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XTO Strikes \$4.19 Billion Hunt Deal

Legendary Oil Family Joins Rush of Sellers Amid Rising Oil Prices

By BEN CASSELMAN

OIL AND NATURAL-gas producer XTO Energy Inc. said it will buy closely held Hunt Petroleum Corp. for \$4.19 billion in cash and stock, in a deal that highlights the changing of the guard in the U.S. oil patch.

Hunt Petroleum, which traces its lineage to legendary wildcatter H.L. Hunt, is the largest in a series of private companies, many of them family-owned, that have sold to larger public companies in recent months. Large players are rushing to snap up assets in emerging oil and natural-gas fields, while small producers are seeking to cash in on holdings whose values have soared along with commodities prices.

XTO has been especially active. Even before its latest deal, the Fort Worth, Texas, company had announced since April three deals valued at nearly \$3 billion. In a conference call with investors Tuesday, Chief Executive Bob Simpson said he expects to do at least another \$1 billion to \$1.5 billion of deals this year. "XTO is sort of exploding right here," said Mr. Simpson.

Tuesday's deal was different in both its size—more than double XTO's next-largest acquisition this year—and its scope. The earlier deals had all been for assets in specific regions—\$600 million for natural-gas assets in Appalachia, \$1.85 billion for oil operations near the Canadian border—whereas Hunt Petroleum operates wells in Texas, Louisiana and other states, as well as in the Gulf of Mexico. The company also has interests in the North Sea.

Hunt Petroleum is just one piece of the vast oil empire left behind by H.L. Hunt when he died in 1974. One of the early oil industry's most colorful figures, Mr. Hunt had 15 children by three women.

One of his companies, Hunt Oil Co., is run by H.L.'s son, Ray Hunt, and has no connection to the much smaller Hunt Petroleum. One of the largest private companies in the industry, Hunt Oil has continued its founder's wildcatting legacy, with operations in Peru and Yemen, among other countries.

Hunt Petroleum arose from different assets held in trust funds inherited by another branch of the family when the elder Mr. Hunt died. The company, led by H.L.'s nephew, Tom Hunt, took fewer risks in the oil business. But the smaller company hasn't escaped its own controversy.

Hunt Petroleum and its assets are at the heart of a lawsuit filed by a great-grandson of H.L., Albert Hill III, against Tom Hunt and other members of the family. Al Hunt III says he was cut out of his inheritance and that the trust funds were being mishandled. His attorney, William Brewer, said his client is reviewing the XTO deal, and is questioning whether Hunt might have fetched a higher price.

Michael Lynn, an attorney for one of the defendants in the case, dismissed the suit as "bogus." Regardless of the suit's outcome, Albert III has no say in the sale of Hunt Petroleum, Mr. Lynn said, because the trusts, which hold the company, are controlled by the trustees, not the beneficiaries.

The beneficiaries will reap a windfall from the sale. XTO will pay \$2.6 billion in cash and about \$1.6 billion in XTO common stock. XTO said the Hunt deal, which is expected to close by Sept. 3, along with its other recent acquisitions will increase its expected oil and gas production this year by 28% to 30% over earlier projections. The company expects to increase production by another 20% in 2009. XTO shares were down 1% to \$67.02 in 4 p.m. trading on the New York Stock Exchange Tuesday.

XTO's announcement comes on the heels of a string of deals in which private oil producers have sold out, completely or partially, to larger public companies. On Tuesday, Berry Petroleum Co. said it would pay \$620 million for natural gas assets in east Texas. Last week, Cabot Oil and Gas Corp. agreed to pay more than \$600 million for assets in east Texas, while Concho Resources Inc. said it would pay \$565 million for assets in West Texas and New Mexico. In all three cases, the seller was a smaller, closely held company.

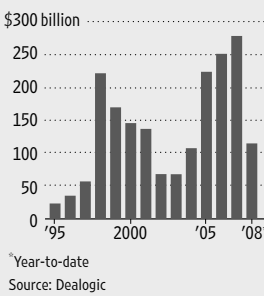
The deals are expensive. The cost of acquiring undrilled land has risen substantially from a year ago—leases in Arkansas' Fayetteville Shale region have shot up to \$8,000 per acre or more, from \$1,000 or \$2,000 a year ago.

More executives appear willing to pay the price—and Wall Street seems to share their optimism. Cabot, for example, has seen its stock rise nearly 10% since its deal was announced last week; Concho is up 19% since its deal. "Those deals would have been viewed as very expensive a year ago, [but] the stocks have reacted very positively," said Steven I. Chazen, president of Occidental Petroleum Corp.

Experts say several factors are driving the surge in activity. Many sellers, often backed by private-equity funding, bought the drilling

Black Gold

Value of world-wide mergers and acquisitions in the oil and gas industry



rights to thousands of acres of land planning to hold it for a few years, drill a few wells to prove its potential, then sell it at a hefty markup to a larger company with the resources and expertise necessary to develop it fully. With oil prices breaking records and natural gas prices also soaring, the value of those drilling leases has soared—prompting some companies to sell sooner than they might otherwise have planned.

Other sellers, like Hunt Petroleum, are family-owned companies with long histories in the oil business—and keen memo-

ries of the oil crash of the 1980s, which crushed many smaller producers and erased oil fortunes.

"A lot of people remember the '80s, when they thought that prices were going to go through the roof," said Marc H. Folladori, a Houston attorney who specializes in advising energy companies on mergers and acquisitions.

In today's conference call, XTO's Mr. Simpson noted that the Hunt heirs will continue to benefit from the booming oil business because they will become major XTO shareholders. Other families are in the same position. In April, for example, XTO bought its assets near the Canadian border from Headington Oil Co., a family-run firm that also took shares along with cash in its sale.

Another factor driving sellers: politics. Oil executives say they are concerned about energy policy under both major presidential candidates, and are especially worried about the possibility of increased capital gains taxes, restricted access to drilling reserves, and stricter environmental rules should Democrats take control of both Congress and the White House.

"There's a lot more people worrying about their tax bills," said Mr. Chazen of Occidental, which made \$1.6 billion in acquisitions in the first quarter of this year. "The whole picture looks like a good time for a seller to sell."

Whether it's a good time to buy is less clear. Many companies are wary of buying at the top of the market. But they also need to develop new resources to ensure their growth. As land in hot new oil and natural gas developments gets bought up, companies that want to get in have little choice but to buy assets from another player.

"The speed at which new plays are being bought up on the land side is unparalleled," said Dan Pickering, an analyst with Tudor Pickering Holt. "If you don't get it, someone else will."

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