SECOND EDITION

THE UPSIDE OF OIL AND GAS INVESTING



How the New Model Works

AND WHY IT PUTS THE TRADITIONAL MODEL TO SHAME

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Introduction

First, let me take this opportunity to thank you for reading this book. Thank you for your patience and your open-mindedness. I wouldn't have blamed you if you saw this book and pushed it aside, certain there was nothing new in here. You may assume that you've heard everything anyone would care to tell you about oil and gas investment (and you may have), and that there's nothing new to learn. So, if you did pick up this book and you're reading this now, thank you again for giving me a chance.

If you've invested in oil and gas before and you've had a bad experience—as is entirely likely—I appreciate your willingness to get on the merry-go-round again and take another spin. Although, hopefully, with my years of experience guiding the way, if you were to invest with me, you'll have an easier time of it and a much more positive experience this time around. Because I've been in the industry all my life and worked in many capacities, I've seen some good deals where people made money, and some bad deals where everything went bust. Through all of my years of experience, I have come to develop a sixth sense for when a deal seems like a bad idea from the get-go, and those that may actually have a shot at making some money for their investors. And those bad deals, unfortunately, come along a lot more often than you might think.

The truth of the matter is that the way the vast majority of oil and gas investment deals are structured means they have limited running room and little diversification. In other words, if something goes wrong—and in a complex system like drilling for oil, things can certainly go wrong—there are few ways to fix it without pouring more money into a literal hole in the ground. In these types of cases, it becomes nearly impossible for the investors to recoup their investment. Talk about "Buyer, beware!" If you're an investor, you *could* come out the other side a billionaire, but you may also be several million dollars poorer than when you went in. In the meantime, the promoter who sold the plan to you has moved on to the next big thing. In some cases, promoters make a whole lot of money on these investments whether they pan out well for the investors or not. Even worse, some promoters don't seem to care whether the investors make money on the project, as long as they got *their* paycheck.

Of course, today we all know that the industry is changing, and with threats ranging from geopolitical issues to the rise in electric vehicles and alternative fuel sources, we need repeat investors now more than ever if we're going to stay in business. If we turn people off by doing deals in which they lose money over and over, why would they ever come back to us to invest again? In the best interests of the industry and the investors, we had to start doing something differently. I knew something had to change. This book describes that change.

Even though the oil and gas industry is old and is notoriously resistant to change, I wanted to change the way we did business. Thus, I started talking to friends and acquaintances. As a member of TIGER 21, a peer network organization for high-net-worth individuals, I consulted other members, as well as people who knew something about investments, whatever their field. After what amounted to years of looking for a better way and searching for a method of managing investments that made sense both to the drilling company and to the investors, I realized the problem: generally, the industry was thinking of investors as money first rather than true partners.

After talking to a lot of people in a variety of industries and grilling them about how they did business and how they approached investors, what I came to realize is that all people really want is a genuine *shot*. People aren't even interested in a guarantee, they want to believe that they've got a shot to make a profit or at least make their money back. That's what I knew we had to give them.

The investment model for sponsored oil and gas transactions that I discuss in this book represents a total change in the way much of the smaller, independent companies in the oil and gas industry operate. Instead of buying one location, drilling, and hoping for the best, the operator buys a lot of acreage, proves up a well, and then sells it off. And the investors can be along for the whole ride. By doing things this new way, without having to drill all the wells, projects can also be completed faster. That means there's a better opportunity for a turnaround time and for money to make it back into the investors' pockets faster. This, in turn, means another project can start, ideally with the same investors on board.

Doing things this new way essentially means that the unknown future performance of the wells is not as critical to the initial investors. In fact, by selling off the acreage to companies who want to drill, this new model has removed investors from the operation before it gets potentially dicey and goes on to something new. At the end of the day, it doesn't matter whether a well gushes or trickles; if the sponsor has been able to sell off the acreage at a higher price than the original acquisition price, the investors will have already made back their money.

The second part of this is because we want our investors to be with us for the long haul from project to project; we treat them like full business partners. We're building partnerships, not solely looking for money, and it will not surprise you to hear that when people are treated with respect, they're a whole lot more likely to reinvest with a company. As a result, we've enjoyed repeat investors for several of our most recent projects.

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In oil and gas, we talk about the four Rs: returns, rate, running room, and repeatability. We have determined that if we can take care of all four of them, we've got a really good shot of paying back our investors, and then some.

Returns refer to whether or not the project makes economic sense. We have to present a plan that makes good financial sense for us to consider moving forward with a project. If it doesn't make sense, we're not going to push forward; that would be a waste of everyone's time.

Rate refers to the high rates of hydrocarbons (or oil and gas) that we can produce in a single area. This is what we mean when we talk about proving up a location. If we can get a high rate of production, it'll make it that much easier to sell the prospect.

Running room is the number of locations we're drilling in any given project. We have over one hundred locations on many projects, which makes it that much easier for us to produce a good rate. The more locations available for drilling, the more opportunities for producing a good rate—and the greater chance of investors making their money back and then some.

And finally, repeatability refers to the likelihood that we can repeat this process again and again with different acreage, ideally bringing along the same investors as business partners time and time again. If we have the first three Rs covered, we know we've got a good project on our hands.

As you read this book, you'll encounter a number of topics that will help you gain a better understanding of the oil and gas industry and the investor's role in it. First, I'll tell you a little bit about myself, my family, and our over one hundred years in the business. When I work with someone, I like to know a little bit about them. It helps me place them in context and gives me an idea of the kind of person I'm trusting with my time and money. You deserve the same thing.

Throughout this book, I'll explain the way oil and gas investments have traditionally been done, at least as far back as I can remember. I'll dissect a deal in detail, and show you the pitfalls investors can find themselves falling into when they sign onto a deal structured according to the traditional model. Then I'll explain the new way we've started doing business at King Operating and why it's been generally working so well for both us and our investors.

We'll discuss what I think is the best way to do things by examining the anatomy of a project that King Operating is involved in and how all the pieces fell into place. This deal is emblematic of most of the deals we do today, so understanding the workings of it will allow you to grasp the concept of any potential future deal that you might become a part of.

The oil and gas industry is a truly global one and, as such, it is affected by many different things that happen across the world. Everything from natural disasters to political coups to industrial accidents and trade wars can impact the price of oil. This book will explore these factors in detail, providing you with a primer on the global oil industry so that you will be better informed when it comes time for you to make your investment decisions.

In this second edition, I've also added two new chapters that I think are especially important for investors today. One takes a closer look at 1031 exchanges and how they can be used in oil and gas investing, and the other explains J-Units, a strategy that combines existing production with the opportunity for additional development.

In addition to the external factors for a good investment, you will need to know what kind of internal relationships you need to look for in a good deal as well. With this in mind, I will also explore the concept of teamwork and the necessity of making your investors part of your team. I will explain some of the connections I've made along the way and some of the teams I have been proud to be a part of. I'll tell you what I've learned and how I strive to bring those lessons to the oil industry with me every day.

Finally, I'll look to the future of the industry. I will address some of the challenges we face from alternative fuel sources and some of the opportunities we have in emerging markets. I will also explain how you as an investor can help shape that future to ensure you have a place in it.

Once again, thank you for taking the time to pick up this book and give it a read. Thank you for putting your trust in me and for allowing me the opportunity to add you to our team. It is my sincere hope that with this knowledge on board, you can not only make informed decisions about where and how to invest your money, but that you will feel confident knowing that the company you have invested with truly cares about and respects you and has your best interests in mind. Investing in oil and gas is complicated, but if done strategically, methodically, and economically, it can be a great way to build wealth quickly. After reading this book, you'll know some of the questions to ask when you consider investing and you will be educated, prepared, and ready to become a true partner.

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Chapter 1
A Lifetime in Oil and Gas

Oil is in my blood. I know the industry in my bones. There was no getting around it. I have spent my whole life around oil and gas and have come to know the industry inside and out, backwards and forwards. I know the good and the bad, the risky business and the sure thing. I have made a lot of money—but I've lost some too. And with all that experience, I have come to understand what I believe is the best way to invest in oil and gas, and the wrong way. The way I see it, the way it has been historically done is not the best way. But there is, in my opinion, a better way. There's no teacher like experience and I have experience in spades. I come from a family with over a century of experience in oil; I'm a fourth-generation oil man.

I grew up in Sulphur Springs, Texas, a town of about fifteen thousand located in the northeast corner of the state roughly eighty miles east of Dallas. But I was not the first in my family to embark on a life in oil and gas. Before me, three previous generations made their living working the oil fields and grinding out a life in the flat, open plains of Texas that seem to go on forever. Recently, I met someone at a trade show who asked where I was from. When I told him, he looked at me, drew in his breath, and said, "That's flat country. You can stand on a tuna can and watch your dog run away for two days." He's not far off.

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My father's grandparents, the Turners, whom we called A.K. and Grandma Birdie, lived in Coahoma, a tiny town with a population of about eight hundred located an hour northeast of Midland, in the heart of the Permian Basin—oil country. A.K. was born in 1898 and together with Birdie, they had twelve children, the oldest of which was my grandmother, Dorothy, my father's mother. A.K. was the first person to drill in the Red River, where he worked as a tool pusher on the oil rig, putting him in charge of the drilling department. After that, he worked as a pumper, stopping at each well every day and checking to ensure that everything was running smoothly. He was also in charge of measuring the production of the wells, which meant every day he'd have to stop at each well and measure what had been produced over the previous twenty-four hours. It was difficult, physically demanding work. My father remembers visiting his grandparents when he was young and hearing A.K.'s boots make a sloshing sound when he came home because they were full of sweat from a day of hard work in the oil fields.

For the twelve kids of the Turner family, if you were a man, you were in the oil business and if you were a woman, you were married to someone in the oil business. It was a way of life in the small towns. The oil jobs were paying better than anything else and were hard to come by, so you quickly became a loyal employee of the different oil companies.

Back in those days, it was said that in West Texas, you needed a fifth of whiskey and the willingness to take a drink at any time to get your business done. A.K. had both. He died in 1966 at the relatively young age of sixty-eight. He worked himself to death in those oil fields.

Of my great-grandparents' twelve children, only two, Alec and Denny, were entrepreneurs; the rest followed in A.K.'s footsteps, working for someone else as pumpers in the oil fields. Alec and Denny,

however, had bigger ambitions. Rather than being content to work for someone else and grind out a living like their father before them, they wanted to be in charge of their own drilling operation. Together they founded Turner Drilling and in the 1950s, began drilling wells in Snyder, Texas, a town of about eleven thousand roughly forty miles northeast of Coahoma, where they'd grown up. My father remembers that his great uncles were constantly going to Oklahoma—a journey of at least two hundred miles—to meet with a bank to borrow money to drill more wells.

Growing up in an area like Coahoma doesn't afford a lot of opportunity for meeting people outside the business. So many people—like myself—were born into it. And so it was that my grandmother, Dorothy married my grandfather, Albert Bynum—known either as A.B. or "Pud" Young. Pud was one of eight children; he had five brothers and two sisters, and like almost everyone else growing up in the area, he too started working in the oil fields at a young age. From age sixteen right up through age seventy-eight, when he'd finally decided he'd had enough and it was time to retire, Pud worked in the fields, day in and day out.

Grandad was a good friend of Columbus Marion, or "Dad" Joiner, a former lawyer and member of the Tennessee House of Representatives and the man responsible for discovering the East Texas Oil Field in 1930 when he was seventy years old. At that time, the East Texas Oil Field was the largest petroleum deposit yet found. Dad Joiner put Grandad to work drilling multiple wells for him. Eventually, Grandad earned a reputation as a "fixer" who could diagnose and solve almost any problem with an oil well. He could listen to a well and know what was wrong with it, almost without having to look. He was especially good at solving saltwater problems and companies from all over the state sought his expertise. Even after he retired, he would receive calls from oil companies asking him to come out and take a look at their troubled wells.

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Grandad spent so much of his life around oil wells doing physically demanding and exhausting work, that he developed tricks for getting as much rest as he could. Often, when he'd work the graveyard shift, he'd devise a system to make himself as comfortable as possible during the cold nights alone out in the oil fields. An oil tank is hot; it gives off plenty of heat, even if the surrounding area is cold. So Grandad would sleep on top of the tank during his shift, keeping warm in the ambient heat. If he was worried about sleeping through something important, he'd take off his boots and sleep with his feet dangling into the tank. When the tank pulled in enough oil, the level would rise and the warm oil would gradually reach the level of his feet, waking him up—nature's alarm clock!

When my father was growing up, Grandad worked in a field with sixty-eight wells. The family lived close by and the sound of the wells became a constant backdrop to their life. A droning, screechy noise, the sound seeped into everything, a constant companion to daily life. Occasionally, one of my father's cousins would come to visit and spend the night. Inevitably, the visitor would be falling asleep in his breakfast the next morning because the constant sound of the wells had kept him awake all night. In contrast, if my father ever went to visit family or friends who didn't live near wells, he'd have trouble sleeping; he'd gotten so used to the noise that the silence was unnerving.

Grandad got so familiar with the sound the wells used to make that my father remembers my grandfather being sound asleep in bed and suddenly bolting upright.

"What's the matter?" my grandmother would ask him.

“One of the wells is down,” he’d say, listening to the sound of a malfunctioning well that only he could pick out of the general cacophony.

Grandad and his five brothers—Rock, Red, Pot, Cotton, and Dallas—worked all over the state of Texas during the oil boom of the 1930s and 1940s, primarily running operations for Goldston Oil. There were so many Young brothers in the business that it was hard to get away from them. Grandad used to tell a story about a trucker who left Houston carrying a load of pipe. He was told to leave part of his load in several small towns along the way. After the fourth delivery to someone with the last name “Young,” the trucker asked, “How many more are there?” He still had two left.

All of the Young brothers raised their families in company houses, in communities made possible by oil. My father, Butch, Pud’s middle child, grew up in a company house in Kilgore, a city of about thirteen thousand in the northeastern corner of the state of Texas. In that area, thanks to Dad Joiner’s discovery of the East Texas Oil Field, wells were plentiful. So plentiful, in fact, that my father remembers being able to jump from one rig to the next without ever touching the ground. One time he misjudged his landing and fell into a tank battery. He got so covered in oil that my grandmother had to wash his hair with GOJO, a citrus-based product made specifically to break down oil and grease. But because Grandma didn’t want the oil from Dad’s hair clogging up her shower drain, she washed his hair in the toilet bowl. To this day, he shudders when he relates that story.

Dad was often responsible for cleaning the tanks that would get gunked up. A typical well holds 220 barrels of oil and an oil tanker will take 180 barrels with a full load. So if a well is running slowly—doing only ten barrels a day, for example—it will take twenty days for the well to fill. When the tanker takes away the load, there is oil remaining, often the older oil from the bottom of the well. If it sits for too long, it will harden and solidify and gum up the works. And when that happens, someone has to physically go into the tank to clean it. That was my dad’s job. He’d hop in the tanks with no eye protection and no mask, and blast hot saltwater at the four feet of built-up basic sediment (or BS, though we called it “bullshit”) that had accumulated in the tank. It was a dirty, smelly, uncomfortable job.

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That was the kind of work Dad did before graduating from high school in 1961 and joining the Air Force. He spent some time in Puerto Rico in 1967 and was stationed at Ramey Air Force Base in Aguadilla, part of the 53rd Weather Recon Squadron responsible for hurricane hunting, before being stationed at Bergstrom Air Force Base, just southeast of downtown Austin. My father had ambitions beyond oil. Not only had he seen the hard work that went into working the fields, but he’d witnessed firsthand the toll that kind of work had taken on both his grandfather and his father, and he was also wary of the potential prospects for the future. He remembers being at a doctor’s office in the early 1960s and hearing people talk about how the oil industry was full of dead-end jobs. The industry was dead, they’d said. There was nowhere to go but down. Many people figured after the boom years that had peaked in the 1940s, there wasn’t much oil left and many people would soon be out of jobs. Dad had spent enough of his youth cleaning out oil tanks with hot saltwater that he wanted something different for himself—and especially for his children.

He also saw the hardship others faced in the community. While oil has made many people rich, it is also risky and far from a sure thing.

It has been said that some of the Turners died from cirrhosis of the liver, because you drink whiskey if you are happy and you drink whiskey if you are sad, and the oil business can bring you both (sometimes in the same year unfortunately).

Back during the 1960s, farmers owned the land on which people drilled for oil. The farmers owned both the land and the royalty—that is the minerals, or oil, that may be found on the land. Today, farmers will frequently sell mineral rights to someone else, but back when my father was working the fields, the farmers would set up toll booths for the oil drillers to pass through on their way to the fields. If wells were being drilled, farming couldn't go on. So the idea was that while the farmers were waiting to see if oil would be found on their land and they could collect the royalty payments, they'd make some money by allowing others to drill. There was never a guarantee that land would produce oil and pay out and, in the meantime, the farmers had to feed their families. It wasn't an easy life for anyone at the time, and my father knew how much backbreaking work was required, with no guarantee of success. Though he wanted to do something else, eventually my father ended up taking the path of least resistance and working as a pumper in the fields. After his stint in the Air Force, he went to work for my grandfather.

On the other side of the family—my mother's side—my grandfather was the rare male in the area who wasn't involved in the oil business. Pop was an entrepreneur. He had a True Value hardware store in Sulphur Springs and became the first person to mass produce wooden shutters for homes. He built a plant to make the shutters in Sulphur Springs and ultimately had twenty stores all across the southeastern United States where the shutters were sold. Pop eventually found himself in the unique position of selling and repurchasing his own business, when the person to whom he'd initially sold it started to lose money and wanted to get out from under it. Pop bought the company back from him and turned it around, making it successful once again. After some time, he sold it for the second time and made a nice profit. When that buyer decided to sell because he no longer wanted to live in Sulphur Springs, Pop almost bought the business a third time. As they were doing their due diligence, my mother—who often worked with her father—asked the buyer what bills remained to be paid.

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"None," he told them. "They're all paid."

They were all set to go ahead with the purchase of the company when vendors started to call asking for their money. My mother, while searching through a secretary's desk, found checks that had been made out to vendors but never sent. She'd find checks for between $50,000 and $100,000 a day. When that happened, they began to wonder what else hadn't been taken care of. So instead of getting involved in a business with debt and creditors, Pop walked away, making the smart business decision.

Pop was the definition of frugal, never wasting a penny or spending what could be saved. When one of his shutter plants in Winnsboro was torn down, he used the bricks to build his house in Sulphur Springs. He read *The Wall Street Journal*—not terribly common for that time and place—and put a lot of his money in gold coins. Pop made a good living and did well for himself and his family, but you'd never know he had money. He lived well, but simply— his two vices being that he liked to drink Wild Turkey, and gamble occasionally in Las Vegas (although never to the point of putting his family at risk).

Because my father worked six days a week, I spent a lot of time with both of my grandfathers growing up, especially after college. And though my father wanted something different for me, the oil business was in my blood. I learned how to drive in an oil field. Grandad had a three-speed gear shift on the column of his truck and he would let me drive when I was very young. I loved driving so I would frequently go with

him to check the wells. His job was to measure the production of each well every twenty-four hours and sometimes, after he was done checking the wells, he would take a nap and let me take the truck down the oil field roads where I would either go hunting or fishing; I'd come by to pick him up later.

Family was important to us and we made an effort to spend time together, even though many of us lived long distances away from one another. Occasionally on holidays, we'd drive the 363 miles from Sulphur Springs to Coahoma to visit the Turner family. It was a long drive; it took us nearly twelve hours on a two-lane road with lots of cities along the way. It was rare for the family in Coahoma to make the return visit because the roads were treacherous and oil hands rarely got a day off. It was a twenty-four-hour, 365-day-a-year job. If the Youngs were coming to town, there would be over sixty people for a holiday. Everyone on my grandmother Dorothy's side of the family lived close to Big Spring in the Permian Basin, only ten miles or so from Coahoma, so the line for food for family meals seemed to stretch on for days. We'd all line up to fill our plates buffet-style, but we knew we'd better make sure to get what we wanted the first time around, as it wasn't likely we'd get another chance. We were told, "Don't expect seconds."

Eventually, after college, I spent five years as a stockbroker. This pleased my father because he had spent his life observing and living the ups and downs of the oil business, and he wanted something better for me. He had seen the toll the job can take on someone both mentally and physically—his grandfather and several of his great uncles died from alcohol-related issues owing to the culture of the job and the nature of the business—and he did not want that for his son. For a while, it looked like I was going to avoid the business altogether and make my way in a different field, but after five years, I was burned out with the stock market and decided that I either wanted to be in real estate or oil. Perhaps it really was in my blood. Despite my father's misgivings, my mother knew someone in the oil business, and when I interviewed with his company in 1990, I got the job. Just like that, I was back in the business.

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Four years later, at the company Christmas party in 1994, one of my colleague's husbands approached me. He told me that if I was interested in starting my own company, he would sell me pieces of oil and gas wells. Here I was, being offered what I saw as the best of both worlds; I would get to be an entrepreneur, which is something I had been interested in, and I would get to stay in a business with which I was familiar and comfortable. I took his offer and in 1995, at the age of thirty-two, I started my first company, Anderson-Drake, Inc.

In some capacity, my family has been in the oil business for over one hundred years, since 1915. Whether it was doing physical jobs like working as drillers, tool pushers on rigs, or pumpers, or as vice president of operations, or entrepreneurs in the industry, oil has been in our bones for over a century. While it isn't what my father initially wanted for me, I have managed to create a successful business for myself and my investors. I founded King Operating Corporation in 1996 and have surrounded myself with a leadership team that has over one hundred years of combined experience in the industry. From my father, I learned integrity and the value of hard work. I have never shied away from putting in the hours to get the job done and, as a result, I understand the risks and work hard to get the rewards. Having spent years observing how people invest in oil and gas projects—and how many of those projects fail—I believe that I can now say that I've developed what I think is a better way.

Now that you know a little bit more about me, I hope that you'll allow me to show you what I think is a better way. I have seen too many people lose money investing in oil and gas and I think it's time for a

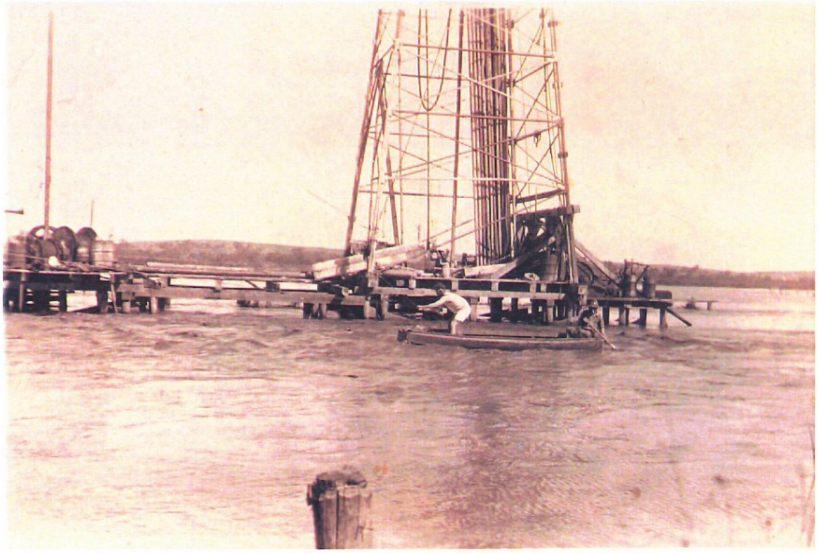
change. My family has worked hard for generations and it is on the back of that work ethic that I want to work hard for you. Let's explore what I believe is a better way to invest in oil and gas together.



Oklahoma oil well blowout



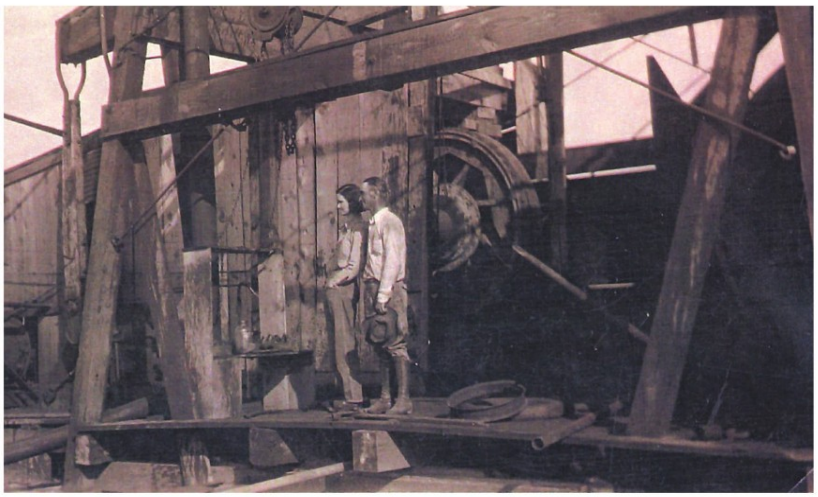
A.K. Turner and his drilling crew, utilizing a "Horse Drawn" pulling unit in West Texas



A.K. Turner's drilling rig in the Cimmaron River, Oklahoma. Mr. Turner was part of the first crew to drill a well "offshore"



A.K. Turner's wooden derrick in Pennsylvania



A.K. Turner and his wife standing by the draw works on a wooden drilling rig in West Texas. A.K. is Mr. Young's great grandfather.

Chapter 6
The J-Unit

One of the questions I get from investors is, “What exactly is a J-Unit?” The simplest answer is this: a J-Unit is a way to increase the value of an oil and gas property by proving what the acreage can do before we try to exit. It is not just buying land or drilling a well. It is not sitting back and hoping commodity prices go up. A J-Unit is a development strategy. We lease or acquire enough acreage to drill and complete three wells. Then we drill a proof-of-concept well in the middle of the unit, and after the well is on production, divest it and the two locations (called PUDs, or proved undeveloped reserves).

That is where the value can change. Before the first well is drilled, the acreage may have value, but much of that value is still theoretical. It may be good acreage, in a good field, and have good geology and offset production. But the market still has to underwrite what it cannot see yet. After the first well performs, the project can become more tangible. Now there is production data, pressure data, completion data, real costs, and real operating results. There is something a buyer, engineer, operator, lender, or investor can evaluate.

In real estate, people understand this quickly. If you buy an apartment complex, renovate the units, improve occupancy, raise rents, and clean up the operations, you have created value. You did not just buy the building and wait. You improved the asset. You moved it from one category of value to another. The J-Unit is similar, except the work happens below the surface. We are taking an oil and gas property, applying geology, engineering, land work, drilling, and operations, and attempting to move that asset from potential value to proven value.

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I like the real estate analogy because it helps investors understand what we are really doing. A raw piece of land is not valued the same way as a shopping center with tenants. A building with deferred maintenance is not valued the same way as a renovated building with higher rents and stronger occupancy. A piece of acreage with a geologic idea is not valued the same way as acreage with a producing well and future locations supported by that well. The work creates the value. The data supports the value. The market pays for the value when it understands the story.

I have seen a lot of oil deals where the whole plan was drill a well and pray. That is not a plan. That is hope. Hope is not a bad thing, but hope by itself will get people hurt in this business. A J-Unit is our way of putting a process around the upside.

Early in my career, I learned that a good-looking map is not a strategy. A map can show you where the opportunity might be, but the plan has to show you how you are going to protect the investor if things do not go exactly right.

A J-Unit is built around the relationship between the first well and the wells that may come after it. Let’s say we lease enough acreage to drill three horizontal wells. We drill the first well in the middle. If that first well performs, the locations on either side may become more valuable because they are no longer just lines on a map. They are potential offset locations supported by a producing well nearby. The first well

does not guarantee the future wells, but it gives the market evidence. In oil and gas, evidence changes the conversation.

Now expand that same idea. If we lease enough acreage to drill fifteen wells, we may not drill all fifteen wells at once. We may drill five first. Around those five wells, we may preserve ten additional future locations. If those first five wells perform, then the future locations may carry more value because the first wells helped prove the concept. A buyer is not only buying what exists today. A buyer is often buying the future development inventory. That is where the J-Unit becomes an exit strategy.

Before the first well, the conversation is, “Why do you believe this works?” After the first well, the conversation becomes, “Can this be repeated?” That is a very different conversation. It is one thing to tell someone there may be oil under the ground. It is another thing to show them a well that is producing, surrounded by additional locations that may be developed using the same concept. That is the difference between speculation and value creation.

I have never liked the idea of selling oil and gas as a lottery ticket. There are people who want that. They want the wildcat deal. They want the one-out-of-ten shot. If it hits, it might hit big. If it misses, the money may be gone. That is not our model. Our model is to drill where oil has already been found. We want to be in areas where there is existing production, historical data, vertical well control, known formations, and a geologic reason to believe the opportunity is there. That does not remove risk. Nothing in oil and gas removes risk. But it changes the risk profile.

If you are going to put investor capital to work, you need to understand the difference. There is a big difference between saying, “We hope oil is here,” and saying, “Oil has been produced in this field for years, and we believe modern drilling and completion techniques can unlock additional value.” That is why old fields can still have new opportunities. In some areas, vertical wells were drilled decades ago. Those wells may have produced meaningful oil and gas over time, but they only contacted a limited part of the formation. A horizontal well can contact more of the reservoir. It can reach rock that the old vertical wells never touched. It can change the economics of an area that has already proven hydrocarbons exist.

That is one of the reasons the proof-of-concept well matters so much. It is not just the first well. It is the test case for the whole plan. If that first well works, it can help support the future development story. If it does not work, then you have learned something too. Either way, the first well gives you information. In oil and gas, information has value because it helps determine where capital should go next.

The Real Estate Development Mindset

Some of the best money we have made in the past has come from putting together what I would call real estate for oil and gas. That may sound strange at first, but it is the right way to think about it. In traditional real estate, a developer may take raw land, entitle it, improve it, divide it, lease it, build on it, or sell pieces of it. The developer is not just waiting for the land to become more valuable. The developer is doing the work that causes the market to value the asset differently.

Oil and gas can work the same way when it is done correctly. We lease acreage, organize it, and identify the geologic target. We determine where the first well should go, then we drill the well and create production. We leave future locations that may be developed next. Then we can take that package to

market and let buyers underwrite both the existing production and the future drilling inventory. That is a development business, not a passive holding business.

When I explain this to real estate people, I can usually see the light bulb come on. They understand that you do not get paid just because you bought the asset. You get paid because you improved it, organized it, proved it, and made it easier for the next buyer to underwrite.

The mistake some people make is thinking that if the price of oil is up, you should automatically sell. It is not that simple. You cannot just take an asset to market because commodity prices moved that week. If you want to maximize value, you need a process and enough data. You need the right buyer universe and the asset packaged in a way that buyers can understand. You also need to know whether you are selling current cash flow, future locations, operatorship, or some combination of all three.

That is why the J-Unit is more than a drilling idea. It is a business model. It asks a basic question: How do we take acreage that has potential and turn it into an asset that buyers are willing to pay more for? The answer is not hype, it is proof. We prove the acreage by drilling the first well. We prove the development concept by showing how future wells may fit around it. We prove the economics by showing production, costs, and cash flow. Then, when the time is right, we create a market for the asset.

I want investors to understand that because it changes the way they look at oil and gas. Too many people think oil and gas investing is only about waiting for a monthly check or hoping oil prices rise. Those things matter, but they are not the whole story. In a development strategy, the operator is trying to create value through work. The value is created by assembling the right acreage, drilling the right well, and building a project that another buyer can take to the next level.

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Why the First Well Is the Proof-of-Concept

The first well in a J-Unit is the proof-of-concept well. That phrase gets used a lot, so I want to explain what I mean by it. A proof-of-concept well is the well that tests the idea. It does not prove everything. It does not eliminate every risk or guarantee that every future well will perform the same way. But it gives the market something real to evaluate.

Before the first well, the acreage is supported by the story, the geology, the history, and the operator's work. After the first well, the acreage is supported by actual performance. A producing well can show oil and gas in the reservoir and whether the completion design worked. It can show early production rates, pressure behavior, decline trends over time, and operating costs that may be involved. It can show what infrastructure is needed.

Most importantly, it can show whether the surrounding acreage deserves more capital. That is what a buyer wants to know. A buyer is not just asking, "Did this well make oil?" A buyer is asking, "Can I repeat this?" Repeatability is where value can expand. One well may be a good well. But a unit with one good well and two future offsets may be a more valuable package. Five good wells with ten future offsets may be even more meaningful. A buyer looking at the package may see not only the current cash flow, but also the next phase of development.

In a simple J-Unit, imagine a 640-acre section. We lease the acreage and drill one horizontal well through the middle. We intentionally leave room on each side for future horizontal wells. If that first well performs, the two offsets may become more meaningful to the market because they are tied to a

producing well in the same unit or development concept. Again, this is not a promise that every well will perform the same way. Oil and gas does not work that way. Too many changes can occur in geology, completion results, costs, and commodity prices. But the first well can provide evidence that supports the development plan.

Evidence is what a buyer is willing to pay for. That is why the first well is more than a well. It is the beginning of the valuation story.

PUDs, PDP, and the Buyer's View of Value

Investors hear a lot of acronyms in oil and gas. Two of the most important in this conversation are PDP and PUD. PDP generally refers to proved developed producing reserves. In plain English, that means wells that have already been drilled, completed, and are producing. Buyers like PDP because they can see the cash flow, review the production history, evaluate the decline curve, and run their economics on something that already exists.

PUD generally refers to proved undeveloped locations. In plain English, that means future drilling locations that may qualify as proved undeveloped reserves under applicable engineering and reserve standards. These locations have not been drilled yet, but they may be supported by existing wells, geological data, spacing assumptions, and reserve work. The reason this matters is simple: a J-Unit may have both.

It may have a producing well that creates current cash flow. It may also have future locations that represent development inventory. The producing well helps prove the concept. The future locations help create the upside. That is the package. A buyer may look at a J-Unit and see three layers of value: the acreage, the producing well, and the future inventory.

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Before the proof-of-concept well, the acreage may be interesting. After the proof-of-concept well, the future inventory may become more valuable because it is no longer supported only by theory. It is supported by performance from a nearby well. This is where oil and gas can be powerful, but it is also where investors need to be careful. You cannot overstate what has been proven. You cannot call something proven just because you want it to be proven. You need engineering, data, reserve standards, and discipline.

That is important to me because I do not want anybody looking at a J-Unit as some kind of sales concept. It is really a framework for developing an asset and proving up value over time. You have to do the work, drill the well, see how it actually produces, and use that information to support the additional locations around it. Once you have real production and real data behind the asset, the market has something tangible to evaluate, and that can change the way it looks at the value of the entire unit.

Building the J-Unit with the Exit in Mind

The J-Unit gives us a way to think about timing. Not every project should be held forever. Many projects are built for income, development, or eventual divestiture. A J-Unit is built with an exit in mind. The goal is to create enough value through leasing, drilling, and proving future locations that the asset becomes attractive to another buyer.

One lesson I have learned is that the exit starts long before the sale. If you wait until you want to sell to start thinking like a buyer, you are already late.

That buyer may be a larger operator. It may be a company looking for producing wells and additional inventory. It may be someone who wants to take the project from the proof stage to the full development stage. That is common in this industry. Smaller independents can often move faster. We can work smaller acreage positions and put together leases in areas that may not be large enough for the biggest companies to chase at the beginning. A major oil company may not want to spend time assembling a smaller project one lease at a time. But if an independent proves the project, drills the wells, establishes production, and shows future locations, that same project may become more interesting to a larger buyer.

But you cannot wait until the end to start thinking about the buyer because that needs to be part of the plan from the beginning. You need to understand what a potential buyer is going to want to see, whether that is production history, reserve work, operating data or the price assumptions they will use to value the asset. You also have to think about how they may value the PDP and PUD locations, whether they want to operate the property themselves or have us continue operating it, and whether they are interested in buying the entire asset or only a percentage of it.

Those questions matter because the J-Unit can be structured with optionality. We may sell the whole unitor only half of it. We may sell a working interest and continue to operate. Or we may decide to keep the asset if the market does not give us the price we believe it deserves. The important thing is that the strategy gives us choices. I like optionality because in oil and gas, it matters. Commodity prices, buyer appetite, and capital markets can change. A buyer may be aggressive in one quarter and cautious in the next. If you are forced to sell, the market knows it. If you are not forced to sell, you have more control. I never want to be the seller who has to sell. I want to be the seller who can sell if the price and terms make sense. That difference matters.

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That is why I do not believe in rushing an exit just because somebody shows interest. Interest is good but a bid is better. A competitive process is often better than one bid. If somebody comes in early and says, “I want to buy your production,” that may sound exciting. But sometimes selling too early leaves money on the table. If the wells are not ready, the data is not complete, or the future locations have not been fully framed, then the buyer may be trying to buy the asset before the value has been fully created. That may be good for the buyer but it may not be good for the investors. An early offer can feel flattering, but flattery is not the same thing as fair value. Sometimes the first buyer is not trying to reward you for the value you created. They are trying to capture it before everyone else sees it.

Who Buys a J-Unit?

The potential buyer for a J-Unit is not always the same type of buyer. That is one of the strengths of the strategy. A J-Unit can appeal to a family office, a private exploration and production company, or even a public company, depending on the size of the opportunity, the production profile, and the future drilling inventory. Each buyer may look at the same asset differently.

A family office may be interested because the first well has already been drilled, the cash flow has started, and the future locations are easier to understand. They are not stepping into a blank piece of acreage with no evidence. They are looking at a producing well, a development plan, and offset locations that may be drilled in the future. Some family offices want exposure to oil and gas, but they do not want to start from scratch. They may not want to hire the land team, the geologist, the engineer, the drilling team, the operations team, and the back office required to build the project from the beginning. But they may like the idea of buying into something that has already been organized, drilled, and partially proven.

That buyer may say, “We like the cash flow from the first well, and we like the next two wells. We would buy the whole unit, or we would buy half of it and let you keep operating.” That can be a good buyer. A family office may also want to learn. They may want the formula. They may want to see how the first well was drilled, how the acreage was assembled, how the completion was designed, and how the next wells should be approached. If they have patient capital and a desire to build their own oil and gas position, a J-Unit may be a way for them to step into a project that already has momentum.

Private E&P (exploration and production) companies may be another natural buyer. These companies understand drilling, leasehold, operations, and PDP and PUDs. They may look at the J-Unit and say, “This is exactly the kind of project we can scale.” A private E&P company may not want to chase every small lease at the beginning. They may not want to take the first-well risk. But once the first well is drilled and producing, the opportunity may look different. Now they can evaluate a real well, real costs, real production, and real future locations.

Public companies may look at the J-Unit from another angle. For a public company, the asset may be attractive because it can add production, cash flow, and reserves. Public companies are often focused on inventory, reserve life, repeatability, and scale. A producing well matters, but the future wells may matter just as much. If a public company can book cash flow from the producing wells and support reserve value from future locations, the asset may fit into a broader corporate strategy.

That does not mean every J-Unit will be big enough for a public company. Many will not be. The more data we create, the more the market can underwrite. A family office may care about cash flow and control. A private E&P company may care about repeatability and operational fit. A public company may care about reserves, inventory, and scale. The J-Unit can speak to all three if it is built correctly.

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Before we ever think about selling, we need to know who might want to buy it and why. The best exits usually do not happen by accident. They happen because the asset was built in a way that buyers can understand.

Sell the Whole Unit, Sell Part of It, or Keep Operating

One of the advantages of the J-Unit is flexibility. We do not have only one exit path. We can sell the whole unit, sell a portion of the unit, bring in a partner, continue to operate, or hold the asset if the price is not right. That flexibility is important because oil and gas assets can be worth different things to different buyers at different times.

A buyer may want the whole project because they want control. They may want to own the producing well and the future locations. They may want to operate the asset themselves. They may have their own team, service relationships, capital plan, and view of how to develop the acreage. Another buyer may not want the whole project. They may want a percentage. They may want exposure, but they may also want King to continue operating. They may like the fact that we drilled the first well, understand the field, and already have the plan in place. In that case, selling part of the unit may create a good outcome.

A partial sale can return capital while still allowing investors to participate in future upside. There is also the option not to sell, and that option matters more than people realize. If we drill a good well and the buyer market does not recognize the value, we do not have to force a sale. We can keep producing and collecting revenue. We can keep building data. We can drill additional wells if that makes sense. We can wait for a better market.

That is very different from a distressed sale. A distressed seller has to take what the market gives them. A disciplined seller can wait for the right value. That is why current production matters. If the wells are producing, the asset is not just sitting there. It is generating revenue. Investors may be receiving distributions. The asset may continue to mature. More production history may make the buyer's underwriting easier.

Sometimes time can help the seller. Not always, but sometimes. If the early production data is strong, more months of production may help establish a better decline curve. Better data may create more confidence. More confidence may support a better valuation. That is why the J-Unit is not only about drilling. It is also about patience, timing, and process. The goal is not to sell fast, it is to sell well.

Why a Competitive Process Can Matter

I have had people come to us and say they want to buy production. That is a good sign. It means the market is paying attention and buyers understand that proven production and future locations have value. But if someone wants to buy before we are ready, we have to be careful. If we stop everything just to entertain one buyer, we may not maximize value. We may be letting one buyer set the terms before the asset has been fully prepared for market.

A more disciplined process may be to finish the wells, gather the data, prepare the reserve work, organize the information, and take the assets to market at the right time. If several buyers are interested, we may create an auction or competitive bid process. That can help us understand what the market is willing to pay. In oil and gas, information affects value. So does competition.

A single buyer may want to buy at a discount because they see what the asset can become before others do. A competitive process can help close that gap. It can force buyers to show what they really believe the asset is worth. That is why timing is important. The exact timing will depend on the well results, the market, the data, the buyer universe, and the current fund's objectives. But the principle is the same: do not let the buyer dictate the entire process.

Build the asset, prove the concept, organize the data, create competition, and then decide whether the price is worth accepting. That is how you maximize value.

The "Sell Half of Everything" Mindset

I like to say we are in the SHOE business. A friend of mine once described his business with a simple line: "I sell half of everything." That's where SHOE business comes from: "Sell Half of Everything." That line stuck with me because it is simple, but it is also disciplined. You do not have to swing from one extreme to the other. Sometimes the smart move is to take some chips off the table and still stay in the game. I like that idea because it captures something important. You do not always have to choose between selling everything and selling nothing. Sometimes the best strategy is to sell part of the value you have created, return capital, reduce risk, and keep meaningful upside.

That can apply to a J-Unit. If we prove a unit and a buyer wants in, we may not have to sell the entire project. We may sell only a portion, let the buyer help fund future development, keep operatorship, and retain an interest in the wells that come next. That kind of structure can be powerful because it balances liquidity and upside.

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Investors often want both. They want capital back, and they also want to participate in the upside. A partial sale may help accomplish both, depending on the structure and the market. It can also validate the asset. If a sophisticated buyer is willing to pay for part of the unit, that can help confirm that the market sees value in the project. It can turn the J-Unit from an internal story into a market-tested asset.

But structure matters. Who operates? Who funds the next wells? Who controls the development plan? What happens if costs rise? What happens if commodity prices fall? What happens if the next well does not perform as expected? These questions have to be addressed before any transaction is completed. A good exit is not just about price. It is about terms, alignment, control, and what happens after closing.

Returning Capital to Investors

One of the reasons I like the J-Unit strategy is that it gives us a clearer path to returning capital. Oil and gas investing can create income, but income alone may take time. A well may produce for years. That can be a good thing. But depending on the investment, the decline curve, the commodity price, and the cost structure, it may take longer than investors expect to get their original capital back through monthly revenue alone.

A J-Unit creates another possibility. If we can prove the acreage, establish production, and sell all or part of the unit, we may be able to return capital sooner than if we only waited for production revenue. That is a major part of the strategy. The J-Unit is not only about drilling wells. It is about converting development work into market value.

If we drill a proof-of-concept well and create future locations around it, the market may value that package based on both current cash flow and future development potential. If we sell the asset or a portion of it, the proceeds may help return capital to investors, reduce exposure, and allow us to redeploy into the next opportunity. That is how a development business can compound: acquire the acreage, drill the proof-of-concept well, build the data, create the inventory, sell all or part of the unit, return capital, and redeploy.

That is different from simply holding assets forever. There is nothing wrong with holding good assets. Sometimes that is the right decision. But investors should understand the difference between an income strategy and a development-and-divestiture strategy. A J-Unit is built to create value that can be recognized by the market. That is what makes it powerful.

Commodity Prices, Costs, and Break-Even Economics

Commodity prices always matter. Anyone who tells you oil and gas investing is not affected by commodity prices is not telling the whole truth. The value of a J-Unit can be affected by the price of oil, the price of natural gas, the cost of services, the cost of capital, and the appetite of buyers. If oil prices rise, buyers may be willing to pay more for production and future drilling inventory. If oil prices fall, buyers may become more conservative. They may lower their price deck. They may discount future locations. They may focus only on current cash flow.

That is why we have to understand break-even economics. If a well breaks even at $30 per barrel of oil, it is a different conversation than a well that needs $70 per barrel of oil to work. That does not mean the $30 break-even well is risk-free. It does mean the project may have more room to absorb commodity

volatility. Lease operating expenses matter too. If it costs $10 or $20 a barrel to operate a well, that affects net cash flow. A buyer will look at that. Investors should look at that too.

Drilling costs matter. A well that costs too much to drill may struggle even if the geology is good. A project that can be drilled efficiently may create better returns. Acreage cost matters too. One of the advantages for smaller independents is that we may be able to work in areas where the acreage cost is lower than in the most competitive basins. In some parts of the Permian, acreage can be expensive because everyone wants to be there. That can make the upfront cost so high that the break-even price rises. In other areas, including parts of the Mid-Continent, smaller independents may be able to lease acreage at lower costs and still target proven formations.

That is the kind of opportunity we look for. We are not trying to outbid the largest companies for the most expensive acreage. We are trying to find areas where our size, speed, relationships, and operating discipline can create an advantage. If we can lease acreage at a reasonable cost, drill a proof-of-concept well, establish production, and preserve future locations, we may be able to create value without needing a major-company balance sheet.

Why Smaller Independents Can Have an Advantage

Large companies are very good at what they do. They have capital, people, technology, infrastructure, and scale. But scale can also make them less interested in smaller projects. A major company may need hundreds of locations to move the needle. A smaller independent may not. That matters.

If an opportunity has ten, fifteen, or twenty wells, it may not be large enough for a major company at the beginning. But it may be very meaningful for a smaller independent. We can assemble the leases, work the geology, and drill the proof-of-concept well. We can move faster because the project is the right size for us. Then, once the asset is proved, the buyer universe may expand.

That is the opening. A larger company may not want the early land risk or first-well risk. But it may want the asset after the early work is done. It may want the production, the PUDs, the inventory, and the reserves. That is how a smaller independent can create value. We do the work that the larger buyer may not want to do at the beginning, and then we sell the result.

That is not unique to oil and gas. It happens in real estate, technology, healthcare, manufacturing, and many other industries. Entrepreneurs often build something that a larger company later wants to own. The J-Unit applies that same idea to oil and gas. We are not trying to be Exxon. We are trying to build assets that a rational buyer can understand.

The Difference Between Income and Value Creation

I think investors should understand the J-Unit because it is very different from simply owning a royalty interest. A royalty can provide income, but it may take a long time to get your original capital back, while the J-Unit is built around creating value through development. You may receive income from the wells we drill, but the bigger opportunity can come from what those wells prove about the rest of the acreage and the additional development potential that may be there.

That is the key distinction. The producing well is one part of the value. The future drilling locations are another part. The exit strategy is the third part. When those three pieces line up, you can have a project that is not just producing oil and gas, but also building a story that the market can underwrite.

I am not against royalties. Royalty can be useful. In fact, royalties have been an important part of the oil and gas investment world for a long time. But royalties and J-Units are not the same strategy. A royalty investor may be buying income. A J-Unit investor is participating in development. Development carries risk, but it also creates the possibility of a different return profile.

If the only way to make money is monthly production, then the investor is dependent on time, production, and commodity prices. If the strategy also includes proving an asset and selling all or part of the unit, then the investor may have another path to value. That is why I believe the J-Unit belongs in the conversation about oil and gas investing. It gives investors a way to think about asset creation, not just asset ownership.

What Investors Should Ask

Investors should still be disciplined. They should ask where the acreage is located and what has already been drilled around it. They should ask what the break-even price is and what the drilling cost is. They should ask about lease operating expenses, expected decline curves, geology, reserve reports, and the experience of the operator. They should also ask about the exit.

Who might buy this asset? Why would they buy it? What would they pay for? Would they pay for current production only, or would they also pay for future locations? Would they want us to keep operating? Would they want control? What happens if the market is not ready when we are ready to sell? These are smart questions, and a good operator should welcome them.

The J-Unit strategy does not remove risk. It organizes risk.

Chapter Takeaway

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If you remember one thing from this chapter, let it be this: At the end of the day, oil and gas is still a business of risk. Wells must be drilled. Costs must be controlled. Production must perform. Commodity prices matter. Buyer appetite matters. Timing matters. But the J-Unit gives us a framework. It gives us a way to create value instead of simply waiting for value.

That is what I want investors to see. The opportunity is not just in the oil under the ground. The opportunity is in proving what the asset can become. A J-Unit takes known geology, modern drilling, disciplined operations, and an exit mindset, and puts them into one strategy. It is not a theory. It is a way of creating something the market can understand.

If you are looking for a simple way to think about it, think of it this way: we acquire or lease the acreage, drill the proof-of-concept well, preserve future locations, use the data to support the value of the larger unit, and then look for the right time and structure to divest all or part of the project. That is the J-Unit.

The first well matters because it creates evidence. The future locations matter because they create inventory. The buyer matters because the buyer turns that work into realized value. When those pieces come together, the J-Unit can do what every good investment strategy should try to do: reduce uncertainty, create value, and give investors a clear path to understand how their capital is being put to work.

When I look at a J-Unit, I am still looking through the same lens I have talked about throughout this book: returns, rate, running room, and repeatability. The J-Unit does not replace that thinking. It gives us a cleaner way to apply it.