

IN THE UNITED STATES BANKRUPTCY COURT
FOR THE SOUTHERN DISTRICT OF TEXAS
HOUSTON DIVISION

IN RE:	§	
	§	
RAAM GLOBAL ENERGY COMPANY, <i>et al.</i>	§	CASE NO. 15-35615
	§	
	§	(Chapter 11)
	§	(Joint Administration Requested)
DEBTORS.	§	(Emergency Hearing Requested)

EMERGENCY MOTION TO (I) APPROVE MAINTENANCE OF CERTAIN PRE-PETITION BANK ACCOUNTS AND CASH MANAGEMENT SYSTEM AND (II) CONTINUE USE OF EXISTING CHECKS AND BUSINESS FORMS

THIS MOTION SEEKS AN ORDER THAT MAY ADVERSELY AFFECT YOU. IF YOU OPPOSE THE MOTION, YOU SHOULD IMMEDIATELY CONTACT THE MOVING PARTY TO RESOLVE THE DISPUTE. IF YOU AND THE MOVING PARTY CANNOT AGREE, YOU MUST FILE A RESPONSE AND SEND A COPY TO THE MOVING PARTY. YOU MUST FILE AND SERVE YOUR RESPONSE WITHIN 21 DAYS OF THE DATE THIS WAS SERVED ON YOU. YOUR RESPONSE MUST STATE WHY THE MOTION SHOULD NOT BE GRANTED. IF YOU DO NOT FILE A TIMELY RESPONSE, THE RELIEF MAY BE GRANTED WITHOUT FURTHER NOTICE TO YOU. IF YOU OPPOSE THE MOTION AND HAVE NOT REACHED AN AGREEMENT, YOU MUST ATTEND THE HEARING. UNLESS THE PARTIES AGREE OTHERWISE, THE COURT MAY CONSIDER EVIDENCE AT THE HEARING AND MAY DECIDE THE MOTION AT THE HEARING.

EMERGENCY RELIEF HAS BEEN REQUESTED. IF THE COURT CONSIDERS THE MOTION ON AN EMERGENCY BASIS, THEN YOU WILL HAVE LESS THAN 21 DAYS TO ANSWER. IF YOU OBJECT TO THE REQUESTED RELIEF OR IF YOU BELIEVE THAT THE EMERGENCY CONSIDERATION IS NOT WARRANTED, YOU SHOULD FILE AN IMMEDIATE RESPONSE.

REPRESENTED PARTIES SHOULD ACT THROUGH THEIR ATTORNEY.

TO THE HONORABLE UNITED STATES BANKRUPTCY JUDGE:

The above captioned debtors and debtors in possession (collectively, the “Debtors”),¹ file this *Emergency Motion to (i) Approve Maintenance of Certain Pre-Petition Bank Accounts and Cash Management System and (ii) Continue Use of Existing Checks and Business Forms* (the “Motion”) and respectfully submit the following:

JURISDICTION AND PROCEDURAL BACKGROUND

1. The Court has jurisdiction over this matter pursuant to 28 U.S.C. §§ 1334 and 157. This Motion is a core proceeding pursuant to 28 U.S.C. § 157(b)(2)(A).
2. Venue is proper in this Court pursuant to 28 U.S.C. §§ 1408 and 1409.
3. On October 26, 2015 (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 the above-captioned bankruptcy cases (the “Cases”).
4. Since the Petition Date, the Debtors have continued to operate and manage their businesses as debtors in possession pursuant to Bankruptcy Code §§ 1107(a) and 1108.
5. As of the date hereof, an official committee of unsecured creditors has not been appointed in the Cases.

EMERGENCY CONSIDERATION

6. The Debtors request emergency consideration of this Motion. The Debtors believe an immediate and orderly transition into chapter 11 is critical to the viability of their operations. Any delay in granting the relief requested could hinder the Debtors’ operations and

¹ The Debtors are RAAM Global Energy Company [2973] (“RAAM”), Century Exploration New Orleans, LLC [4948] (“Century New Orleans”), Century Exploration Houston, LLC [9624] (“Century Houston”), Century Exploration Resources, LLC [7252] (“Century Resources”).

cause irreparable harm. As such, the Debtors believe that emergency consideration is necessary and request that this Motion be heard at the Debtors' First Day Hearings.

STATEMENT OF FACTS

A. Business Overview

7. RAAM is an independent oil and natural gas exploration and production company engaged in the exploration, development, production, exploitation, and acquisition of oil and natural gas properties. The other Debtors are wholly-owned subsidiaries of RAAM, and RAAM provides administrative, technical, financial, and strategic planning support to their subsidiaries.

8. The Debtors' producing assets are located offshore in the Gulf of Mexico and onshore in Louisiana, Texas, Oklahoma, and California, and the Debtors maintain offices in Lexington, Kentucky and New Orleans, Louisiana. The Debtors own an office building in Houston, Texas. As of September 30, 2015, the Debtors had estimated total proved oil and natural gas reserves of 8,570 MMBoe (26% oil). For the six months ended June 30, 2015, the Debtors' net daily production averaged 7,116 barrels of oil equivalent per day (BOEPD), which generated revenue of approximately \$33.4 million.

9. The Debtors have traditionally focused on acquiring assets in and around the United States Gulf Coast. Over the last decade the Debtors have worked to diversify their asset base through the acquisition and development of both conventional onshore assets and long-lived unconventional resource plays that are capable of supporting sustainable growth. The Debtors' projects during 2014 and the first half of 2015 were focused on three main areas: shallow waters offshore, onshore conventional assets in Texas, and conventional and unconventional assets in California and the Mid-Continent area. In recent years, the Debtors have invested close to \$100 million on large 3-D seismic surveys in the Gulf of Mexico and onshore in Louisiana and Texas

in order to enhance their prospect generation capabilities, and the Debtors have invested over \$1.5 billion in developing oil and gas assets since their inception.

10. The Debtors' current drilling program focuses on their core area in Breton Sound located offshore in State of Louisiana waters. This has historically been a very successful field for the Debtors, and the Debtors recently completed a successful well that is currently in production. The Debtors presently have an ongoing development portfolio of prospects that it desires to drill.

11. Additional information concerning the Debtors and their financial condition and results of operations, on a consolidated basis, can be found in RAAM's annual, quarterly, and current reports filed with the Securities and Exchange Commission ("SEC") through May 5, 2015, which can be accessed at www.sec.gov and at RAAM's website, <http://www.raamglobal.com/>.²

B. Common Stock

12. RAAM is a privately held company, and as of September 30, 2015, RAAM had 61,433 outstanding shares of common stock. Howard Settle, RAAM's Chairman, and former Chief Executive Officer and President, holds approximately 48% of RAAM's outstanding common stock. As of that date, RAAM's directors and executive officers as a group (eight persons that include Mr. Settle) held approximately 66% of RAAM's common stock.

C. Secured Debt

13. On September 12, 2014, Century New Orleans, Century Houston, and Century Resources entered into a Fifth Amended and Restated Credit Agreement with Wilmington Trust,

² On May 5, 2015, RAAM filed Form 15 with the SEC to notify the Commission of its desire to terminate the filing of registration statements and related reports required under the Securities Exchange Act of 1934. Prior to that time, RAAM was a voluntary filer with the SEC.

National Association, as administrative agent and the lenders party thereto (the “Fifth Amended and Restated Credit Agreement”), and RAAM entered into the Fourth Amended and Restated Guaranty in connection therewith. The Fifth Amended and Restated Credit Agreement provides the Debtors with an \$85.0 million term loan facility (the “Term Loan Facility”) that is secured by a first lien on substantially all of the Debtors’ real and personal property (with certain exceptions). As of September 30, 2015, approximately \$63.8 million was outstanding under the Term Loan Facility.

14. On September 24, 2010, RAAM completed an offering of \$150.0 million senior secured notes at a coupon rate of 12.5% (the “Original Notes”). On July 15, 2011, RAAM completed the issuance and sale of \$50.0 million aggregate principal amount of additional 12.5% Senior Notes (the “Additional Notes”). The Additional Notes have identical terms, other than the issue date and issue price, and constitute part of the same series as the Original Notes.

15. On April 11, 2013, RAAM successfully completed the issuance and sale of \$50.0 million aggregate principal amount of additional 12.5% senior secured notes due 2015 (the “New Additional Notes,” and together with the Original and Additional Notes, the “Notes”). The New Additional Notes are additional notes issued pursuant to the indenture dated as of September 24, 2010 (the “Base Indenture”), pursuant to which RAAM issued the Original and Additional Notes, as supplemented by the First Supplemental Indenture dated as of July 15, 2011 (the “First Supplemental Indenture”), the Second Supplemental Indenture dated as of April 11, 2013 (the “Second Supplemental Indenture”), and the Third Supplemental Indenture dated as of April 11, 2013 (the “Third Supplemental Indenture,” and together with the Base Indenture, First Supplemental Indenture and the Second Supplemental Indenture, the “Indenture”). The New Additional Notes have identical terms, other than the issue date and issue price, and constitute

part of the same series as the Original and Additional Notes. As of September 30, 2015, a total of \$238.0 million notional amount of the Notes was outstanding.

16. The Notes are guaranteed on a senior secured basis by Century New Orleans, Century Houston, and Century Resources. The Notes and the guarantees are secured by a security interest in substantially all of the Debtors' assets to the extent they constitute collateral under the Term Loan Facility, subject to certain exceptions. Pursuant to an Intercreditor Agreement, the lien securing the Notes is subordinated and junior to liens securing the Term Loan Facility.

17. The Debtors did not make the scheduled interest payment to the holders of the Notes that was due on April 1, 2015 which was a default under the Indenture. This non-payment also constituted a default under the Fifth Amended and Restated Credit Agreement. Total unpaid and accrued interest at July 31, 2015 was \$25.4 million.

18. On April 30, 2015, the Debtors entered into the *Forbearance Agreement to 12.50% Senior Secured Notes Indenture* with holders of approximately 94% of the face value of the Notes and the *Forbearance Agreement and Second Amendment to the Fifth Amended and Restated Credit Agreement* with Wilmington Trust, National Association, as administrative agent, and the lenders under the Term Loan Facility (collectively, and as amended, the "Forbearance Agreements"). The Forbearance Agreements expired on September 14, 2015.

D. Other Significant Obligations

19. The Debtors have a promissory note dated August 8, 2005 with GE Commercial Finance Business Property Corporation ("GECF") related to the construction of their Houston office building. On October 1, 2012, EverBank purchased GECF and is now known as Business Property Lending, Inc. The balance owed to EverBank was \$2.3 million at September 30, 2015.

The note requires monthly installments of principal and interest in the amount of approximately \$27,000 until September 1, 2025.

20. Century New Orleans and the Bureau of Ocean Energy Management (“BOEM”) entered into various leasing agreements for specific exploration and production activity. Century New Orleans is required to obtain one or more surety bonds in order to secure Century New Orleans’ performance under the obligations relating to such leasing agreements. Ace American Insurance Company (“ACE”) agreed to issue certain of such bonds in the estimated aggregate amount of \$39,630,000 in favor of BOEM and as required by BOEM under the leasing agreements. In connection with its issuance of such bonds, ACE and Century New Orleans entered into the Funds Disbursing Agreement dated October 23, 2014, and a related Escrow Agreement with Bank of America as escrow agent (collectively, the “ACE Bonding Agreement”), that requires Century New Orleans to provide funds for the escrow as security for ACE. The ACE Bonding Agreement contemplates the Debtors funding \$750,000 per month until March 31, 2017 into an escrow account for the benefit of ACE, and the balance of such escrow account is approximately \$9.9 million as of September 30, 2015. As of the Petition Date, the Debtors believe they are fully in compliance with the applicable regulatory requirements.

21. In the ordinary course of business, the Debtors utilize an assortment of vendors, including drilling contractors, labor and repair contractors, parts and equipment suppliers, pipeline companies, heavy machinery and equipment lessors, hydrocarbon transporters, laborers, professionals, and employee benefits providers. As of the Petition Date, unsecured trade and vendor claims aggregate approximately \$3.3 million for all of the Debtors, which amount excludes deficiency claims for any secured creditors, if any.

E. Events Leading to Chapter 11

22. A confluence of factors in 2014 and 2015 led to the Debtors' need to pursue a financial restructuring.

23. First, there has been a historic decline in the prices of crude oil and natural gas since the summer of 2014. These declines have adversely affected the Debtors' revenues and cash flows from operations. The Debtors' realized pricing is primarily driven by market prices for crude oil and natural gas. The Debtors historically engaged in derivative activities that primarily included the use of floors, costless collars, and futures transactions in order to minimize the downside risk from adverse price movements but allow for the realization of upside profits if available. The Debtors' derivative counterparties were limited to their secured lenders, which helped to minimize any potential non-performance risk. On April 20, 2015, the Company liquidated its hedge positions for \$10.8 million and used those funds to reduce the outstanding amount owed under the Term Loan Facility.

24. Second, although the Debtors have actively worked with investment banking advisors to refinance the Notes, due to the current economic environment the Debtors have been unable to raise cash or identify capital resources from other sources such as bank funding, private investment, or the public debt and equity markets.

25. Third, during September 2013, the Debtors determined that they could not meet the financial certifications required to obtain permits to develop its offshore Ewing Banks 920 (EB 920) Project in the Gulf of Mexico, due in large part to the substantially increased Worst Case Discharge assumptions imposed by BOEM. As a result, the proved undeveloped reserves associated with the EB 920 Project no longer met the requirements of reasonable certainty to remain booked as proved reserves at the end of the third quarter of 2013 which adversely

impacted the Debtors' reserves and impacted the Debtors' ability to refinance the Notes. This resulted in a write-off of 8.4 million barrels of oil and largely contributed to a ceiling test write-down of \$277 million and an after-tax loss of \$186 million for the nine months ended September 30, 2013.

26. Fourth, in May of 2013, the Flipper Field in Texas suffered a catastrophic collapse. In December 2012, this field was producing 1,960 BOEPD and in May 2013, after all four wells were severely damaged, the Field was producing 166 BOEPD – a loss of 1,794 BOEPD. Furthermore, the Company was forced to direct much of its technical efforts and drilling capital in 2013 and 2014 to drilling new wells to reestablish production, hold the leases, and maintain the reserves.

27. The combination of these factors has impaired the Debtors' liquidity and compelled the Debtors to seek a restructuring of their liabilities in order to maximize the value of their assets for the benefit of their creditors and other constituencies.

28. The Debtors previously sought to restructure their liabilities pursuant to an exchange offer and consent solicitation that was initiated on June 4, 2015 (the "Exchange Offer"). The Exchange Offer contemplated, among other terms, that if holders of all Notes tendered their Notes in the Exchange Offer, such holders of Notes would receive their pro rata share of \$50,000,000 in the aggregate principal amount of new notes maturing on June 30, 2019 and an aggregate amount of 1.17 million shares of RAAM's common stock, which would represent 95% of the outstanding shares of RAAM's common stock following the Exchange Offer, subject to dilution pursuant to the exercise of certain warrants. The closing of the Exchange Offer was conditioned, among other things, on at least 99% of the aggregate principal

amount of outstanding Notes having been validly tendered and not validly withdrawn in the Exchange Offer (the “Minimum Tender Condition”).

29. The Exchange Offer terminated on August 20, 2015. Holders of approximately 94.77% of the principal amount of outstanding Notes tendered their Notes to be exchanged; however, this was insufficient to meet the Minimum Tender Condition.

30. The combination of the factors noted above and the failure of a sufficient number of holders of Notes to tender their Notes in the Exchange Offer to meet the Minimum Tender Condition compelled the Debtors to negotiate with their creditors regarding chapter 11 proceedings in order to address liquidity concerns and maximize the value of their assets for the benefit of their creditors and other constituencies.

31. For the last several months, the Debtors and their investment bankers have undertaken a thorough marketing process seeking third party stalking horse bidders. The Debtors were at one point close to finalizing a purchase agreement with a stalking horse bidder for a portion of its assets, but the potential agreement fell through due to market conditions. While there remains interest in the Debtors’ assets by third parties, the Debtors have been unable to secure an acceptable third party stalking horse bid at this time after a significant marketing process.

32. The Debtors are presently negotiating a credit bid stalking horse purchase agreement with the holders of approximately 99% of the outstanding debt under the Term Loan Facility, and the Debtors are seeking to present a credit bid stalking horse purchase agreement and bid procedures to the Court before November 6, 2015. Such credit bid stalking horse purchase agreement and bid procedures will create a defined sale process, and the Debtors hope that interested parties will bid on its assets in such process to maximize the value of their estates.

THE DEBTORS' CASH MANAGEMENT SYSTEM

33. Prior to commencing the Cases, the Debtors managed their cash, receivables, and payables through a cash management system (the "Cash Management System"). The Cash Management System is designed to efficiently collect, transfer, and disburse funds for each of the Debtors. Deposit account control agreements have been entered into with respect to certain of the Debtors' bank accounts, and certain of the Debtors' bank accounts are pledged to the lenders under the Term Loan Facility and holders of the Notes.

34. The Debtors maintain accounting controls with respect to each of their bank accounts and are able to accurately trace the funds through their Cash Management System to ensure that all transactions are adequately documented and readily ascertainable. The Debtors will maintain their books and records relating to the Cash Management System to the same extent such books and records were maintained prior to the Petition Date. Therefore, all transfers and transactions will be properly documented, and accurate records of any permitted Intercompany Transfers (defined below) and account balances will be maintained. As a result, the Debtors will be able to accurately document and record the transactions occurring within the Cash Management System for the benefit of all parties in interest.

35. A list of the Debtors' bank accounts is attached hereto as **Exhibit A**,³ and a diagram of the Cash Management System is attached hereto as **Exhibit B**. The principal components of the Cash Management System are described below.

³ Historically, the Debtors have maintained 21 bank accounts. The Debtors recently closed the payroll account for Century Resources, and thus, as of the date of this Motion, the Debtors maintain 20 bank accounts. Each of the Debtors' bank accounts is located within the United States.

A. The RAAM Bank Accounts

36. RAAM maintains:

- (a) two bank accounts with Capital One Financial Corporation (“Capital One”), (i) Account No. XXXX-X28-220 (the “RAAM Checking Account”) and (ii) Account No. XXX-X51-833 (the “RAAM Sweep Account”); and
- (b) one bank account with JPMorgan Chase Bank, N.A. (“Chase”), Account No. XX-XX7-8069 (the “RAAM Payroll Account”).

37. RAAM typically does not generate income, and thus, from time to time it receives funds from Century New Orleans, Century Houston, and Century Resources to cover its expenditures. The funds received by RAAM are transferred or deposited into the RAAM Checking Account. Each night, the balance of the RAAM Checking Account is swept into the RAAM Sweep Account; then, each morning, the balance of the RAAM Sweep Account is swept back into the RAAM Checking Account. The RAAM Sweep Account is an interest earning account.

38. At the end of each month, sufficient funds from the RAAM Checking Account are transferred to the RAAM Payroll Account to fund RAAM’s payroll obligations.⁴ If the RAAM Checking Account does not have sufficient funds to meet RAAM’s payroll obligations, the RAAM Payroll Account is funded by the bank accounts of Century New Orleans, Century Houston, and Century Resources.

⁴ As of the Petition Date, the balance of the RAAM Checking Account is approximately \$3,261,811.42.

B. The Century New Orleans Bank Accounts

39. Century New Orleans maintains:

- (a) five bank accounts with Capital One, (i) Account No. XXXX-200-32 (the “New Orleans Primary Concentration Account”), (ii) Account No. XXXX-200-40 (the “New Orleans Operations Account”), (iii) Account No. XXXX-200-59 (the “New Orleans Royalty Account”), (iv) Account No. XXX-X16-122 (the “New Orleans Land Account”), and (v) Account No. XXX-X18-496 (the “New Orleans Sweep Account”);
- (b) three accounts with Chase, (i) Account No. XX-XX1-2964 (the “New Orleans Secondary Concentration Account”), (ii) Account No. XXX-XX9-3999 (the “New Orleans Money Market Account”), and (iii) Account No. XX-XX4-3973 (the “New Orleans Payroll Account”); and
- (c) one bank account with Bank of America, Account No. XXXX27-539 (the “Escrow Account”).

40. Revenues received by Century New Orleans related to its operations and from Century Houston and Century Resources are transferred or deposited into the New Orleans Primary Concentration Account. During the day, the New Orleans Primary Concentration Account operates as a holding account for these revenues.

41. Historically, Century New Orleans has contributed \$750,000 into the Escrow Account on a monthly basis, pursuant to the ACE Bonding Agreement. When payments pursuant to the ACE Bonding Agreement become due, the Debtors are permitted under the ACE Bonding Agreement to request funds from the Escrow Account to fund plugging and abandonment activities.⁵

⁵ As set forth in the *Emergency Motion for Order Authorizing Debtors to Continue Insurance Policies and Bonding Program* filed contemporaneously herewith, the Debtors are requesting authority to continue making payments into the Escrow Account solely in accordance with any Court approved budget and any order authorizing the use of the Debtors’ cash collateral.

42. The New Orleans Operations Account and the New Orleans Royalty Account are zero balance checking accounts used to pay accounts payable and royalty payments in the ordinary course of business as they become due.⁶ The New Orleans Operations Account and New Orleans Royalty Account are funded via a bank transfer from the New Orleans Primary Concentration Account in an amount equal to the amount of checks and wires presented for payment during the day, resulting in zero balances for both such accounts at the end of the day.

43. Each night, the balance of the New Orleans Primary Concentration Account is swept into the New Orleans Sweep Account; then, each morning, the balance in the New Orleans Sweep Account is swept back into the New Orleans Primary Concentration Account. The New Orleans Sweep Account is an interest earning account.

44. The New Orleans Secondary Concentration Account is a checking account used by the Debtors from time to time for miscellaneous transactions. This account is not swept into the New Orleans Sweep Account.

45. The New Orleans Money Market Account serves as an interest earning account. This account is not swept into the New Orleans Sweep Account.

46. The New Orleans Land Account is used for monthly land obligations, including, *inter alia*, delay rentals, options to extend or renew, surface rentals, pipeline rights of way, surface and subsurface agreements, penalties under the terms of the lease (*i.e.*, for failure to drill, retroactive rental, etc.), regulatory fees, and related expenses submitted from various landmen, administrative staff, and technical staff.⁷ The New Orleans Land Account is funded from the

⁶ On average, each month the Debtors pay approximately \$1,815,000 from the New Orleans Royalty Account for royalty obligations. In October 2015, the Debtors paid approximately \$1,000,000 from the New Orleans Royalty Account for royalty obligations.

⁷ On average, each month the Debtors pay approximately \$71,000 from the New Orleans Land Account for land obligations.

New Orleans Concentration Account via a transfer for approved land obligations by request of the Debtors' land department (the "Land Department"). If Century New Orleans lacks sufficient funds to satisfy land payment obligations, such transfers are made from the bank accounts of Century Houston, Century Resources, or RAAM. The balance of the New Orleans Land Account is not swept into the New Orleans Sweep Account.

47. At the end of each month, sufficient funds from the New Orleans Primary Concentration Account are transferred to the New Orleans Payroll Account to fund the payroll obligations of Century New Orleans.⁸ If Century New Orleans lacks sufficient funds to meet its payroll obligations, such transfers are made from the bank accounts of Century Houston, Century Resources, or RAAM.

C. The Century Houston Bank Accounts

48. Century Houston maintains:

- (a) four bank accounts with Capital One, (i) Account No. XXXX-X89-077 (the "Houston Concentration & Operations Account"), (ii) Account No. XXXX-X24-326 (the "Houston Royalty Account"), (iii) Account No. XXXX-X89-610 (the "Houston Land Account"), and (iv) Account No. XXX-X44-780 (the "Houston Sweep Account"); and
- (b) one bank account with Chase, Account No. XX-XX7-8077 (the "Houston Payroll Account").

49. Revenues received by Century Houston related to its operations and from Century New Orleans and Century Resources are transferred or deposited into the Houston Concentration & Operations Account. The Houston Concentration & Operations Account is a checking account used to pay various accounts payable as they become due.

⁸ As of the Petition Date, the balance of the New Orleans Primary Concentration Account is approximately \$3,161,089.57.

50. Each night, the balance of the Houston Concentration & Operations Account is swept into the Houston Sweep Account; then, each morning, the balance in the Houston Sweep Account is swept back into the Houston Concentration & Operations Account. The Houston Sweep Account is an interest earning account.

51. The Houston Royalty Account is used to pay royalty obligations as they become due.⁹ The Houston Royalty Account is funded via a bank transfer from the Houston Concentration & Operations Account in an amount equal to the amount of checks and wires presented for payment during the day, resulting in a zero balance for the Houston Royalty Account at the end of the day. The Houston Royalty Account is not swept into the Houston Sweep Account.

52. The Houston Land Account is used for monthly land obligations, including, *inter alia*, delay rentals, options to extend or renew, surface rentals, pipeline rights of way, surface and subsurface agreements, penalties under the terms of the lease (*i.e.*, for failure to drill, retroactive rental, etc.), regulatory fees, and related expenses submitted from various landmen, administrative staff, and technical staff.¹⁰ The Houston Land Account is funded from the Houston Concentration & Operating Account via a bank transfer for approved land obligations by request of the Land Department. If Century Houston lacks sufficient funds, such transfers are made from the bank accounts of Century New Orleans, Century Resources, or RAAM. The balance of the Houston Land Account is not swept into the Houston Sweep Account.

⁹ On average, the Debtors pay approximately \$2,430,000 from the Houston Royalty Account each month for royalty obligations. In October 2015, the Debtors paid approximately \$1,300,000 from the Houston Royalty Account for royalty obligations.

¹⁰ On average, the Debtors pay approximately \$79,000 from the Houston Land Account each month for land obligations.

53. At the end of each month, sufficient funds from the Houston Concentration & Operations Account are transferred to the Houston Payroll Account to fund Century Houston's payroll obligations.¹¹ If Century Houston lacks sufficient funds, such transfers are made from the bank accounts of Century New Orleans, Century Resources, or RAAM.

D. The Century Resources Bank Accounts¹²

54. Century Resources maintains three bank accounts with Capital One:

- (a) Account No. XXXX-X99-664 (the "Resources Concentration, Operations & Royalty Account");
- (b) Account No. XXXX-X99-656 (the "Resources Land Account"); and
- (c) Account No. XXX-X62-397 (the "Resources Sweep Account").

55. Revenues received by Century Resources related to its operations and from Century New Orleans and Century Houston are transferred or deposited into the Resources Concentration, Operations & Royalty Account. The Resources Concentration, Operations &

¹¹ As of the Petition Date, the balance of the Houston Concentration and Operations Account is approximately \$3,121,074.54.

¹² There is an escrow account that holds \$564,458.41 relating to assets sold pre-petition pursuant to that certain Asset Purchase and Sale Agreement between Century Resources and California Resources Production Company ("CRPC") dated July 23, 2015 (the "PSA"). Article 2.7 of the PSA provides for 10% of the closing payment (the "Escrow Fund") to go into an escrow account to cover potential legal costs that CRPC may incur should the transaction be threatened, including, among other things, indemnification of CPRC by Century Resources. Pursuant to Article 7.4(b) of the PSA, the Escrow Fund will be held in a trust fund until the earlier of: (i) twelve (12) months after the date of the PSA, (ii) such date as mutually agreed to between Century Resources and CPRC, or (iii) the date on which causes of action to avoid the transaction and transfers under the PSA by, or for the benefit of, creditors of Century Resources who are existing on the Closing Date (as defined in the PSA) can no longer be brought as a matter of law (the "Escrow Period"). At the end of the Escrow Period, Century Resources and CPRC will jointly instruct the Escrow Agent (as defined in the PSA) to release the remainder of the Escrow Fund to Century Resources after deducting from the Escrow Fund any and all attorney's fees and legal costs incurred by CPRC related to defending the disposition of Assets (as defined in the PSA), the PSA, or any document executed in connection with the PSA.

Royalty Account is a checking account used to pay various accounts payable and royalty obligations as they become due.¹³

56. Each night, the balance of the Resources Concentration, Operations & Royalty Account is swept into the Resources Sweep Account; then, each morning, the balance of the Resources Sweep Account is swept back into the Resources Concentration, Operations & Royalty Account. The Resources Sweep Account is an interest earning account.

57. The Resources Land Account is used for monthly land obligations, including, *inter alia*, delay rentals, options to extend or renew, surface rentals, pipeline rights of way, surface and subsurface agreements, penalties under the terms of the lease (*i.e.*, for failure to drill, retroactive rental, etc.), regulatory fees, and related expenses submitted from various landmen, administrative staff, and technical staff.¹⁴ The Resources Land Account is funded from the Resources Concentration, Operations & Royalty Account via a bank transfer for approved land obligations by request of the Land Department.¹⁵ If Century Resources lacks sufficient funds, such transfers are made from the bank accounts of Century New Orleans, Century Houston, or RAAM. The balance of the Resources Land Account is not swept into the Resources Sweep Account.

E. Intercompany Transfers

58. As described above, the Debtors make a variety of intercompany transfers (the “Intercompany Transfers”) of funds in the ordinary course of business. The Intercompany

¹³ On average, each month the Debtors pay approximately \$1,790,000 from the Resources Concentration, Operations & Royalty Account for royalty obligations. In October 2015, the Debtors paid approximately \$7,000 from the Resources Concentration, Operations & Royalty Account for royalty obligations.

¹⁴ The Debtors have not made any recent material payments from the Resources Land Account for land obligations.

¹⁵ As of the Petition Date, the balance of the Resources Concentration, Operations & Royalty Account is approximately \$919,974.87

Transfers maintain operational efficiency and ensure the Debtors can, among other things, timely satisfy their accounts payable, royalty, land, and payroll obligations. The Cash Management System tracks all Intercompany Transfers.

F. Bank Fees

59. In the ordinary course of business, the Debtors' banks debit the Debtors' bank accounts for a number of fees and expenses related to the cost of administering such bank accounts, including, *inter alia*, wire transfers and other fees, costs, and expenses standard for a typical corporate bank account (collectively, the "Bank Fees"). The Bank Fees are either debited directly from the Debtors' bank accounts or are paid in connection with wire transfers.

RELIEF REQUESTED

60. The nature of the Debtors' business and the complex structure of the Debtors' Cash Management System make it critical that the Debtors' bank accounts be maintained and the Cash Management System be continued for the duration of the Cases. Accordingly, the Debtors seek entry of an interim order (the "Interim Order"), and subsequently entry of a final order (the "Final Order"), subject to any order authorizing the use of the Debtors' cash collateral: (a) authorizing the Debtors to maintain their existing bank accounts and Cash Management System and waiving certain requirements of Rule 7(B) of the Complex Chapter 11 Guidelines (defined below); (b) authorizing the Debtors to continue their use of the current business forms and checks for the Land Accounts (defined below); (c) authorizing the Debtors to continue to engage in the Intercompany Transfers in the ordinary course of business; (d) authorizing the Debtors to pay any undisputed pre-petition Bank Fees and continue to pay the Bank Fees in the ordinary course of business; and (e) waiving the requirement to comply with Bankruptcy Code § 345, to the extent, if any, the Debtors' bank accounts do not strictly comply therewith.

61. The Debtors also respectfully request that the Court authorize and direct their banks to maintain, service, and administer the Debtors' bank accounts without interruption and in the ordinary course of business. In this regard, the Debtors request the banks be authorized and directed to receive, honor, and pay any and all checks, wire transfers, automatic clearinghouse payments, and other instructions, and drafts payable through, drawn, or directed on such bank accounts after the Petition Date by holders, makers, or other parties entitled to issue instructions with respect thereto. Notwithstanding the foregoing, any check, advise, draft, or other notification that the Debtors inform the banks to have been drawn, issued, or otherwise presented before the Petition Date may be honored by the banks only to the extent authorized by order of the Court.

A. Continued Use of Pre-Existing Bank Accounts and Cash Management System

62. Pursuant to Bankruptcy Code §§ 105 and 363, the Debtors request, *inter alia*, (a) authority to continue the use of their existing Cash Management System and (b) a partial waiver of Rule 7(B) of the *Procedures for Complex Chapter 11 Bankruptcy Cases for the United States Bankruptcy Court for the Southern District of Texas*, available at http://www.txs.uscourts.gov/sites/txs/files/complex_rules.pdf (the "Complex Chapter 11 Guidelines").

63. In order to supervise the administration of chapter 11 cases, the Office of the United States Trustee ("UST") has established certain operating guidelines (the "UST Guidelines") for debtors in possession. See *Guidelines for Debtors-in-Possession*, U.S. Department of Justice, United States Trustee Program, Region 7, available at http://www.justice.gov/sites/default/files/ust-regions/legacy/2011/07/13/DIP_Guidelines.pdf.

64. The UST Guidelines generally require chapter 11 debtors to, *inter alia*:

- (a) close all existing bank accounts;
- (b) open new bank accounts in a depository approved by the UST that are designated as debtor in possession accounts, with separate debtor in possession accounts established for an operating account, a tax account (to the extent that payroll or other taxes are an issue for the debtor), and a payroll account (to the extent that the debtor had a separate payroll account pre-petition);
- (c) obtain and utilize new checks for all debtor in possession accounts that bear the designation “Debtor in Possession” and contain other information about the chapter 11 case and ensure that the signature cards for all debtor in possession accounts clearly indicate that the debtor is a debtor in possession;
- (d) deposit all receipts and make all disbursements only through the approved debtor in possession accounts, with any funds in excess of those required for current operations being maintained in an interest-bearing account;
- (e) deposit to the tax debtor in possession account sufficient funds to pay any tax liability (when incurred) associated with the debtor’s payroll; and
- (f) deposit all estate funds into an account with a financial institution that agrees to comply with the requirements of the UST and is an authorized depository approved by the UST.

Id at §§ A-F.

65. In addition to the UST Guidelines, the Complex Chapter 11 Guidelines require debtors engaged in drilling, exploration, development, or operation of oil, gas, or mineral properties to comply with additional operating guidelines. Specifically, the Complex Chapter 11 Guidelines require such debtors engaged in exploration and production to, *inter alia*, maintain a segregated account for funds received after the petition date that are attributable to overriding royalties, working interest owners, and third parties. *See* Rule 7(B) of the Complex Chapter 11 Guidelines.

66. Requiring the Debtors to adopt new cash management systems and open new bank accounts at the same or different depository institutions at this early and critical stage of the

Cases would be expensive, impose needless administrative burdens on the Debtors, and would cause undue disruption to the Debtors' operations. Any such disruption would affect the Debtors' ability to maximize estate values for the benefit of creditors and other parties in interest. Moreover, such a disruption would be wholly unnecessary insofar as the continued use of the Debtors' bank accounts and Cash Management System provides a safe, efficient, and established means for the Debtors to maintain and manage their cash.

67. Furthermore, funds attributable to overriding royalties, working interest owners, and third parties are proposed to be paid by the Debtors post-petition in the ordinary course of business pursuant to the Debtors' *Emergency Motion for Authority to Pay Royalty and Working Interest Obligations, Lease Operating Expenses, JIBs, and Trade, and Potential Holders of Statutory Liens*, filed contemporaneously with this Motion. Amounts that are due and owing to certain holders of overriding royalties, working interest owners, and third parties but are otherwise unpayable (the "Suspended Funds") will be maintained by the Debtors in a segregated account. Accordingly, the parties do not need the protection of Rule 7(B) of the Complex Chapter 11 Guidelines.

68. The Debtors submit that a waiver of certain of the requirements of the UST Guidelines and Complex Chapter 11 Guidelines is appropriate in the Cases because maintenance of the Debtors' existing bank accounts and Cash Management System will minimize the disruption to the Debtors' operations and promote an orderly and efficient transition into chapter 11 and is entirely consistent with the goals underlying the UST Guidelines. The Cash Management System constitutes an ordinary course and essential business practice and provides significant benefits to the Debtors and their estates including, *inter alia*, the ability to: (a) control corporate funds, (b) ensure the maximum availability of funds when necessary, and (c) reduce

borrowing costs and administrative expenses by facilitating the movement of funds and by providing more timely and accurate account balance information.

69. Accordingly, the Debtors request authority to: (a) maintain and continue to use any or all of their existing bank accounts (listed above) in the names and with the account numbers existing immediately prior to the commencement of the Cases, provided that the Debtors reserve the right to close some or all of their existing accounts and open new debtor in possession accounts;¹⁶ (b) deposit funds in and withdraw funds from any such accounts by all usual means, including checks, wire transfers, automatic clearinghouse transfers, electronic funds transfers, or other debits; and (c) treat their existing accounts (and any accounts opened post-petition) for all purposes as debtor in possession accounts.

70. As set forth above, to ensure that all transfers and transactions will be documented in their books and records, the Debtors will continue to maintain records of all transfers within the Cash Management System. To guard against improper transfers resulting from the post-petition honoring of pre-petition checks, the Debtors request that their banks be directed not to honor, subject to certain exceptions approved by this Court, any checks drawn on the Debtors' bank accounts prior to the Petition Date. To assist in this process, the Debtors will notify each bank with a disbursement account of the commencement of the Cases and will instruct each bank, subject to certain exceptions approved by this Court, not to honor any checks dated prior to the Petition Date and below an identified check number. A form of the proposed notice to each of the Debtors' banks is attached hereto as **Exhibit C**.

¹⁶ In the event the Debtors close any existing accounts or open new debtor in possession accounts, the Debtors shall provide notice to Highbridge Principal Strategies, LLC (the "Principal First Lien Lender").

71. Bankruptcy courts in the Fifth Circuit have routinely granted authority for a debtor's continued use of its existing cash management procedures and policies, particularly where the entities involved form a large and complex organization. *See e.g., In re ASARCO LLC*, No. 05-21207, Docket No. 52 (Bankr. S.D. Tex. Aug. 12, 2005); *In re ATP Oil & Gas Corp.*, No. 12-36187, Docket No. 135 (Bankr. S.D. Tex. Aug. 22, 2012); *In re Autoseis, Inc., et al.*, No. 14-20130, Docket No. 247 (Bankr. S.D. Tex. Apr. 25, 2014); *In re Buccaneer Res. LLC, et al.*, No. 14-60041, Docket No. 118 (Bankr. S.D. Tex. June 4, 2014); *In re Univ. Gen. Health Sys., Inc., et al.*, No. 15-31086, Docket No. 146 (Bankr. S.D. Tex. Mar. 23, 2015).

72. The maintenance of the Cash Management System (together with the reporting discussed above) will accomplish the dual goals of minimizing the disruption to the Debtors' operations and satisfying the UST Guidelines. The recording of transactions within the Cash Management System would afford a complete accounting of the Debtors' funds and would provide the UST comfort that the spirit of the UST Guidelines would be observed.

B. Waiver of Requirement Regarding Checks, Business Forms, and Signature Cards

73. The Debtors seek a waiver of the requirement to immediately purchase new checks and business forms that include the term "debtor in possession" and the case number assigned to the Cases, solely with respect to the New Orleans Land Account, the Houston Land Account, and the Resources Land Account (collectively, the "Land Accounts").¹⁷

74. The Debtors have an inventory of check stock and business forms for the Land Accounts that would go to waste if new checks were to be ordered and used. Additionally, requiring the Debtors to obtain new checks for the Land Accounts, which bear the designation

¹⁷ With respect to the Debtors' remaining bank accounts, the Debtors issue computer-generated checks that can be modified electronically, at no additional cost to the Debtors' estates, to include the "debtor in possession" language and the case number assigned to the Cases.

“debtor in possession,” would cause the Debtors to incur undue expense. Accordingly, to preserve funds and assist in the efficient administration of the estates, the Debtors seek authority to use pre-existing business forms and check stock solely with respect to the Land Accounts.

75. The Debtors further seek a waiver of the requirement to modify the signature cards for all bank accounts to indicate the Debtors are debtors in possession. Requiring the Debtors to modify the signature cards for each of their bank accounts would be time consuming and burdensome. Accordingly, the Debtors seek authority to maintain their existing signature cards for their debtor in possession bank accounts.

C. Waiver of Compliance with 11 U.S.C. § 345

76. The Debtors further seek a waiver of the requirement to comply with Bankruptcy Code § 345, to the extent, if any, the Debtors’ bank accounts do not strictly comply therewith.

77. Bankruptcy Code § 345(a) provides that “[a] trustee in a case under this title may make such deposit or investment of the money of the estate for which such trustee serves as will yield the maximum reasonable return on such money, taking into account the safety of such deposit.” 11 U.S.C. § 345(a). Bankruptcy Code § 345(b) further provides that unless the Court orders otherwise, for deposits or investments that are not “insured or guaranteed by the United States or by a department, agency or instrumentality of the United States or backed by the full faith and credit of the United States,” the estate must require the institution with which the money is deposited or invested to either post a surety bond or deposit “securities of the kind specified in section 9303 of title 31.” 11 U.S.C. § 345(b).

78. Bankruptcy courts in the Fifth Circuit have authorized debtors to continue their pre-petition investment policies without requiring strict compliance with Bankruptcy Code § 345(b). *See, e.g., In re ASARCO LLC*, No. 05-21207, Docket No. 52 (Bankr. S.D. Tex. Aug. 12,

2005); *In re ATP Oil & Gas Corp.*, No. 12-36187, Docket No. 135 (Bankr. S.D. Tex. Aug. 22, 2012); *In re Univ. Gen. Health Sys., Inc., et al.*, No. 15-31086, Docket No. 146 (Bankr. S.D. Tex. Mar. 23, 2015).

79. The Debtors have no reason to believe at this time that any of their deposit accounts, including the cash sweep accounts described above, do not comply with Bankruptcy Code § 345. Nevertheless, to the extent that any of the Debtors' deposit accounts do not comply strictly with Bankruptcy Code § 345, the Debtors submit that cause exists to waive any such noncompliance because all funds are deposited safely and prudently at financially stable banking institutions in a manner specifically designed to preserve capital, provide liquidity, and generate return.

NOTICE

80. Notice of this Motion has been provided by e-mail, facsimile, or overnight delivery to: (a) the Office of the United States Trustee for the Southern District of Texas; (b) the Debtors; (c) counsel to the Debtors; (d) counsel to the lenders under the Term Loan Facility; (e) counsel to ACE; (f) counsel to certain holders of the Notes; (g) counsel to the administrative agent under the Term Loan Facility; (h) counsel to the indenture trustee and collateral agent under the Notes; (i) the Debtors' 50 largest unsecured creditors (on a consolidated basis); (j) those persons who have formally appeared in the Cases and requested service pursuant to Bankruptcy Rule 2002; (k) the Debtors' banks; (l) the Securities and Exchange Commission; (m) the Internal Revenue Service; and (n) all other applicable government agencies to the extent required by the Bankruptcy Rules and the Bankruptcy Local Rules.

PRAYER

The Debtors respectfully request that the Court enter an Interim Order, and subsequently a Final Order: (a) authorizing the Debtors, subject to any order governing the use of the Debtors' cash collateral, to maintain their Cash Management System and the bank accounts associated therewith, including authorizing the Debtors to continue (i) engaging in the Intercompany Transfers, provided that pre-petition intercompany claims shall not be paid post-petition and (ii) paying the Bank Fees associated with the banks' maintenance of the Cash Management System, in the ordinary course of business; (b) authorizing the Debtors to (i) utilize their existing checks and business forms for the Land Accounts and (ii) maintain their existing signature cards for all bank accounts; (c) waiving the requirement to comply with (i) Bankruptcy Code § 345, to the extent, if any, the Debtors' bank accounts do not strictly comply therewith and (ii) Rule 7(B) of the Complex Chapter 11 Guidelines; (d) authorizing and directing the Debtors' banks to (i)

maintain, service, and administer the Debtors' bank accounts without interruption and in the ordinary course of business, and (ii) receive, honor, and pay any and all checks, wire transfers, automatic clearinghouse payments, and other instructions, and drafts payable through, drawn, or directed on such bank accounts after the Petition Date by holders, makers, or other parties entitled to issue instructions with respect thereto; and (e) granting such other and further relief, both at law and in equity, as this Court deems just and proper.

Dated: October 26, 2015

Respectfully submitted,

VINSON & ELKINS LLP

By: /s/ Bradley R. Foxman
Harry A. Perrin, SBT # 1579800
John E. West, SBT # 21202500
Reese A. O'Connor, SBT # 24092910
First City Tower
1001 Fannin Street, Suite 2500
Houston, TX 77002-6760
Tel: 713.758.2222
Fax: 713.758.2346
hperrin@velaw.com; jwest@velaw.com
roconnor@velaw.com

and

William L. Wallander, SBT # 20780750
Bradley R. Foxman, SBT # 24065243
Trammell Crow Center
2001 Ross Avenue, Suite 3700
Dallas, Texas 75201
Tel: 214.220.7700
Fax: 214.999.7787
bwallander@velaw.com; bfoxman@velaw.com

**PROPOSED ATTORNEYS FOR THE
DEBTORS**

CERTIFICATE OF SERVICE

I certify that on October 26, 2015, I caused a copy of the foregoing document to be served by the Electronic Case Filing System for the United States Bankruptcy Court for the Southern District of Texas.

/s/ Bradley R. Foxman
One of Counsel