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IN THE UNITED STATES BANKRUPTCY COURT
FOR THE NORTHERN DISTRICT OF TEXAS
DALLAS DIVISION

IN RE	§	
	§	**CASE NO. 12-31549-bjh-11**
CANO PETROLEUM, INC., ET AL.	§	**JOINTLY ADMINISTERED**
	§	
Debtors.	§	**(CHAPTER 11)**

DEBTORS' RESPONSE TO (1) TEXAS COMPTROLLER'S MOTION TO ALTER OR AMEND THE ORDER (A) ESTABLISHING BAR DATE FOR FILING PROOFS OF CLAIM AND INTERESTS AND (B) APPROVING (I) PROCEDURES FOR NOTIFYING CREDITORS OF COMMENCEMENT OF DEBTORS' CHAPTER 11 CASES; AND (II) THE FORM AND MANNER OF NOTICE OF THE CLAIMS BAR DATE; AND (2) UNITED STATES' MOTION FOR RELIEF FROM BAR DATE ORDER
[Relates to Dkt. Nos. 174 and 215]

TO THE HONORABLE BARBARA J. HOUSER,
UNITED STATES BANKRUPTCY JUDGE:

Cano Petroleum, Inc. ("Cano") and its direct and indirect subsidiaries, as debtors and debtors-in-possession (collectively, the "Debtors")[1] file this response (the "Response") to the (1) *Texas Comptroller's Motion to Alter or Amend the Order (A) Establishing Bar Date for*

[1] The Debtors include Cano Petroleum, Inc., Cano Petro of New Mexico, Inc., Ladder Companies, Inc., Square One Energy, Inc., Tri-Flow, Inc., W.O. Energy of Nevada, Inc., W.O. Operating Company, Ltd., W.O. Production Company, Ltd., and WO Energy, Inc.

Filing Proofs of Claim and Interests and (B) Approving (I) Procedures for Notifying Creditors of Commencement of Debtors' Chapter 11 Cases; and (II) the Form and Manner of Notice of the Claims Bar Date[2] and (2) *United States' Motion for Relief from Bar Date Order*[3] (collectively, the "Reconsideration Motions").

Relevant Factual Background

1. On March 7-8, 2012 (March 7, 2012 being the "Petition Date"), the Debtors each filed a voluntary petition for relief under Chapter 11 of Title 11 of the United States Code (the "Bankruptcy Code"), thereby commencing these chapter 11 cases (collectively, the "Cases" or the "Case").

2. The Debtors operate in the oil and natural gas industry and their business strategy historically has included developing and acquiring interests in mature oil fields with established primary and/or secondary reserves that may possess significant remaining upside exploitation potential by implementing various secondary and/or tertiary enhanced oil recovery techniques.

3. The Debtors' oil and gas business depends heavily on the availability of capital and liquidity. Substantial capital expenditures are needed for the exploitation and the development of crude oil and natural gas reserves.

4. The Debtors' liquidity constraints have negatively impacted the Debtors' business and their ability to meet their obligations to secured lenders and trade creditors. The Debtors' declining revenues, continued losses, borrowing constraints, loan defaults and

[2] Dkt. No. 174.
[3] Dkt. No. 215.

limited-to-no capital availability forced the Debtors to drastically reduce costs, replace management and hire financial advisors to assist in a strategic process.

5. After a lengthy marketing process and substantial discussions with their pre-petition lenders, the Debtors entered into a Stock Purchase Agreement dated March 7, 2012 (the "Stalking Horse SPA") with NBI Services, Inc. (the "Stalking Horse"). In accordance with the Stalking Horse SPA, the Debtors agreed to sell and the Stalking Horse agreed to buy all newly-issued stock in Cano under a plan of reorganization for $47.5 million in cash, subject to higher and better offers through a competitive auction process (the "Bidding Process").

6. The Debtors entered into that certain *Plan Support and Lock-Up Agreement* (the "Plan Support Agreement") dated March 7, 2012 with their Pre-Petition Secured Lenders. A true and correct copy of the Plan Support Agreement (without exhibits) is attached as **Exhibit A**. The parties agreed, pursuant to the Plan Support Agreement, to the following schedule:

a. Bankruptcy filing no later than March 9, 2012;

b. Approval of Cash Collateral within 30 days of the Petition Date: April 6, 2012;

c. File the Conforming Plan/Conforming Disclosure Statement within 7 days of Petition Date: March 14, 2012;

d. Approval of the Conforming Disclosure Statement within 75 days of Petition Date: May 21, 2012; and

e. Confirmation of the Conforming Plan within 120 days of Petition Date: July 5, 2012.

The foregoing deadlines shall be referred as the "Plan Support Agreement Deadlines."

7. With the support of the Pre-Petition Lenders and in compliance with provisions of the Plan Support Agreement, the Debtors filed these Cases to effectuate a sale of their equity interests and/or assets. The filing of these Cases and the confirmation of the Plan[4] are the Debtors' best option to preserve and maximize the value of their assets and businesses.

8. On March 8, 2012, the Debtors filed a number of first day motions including the *Emergency Motion to (A) Establish Bar Date for Filing Proofs of Claim and Interests and (B) Approve (I) Procedures for Notifying Creditors of Commencement of Debtors' Chapter 11 Cases; and (II) the Form and Manner of Notice of the Claims Bar Date* (the "Bar Date Motion").[5] Given the emergency nature of the request in this first day motions, the Bar Date Motion was served on a limited group of parties, which included governmental entities such as the United States Attorney for the Northern District of Texas, the Securities and Exchange Commission, the Internal Revenue Service, and the oil and gas regulators of Texas, New Mexico and Oklahoma. Given the information available at the time of the filing, the Texas Comptroller of Public Accounts (the "Texas Comptroller") and the United States, through the Department of the Interior (the "DOI" and with the Texas Comptroller, the "Movants") received sufficient notice of the Bar Date.

9. On March 30, 2012, the Court entered an order granting the Bar Date Motion (the "Bar Date Order"),[6] which established a deadline of May 7, 2012 (for the filing of proofs of claims for all creditors, including governmental entities). In the Bar Date Order, the Court

[4] Dkt. No. 18.
[5] Dkt. No. 15. All capitalized terms not defined herein shall have the meaning ascribed to them in the Bar Date Motion.
[6] Dkt. No. 129.

also approved the form of notice of the Bar Date (the "Bar Date Notice"). **Exhibit B** attached hereto details the Debtors' service of the Bar Date documents.

10. On April 13, 2012, the Texas Comptroller filed its reconsideration motion[7] and on April 26, 2012, the DOI filed its motion.[8] The Reconsideration Motion request that the Bar Date Order be amended or altered to provide governmental units 180 days from the Petition Date (*i.e.*, to September 4, 2012)[9] as the deadline to file proofs of claim. A hearing (the "Hearing") on the Reconsideration Motion is scheduled for May 1, 2012 at 9:15 a.m. No other creditor have objected to the Motion.

Response

11. In this circuit and others, bankruptcy courts have establish a claims bar date for governmental entities to run in a period shorter than 180 days from the petition date.[10] The Debtors requested (and continue to request) a shortened bar date for all creditors, including governmental units, to facilitate the Debtors' compliance with the Plan Support Agreement Deadlines. In particular, the shortened Bar Date (a) is not unduly burdensome to any governmental unit and (b) will allow the Debtors to reserve sufficient amounts for the any secured or pre-petition priority claims.

[7] Dkt. No. 174.
[8] Dkt. No. 215.
[9] The date 180 days following the Petition Date is Monday, September 3, 2012, which is Labor Day, a legal holiday. Pursuant to Bankruptcy Rule 9006(a), the deadline for filing proofs of claim would be the next business day, Tuesday, September 4, 2012.
[10] *See, e.g.*, *In re The Oceanaire Texas Restaurant Company, L.P.*, Case No. 09-34262-bjh11, Dkt. No. 60 (Bankr. N.D. Tex. July 15, 2009) [petition date 07/05/2009; governmental bar date 11/09/2009 (128 days)]; *In re: FFW OPCO, Ltd., dba Furniture Factory Warehouse*, Case No. 10-33761-hdh11, Dkt. No. 29 (Bankr. N.D. Tex. June 4, 2010) [petition date 05/28/2010; combined bar date 09/29/2010 (124 days)]; and *In re: Espre Solutions, Inc*., Case No. 09-30572-hdh-11, Dkt. No. 33 (Bankr. N.D. Tex. March 5, 2009) [petition date Jan. 30, 2009; bar date for contingent, unliquidated or disputed 04/14/2009 (74 days) and 05/04/2009 for all others except rejection damage claims (94 days)].

12. Accordingly, the Debtors request that the Court amend the Bar Date Order to provide for a deadline of (a) June 7, 2012 for all governmental units to assert pre-petition priority and/or secured claims against the Debtors; and (b) September 4, 2012 for unsecured governmental claims.

13. The Debtors have been and will continue to discuss the governmental bar date with the Texas Comptroller and the DOI. The Debtors are hopeful that they will reach a resolution before the Hearing.

Prayer

WHEREFORE, the Debtors' request that this Court amend the Bar Date Order to allow the governmental units to file (a) priority claims no later than June 7, 2012; and (b) unsecured claims not later than September 4, 2012. The Debtor also request such other and further relief as this Court deems proper, both at law and in equity.

DATED: April 26, 2012.

Respectfully submitted,

THOMPSON & KNIGHT LLP

/s/ Cassandra Sepanik

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COUNSEL FOR DEBTORS AND DEBTORS-IN-POSSESSION

CERTIFICATE OF SERVICE

I hereby certify that on April 26, 2012, the foregoing was served on all parties entitled to service via the Court's Electronic Filing System ("ECF") and that Debtors' counsel directed BMC Group, Inc., as service agent, to cause a true and correct copy of the same to be served upon all parties on the Consolidated Master Service List and on all governmental units on the attached service list via United States first class mail, postage prepaid.

/s/ Cassandra Sepanik
One of Counsel