In The News

Munsch Hardt in Law360: Oil & Gas Bankruptcies May Drag As Secured Debt Swells

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Law360

Austin Bankruptcy Shareholder Jay Ong is quoted in a Law360 article about the upcoming contentious restructurings and asset sales resulting from the current wave of Oil & Gas bankruptcies.

Here is an exerpt:

Debt-for-equity swaps are a tried-and-true component of bankruptcy plans for companies with a lot of secured debt on their books, and was how a lot of drillers restructured their debt during the previous bankruptcy wave. But that may be a more difficult sell this time around, experts say.

"The greater the secured debt is, the greater the dilution of existing equity there's going to be," said Jay Ong, a shareholder inMunsch Hardt Kopf & Harr PC's bankruptcy practice. "That's a tension point. It could certainly get to the point where it's just not feasible because there's too much secured debt relative to the available equity and the potential value of that equity in order to make that kind of structure work."

But experts say the combination of low oil prices and higher secured debt is making Section 363 sales more difficult as well. Munsch Hardt's Ong said if a secured lender balks at a Section 363 sale, it's likely because they believe that they're already substantially undersecured and might as well foreclose on the asset and sell it themselves.

"If the secured debt is so unmanageable, and the secured creditor is so substantially undersecured and has a blanket lien on virtually all of the [company's] assets, that's a scenario that severely diminishes the debtors' options and flexibility," Ong said.

To read the full article, click here.

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