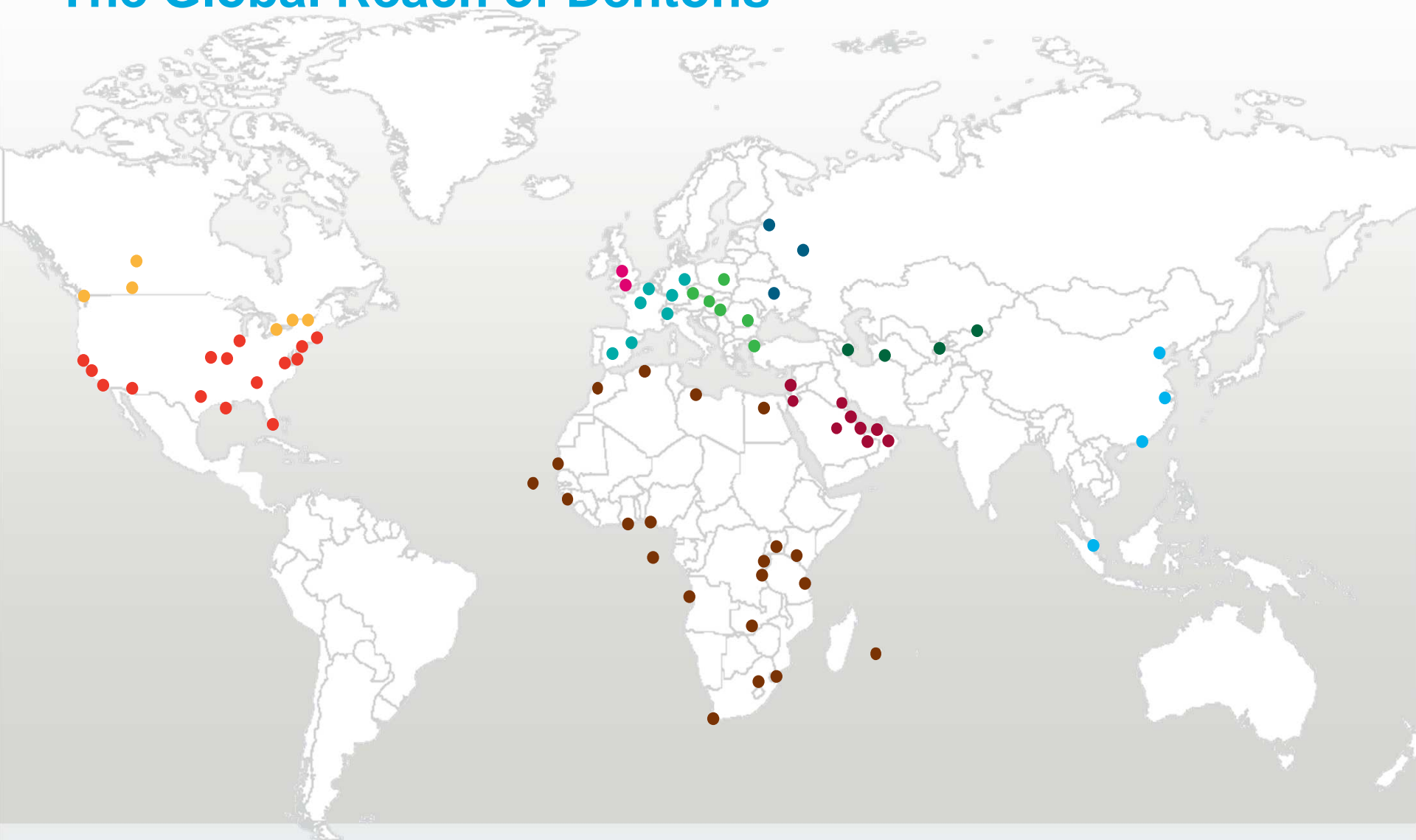


Deals That Are Getting Done

Jason Schumacher - Dentons US LLP
PECD - 2014

Locations

The Global Reach of Dentons



Dentons Offices by List

Key

- Offices
- ✕ Associate offices
- Facilities
- ◆ Associate firms
- + Special alliance firms

Canada

- Calgary
- Edmonton
- Montréal
- Ottawa
- Toronto
- Vancouver

United States

- Atlanta
- Boston
- Chicago
- Dallas
- Kansas City
- Los Angeles
- Miami
- New Orleans
- New York
- Phoenix
- San Francisco
- Short Hills
- Silicon Valley
- St. Louis
- Washington, DC

Europe

- Barcelona
- Berlin
- Brussels
- Frankfurt
- Madrid
- Paris
- ◆ Zurich

United Kingdom

- London
- Milton Keynes

Dentons Offices by List

Central and Eastern Europe

- Bratislava
- Bucharest
- Budapest
- Istanbul
- Prague
- Warsaw

Africa

- Accra
- Algiers
- Bissau
- Bujumbura
- Cairo
- Cape Town
- Casablanca
- Dar Es Salaam
- Johannesburg
- Kampala
- Kigali
- + Lagos
- Luanda
- Lusaka
- Maputo
- Nairobi
- Nouakchott
- Port Louis
- Praia
- São Tomé
- Tripoli

Middle East

- Abu Dhabi
- ✕ Amman
- Beirut
- Doha
- Dubai
- ✕ Kuwait City
- Manama
- Muscat
- ✕ Riyadh

Asia Pacific

- Beijing
- Hong Kong
- Shanghai
- Singapore

Russia and CIS

- Kyiv
- Moscow
- St. Petersburg

Central Asia

- Almaty
- Ashgabat
- Baku
- Tashkent

A Few Facts about Dentons

- We used to be called SNR Denton
- Combined with FMC (Canada) and Salans (Europe) in 2013
- A law firm with 2600 attorneys
- The 8th largest firm in the world
- 50+ attorneys in Dallas

A Few Other Things about Dentons

- One of the largest oil and gas groups in Dallas representing operators, mineral interest owners, and financial institutions investing in the oil and gas industry
 - Handle matters in Texas and all producing states
 - Our partners across the world allow us to practice internationally - we are the largest firm in the Middle East, have 20 offices in Africa, have offices in Russia, Almaty, and China

A Few Things about Me

- Married for 13 years - met my wife in bowling class at college
- Three kids who are 11, 8 and 6
- Coach son's tackle football team
- Been at Dentons for almost 3 years and worked at Patton Boggs before that
- Former Chair of the Energy Section of the DBA - running unopposed was helpful
- Current President of the Texas Energy Council
- Get my hair cut at an exclusive salon -
Supercuts

Deals that Are Getting Done

- Disclaimers (I know - so typical from the danged attorney)
 - This is going to be a disappointing presentation
 - I am not the valuation guy
 - I am not an engineer or geologist
 - This mainly about deals that my firm has done or seen
 - I have some handcuffs
 - I will focus on the What? and How? and not the Why?

Deals that Are Getting Done

- **What I Hope You Learn/Takeaway**
 - Different capital that is available in the market place for the right deal at the right time
 - Deal structuring points
 - Out of the box approaches to get buyers, sellers and capital providers together
 - It is a vibrant time in the industry

Deals that Are Getting Done

- Deal # 1 - Meidu Holding Acquires Woodbine Acquisition



Deals that Are Getting Done

- **Deal Terms**

- \$535 MM acquisition of the equity of Woodbine Acquisition LLC
 - \$260 MM in cash
 - \$275 MM of debt left at the company
 - Additional consideration paid for net working capital at the company
- Certain assets were excluded at the time of closing
- Deal closed December 3, 2013

Deals that Are Getting Done

- **Woodbine Acquisition Assets**
 - Approximately 17,500 gross acres
 - Approximately 15,000 net acres
 - Kurten and Madisonville West Fields in southeast Texas
 - Focused on Woodbine formation
 - Horizontal drilling

Deals that Are Getting Done

- Deal topics/hurdles
 - Asset v. equity
 - Escrow deposit
 - Governmental approvals
 - Debt holder approvals

Deals that Are Getting Done

- Deal # 2 - MD America Energy, LLC
Issues \$150MM High Yield PIK Toggle
Notes



Deals that Are Getting Done

- Deal Terms

- \$150 MM PIK Toggle Notes
- Secured by equity of MD America Energy Holdings, LLC who issued the notes (also called bonds)
- Acquisition financing for Meidu Holding
- High yield interest rate
- Maturity date in two years

Deals that Are Getting Done

- Deal Terms

- \$150 MM PIK Toggle Notes

- What is PIK?

- PIK stands for "payment in kind"
 - "Payment in kind" is really a confusing term because implies the debt holders receive something
 - In this case, the debt holders receive the right to more money that the issuer of the debt has to pay as opposed to an actual interest payment

Deals that Are Getting Done

- Deal Terms

- \$150 MM PIK Toggle Notes

- What is a Toggle Note?

- Toggle means that the issuer of the debt (think of them as the borrower) can choose to either:

- (a) pay cash or

- (b) choose to PIK the interest payment

Deals that Are Getting Done

- Deal Terms

- \$150 MM PIK Toggle Notes

- Why a Toggle Note?

- Issuers (borrowers) love the flexibility to choose what to pay each interest period

- Great for oil and gas deals in development stage

- Less drilling, toggle to cash payments

- More drilling, toggle to PIK

Deals that Are Getting Done

- Deal Terms

- \$150 MM PIK Toggle Notes

- Feature of Toggle Note

- If PIK, interest is higher

- If cash, interest rate is lower

- Example: \$100 note issued with interest paid annually

- If PIK, then 20% interest, \$120 owed

- If cash, then 10% - \$10 paid, \$100 owed

Deals that Are Getting Done

- Deal Terms

- \$150 MM PIK Toggle Notes

- What is a Toggle Note?

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- (a) pay cash or

- (b) choose to PIK the interest payment

Deals that Are Getting Done

- Deal Terms

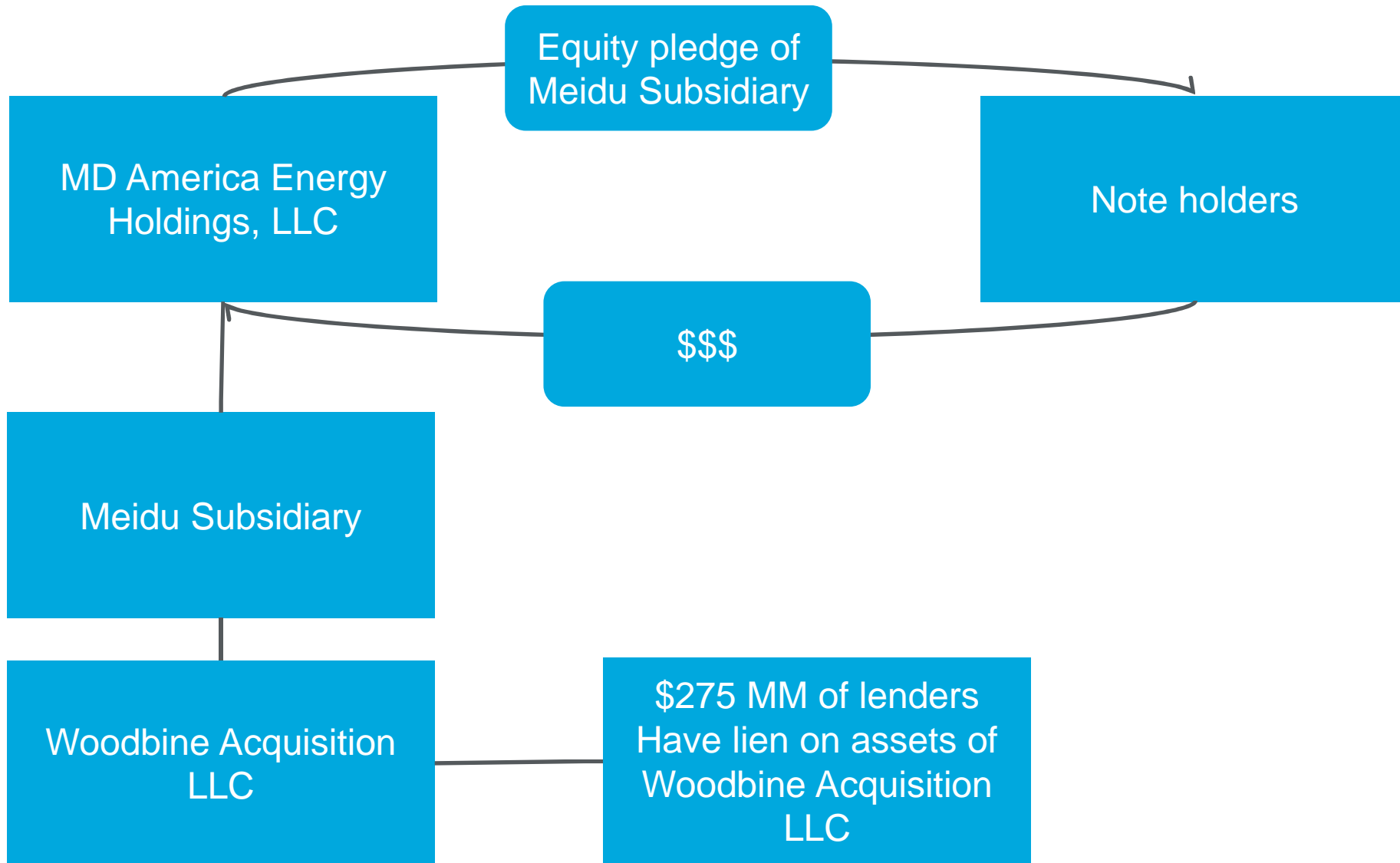
- \$150 MM PIK Toggle Notes
- Secured by equity of MD America Energy Holdings, LLC who issued the notes (also called bonds)
- Acquisition financing for Meidu Holding
- High yield interest rate

Deals that Are Getting Done

- Deal Terms

- Secured by equity of MD America Energy Holdings, LLC
 - What does that mean?
 - Pictures tell a thousand words when it comes to structuring

Deals that Are Getting Done

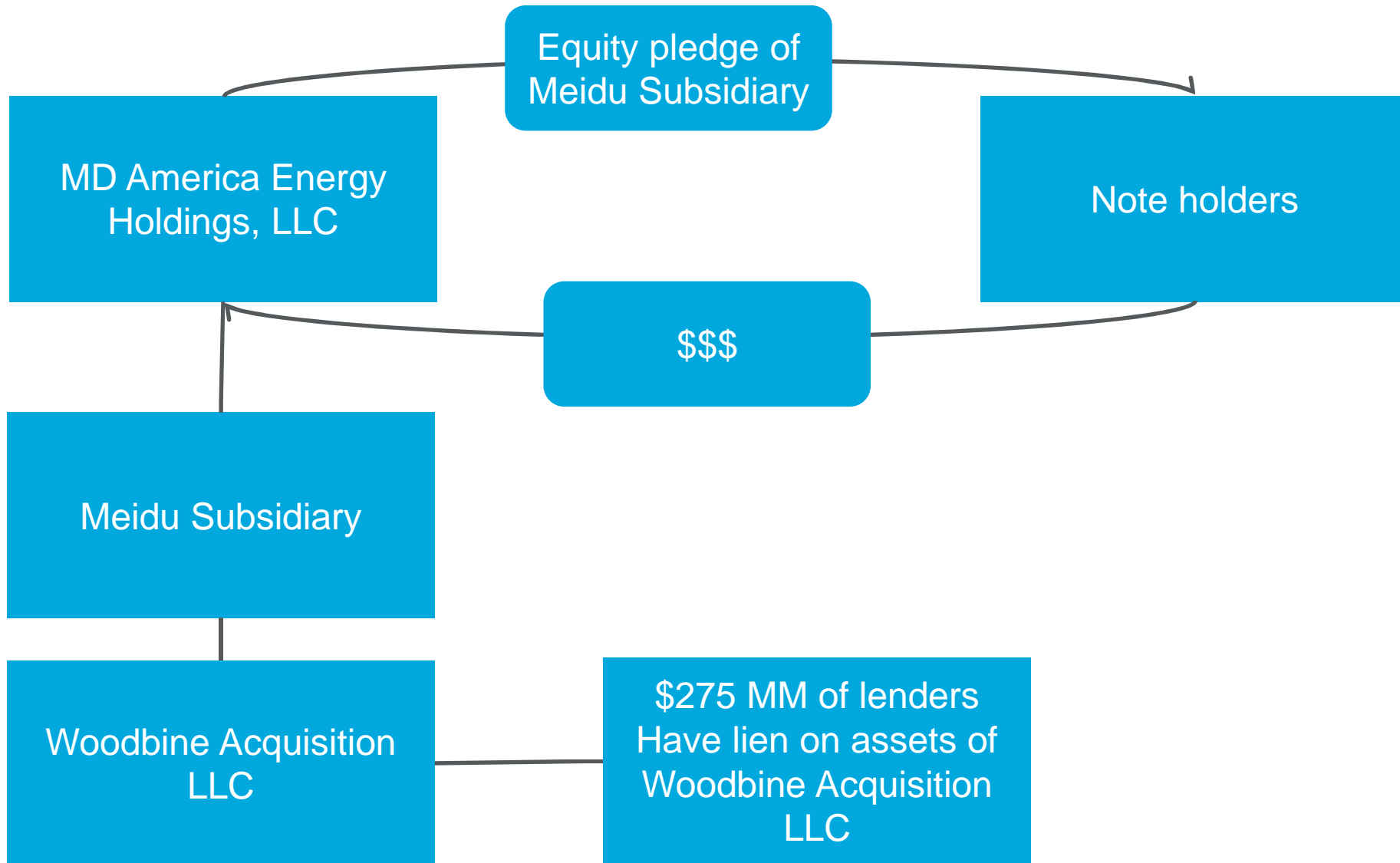


Deals that Are Getting Done

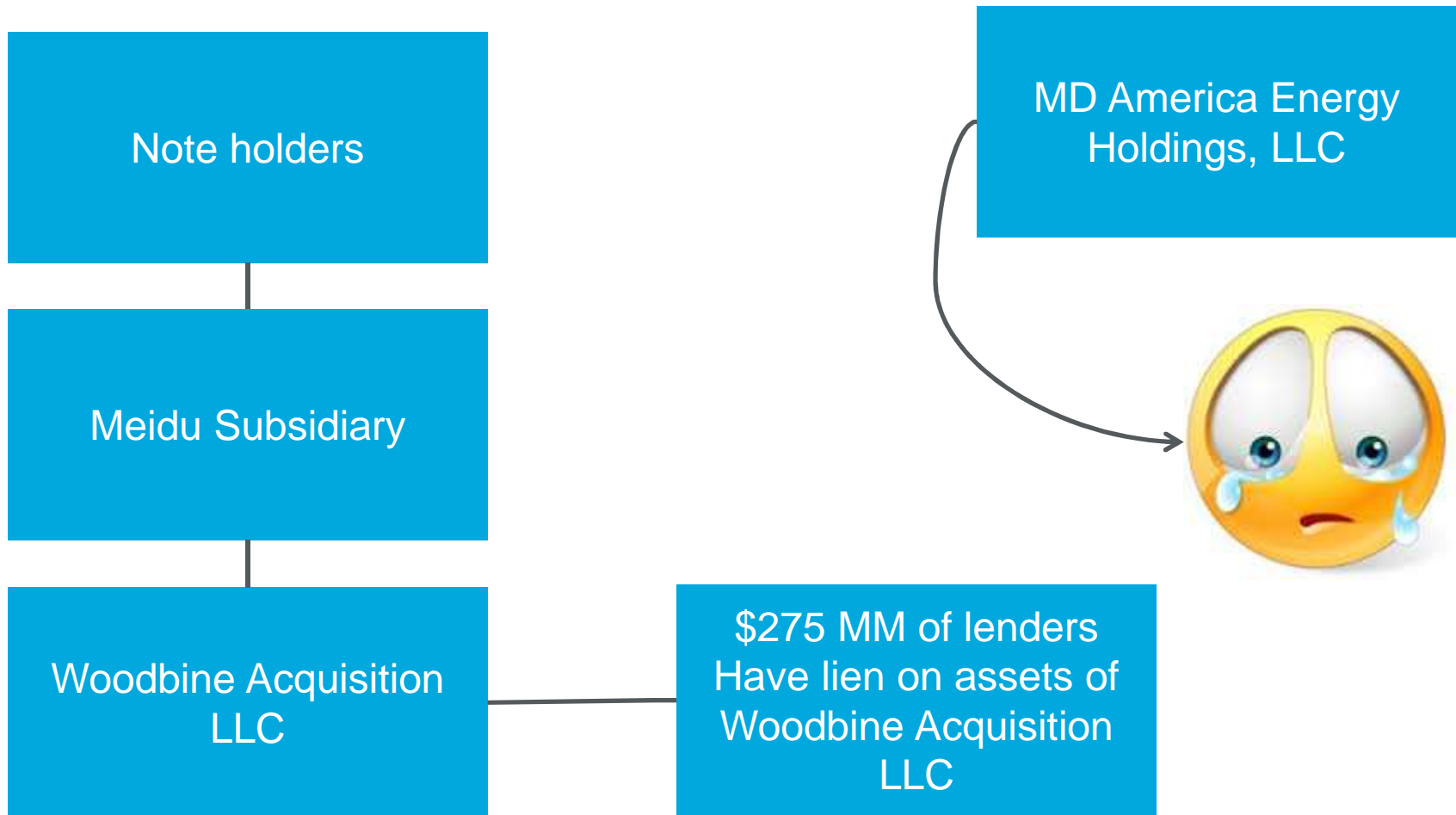
- **Deal Terms**

- What good does the equity pledge do?
- Example, let's say MD America defaults - what happens?

Deals that Are Getting Done



Deals that Are Getting Done



Deals that Are Getting Done

- **Deal Terms**

- \$150 MM PIK Toggle Notes
- Secured by equity of MD America Energy Holdings, LLC who issued the notes (also called bonds)
- **Acquisition financing for Meidu Holding**
- High yield interest rate

Deals that Are Getting Done

- Deal Terms

- Acquisition financing for Meidu Holding

- Why do this \$150MM debt offering?

- Two things:

- Belief in the project

- Much shorter approval time to bring over less than \$150 MM from China

Deals that Are Getting Done

- **Deal Terms**

- \$150 MM PIK Toggle Notes
- Secured by equity of MD America Energy Holdings, LLC who issued the notes (also called bonds)
- Acquisition financing for Meidu Holding
- **High yield interest rate**

Deals that Are Getting Done

- Deal Terms

- High yield interest rate

- Why is the interest rate high?

- Debt below this debt

- Restricted payments coming from the entity with revenue

- 2nd position in assets

- Example: Your 2nd mortgage on your home has a higher interest rate than 1st mortgage

- Picture worth a thousand words

Deals that Are Getting Done

- Deal # 3- Cubic Energy Issues \$66 MM of Debt with Equity Kickers



Deals that Are Getting Done

- **Cubic Energy Issues \$66 MM of Debt with Equity Kickers**
 - Cubic is an OTCQB traded company (OTCQB: CBNR)
 - What is OTCQB?
 - A group of over the counter stocks that are required to report to the SEC
 - Traded over the OTC Market Group interface
 - Cubic's assets are located in Leon and Robertson County, Texas and Northwest Louisiana

Deals that Are Getting Done

- Deal Terms

- Relatively high interest rate
- 3 year maturity date
- Partial PIK interest payments for first 6 months
- Two classes of warrants to lenders
- Lenders have first lien on Texas assets; second lien on Louisiana assets

Deals that Are Getting Done

- Deal Terms
 - Relatively high interest rate
 - Why?
 - Other debt involved
 - Need some drilling \$\$\$

Deals that Are Getting Done

- Deal Terms

- Two classes of warrants to lenders

- What is a warrant?

- Option to purchase equity in the ownership

- One class works like a preferred share and one class works like a non-preferred share

Deals that Are Getting Done

- Deal # 4- Cubic Energy Issues Call Options for \$35MM



Deals that Are Getting Done

- Deal Terms

- Cubic receives \$35 MM
- Cubic sells future production for \$X price
- Option provider receives right to buy production at \$X price and hopes to sell at a higher price

Deals that Are Getting Done

- **Deal # 5 - Energy Services**

- Private energy services entrepreneur buys three private, family-owned service businesses operating in Oklahoma in last four months of 2013
 - Trucking company
 - Equipment rental company
 - Construction services
- Total purchase price: ~\$25 MM

Deals that Are Getting Done

- **Deal # 5 - Energy Services**
 - Deal Terms
 - Significant owner financing
 - Significant owner employment agreements
 - Earn-outs or other business performance bumps
 - Pledge of equity of company to seller

Deals that Are Getting Done

- **Deal # 5 - Energy Services**
 - Advantages
 - Low cash outlay
 - Better refinancing possible with better lender network
 - Scale and integration

Deals that Are Getting Done

- **Deal # 5 - Energy Services**

- Disadvantages

- Seller loses edge that he or she built the business on the job and business starts declining
- Built around small pool of material customers

Deals that Are Getting Done

- **TSX and AIM Markets**

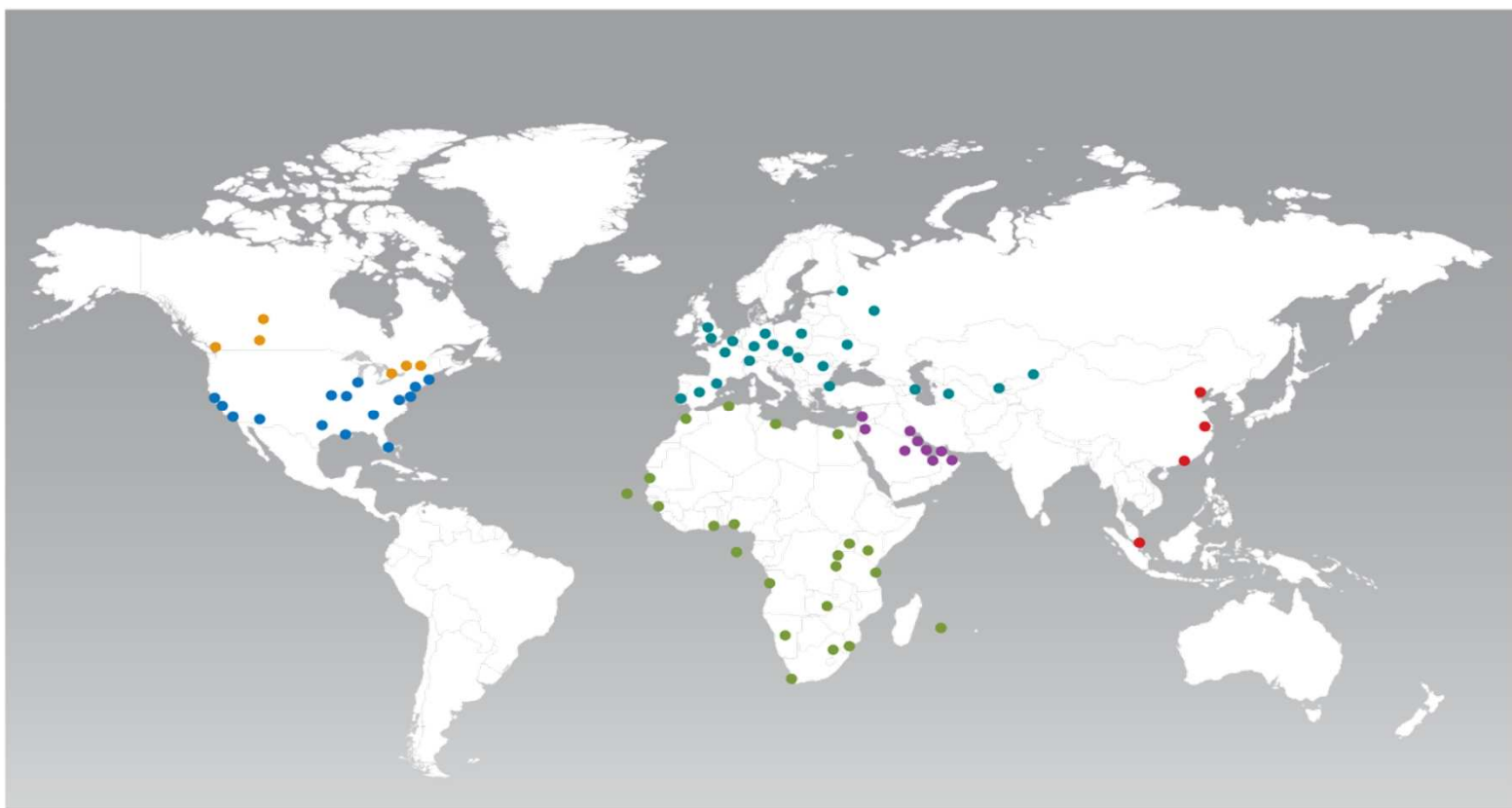
- TSX = Toronto Stock Exchange
- AIM - Alternative Investment Market
 - The little brother to the Main Street Market in London
- Both are active for US deals and especially deals involving assets in non-US jurisdictions
- Less regulations - easier to manage
- Smaller deals

Deals that Are Getting Done

- **Crowd Funding**

- What Is It?

- Dentons Partner Walter Van Dorn will explain [here](#)



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