

**IN THE UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF DELAWARE**

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In re:)		Chapter 11
)		
Quicksilver Resources Inc., <u>et al.</u> , ¹)		Case No. 15-10585 (LSS)
)		
Debtors.)		Jointly Administered
)		

**DECLARATION OF ADAM DUNAYER
IN SUPPORT OF ENTRY OF AN ORDER APPROVING
THE SALE OF THE DEBTORS’ OIL AND GAS ASSETS**

I, Adam L. Dunayer, declare as follows under penalty of perjury:

1. I am a Managing Director at Houlihan Lokey Capital, Inc. (“Houlihan Lokey”), where I am a member of the firm’s Financial Restructuring Group and lead the firm’s Southwest regional financial restructuring and distressed-company M&A efforts. Houlihan Lokey has its principal office at 245 Park Avenue, New York, New York 10167.

2. I submit this declaration in support of the *Debtors’ Motion for (I) an Order Establishing Bidding Procedures and Granting Related Relief and (II) an Order or Orders Approving the Sale of the Assets* [D.I. 636] (the “Sale Motion”) and entry of the proposed *Order Approving the Sale of the Debtors’ Oil and Gas Assets* (the “Sale Order”).² The Sale Order seeks approval of the proposed Sale to BlueStone Natural Resources II, LLC (the “BlueStone”)

¹ The Debtors in these chapter 11 cases, along with the last four digits of each Debtor’s federal tax identification number, are: Quicksilver Resources Inc. [6163]; Barnett Shale Operating LLC [0257]; Cowtown Drilling, Inc. [8899]; Cowtown Gas Processing L.P. [1404]; Cowtown Pipeline Funding, Inc. [9774]; Cowtown Pipeline L.P. [9769]; Cowtown Pipeline Management, Inc. [9771]; Makarios Resources International Holdings LLC [1765]; Makarios Resources International Inc. [7612]; QPP Holdings LLC [0057]; QPP Parent LLC [8748]; Quicksilver Production Partners GP LLC [2701]; Quicksilver Production Partners LP [9129]; and Silver Stream Pipeline Company LLC [9384]. The Debtors’ address is 801 Cherry Street, Suite 3700, Unit 19, Fort Worth, Texas 76102.

² Capitalized terms used herein, but not otherwise defined have the meaning ascribed to them in the Sale Motion, Sale Order, or the Asset Purchase Agreement (as defined in the Sale Order), as applicable.

of the Debtors' Oil and Gas Assets pursuant to the terms of the Asset Purchase Agreement dated January 22, 2016 by and among BlueStone and certain of the Debtors.

3. In January 2014, the Debtors first engaged Houlihan Lokey to provide general financial advisory services to explore strategic alternatives, which included a potential sale of the Debtors' assets. The services provided by Houlihan Lokey involved, among other things, evaluating the Debtors' strategic options, advising the Debtors as to available financing and capital restructuring alternatives, including a potential sale of assets, assisting the Debtors with the negotiation of any such transactions, and assisting the Debtors in evaluating indications of interest and proposals regarding any such transactions.

4. I have been one of the principal engagement personnel working on Houlihan Lokey's engagement with the Debtors and their non-debtor affiliates and subsidiaries since January 2014. In connection with the proposed Sale Order and Asset Purchase Agreement, I participated directly in discussions, due diligence, and negotiations with the Debtors' management, outside counsel, and other advisors.

5. I am not being compensated specifically for this testimony other than through payments received by Houlihan Lokey as a professional retained by the Debtors in these chapter 11 cases. If called upon to testify, I would testify competently to the facts set forth in this declaration.

6. In forming the opinions set forth herein, I have relied upon and/or considered, among other things, the following: (a) my experience in chapter 11 cases, including with the sales of assets and issues attendant to the marketing of such assets; (b) the Sale Motion; (c) the *Order Establishing Bidding Procedures Relating to the Sales of All or a Portion of the Debtors' Assets* [D.I. 681] (the "Bidding Procedures Order") and the *Notice of Modified Sale Process*

Dates [Docket No. 805] (the “Modified Dates Notice”); (d) discussions with the Debtors’ management concerning the Debtors’ business and the marketing of the Debtors’ assets; (e) discussions with other professionals and advisors to the Debtors; (f) discussions with potential purchasers of the Debtors’ assets and other interested parties; and (g) my experience in the oil and gas industry.

A. Qualifications

7. Houlihan Lokey is an internationally recognized investment banking and financial advisory firm, with nineteen offices worldwide and more than 1,100 employees. Houlihan Lokey’s Financial Restructuring Group, which has more than 170 professionals, is one of the leading advisors and investment bankers to unsecured and secured creditors, debtors, acquirers, and other parties-in-interest involved with financially troubled companies both in and outside of bankruptcy. Houlihan Lokey has been, and is, involved in some of the largest restructuring cases in the United States, including representing debtors in *Mark IV Industries; Buffets Holdings, Inc.; Bally Total Fitness Holding Corp.; XO Communications, Inc.; Six Flags, Inc.; Granite Broadcasting Corp.*; and *MS Resorts* and official committees in *Lehman Brothers Holdings Inc.; Arcapita Bank B.S.C(c); Enron Corp.; WorldCom, Inc.; Delta Air Lines, Inc.; General Growth Properties*; and *Capmark*. In addition, Houlihan Lokey has represented debtors or creditors in numerous oil and gas restructuring cases, including, among others, with respect to the pre-petition first lien lenders and debtor in possession lenders in *ATP Oil & Gas Corporation*; the first and second priority noteholders in *Endeavour International Corporation*; the first lien lenders in *Southern Pacific Resources Corp.*; the second lien lenders in *Samson Resources Corporation*; the second lien lenders in *Sabine Oil and Gas Corporation*; and the debtors and debtors in possession in *BPZ Resources, Inc.*

8. I specialize in advising public and private companies and creditor groups in complex financial restructurings. Before joining Houlihan Lokey, I was a managing director with Bear, Stearns & Co. I was also an executive vice president and chief financial officer with Miller Industries, where I served as president of the company's largest subsidiary. I hold a B.B.A. from the University of Texas at Austin and am a member of the American Bankruptcy Institute and the Turnaround Management Association. I am FINRA certified with Series 7, 24, and 63 licenses.

9. I have over two decades of experience consummating transactions and providing strategic advice to companies and creditors in connection with in- and out-of-court financial restructurings, mergers, acquisitions, and dispositions. I also have extensive experience raising debt and equity capital in public and private markets. My industry experience ranges from consumer products, food, healthcare, building products, energy, general industrial, telecom, and technology. My recent engagements include *Spansion* (secured creditors); *American Safety Razor* (secured creditors); *Innovative Communication* (company); *Heartland Automotive* (secured creditors); *Pilgrim's Pride* (equity committee) and *Global Home Products* (company). My oil and gas restructuring experience includes *Varel International* (creditors); an undisclosed leading onshore fluid management and rig services business (company); an undisclosed leading oil tools business (company); an undisclosed drilling fluids company (company); *Platinum Energy Services* (company); and *Signal International* (secured creditors). I speak frequently on trends and issues in restructuring, distressed M&A and other topics, and have testified as an expert witness on a variety of bankruptcy and restructuring issues.

B. Marketing Efforts in Connection with the Oil and Gas Assets

10. As is set forth in greater detail in the Sale Motion, in or around September 2015, after evaluating different courses of action, the Debtors determined in their business judgment

that a timely sale of some or all of the Oil and Gas Assets was in the best interests of the Debtors, their estates and creditors, and all parties in interest under the circumstances. Consequently, following the entry of the Bidding Procedures Order on October 6, 2015, and with the assistance of Houlihan Lokey and their other professionals, the Debtors launched a marketing and sale process of the Oil and Gas Assets in accordance with the Bidding Procedures approved by the Court. In connection with the Debtors' efforts, Houlihan Lokey undertook a rigorous process of: (i) identifying potential purchasers for the Oil and Gas Assets; (ii) communicating with the universe of potential purchasers identified through its extensive marketing efforts; and (iii) following-up with any parties that demonstrated any interest in the Oil and Gas Assets to stimulate interest and obtain bids for the Oil and Gas Assets. On November 6, 2015, the Debtors filed the Modified Dates Notice in part to provide parties with an adequate opportunity to review the Oil and Gas Assets and to submit bids on the same.

11. Houlihan Lokey contacted approximately 238 potential purchasers in connection with the marketing of the Oil and Gas Assets. These parties included both financial and strategic purchasers. Approximately 186 parties expressed an interest in a potential sale transaction and were sent an introductory memorandum and asked to execute a confidentiality agreement with the Debtors, and the Debtors subsequently received forty-one executed confidentiality agreements in return.³ Houlihan Lokey assisted the Debtors in establishing a virtual data room to provide those interested parties who executed confidentiality agreements with the opportunity to conduct diligence on the Debtors' financial and operational information and the Oil and Gas Assets specifically. Houlihan Lokey also facilitated this process by, among other things, providing additional information when requested by interested parties, organizing management

³ This number includes twenty-nine parties that only expressed interest in the Debtors' U.S. assets and twelve that expressed interest in both the U.S. and Canadian assets. Thirty-one additional parties executed confidentiality agreements related solely to the Debtors' Canadian assets.

meetings and similar discussions, and coordinating discussions with certain of the Debtors' service providers, as applicable. Thereafter, the Debtors received nine indications of interest and, following the ensuing diligence by the parties submitting indications of interest and negotiations with these parties, a total of six bids for some or all of the Debtors' Oil and Gas Assets.

12. I reviewed the initial indications of interest and the subsequent bids and, together with other members of my team, certain of the Debtors' other professionals, and members of the Debtors' management team, contacted the parties to discuss the key terms of each proposal. I also participated in negotiations with these parties regarding the terms of their respective proposals.

13. In my view, the process which the Debtors and their advisors pursued in order to identify potential purchasers of the Oil and Gas Assets was fair, open, comprehensive, and afforded all likely interested parties ample opportunity to conduct due diligence and formulate proposals if they chose to do so.

C. The Auction

14. Following the robust marketing process described above, on January 11, 2015, the Debtors received bids from six parties for some or all of the Oil and Gas Assets. After consulting with their advisors (including myself and other members of my team as well as other professionals retained by the Debtors) and the Bid Consultation Parties, and engaging BlueStone and other bidders in substantial arm's-length negotiations regarding certain aspects of their bids, the Debtors deemed the bid submitted by BlueStone the highest or otherwise best Qualified Bid at that time and declared it the Auction Baseline Bid. On January 19, 2016, the Debtors'

advisors provided the Bid Consultation Parties and each Qualified Bidder⁴ with a copy of the Auction Baseline Bid as agreed upon by the Debtors and BlueStone.

15. In accordance with the Bidding Procedures Order and the Modified Dates Notice, the Debtors commenced the Auction on January 20, 2016. At the Auction, two Qualified Bidders, BlueStone and Barnett Shale Gas LLC (“BSG LLC”) elected to submit further bids and engaged in a highly competitive, multi-round bidding process that resulted in material improvements in both purchase price and contract terms.⁵ The Auction lasted for nearly nineteen hours across two days and culminated in the Debtors declaring, in consultation with their professionals and the Bid Consultation Parties, an all-cash bid of \$245 million for the Oil and Gas Assets submitted by BlueStone as the highest, best, and winning bid at the Auction (the “Successful Bid”). The Successful Bid submitted by BlueStone allocates \$240 million of the purchase price to the Debtors’ oil and gas assets located in the Barnett Shale in the Fort Worth basin of North Texas (the “Barnett Shale”) and \$5 million to the Delaware basin in West Texas (“West Texas”). In addition to determining the Successful Bid, the Debtors designated BSG LLC as the Backup Bidder. The Backup Bidder proposes to purchase the Barnett Shale and West Texas for a total purchase price of \$250 million, comprised of \$93 million in cash and \$157 million in credit bid.

16. I believe that the Asset Purchase Agreement, as executed among the Debtors and BlueStone, represents the highest and otherwise best offer received for the Oil and Gas Assets. The Asset Purchase Agreement reflects (i) the highest cash bid the Debtors received for the Oil and Gas Assets during the Auction, which is also an improvement over the Auction Baseline

⁴ Three of the six bids received by the Debtors were deemed Qualified Bids in accordance with the Bidding Procedures.

⁵ The third Qualified Bidder elected to not submit a further bid at the Auction.

Bid, (ii) materially improved contract terms, which decreased substantial execution risk and the potential for significant negative adjustments to the purchase price, and (ii) no financing contingencies. Based upon Houlihan Lokey's review of the information provided by BlueStone to the Debtors and in reliance upon the representations made in connection therewith, I believe that BlueStone will be able to close the Sale Transaction and perform all associated obligations in a timely fashion.⁶

17. I further believe that the Debtors, with the assistance of their advisors, conducted the Auction in a manner that was thorough, fair, and complied with the Bidding Procedures in all material respects. All Qualified Bidders were afforded a full, fair, and reasonable opportunity to submit higher or better offers for some or all of the Oil and Gas Assets and to object or otherwise be heard with respect to the process. At all times during the Auction, the Debtors' negotiations and discussions were conducted in good faith, at arm's-length, and by parties who were at all times represented by their own counsel and advisors.

D. Executory Contracts and Unexpired Leases

18. The Asset Purchase Agreement also provides that BlueStone will assume certain executory contracts and unexpired leases in connection with the sale of the Oil and Gas Assets. Based upon Houlihan Lokey's review of the financial information provided by BlueStone to the Debtors and Houlihan Lokey and in reliance upon the representations provided by BlueStone as to the accuracy of such information, I believe that BlueStone will be able to perform its future obligations under such executory contracts and unexpired leases.


⁶ In the event that BSG LLC, as Backup Bidder for the Barnett Shale and West Texas, becomes the purchaser for those assets it is also my opinion that the statements herein would apply BSG LLC.

E. Conclusion

19. For all of the foregoing reasons I believe that the Debtors, with the help of their advisors, have conducted a robust sale and marketing process for the Oil and Gas Assets that has maximized value for their creditors and estates. In light of the Debtors' comprehensive sale and marketing process and the results of the Auction, I do not believe that further marketing of the Oil and Gas Assets would have resulted in higher or otherwise better offers for the Oil and Gas Assets and that the sale contemplated by the Asset Purchase Agreement should be approved by this Court.

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Pursuant to 28 U.S.C. § 1746, I declare under penalty of perjury that the foregoing is true and correct to the best of my knowledge and belief. Executed on this 25 day of January, 2016.

By: 
Adam L. Dunayer
Managing Director
Houlihan Lokey Capital, Inc.