for the last two quarters of 2015 and the incentive program for 2016. As the design and target awards levels under the first quarter 2017 Performance Award Program are generally consistent with the design of the program previously approved by the court, the basis for my analysis has remained similar. My primary goal in the course of these interactions with the Debtors was to provide an independent assessment of the proposed incentive plans that drew

directly upon relevant market data as well as my experience in designing comparable programs for similarly-situated companies.

### **The Performance Award Program Background**

10. The Debtors initiated their bankruptcy proceedings in September 2015 and received Court approval of a quarterly insider incentive program for the remainder of calendar year 2015, as well as for subsequent quarters, subject to notice and objection rights of key stakeholders in these cases, as described in my October 29, 2015 and January 28, 2016 declarations.

### **Overview of the Performance Award Program**

11. The Debtors now seek to continue making payments under their existing insider incentive program—one that has been in place since mid-2015—during the first quarter of 2017, particularly in light of the demands that have been placed on the Performance Award Program participants as a result of the Debtors' upcoming confirmation hearing and emergence from bankruptcy. Consistent with the Performance Targets the Debtors have employed for their insider incentive program since the fourth quarter of 2015, the Performance Targets for the first quarter of 2017 were based on the Debtors' quarterly budget. The Performance Award Program provides two members of management, whom I understand are "insiders" as defined under the law, with the opportunity to earn quarterly incentive-based cash awards if the Debtors achieve specified financial and operational goals. I understand that the Debtors' Chief Financial Officer, who previously participated in the Performance Award Program, announced his resignation following the delay in getting the fourth-quarter Performance Award Program approved.

12. The participants include the two senior-most executives of the Debtors, specifically the Chief Executive Officer/General Counsel and Chief Operating Officer. It is my understanding that these officers are generally responsible for the overall strategy and direction of the Debtors' enterprise as a whole.

13. The Debtors seek authorization to continue providing quarterly targeted incentive opportunities under the Performance Award Program at levels consistent with the targeted opportunities approved by the court for each of the second, third and fourth quarters of 2016. The aggregate dollar amounts potentially payable for the first quarter of 2017 would not exceed \$1,192,500 and are broken down as follows:

- \$765,000 for Andrew Kidd (Chief Executive Officer/General Counsel)
- \$427,500 for Sean Woolverton (Chief Operating Officer)

14. The Debtors seek approval of the Performance Award Program first quarter 2017 opportunities as defined by the following primary design features, which is generally consistent with the design of the awards approved by the court for the second, third and fourth quarters of 2016:

- a. quarterly cash incentive plan commencing on January 1, 2017 and planned to run through the earlier of confirmation of the Debtors' plan or March 31, 2017 (i.e., one quarter) (the "Performance Period");
- b. two equally-weighted performance metrics ("Performance Metrics") will be used to measure performance for the first quarter of 2017: (i) Total Production<sup>3</sup> and (ii) Total Operating Expense;<sup>4</sup>
- c. participants qualify for incentive payments if the Debtors achieve specified targets (the "Performance Targets") for each of the Performance Metrics; for the first quarter of 2017, threshold performance levels will be

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<sup>3</sup> "Total Production" includes targets for the average daily production of oil and gas from wells, operated and non-operated, drilled both before and during each quarter, adjusted for any divestiture, as reported for financial statements.

<sup>4</sup> "Total Operating Expense," (and together with the Lease Operating Expenses, the "Operating Expenses"), which includes Lease Operating Expenses and general and administrative costs ("G&A") that are incurred at a level above Lease Operating Expenses. G&A includes employee compensation (including benefits and bonuses) and non-compensation corporate overhead items, such as professional fees (including non-restructuring accounting, consulting, and legal), rent, utilities, automobile and transportation, insurance, telecom, information technology (including hardware, software, and data), office supplies, dues and subscriptions, franchise and filing fees, charitable contributions, training, tuition, and other miscellaneous expenses. G&A excludes stock-based compensation, restructuring, nonrecurring and one-time charges, and assumes no capitalization of costs.

set at 90 percent of target for Total Production, and at 115 percent of target for Total Operating Expense;

- d. first-quarter threshold and target payout levels would be set at 50 percent and 100 percent of target payout levels, respectively, for the two performance metrics. Payouts will be interpolated on a straight-line basis within the range between threshold and target, and the overall payout from the Performance Award Program would be the sum of independently calculated payouts from each of the metrics. No performance award will be paid if the Debtors fail to achieve the threshold performance level for either of the Performance Metrics;
- e. for awards that are earned, 25 percent are paid on the 15th day of the first month following the end of the quarter and the remaining 75 percent of the earned awards would be paid on the earlier of Samson's emergence from bankruptcy or the 15th day of the third month following the end of the quarter; *provided* that upon confirmation of the Debtors' plan of reorganization, the Company shall pay a prorated portion of the award opportunities for the first quarter of 2017, calculated using (a) the Debtors' performance under each Performance Metric measured as of January 31, 2017 against Performance Targets prorated as of such date and (b) award opportunities prorated as the Confirmation Date.

15. I understand that the Debtors are using the same targeted quarterly performance award opportunities for the first quarter of 2017 as were approved by the court for the second, third and fourth quarters of 2016. The aggregate cost of the fourth quarter program, if approved and earned, would not exceed approximately \$596,250 at the threshold pay-out level and \$1,192,500 at target pay-out level. The individual award opportunities available to each participant under the Performance Award Program can be summarized as follows:

| <b>Participant's Title</b>              |                  | <b>1st Quarter Opportunity</b> |
|-----------------------------------------|------------------|--------------------------------|
| Chief Executive Officer/General Counsel | Threshold Amount | \$382,500                      |
|                                         | Target Amount    | \$765,000                      |
| Chief Operating Officer                 | Threshold Amount | \$213,750                      |
|                                         | Target Amount    | \$427,500                      |

**Analysis of Total Direct Compensation for Participants**

16. In assessing the reasonableness of the Performance Award Program, I worked with my team to analyze competitive target total direct compensation—a standard definition that includes the sum of base salary, target annual incentives, and long-term incentive grant values—for each participant.

17. As compared to the analysis described in my October 29, 2015 and January 28, 2016 declarations, and in light of the Debtors' recent decreases in annual revenues, the findings below reflect updated competitive market data. To develop competitive market data for organizations of a similar size as the Debtors, I analyzed compensation levels as disclosed in the 2016 proxy statements of fourteen publically-traded exploration and production companies with similar revenues as the Debtors on a trailing twelve month basis. In particular, I reviewed compensation data from the 2016 proxies of Carrizo Oil & Gas Inc., Diamondback Energy, Inc., Energen Corp., Gulfport Energy Corp., Halcón Resources Corporation, Laredo Petroleum, Inc., Legacy Reserves LP, Oasis Petroleum Inc., PDC Energy, Inc., Rice Energy Inc., Sanchez Energy Corporation, Stone Energy Corp., Vanguard Natural Resources, LLC, and W&T Offshore Inc. On balance, I believe this group of companies to be reasonable for purposes of benchmarking compensation levels, and the benchmarking methodology for all Performance Award Program participants to be consistent with my chapter 11 and normal course benchmarking experience.

18. I compared the Debtors' threshold and target total direct compensation (reflecting base salary and the annualized value of the first-quarter 2017 Performance Award Program opportunities) for participants to target total direct compensation data for comparable roles from the aforementioned companies.

19. If the Debtors do not receive approval from the Court for the Performance Award Program, total direct compensation for the participants will only reflect base salaries and thus total



direct compensation would fall to 76 percent below the 25th percentile of the market, on average. This outcome could significantly undermine the Debtors' ability to motivate their senior management to achieve desired business objectives, particularly given the recent senior executive resignations. Assuming the Performance Award Program is approved and the Debtors set the participants' award opportunities as described above, postpetition annualized threshold total direct compensation for all participants in aggregate is approximately 32 percent below the 25th percentile, on average. The Debtors' target total direct compensation, reflecting the sum of 2017 base salaries and target annualized Performance Award Program opportunities, would be positioned 12 percent above the 25th percentile of the market target total direct compensation levels, on average, and 11 percent below the 50th percentile, on average. To be clear, there is no upside incentive potential above targeted levels in the Performance Award Program, whereas most if not all of the exploration and production comparators would have plans that provide for upside potential above targeted performance. Both the Debtors and exploration and production comparators are subject to the risk that planned awards may not be paid if performance conditions are not achieved. These outcomes are summarized in the table below:

**Total Direct Compensation for Performance Award Program Participants**

| <b>Outcome</b>                                       | <b>Relation to 25th Percentile of Market</b>         | <b>Relation to 50th Percentile of Market</b>         |
|------------------------------------------------------|------------------------------------------------------|------------------------------------------------------|
| Base Salaries Only<br>(No Performance Award Program) | <b>76 percent below</b><br>25th percentile of market | <b>81 percent below</b><br>50th percentile of market |
| Base Salaries Plus Threshold Performance Awards      | <b>32 percent below</b><br>25th percentile of market | <b>46 percent below</b><br>50th percentile of market |
| Base Salaries Plus Target Performance Awards         | <b>12 percent above</b><br>25th percentile of market | <b>11 percent below</b><br>50th percentile of market |

20. Based on the results of these benchmarking analyses, and my experience in other postpetition incentive compensation arrangements, I believe the Performance Award Program and the threshold and target postpetition total direct compensation levels are reasonable in light of competitive market practice for companies, like the Debtors, that operate in the Exploration & Production industry. Critically, the absence of an incentive opportunity for the participants would significantly undermine the current competitiveness of the Debtors' compensation structure (as it would be comprised of just base salary), which in turn could impact the Debtors' ability to motivate current management to achieve desired business objectives, as well as the Debtors' ability to attract other skilled senior executives.

#### **Analysis of the Performance Award Program Structure**

21. I believe the overall design and structure of the Performance Award Program is largely consistent with market practice and appropriate in light of the Debtors' particular facts and circumstances. When reviewing the Debtors' various compensation plans, I recommended linking incentives to financial and operational metrics that would serve the interests of the Debtors' key stakeholders. To that end, the Performance Award Program places emphasis on achieving total production and total operating expense targets for the first quarter of 2017.

22. To assess the reasonableness of the design of the Performance Award Program, I analyzed the incentive plans of two groups of companies that are similarly situated to the Debtors. *First*, I analyzed incentive plans as disclosed in 2016 proxy statements which are offered by a comparable group of industry peers (the "Peer Companies"), which were used historically by the Debtors to determine market pay practices and design. These peers were selected as they generally reflect companies that have significant North American oil and gas activities and comparable financial factors such as market capitalization, revenue, assets and/or enterprise value. My team

and I reviewed the reasonableness of these peers as compensation comparators to the Debtor and think they are appropriate for purposes of benchmarking program design. The Debtors' peers (excluding companies that have been acquired or have filed bankruptcy) include: Bill Barrett Corporation, Cabot Oil & Gas Corporation, Cimarex Energy Co., Concho Resources, Inc., Denbury Resources, Inc., EXCO Resources, Inc., Laredo Petroleum Holdings, Inc., Newfield Exploration Company, Oasis Petroleum Inc., QEP Resources, Inc., Range Resources Corporation, SM Energy Company, Southwestern Energy Company, Stone Energy Corporation, Swift Energy Company, Whiting Petroleum Corporation, and WPX Energy, Inc. *Second*, I reviewed approved postpetition incentive plans offered by 19 companies that operate either in the energy industry, or more broadly in other commodity driven industries. These companies include Apex Silver Mines, Aventine Renewable Energy Holdings, Breitburn Energy Partners, Calpine Corporation, Chemtura Corporation, Dynegy Inc., Energy Future Holdings, James River Coal Company, Linn Energy, Longview Power LLC, Maxus Energy, Midstates Petroleum, Mirant Corporation, Molycorp Inc., Patriot Coal Corporation, Sabine Oil & Gas, Stone Energy, Tronox Limited and Ultra Petroleum. In conducting this analysis, I also relied upon my significant consulting experience in the analysis and design of postpetition incentive plans generally at dozens of other companies.

23. The general structure of the Performance Award Program comports with the findings of my review of annual incentive plans of Peer Companies. I would note the following key design features:

- a. nearly all Peer Companies use some form of non-financial metric in their short-term incentive plans, with production (94 percent of peers) commonly cited;
- b. most Peer Companies also use expense / cost containment metrics (88 percent of peers) in their short-term incentive plans;
- c. each Peer Company uses multiple metrics within their short-term incentive plans; and

- d. the median range of payouts relative to target was 50 percent for threshold performance and 200 percent for maximum performance, which provides for greater upside opportunity than contemplated under the Debtors' Performance Award Program.

24. Based on consultation with other Willis Towers Watson colleagues that work closely within the E&P industry, many companies are challenged with their incentive designs given the impact oil prices are having on financial and operating performance. As a result, it is my understanding that E&P companies are applying a greater degree of judgment and "best estimates" than in prior years vis-a-vis incentive design discussions and the goal setting process. I also understand that most of these organizations plan to continue to offer incentives in 2017 and expect to make some level of payment under such plans if performance conditions are met.

25. The general structure of the Performance Award Program also aligns with incentive-based plans approved in recent chapter 11 proceedings involving companies, like the Debtors, that operate either in the energy industry, or more broadly in other commodity driven industries. Based on my review of incentive plans approved in these proceedings, it is common to implement a blend of financial and operating performance metrics (63 percent of companies use a blend). Further, non-annual performance metrics are common among the restructuring companies reviewed (84 percent of companies).

26. For these reasons, and based on my experience with incentive-based compensation programs employed by companies in chapter 11, the structure of the Debtors' Performance Award Program is reasonable and consistent with market practice.

### **Conclusion**

27. Based on my education, experience, and the work I have done in this case and in similar cases, I believe that the design, structure, and award opportunities available under the

Performance Award Program are reasonable given the facts and circumstances of these chapter 11 cases.

*[Remainder of page intentionally left blank]*

Pursuant to 28 U.S.C. § 1746, I declare under penalty of perjury that the foregoing statements are true and correct to the best of my knowledge, information, and belief.

Dated: February 10, 2017

  
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Douglas J. Friske  
Managing Director  
Willis Towers Watson PLC