

Media Covers Spring 2020 Updates to Energy Bankruptcy Reports

April 23, 2020 Kraig Grahmann, Charles Beckham, Jeff Nichols, J. Frasher Murphy

PRACTICES Energy, Power and Natural Resources, Oil and Gas, Oilfield Services, Restructuring

Many news outlets have quoted Haynes Boone lawyers in articles about the firm's latest energy reports: the [Borrowing Base Redeterminations](#) and [Price Deck Surveys](#) and updates to its energy bankruptcy trackers. The reporters capture the current state of the oil and gas industry amid the global economic slowdown due to the COVID-19 pandemic and price war between Saudi Arabia and Russia.

Below are excerpts of articles quoting Partners Buddy Clark, [Kraig Grahmann](#), [Charlie Beckham](#), [Frasher Murphy](#) and [Jeff Nichols](#).

S&P Global Market Intelligence: "Industry Attorney Warns Upstream Bankruptcies Could Reach 'Category 5' Status:"

According to a partner at law firm Haynes Boone, the rapid collapse of oil prices could set off a wave of bankruptcies that dwarfs the worst of the 2014 to 2016 downturn.

In a conversation discussing the firm's latest update on bankruptcies in the upstream oil and gas segment, Jeff Nichols, a member of the energy transactions group, said the factors that protected a number of producers during the two-year decline beginning in 2014 are no longer in place in 2020.

"[During the previous price collapse] private equity was there to help out. Now, there's nobody out there," Nichols said. "If 2015 was a Category 2 hurricane, this is a Category 5."

The Haynes Boone update reported only seven bankruptcies in the first quarter, with the late-March announcement by Whiting Petroleum Corp. being by far the largest. Nichols said those bankruptcies were "the storm before the storm," with more coming in the next two quarters. The busiest quarter for bankruptcies since the law firm began monitoring the segment in 2015 was the first quarter of 2016, when there were 34; Nichols indicated that record would likely fall at some point this year.

"Later this summer and fall, there will be an avalanche of filings," he said.

To read the full article, click [here](#).

Law360: "Borrowing Report Forecasts Oil Lending Bloodbath:"

"The big takeaway is a lot of borrowing bases are going to drop, and a lot of them are going to drop pretty dramatically," said Kraig Grahmann, who heads Haynes Boone's Energy Finance Practice Group. "A number of the companies that are facing drops are going to end up in deficiency mode."

With other sources of capital or debt essentially unavailable to drillers, deep borrowing base cuts are a recipe for bankruptcy. Driller bankruptcies are already on the rise and many expect the pace to accelerate as depressed global energy demand due to the COVID-19 pandemic and increased

oil production from Saudi Arabia and Russia has sent oil prices tumbling to the \$20-a-barrel mark. Many drillers were already limping into borrowing base talks even before the global pandemic and oil price war compounded their woes.

Haynes Boone had started receiving survey responses as early as late February, but on March 8, when oil prices began their free fall, the firm said survey respondents could resubmit their answers. Prior to that date, a majority of survey respondents predicted borrowing base cuts of only 10% to 20%.

Grahmann wasn't surprised that the sentiment got a lot gloomier.

"Things have been so bad the last couple of weeks, I had very, very low expectations of any kind of positive outlook," Grahmann said.

With borrowing base cuts set to drive many drillers into default, Grahmann said the next move belongs to their lenders.

"That's the big unknown right now," Grahmann said. "The banks have all kinds of remedies they can exercise, but a lot of them aren't going to be pretty effective right now."

To read the full article, click [here](#). (Subscription required)

Reuters: "Exclusive: U.S. Banks Prepare to Seize Energy Assets as Shale Boom Goes Bust."

After several years of on-and-off issues with energy borrowers, lenders have little choice but to take more dramatic steps, said Buddy Clark, a restructuring partner at law firm Haynes Boone.

"Banks can now believably wield the threat that they will foreclose on the company and its properties if they don't pay their loan back," he said.

To read the full article, click [here](#).

CoStar: "Oil Production Cuts Not Expected to Stave Off Damage to Energy-Dependent Cities."

In the oil bust of the 1980s, widespread layoffs emptied out many office spaces and some of the tallest buildings in Houston were referred to as "see-through buildings," recalled Charlie Beckham, a partner at the Haynes Boone law firm in Houston: "I don't want to be a doomsday say-er but we could see 'see-through buildings' like we saw in the 1980s, or be facing something with that type of impact," Beckham said.

To read the full article, click [here](#).

Law360: "Prepackaged Ch. 11s Will Be Tough Sell for Oil and Gas:"

If an oil and gas company and its major creditors can't reach agreement on the value of the business and its assets, that means there won't be a prepackaged bankruptcy deal, experts say.

"If one creditor body is ready to cut a deal under the current pricing environment, but you have another creditor body that disagrees that now is a good time to restructure, then you're going to have a hard time getting that across the goal line outside of Chapter 11," said Haynes Boone restructuring Partner Frasher Murphy.

Murphy of Haynes Boone said it is crucial for companies to get their creditor groups organized as quickly as possible on hashing out an out-of-court restructuring plan. He said that usually isn't an issue with first-lien lenders, many of whom have restructuring counsel in place even before the company does, but mobilizing second-lien lenders, bondholders and especially trade creditors can be tricky.

"If the company has significant unsecured trade debt, that can definitely complicate the process because trade creditors are not going to be organized at all," Murphy said. "If they're impairing assets with lien rights, that's going to jam up the process for sure ... They're very much operating independently."

But Murphy said if oil prices continue to languish at their current level, many prices offered for a company's assets won't be high enough to satisfy creditors. That will probably lead to more traditional Chapter 11 restructuring of balance sheets, he said.

"I think parties will continue to run sale processes. The question is: Are the value of the reserves so depressed it's not going to garner a sale price that's satisfactory to the first-lien lenders?" Murphy said.

To read the full article, click [here](#). (Subscription required)

The following publications also covered the latest updates to the energy reports:

[Axios](#)

[Bloomberg Big Law Business](#)

[Dallas Morning News](#) (Subscription required)

[Financial Times](#) (Subscription required)

[Forbes](#)

[Houston Business Journal](#) (Subscription required)

[Houston Chronicle](#)

[Law360](#) (Subscription required)

[Natural Gas Intelligence](#)

[Reorg News](#)

[Reuters](#)

[Reuters](#)

[The Texas Lawbook](#) (Subscription required)