

## Bankruptcy Update

## Expert Analysis

# Oil and Gas Companies Seek Chapter 11 Protection

This article focuses on the mounting wave of oil and gas industry bankruptcies, including the recent chapter 11 filings of Dune Energy, Inc., Endeavour Operating Corp., Cal Dive International, Inc. and Quicksilver Resources, Inc. As U.S. oil prices plunged to below \$50 a barrel, an over 50 percent decrease as compared to prices a year ago, numerous oil and gas firms, particularly within the upstream and oil field services sectors, were forced to seek protection under chapter 11 of the Bankruptcy Code. Struggling oil and gas companies cite an overall industry slowdown coupled with difficulties in obtaining financing as common precipitating factors to seeking bankruptcy relief.

### Dune Energy

On March 9, 2015, Dune Energy, Inc. and its two wholly owned subsidiaries, Dune Operating Company and Dune Properties, Inc., filed petitions for relief under chapter 11 of the Bankruptcy Code in the U.S. Bankruptcy Court for the Western District of Texas.

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Dune Energy, an independent energy company, was formed in 1998 and engages in the exploration, development, acquisition and exploitation of crude oil and natural gas properties in Texas and Louisiana. The debtors primarily sell their oil and gas production to domestic pipelines and refineries.

Dune Energy cited a failed merger with Eos Petro Inc., along with the sharp drop in oil prices, among the factors leading to the bankruptcy filing.

The debtors obtained a \$10 million debtor-in-possession loan from first-lien lenders BMO and CIT Bank to fund operations during the bankruptcy proceedings. In April, the debtors obtained court approval of bid procedures in connection with the sale of their assets, including the debtors' leasehold and other interests in wells, leases located in Texas and Louisiana, and related assets such as production facilities, pipelines, machinery and production equipment. The court approved the bid procedures, which established a June 5, 2015, deadline for interested third parties to submit

their bids and set a June 9, 2015, auction date.

On May 14, 2015, Chevron Corp. (a prior interest holder in the debtors' abandoned oil wells) objected to the proposed assumption and assignment of the oil and gas leases as part of the sale, arguing that any purchaser must also be required to assume all liability stemming from the abandonment of wells in six separate oil fields and such amounts were not listed among the payment defaults which must be cured as part of the assumption. A hearing on the motion to approve the sale is scheduled for June 18, 2015.

*Dune Energy* (Bankr. W.D. Tex. Case No. 15-10336)

### Endeavour Operating

On Oct. 11, 2014, Endeavour Operating Corp. and affiliated debtors filed petitions for relief under chapter 11 of the Bankruptcy Code in the U.S. Bankruptcy Court for the District of Delaware.

The debtors comprise the U.S. arm of Endeavor Energy and hold interests in oil and gas leases in Colorado, Louisiana, Montana, New Mexico, Pennsylvania and Texas, while the non-debtor U.K. wing holds working interests in North Sea assets that provide the bulk of Endeavour's revenue.

Endeavour initially sought bankruptcy protection to de-leverage its \$1.2

billion balance sheet via a restructuring support agreement reached with two-thirds of its voting creditors. The restructuring support agreement laid out a plan to cancel approximately \$789 million in notes in exchange for new notes, preferred equity and common stock in the reorganized company. At the time, the debtors estimated that the proposed plan would reduce Endeavour's debt obligations by \$568 million and slash annual interest payments by 43 percent.

In February 2015, approximately one week prior to the scheduled hearing to consider confirmation of the debtors' proposed plan of reorganization, the debtors sought an extension from the court to reevaluate the assumptions underpinning their reorganization strategy due to the sharp decline in crude oil prices.

Unable to reach a new restructuring support agreement with its lenders and noteholders, at the end of April 2015, the debtors announced their intention to pursue a sale of all or a portion of their U.S. operations. To that end, the debtors are soliciting buyers to serve as a stalking-horse bidder for their assets.

*Endeavour Operating Corp.* (Bankr. D. Del. Case No. 14-12308)

### Cal Dive International

On March 3, 2015, Cal Dive International Inc. and affiliated debtors filed petitions for relief under chapter 11 of the Bankruptcy Code in the U.S. Bankruptcy Court for the District of Delaware.

The debtors provide manned diving, pipe laying and pipe burial, platform installation and salvage, and light well intervention services to offshore oil and natural gas companies on the Gulf of Mexico and in the Northeastern U.S., Latin America,

Southeast Asia, China, Australia, West Africa, the Middle East and Europe.

The debtors, who sought bankruptcy protection amid an industrywide downturn in the price of oil, also cited decreased financial performance caused by delays associated with the suspension of two significant projects and weather disruptions as precursors to the bankruptcy filing.

At the time of the bankruptcy filing, the debtors announced that they intend to sell their non-core assets and will either reorganize or sell their core subsea contracting business.

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As U.S. oil prices plunged, numerous oil and gas firms were forced to seek protection under chapter 11 of the Bankruptcy Code.

The debtors sought and, on April 15, 2015, obtained final bankruptcy court approval of a \$120 million DIP financing facility to be provided by Bank of America and other lenders to finance their operations in bankruptcy. As revised, the final DIP facility and order extend the original proposed milestones for the chapter 11 sale process. Specifically, the final DIP order provides for a June 1, 2015, deadline for the debtors to file a motion seeking approval of bidding procedures in connection with one or more asset sales, a July 15, 2015, deadline to select stalking horse bidders for the asset packages and a July 28, 2015, deadline to hold an auction in connection with the sales.

*Cal Dive International* (Bankr. D. Del. Case No. 15-10458)

### Quicksilver Resources

On March 17, 2015, Quicksilver Resources Inc. and affiliated debt-

ors filed petitions for relief under chapter 11 of the Bankruptcy Code in the U.S. Bankruptcy Court for the District of Delaware.

The oil and gas company listed \$1.2 billion in assets and \$2.3 billion in liabilities. The liabilities include \$350 million in senior subordinated notes due in April 2016, \$325 million in unsecured senior notes due in 2021, \$298 million in senior unsecured notes due in 2019 and \$200 million in 2019 second-lien notes.

As of Oct. 31, 2014, Quicksilver reported total 2014 revenue of \$373 million, a significant decline from \$447 million in reported revenue during the comparable period in 2013.

The debtors did not seek new financing and instead obtained court approval to operate using cash collateral with the consent of their lenders.

On April 30, 2015, Quicksilver received court approval to spend \$11 million to drill four new wells with a unit of multinational oil and gas company Eni SpA over the objection of the official committee of unsecured creditors. The official committee of unsecured creditors argued that the decision was not a reasonable exercise of the debtors' business judgment, citing no guarantee of return on the \$11 million investment and lack of overall reorganization strategy. The court found that the committee was unable to make a sufficient evidentiary showing to overcome the presumption in favor of the debtors' business judgment.

*Quicksilver Resources* (Bankr. D. Del. 15-10585)