Mid-Size Company

Transaction of the Year

Penn Virginia

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Beginning in late 2014, the oil and natural gas industry suffered a precipitous and sustained decline in commodities prices that triggered a near-immediate crisis for exploration and production companies. This profound market transformation, coupled with the high leverage ratios common in the industry, resulted in a raft of exploration and production company Chapter 11 filings, many of which devolved into protracted and heavily litigated proceedings.

Like its peers, Penn Virginia Corporation experienced an abrupt decimation of its cash flows, making it difficult to service funded debt obligations, cover administrative costs, and fund operations. Ultimately, Penn Virginia instituted a complete suspension of its drilling program, turning the company into a classic “melting ice cube”— as production from existing wells waned, revenues would decrease to zero.

Against this backdrop, Penn Virginia—with the help of Kirkland & Ellis LLP, Jefferies LLC, and Alvarez & Marsal, North America LLC—negotiated a remarkably comprehensive restructuring support agreement that laid a strong foundation for a smooth transition into—and out of—Chapter 11 and subsequent settlements with every major creditor and equity constituency to come forward in the cases.

The restructuring support agreement, entered into by holders of 87 percent of Penn Virginia’s funded-debt obligations, including 100 percent of its secured lenders, contained four financing provisions that served as the cornerstones of the restructuring: a $25 million DIP facility provided by the secured lenders, a $50 million commitment to backstop a rights offering from certain of Penn Virginia’s unsecured noteholders, full equitization of Penn Virginia’s approximately $1.2 billion of prepetition funded debt, and, most notably, $128 million in committed, post-emergence financing. At the time of its filing, Penn Virginia was the first in the recent spate of exploration and production bankruptcies to commence its proceedings with a fully committed, bank-funded exit facility.

Throughout the cases, Kirkland, Jefferies, and A&M assisted Penn Virginia in negotiating settlements with the official committee of unsecured creditors, Penn Virginia’s primary midstream services provider, and—after winning several significant in-court victories, including an important discovery dispute that could have significantly delayed confirmation—an ad hoc committee of equity interest holders. These efforts allowed Penn Virginia to obtain confirmation of its Chapter 11 plan fewer than 100 days following the petition date, thereby meeting a key milestone that preserved Penn Virginia’s access to vital liquidity.

While confirming the plan, Judge Phillips summed up the Chapter 11 cases as “quite an achievement.” The deleveraged balance sheet and significant operational changes effected during the Chapter 11 cases, including the renegotiation of a significant midstream contract, strongly positioned Penn Virginia to succeed in the new market environment.