

## Oklahoma energy companies work toward emerging from bankruptcy



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Oil prices are up from February's 12-year lows, and some local companies are increasing drilling activity. But the two-year oil price downturn continues to weigh on the state's biggest industry as companies try to shed debt and return to profitability.

At least nine Oklahoma energy companies filed for bankruptcy protection between September 2015 and May 2016 after finding themselves unable to make interest payments and deal with shrinking credit lines.

Tulsa-based ETX Energy LLC (formerly New Gulf Resources Inc.) emerged from bankruptcy in May after shedding \$590 million in debt.

Eight others still are working their way through the process, most with plans for recovery. Two companies — Osage Exploration and Development Inc. and New Source Energy Partners LP — however, are awaiting auctions to sell their remaining assets.

The Chapter 11 bankruptcies generally have been filed along with prearranged reorganization plans designed to help the companies move through the process quickly.

"Every day you're in Chapter 11 means your management is focused on reorganization rather than more productive, regular, day-to-day operations," said Will Hoch, an attorney at Crowe & Dunlevy in Oklahoma City and chairman of the firm's bankruptcy and creditor's rights practice group. "You can't focus on the next project. That can cause a company to stagnate in terms of activity."

Companies in bankruptcy are working to shed debt and recover as quickly and smoothly as possible, Hoch said.

"The goal is to emerge with a much more secure financial footing," he said. "Those that can do it quickly are in much better financial shape."

A quick process, however, is not always best, he said.

"When you see companies linger longer, a lot of times those entities have a little more difficult post confirmation. Not always, but sometimes," Hoch said. "But the complete opposite also can be true. Sometimes a company will go through bankruptcy too quickly and not anticipate future economic conditions."

That condition can lead companies to return to bankruptcy courts shortly after emerging from the earlier process.

### **Recovering industry**

New Gulf Resources filed for bankruptcy protection in December 2015. The bankruptcy court approved the recovery plan on April 20, and the company emerged from bankruptcy on May 13 after changing its name to ETX Energy LLC.

"This is a new beginning for our company," CEO Ralph Hill said in a statement last week. "Proactively restructuring our balance sheet early in this period of low commodity prices has provided the company the best opportunity to create the most value for all of our constituents. With the restructuring behind us, and with the backing of the ad hoc committee, we are poised to build a premier energy company through organic development of our existing asset base and strategic acquisitions."

Other local energy companies seeking bankruptcy reorganization are Tulsa-based Samson Resources with \$4.2 billion in debt, Oklahoma City-based SandRidge Energy Inc. with \$4.1 billion in debt, Tulsa-based Midstates Petroleum Co. Inc. with \$2 billion in debt, Oklahoma City-based Seventy Seven Energy Inc. with \$1.7 billion in debt, Oklahoma City-based Chaparral Energy Inc. with \$1.6 billion in debt, and Oklahoma City-based PostRock Energy Corp. with \$69.1 million in debt.

New Source Energy claimed \$51.2 million in debt before filing for Chapter 7 liquidation, and Osage Exploration said it had \$42.5 million in debt at the time of its bankruptcy filing.

Typically when companies emerge from bankruptcy protection, common shareholders lose their investment and much of the debt is converted into equity in the new, reorganized company.

While bankruptcy reorganization is devastating for shareholders, the recovery process could benefit the Oklahoma economy, Tulsa money manager Fred Russell said.

"It's good when they emerge and survive, but the shareholders probably don't think it's a great deal because they are wiped out," said Russell, CEO of Fredric E. Russell Investment Management Co. "But assuming most of the shareholders are out-of-state pension funds and the reorganized and re-birthed companies can continue to employ people in Oklahoma, it's a wonderful thing for the state."

Most of the recent bankruptcies were filed when oil prices were near their lows. The price nearly doubled to more than \$50 in late June before giving back a few dollars in recent weeks. Domestic benchmark West Texas Intermediate crude gained 27 cents Friday to close at \$45.95 a barrel.

"We might still see more bankruptcy filings, but I think the economy is recovering," Russell said.

While there is ongoing concern about the strength of the global economy, government reactions to those fears could benefit Oklahoma energy companies, he said.

"Central banks around the world are desperate to get their economies started again, so they're penalizing banks for keeping their money idle," Russell said. "That thrust behind starting the world economy is slow, but it can't but help Oklahoma."