

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

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 DEBTORS’ MEMORANDUM OF LAW IN SUPPORT
OF CONFIRMATION AND OMNIBUS REPLY TO OBJECTIONS
TO CONFIRMATION OF THE FIRST AMENDED JOINT CHAPTER 11
PLAN FOR QUICKSILVER RESOURCES INC. AND ITS AFFILIATED DEBTORS**

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 *Memorandum of Law in Support of Confirmation and Omnibus Reply to Objections to Confirmation of the First Amended Joint Chapter 11 Plan of Liquidation for Quicksilver Resources Inc. and its Affiliated Debtors* (the “Memorandum”), filed contemporaneously herewith, and in support of confirmation of the *First Amended Joint Chapter 11 Plan of Liquidation for Quicksilver Resources Inc. and its Affiliated Debtors*, dated July 5, 2016 [D.I. 1525] (as may be altered, modified or supplemented from time

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 4000, Fort Worth, Texas 76102.

to time in accordance with the terms thereof, the Bankruptcy Code, the Bankruptcy Rules, and including the Plan Supplement, the “Amended Plan”),² pursuant to section 1129 of title 11 of the United States Code, (the “Bankruptcy Code”).

3. In January 2014, the Debtors first engaged Houlihan Lokey to provide general financial advisory services, including providing expert advice and testimony regarding financial matters related to certain transactions. 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, and I participated directly in discussions, due diligence, and negotiations with the Debtors’ management, outside counsel, and other advisors regarding the Amended Plan.

4. 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.

5. 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 liquidation of assets through chapter 11 and attendant issues; (b) the Amended Plan; (c) the *Disclosure Statement for First Amended Joint Chapter 11 Plan of Liquidation for Quicksilver Resources Inc. and its Affiliated Debtors*, dated July 5, 2016 [D.I. 1526] (the “Amended Disclosure Statement”); (d) discussions with the Debtors’ management concerning the Debtors’ business and the efforts to obtain approval of the Amended Disclosure Statement and the Amended Plan; (e) discussions with other professionals and advisors to the Debtors;

² Capitalized terms not otherwise defined herein shall have the meanings ascribed to them in the Memorandum or the Amended Plan, as applicable.

(f) discussions with the Debtors' creditors and other interested parties; and (g) my experience in the oil and gas industry.

A. Qualifications

6. 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.*

7. 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.

8. 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. The Amended Plan Satisfies the Best Interest of Creditors and Interest Holders Test Pursuant to Bankruptcy Code Section 1129(a)(7)

9. I understand that to satisfy Bankruptcy Code section 1129(a)(7), the Debtors must demonstrate that with respect to each impaired class of claims or interests, each individual holder of a claim or interest has either accepted the plan or will receive or retain property having a present value, as of the effective date of the plan, of not less than what such holder would receive if the debtor were liquidated under chapter 7 of the Bankruptcy Code at that time.

10. I also understand that the “best interests” test applies to individual dissenting creditors or interest holders, rather than classes of claims and interests, and is generally satisfied through a comparison of the estimated recoveries for a debtor’s stakeholders in a hypothetical liquidation of that debtor’s estate under chapter 7 of the Bankruptcy Code against the estimated recoveries under that debtor’s chapter 11 plan.

11. The first step in meeting the best interests test is to determine the proceeds that the hypothetical liquidation of a debtor’s assets and properties would generate in the context of a liquidation under chapter 7 of the Bankruptcy Code. The gross amount available would be the sum of the proceeds from liquidating the debtor’s assets plus the cash held by the debtor at the time of commencement of the hypothetical case under chapter 7 of the Bankruptcy Code. The amount of any claims secured by these assets, the costs and expenses of the liquidation, and any additional administrative expenses and priority claims that may result from the termination of the debtor’s business and the use of chapter 7 of the Bankruptcy Code for the purposes of a hypothetical liquidation would reduce the amount of these proceeds. Any remaining net cash would be allocated to creditors and equity interest holders in strict priority in accordance with Bankruptcy Code section 726.

12. For the reasons that follow, and based on the hypothetical liquidation analysis appended to the Amended Disclosure Statement as Exhibit 2 (the “Liquidation Analysis”), I believe that liquidation under chapter 7 of the Bankruptcy Code would result in smaller distributions to Holders of Claims and Interests than those provided for in the Amended Plan because of (a) the likelihood that the Debtors’ assets would have to be sold or otherwise disposed of in a less orderly fashion over a shorter period of time, (b) additional administrative expenses

involved in the appointment of a chapter 7 trustee, and (c) the inability of a chapter 7 trustee to maximize the return to the Estates to the same degree as provided by the Amended Plan.

(i) *Preparation of Liquidation Analysis*

13. The hypothetical Liquidation Analysis was prepared by individuals at Houlihan Lokey working directly under my supervision. I am generally familiar with the Liquidation Analysis and the underlying financial data and assumptions upon which the Liquidation Analysis is based, which are accurately described in the Liquidation Analysis and notes thereto. I believe that the estimated liquidation values set forth in the Liquidation Analysis are fair and reasonable estimates of the value of the Debtors' assets based on the assumptions set forth therein. I believe that the estimates as to the ultimate amount of allowed claims against, and expenses of, the hypothetical chapter 7 estates are fair and reasonable and, based on those estimates, combined with the estimated liquidation values of assets, that each Class of Claims under the Amended Plan will receive at least as much as that class would receive in a hypothetical chapter 7 liquidation.

14. In addition, I have recently reviewed the Liquidation Analysis in light of all current information and continue to believe that the conclusions set forth therein remain unchanged as of the date hereof, and further that recoveries under the Amended Plan for each Class of Claims under the Amended Plan remain more favorable to creditors than under a hypothetical chapter 7 liquidation.

(ii) *Details of Liquidation Analysis*

15. With respect to the Liquidation Analysis, we assumed that any liquidation of the Debtors' remaining assets would be accomplished through conversion of the chapter 11 cases to

cases under chapter 7 of the Bankruptcy Code on or about July 31, 2016.³ On the hypothetical conversion date, we also assumed that the Bankruptcy Court would appoint a chapter 7 trustee to oversee the liquidation of the Debtors' Estates, during which time all of the Debtors' remaining assets would be sold, distributed, or surrendered to the respective lien holders, and the Cash proceeds, net of liquidation-related costs, would then be distributed to creditors in accordance with relevant law.⁴ There could be no assurance that the liquidation would be completed in a limited time frame, nor is there any assurance that the recoveries assigned to the assets would in fact be realized.

16. Additionally, we assumed that the costs of liquidation under chapter 7 of the Bankruptcy Code would include the fees payable to a chapter 7 trustee, as well as those fees that might be payable to attorneys and other professionals that such trustee would engage.⁵ Moreover, we believe that the conversion would be likely to trigger certain Claims that otherwise would not exist under the Amended Plan, including Claims as have been expressly compromised pursuant to the Bankruptcy Rule 9019 settlement among the Committee, the Second Lien Parties and the Debtors (the "Settlement") such as the Second Lien Deficiency Claim, Adequate Protection Claim, and Second Lien Diminution Claim. Other examples of these kinds of additional Claims that may arise include various potential employee Claims, tax liabilities, Claims related to the rejection of unexpired leases and executory contracts, and other potential Allowed Claims. These additional Claims could be significant and I am advised that some would be entitled to priority in payment over General Unsecured Claims.⁶ The foregoing types of claims and other claims that might arise in a chapter 7 liquidation case (including claims from

³ See Liquidation Analysis at 2.

⁴ See *id.*

⁵ See *id.* at 3.

⁶ See *id.* at 2-3.

potentially redundant activities that could be engaged in by a chapter 7 trustee) or result from the pending chapter 11 cases, including any unpaid expenses incurred by the Debtors and the Creditors Committee during the chapter 11 cases such as compensation for attorneys, financial advisors, and accountants, would be paid in full from the liquidation proceeds before the balance of those proceeds would be made available for distribution to Holders of General Unsecured Claims.

17. After considering the effects that a liquidation under chapter 7 of the Bankruptcy Code would have on the ultimate proceeds available for distribution to the Holders of Claims and Interests in the chapter 11 cases, including (a) the decrease in value caused by an accelerated liquidation of the Debtors' remaining assets, (b) the increased costs and expenses of a liquidation under chapter 7 of the Bankruptcy Code arising from fees payable to a trustee in bankruptcy and professional advisors to such trustee, (c) the compromise of the Settlement, and (d) the potential for the aforementioned incremental claims under a chapter 7 liquidation, it is my opinion that Confirmation of the Amended Plan will provide each Holder of a Claim with a recovery that is not less than what such Holder would receive pursuant to a liquidation of the Debtors under chapter 7 of the Bankruptcy Code.⁷

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⁷ See *id.* at 4.

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 10th day of August, 2016.

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