

Patrick Hughes Talks With Bloomberg News About CEO Bankruptcy Bonus Protections, Oversight

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PRACTICES Bankruptcy Litigation, Restructuring

Haynes Boone Partner [Patrick Hughes](#) talked with *Bloomberg News* about bankruptcy bonuses and protections for leaders of failing companies in the aftermath of the COVID-19 pandemic.

Here is an excerpt:

Some 35 executives at Whiting, Chesapeake Energy Corp. and Diamond Offshore Drilling Inc. stand to share almost \$50 million in payouts as their companies careen toward – or have already embraced – bankruptcy protection. California Resources Corp. warned investors last month that there’s “substantial doubt” it will stay afloat. Nonetheless, executives were guaranteed their 2020 bonuses.

Corporate directors [and particularly independent directors] defend the multimillion-dollar paydays as vital to preventing a scramble for the exits and retaining management teams with deep knowledge of the company’s assets.

Given the crippling debt loads many explorers and drilling rig owners were shouldering even before the virus shuttered entire economies, a “substantial number” of companies are expected to seek protection from creditors in the next few months, regardless of whether crude prices recover, Haynes Boone said on Wednesday.

There is some legal oversight meant to limit excessive payouts. Most bankruptcy bonuses must be approved by a judge, even if the arrangements pre-date the Chapter 11 filing. They are also subject to oversight by the company’s board and the United States Trustees’ Office, a division of the Justice Department, after laws were introduced in 2005 to limit outsized payouts, according to Patrick Hughes, a partner at Haynes Boone.

Still, the overwhelming trend to date has been for directors and judges to sign off on those bonuses.

“Everything revolves around value preservation,” said Hughes. “These are the executives who know these properties and can help maximize the sale value. They’re going to be working really hard during the bankruptcy process.”

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