

IN THE UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF DELAWARE

In re

Chapter 11

SAMSON RESOURCES CORPORATION,
et al.,

Case No. 15-11934(BLS)

Reorganized Debtors.

(Jointly Administered)

Related Docket No. 2353

ORDER REGARDING WILLIAMS HEIRS' CLAIMS¹

Before the Court is the *Reorganized Debtors and Settlement Trust's Joint Third Omnibus Substantive Objection to Claims Based on Royalty Interests Pursuant to Section 502(d) of the Bankruptcy Code, Bankruptcy Rules 3001, 3003, 307, and Local Bankruptcy Rule 3007-1* (the "Objection") which included an objection to the claims² of the Williams Heirs. The Williams Heirs each own a fractional royalty interest resulting from an inherited Oil and Gas Lease (defined below as the "Lease"). The Williams Heirs assert that the Lease terminated and that they have not been paid in full for their hydrocarbon royalties. The Reorganized Debtors and the Settlement Trust (collectively, the "Movants") assert that this Court has already ruled that the Lease is valid and in full force and effect, and that such ruling is a final, non-appealable judgment. Further, the Movants assert that all payments on account of royalty interests owed to

¹ This Order constitutes the Court's findings of fact and conclusions of law pursuant to Federal Rule of Bankruptcy Procedure 7052.

² The following "Williams Heirs" filed claims: Calvin Williams (Claim No. 732); Connie Ray Williams Claim No. 1486); Willie Aubrey (Claim No. 1221); Walter Aubrey (Claim No. 1224); Dottie Wright (Claim No. 1219); Patrick Aubrey (Claim No. 1223); Kazell B. Williams, Jr. (Claim No. 1700); Mildra Ann Williams (Claim No. 1431); Joe L. Williams, Sr. (Claim No. 1427); Michael Cozart Farris (Claim No. 1989); Timothy J. Farris (Claim No. 2105); Clayton M. Sturdivant (Claim No. 738); Edwin J. Sturdivant (Claim No. 737); Patrick Sturdivant (Claim No. 739); Danicka Thomas (Claim No. 741); Earnest L. Washington, Dr. (Claim No. 740); Trunella A. Williams (Claim No. 1520); Brenda J. Williams (Claim No. 1519); and Pamela Williams-Jackson (Claim No. 1325) (collectively, the "Williams Claims," filed by the collective "Williams Heirs").

the Williams Heirs have been paid in full in the ordinary course of the Debtors' business.

Movants therefore request that the Court disallow the claims of the Williams Heirs.

The Court hereby GRANTS the Objection and DISALLOWS the Williams Claims in full for the reasons set forth below.

A. Parties Arguments

On August 10, 2017, the Court held a trial on the Objection and heard evidence and argument from the Williams Heirs in support of their claims.³ In order to fully address all of the Williams Heirs' arguments, it is necessary to consider all of the Williams Heirs' pleadings, arguments, and submissions to the Court, as well as those presented and raised at the trial. In total, the Williams Heirs raised four arguments: (i) Whether the mineral servitudes that predate the Lease have any relation to or effect on the Williams Heirs' royalty interests? (ii) Whether the Lease terminated? (iii) Whether any division order improperly altered the terms of the Lease? And (iv) Whether the Debtors have underpaid the Williams Heir's royalty interests?

The Movants respond that the Lease is valid and enforceable. The Movants further assert that the Lease is not subject to challenge because the liberative prescription period to challenge the lease for fraud in its inception or for any other reason that has its genesis prior to 2005 has long since passed.⁴ The Movants continue that no division order altered any of the lessor's

³ The Trial Transcript from the August 10, 2017 trial shall be referred to herein as Tr. Transcript at page:line. *See* D.I. 2559. Prior to trial, the Movants submitted the Declaration of Lisa Johnson, Samson Resources Company's Manager – Division Order, Operational Land (D.I. 2529) (the "Johnson Declaration") as evidentiary support for the Objection. Ms. Johnson also testified at trial. *See* Tr. Transcript at 20:18-108-19.

⁴ "In Louisiana, claims for royalty underpayment are subject to a three-year liberative prescription (effectively a statute of limitations) that 'commences to run from the day payment is exigible.'" *Frey v. Amoco Prod. Co.*, 943 F.2d 578, 586 (5th Cir. 1991) (*quoting* 7 La.Civ.Code Ann. arts. 3494(5), 3495 (West Supp.1991)), *opinion withdrawn in part on reh'g*, 951 F.2d 67 (5th Cir. 1992), *certified question accepted*, 592 So. 2d 1308 (La. 1992), *and certified question answered*, 603 So. 2d 166 (La. 1992), *and opinion reinstated in part on reh'g*, 976 F.2d 242 (5th Cir. 1992). *See also Louisiana Land & Expl. Co. v. Pennzoil Expl. & Prod. Co.*, 962 F. Supp. 908, 921 (E.D. La. 1997) ("[T]here is a three year prescriptive period in which to contest royalty miscalculations. . .").

rights under the Lease. The Movants also assert that the Williams Heirs have a right to, *and have been paid for*, royalty interests for any gas or liquid hydrocarbons, including oil, extracted from the wells in which they have an interest.

B. Jurisdiction and Venue

The Court has jurisdiction over this matter under 28 U.S.C. §§ 1334 and 157(b)(1) as well as under the retention of jurisdiction provision in the confirmed *Global Settlement Joint Chapter 11 Plan of Reorganization of Samson Resources Corporation and its Debtor Affiliates (with Technical Modifications)*, Art. XI.⁵ Venue is proper in this Court pursuant to 28 U.S.C. §§ 1408 and 1409. Consideration of the Objection constitutes a core proceeding under 28 U.S.C. § 157(b)(2)(A), (B), and (K).

C. Standard of Review

When a claim objection is filed in a bankruptcy case, the burden of proof as to the validity of the claim “rests on different parties at different times.” *In re Allegheny Int’l, Inc.*, 954 F.2d 167, 173 (3d Cir. 1992). Bankruptcy Rule 3001(f) provides that a proof of claim executed and filed in accordance with the rules of procedure, i.e., includes the facts and documents necessary to support the claim, constitutes *prima facie* evidence of the validity and amount of the claim. Fed. R. Bankr. P. 3001(f). Pursuant to Bankruptcy Code § 502(a), a claim that is properly filed under Rule 3001 and Code § 501 is “deemed allowed” unless a party in interest objects. 11 U.S.C. § 502(a). “The objecting party carries the burden of going forward with the evidence in support of its objection which much be of a probative force equal to that of the allegations of the creditor’s proof of claim.” *In re Kincaid*, 388 B.R. 610, 614 (Bankr. E.D. Pa. 2008) (*citing Allegheny*, 954 F.2d at 173–74). If the objecting party succeeds in overcoming the

⁵ D.I. 2009 and 2019.

prima facie effect of the proof of claim, the ultimate burden of persuasion then rests upon the claimant to prove the validity of the claim by a preponderance of the evidence. *Id.*

In this case, the Williams Heirs enjoy the benefit of the presumption embodied in Rule 3001 and section 502 of the Bankruptcy Code, and each of the Williams Claims were deemed allowed upon filing. The Debtors have responded with competent evidence and arguments in opposition to each of the Williams Claims. At trial, therefore, the burden lay with the Williams Heirs to prove the validity of the Williams Claims by a preponderance of the evidence.

D. Factual History

i. Lease

The Williams Heirs' royalties arise from the Lease which granted Leroy Connell exclusive mineral rights to the land described as the "Northeast Quarter of Northwest Quarter (NE ¼ of NW ¼), Section 35, Township 18 North, Range 9 West" in Webster Parish, Louisiana (the "Seamster Tract").⁶ The Lease provides that Will Seamster "grants, leases and lets exclusively unto lessee for the purpose of investigating, exploring, prospecting, drilling and mining for and producing oil, gas and all other minerals."⁷ In return for the mineral rights, the Lease provides that Will Seamster will be paid a one-eighth royalty of all oil and gas produced from the wells, in addition to an initial payment of \$1,000.⁸

The Lease was subsequently amended on May 21, 1951.⁹ Among other things, the amendment provided that drilling on any land unit with which the Seamster Tract was pooled would be sufficient to satisfy the ten year prescriptive period for developing the mineral rights

⁶ Oil, Gas and Mineral Lease (Apr. 25, 1949), § 1, Samson Tr. Exh. A (hereinafter, the "Lease").

⁷ *Id.*

⁸ *Id.* at §§ 1 and 3.

⁹ *See* D.I. 2527, Exh. C.

for the entire Seamster Tract, and not just the portion that was pooled. The pooling arrangement was subsequently amended, as reflected in the Amended Division Order dated April 18, 1977.¹⁰

Will Seamster owned a portion (159/160, or approximately 99.4%) of the 40-acre tract covered by the Lease, and that tract is only one-sixteenth (1/16) part of the 640 acres covered by the Stewart 35 Unit of which his land is pooled. Because of this, his 1/8th royalty interest must be reduced by multiplying it by 159/160 and then by 1/16. This results in a .0077637 fractional royalty interest held by Will Seamster. Numerically, Will Seamster's interest is calculated as:

$$\frac{159}{160} \times \frac{1}{8} \times \frac{40}{640} = .0077637..^{11}$$

ii. Succession and Descent of William Heir's Interests

Will Seamster had five children, including Beatrice Seamster Williams. Beatrice Williams, inherited one-fifth (1/5) of Will Seamster's royalty interest or .00155274 royalty interest in the Williams Tract. Beatrice Williams, in turn, had six children, each of whom inherited one-sixth (1/6) of Beatrice's royalty interest or .00025879 royalty interest in the Williams Tract. Five of Beatrice's children had their own children (each a different amount) – further subdividing the respective royalty interest inherited by each of Beatrice's grandchildren. For example, Calvin Williams was one of 10 children of Willie Williams (Beatrice's son), thus, Calvin Williams has a 1/10 interest or .00003235 of Willie Williams' royalty interest of .00025879 (which is 1/6 of Beatrice's royalty interest). However, Connie Ray Williams, daughter of Timothy Williams (Beatrice's son), is one of six children, so has a 1/6 interest of

¹⁰ Samson Tr. Exh. E.

¹¹ Samson Tr. Exh. D, at p. 2. At trial, Calvin Williams expressed concern that Will Seamster's divisional interest was "missing a fraction" which was Will Seamster's fractional interest of his oil interests. See Tr. Transcript at 49:21-24. However, multiplying another fractional interest, if there were one, would only decrease Will Seamster's total fraction interest. However, the Court finds that Lisa Johnson's testimony on Will Seamster's fractional interest was credible and comprehensive. Tr. Transcript at 48:12-49:20. Thus, the Court finds that there is no missing fraction in the calculation of Will Seamster's royalty interest.

Timothy Williams' .00025879 royalty interest or .00004313 royalty interest that Connie Ray inherited from her father.¹²

iii. Oil and Gas Production on the Seamster Tract and Payment of Royalties

The Williams Heirs own royalty interests in connection with nine wells.¹³ (the "Wells") located in Webster Parish in which the Debtors owned interests, including, in some instances, the operating interests.¹⁴ All of the Wells are primarily gas-producing wells.¹⁵ However, the operating Wells also produce oil which is called "condensate" and is collected by Samson.¹⁶

At the trial, Lisa Johnson testified that the Williams Heirs were paid for the gas production and the condensate production from the Stewart 35 wells, and that relevant payment

¹² An illustration of the Williams Heir's family tree can be found in the Reorganized Debtors' Reply (D.I. 2527) at p. 8; and a full description of the heirship of the Williams' Heir royalty interest at pp. 7-11. At trial, this heirship was not challenged by the Williams Heirs.

¹³ There was an additional well in the Stewart 35, however, one well has been plugged; now only 9 producing wells remain. Tr. Transcript at 36:19-22.

¹⁴ Samson acquired interests in the Wells in 2003 and sold their interest in 2016. See Tr. Transcript at 24:19-22 and 25:16-20.

¹⁵ Tr. Transcript at 36:13-18 and 36:23-24.

¹⁶ Tr. Transcript at 36:25-27:12. Ms. Johnson testified that there could have been oil wells at one point in time but that during the ordinary course of business the Wells were reclassified as gas wells. Tr. Transcript at 55:18-56:4. However, Ms. Johnson testified as follows:

Q. As to the best of Samson's knowledge or records, is there an oil well, a producing operating oil wells on the land subject to the lease?

A. No.

Q. Okay. Your testimony is that what there is a gas well or gas wells, and to the extent that oil is produced, it's effectively a byproduct of the gas production.

A. Correct – condensate.

Tr. Transcript at 58:17-24. Furthermore, Samson acquired the Lease in 2003, thus, Samson is only responsible for payments under the Lease from 2003 until Samson sold its interest in the Lease on March 16, 2016. Tr. Transcript at 61:19-21 and 25:16-20.

and production information was provided with the checks sent out by the Debtors to the Williams Heirs.¹⁷ Ms. Johnson testified as follows:

Q. . . . if oil has been produced on the property within the time that Samson operated under the lease, have the royalty interest owners been paid for oil that was produced?

A. Yes..¹⁸

Ms. Johnson also testified that the Williams Heirs' royalty interests were calculated based on the Lease and *not* the division orders.¹⁹ In addition, no evidence was presented at trial showing that the division orders in anyway affected the terms of the Lease.

E. Analysis

i. The Lease is Valid and, at the Time, Remained in Full Force and Effect.

On June 7, 2016, the Bankruptcy Court held an evidentiary hearing on Mr. Williams' objection to the Sale Motion. The Debtors presented evidence and testimony setting forth, among other things, the difference between the Debtors' working interest in the assets and the Williams Heirs' royalty interest in the assets; the continued validity of the Lease; and the Debtors' ownership of a working interest thereunder. At the sale hearing, the Court found that the Debtors were not selling the Williams' Heirs royalty interest. Following argument, Judge Sontchi ruled from the bench and stated:

[w]hat's in front of me today is whether or not the Debtors can sell their alleged working interest in the Seamster tract to a third-party. What's not in front of me today is anything to do with the royalty

¹⁷ Tr. Transcript at 38:13-42-8. Ms. Johnson also testified that the Debtors' records reflected that the Williams heirs were paid in full other than a \$28 discrepancy that was being rectified at the time of the trial. Tr. Transcript at 26:22-27:2 and 39:4-7.

¹⁸ Tr. Transcript at 59:3-6.

¹⁹ Tr. Transcript at 44:12-25.

paymentsThe royalty issue and who owns the working interests are two separate things..²⁰

The Court determined that the Lease was a “valid lease” and that the Debtors had the ability to sell that working interest. Thereafter, the Bankruptcy Court entered an Order overruling the Williams Heirs’ objection and approving the Sale Motion with respect to the assets..²¹

Thus, the first three issues raised by the Williams Heirs (*see supra* p. 2) are summarily answered. The Lease is in full force and effect, the Lease governs the royalty amount, and the division orders did not alter the terms of the Lease.

Mr. Williams appealed this decision..²² Thereafter, the District Court for the District of Delaware affirmed the Bankruptcy Court’s ruling..²³ It has therefore been finally established that the Lease was valid and in full force and effect at the time the Debtors’ sold their working interest to a third-party purchaser.

ii. Calculation of Royalty Interests

The Debtors submitted the Johnson Declaration which contained support for the calculation and payment of the each member of the Williams Heirs’ royalty interest. Ms. Johnson’s declaration attaches check dates and amounts for each royalty payment remitted to the

²⁰ June 7, 2016 Tr. Transcript at 60:7-60:20. (D.I. 1030).

²¹ D.I. 1024. At the trial on the matter *sub judice*, Mr. Williams argued that his grandfather was not paid his royalties from 1949 through 1972. *See* Tr. Transcript at 115:3-23. However, this argument goes directly to whether the Lease was valid and enforceable at the time of the trial. As set forth herein, this Court, as affirmed by the District Court, has previously held that the Lease was in full force and effect at the time the Debtors sold their interests to a third party purchaser. Thus, this argument has no bearing on the rulings herein.

²² D.I. 1719. Between Mr. Williams’ appeal and the District Court’s disposition of the appeal, this Court heard the matter that is subject of this Order. At the hearing hereon, the Court was explicit that it was *only* hearing and deciding the royalty interest and whether the Debtors have paid the royalty interest and whether such royalty interests were appropriate. Tr. Transcript at 16:15-19:20. After the Court took the matter under advisement the District Court ruled on the appeal. This Court is bound by the prior ruling of this Court and by the District Court’s ruling affirming this Court’s prior decision.

²³ D.I. 2887. The District Court affirmed on the basis that the appeal was not timely filed. The District Court further held that that Mr. Williams failed to make a showing of excusable neglect for the untimely filing within the time frame set forth in Bankruptcy Rule 8002(d)(1)(b).

Williams Heirs, including payment details setting forth the gross volume and sales of each type of mineral produced during the applicable period.²⁴ As Ms. Johnson stated in her declaration:

Volume sold multiplied by the unit price equals the “Gross Value” of the production, from which applicable “Deductions” are taken—including deduction codes 1 (severance tax), 4 (compression), 5 (dehydration), 8 (fuel), and 9 (transportation). In this case only a severance tax is applicable. Other deductions are applied to gas production (code 2 at the top of the page). These deductions are proper because the 1949 Lease states that “[t]he royalties to be paid by lessee are . . . , [i]n all other cases when sold or used off the premises, the price received at the well for 1/8 of the gas sold or 1/8 of the fair value of gas used.” 1949 Lease §3(b) . . .

The calculation described above yields the “Net Value” the Debtors received which is then multiplied by Calvin Williams’ fractional interest for this well (.00003236) to give his share of the “Net Value,” of the hydrocarbons. Each of the Williams Heirs received a similar check detail with each payment that she or he received from the Debtors or Samson. Thus, all of the information necessary to understand the calculations underlying the Debtors’ royalty payments is included in the detail they provide with those checks.²⁵

Samson’s records reflect, and the various check detail provided to the Williams Heirs with their royalty payments confirm, that the Debtors and Samson paid each of the Williams Heirs in full the amounts that they were owed for hydrocarbon extractions (gas, oil and otherwise) from the subject Wells.²⁶

²⁴ Johnson Declaration at ¶¶10-12.

²⁵ Johnson Declaration at ¶13-14.

²⁶ Ms. Johnson also explained that royalty checks decrease over time due to two primary factors: (i) wells decline in production as they age and (ii) the market for oil and gas over the past several years is in a recession. Tr. Transcript at 97:11-17. Furthermore, Ms. Johnson testified that Beatrice Williams’ royalty interest was held in suspense in 2010 when the Debtors learned of her death. Upon receiving the documentation regarding Beatrice Williams’ heirship, the first check to her heirs reflected an accumulation over the three years the account was in suspense. *See* Tr. Transcript at 92:14-93:11. Thus, the first checks received by the Williams Heirs were large and declined thereafter due to the exhaustion of the accumulation related to the suspended account, as well as the Wells’ age and market factors.

At this stage of the proceedings, the Williams Heirs had the burden to establish the amount of their claims and to rebut the Debtors' records and evidence of proper, regular payments related to the Wells in which the Williams Heirs has their royalty interests. The Williams Heirs produced no evidence regarding the amount of gas, oil, or otherwise, extracted from the subject Wells.²⁷ Further, the Williams Heirs did not rebut the evidence presented by the Debtors and Samson regarding the fractional interest of each of the Williams Heirs, or how that fractional interest was calculated incorrectly.

Accordingly, the Court finds that the Debtors have properly and fully paid the Williams Heirs all royalties earned in the ordinary course of the Debtors' businesses.

F. Conclusion

The Court will **SUSTAIN** the Objection and disallow the Williams Claims in their entirety.

IT IS SO ORDERED.

BY THE COURT:

Dated: December 13, 2017
Wilmington, Delaware


Brendan Linchan Shannon
Chief United States Bankruptcy Judge

²⁷ Mr. Williams argued that his family has never been paid any royalties for oil extracted from the Wells. However, as evidenced at trial the Williams Heirs have a royalty interest in gas wells that also produce condensate (i.e. oil) as a by-product of gas production and the Williams Heirs were indeed paid their royalty interest related thereto. Tr Transcript at 40:4-42:8.