The Deal

Venoco Engages in Restructuring Talks

February 18, 2016

Venoco Inc. decided not to make a $13.7 million interest payment due Wednesday on its $308.22 million in 8.875% senior unsecured notes as it continues talks with its secured lenders about restructuring options.

"We are carefully weighing our options to reduce debt, and have had positive discussions with our lenders about the possibility of restructuring the balance sheet to do so," Venoco CEO Mark DePuy said in a statement on Feb. 17. "Our substantial cash position allows us to continue to meet all of our current obligations to pay our employees, vendors, and others, fund our ongoing operations and to pursue and advance other business opportunities."

The statement said the Denver-based company, which produces oil from offshore and onshore properties in California, will use the 30-day grace period following the payment miss to continue discussions with its creditors.

The Deal has learned that a Davis Polk & Wardwell LLP team headed by Damian Schaible is advising Venoco's debtholders. Davis Polk also advised the company's lenders, noteholders, and note purchasers on a debt revamp completed last April.

Kim Brady, senior managing director at advisory firm SOLIC Capital LLC, said by phone that he thinks Venoco's actions suggest that it's likely to pursue a prepackaged bankruptcy filing. Given the prospect of a prolonged period of depressed oil prices, he expects creditors will be amenable to cooperating with a restructuring plan.

A Venoco spokeswoman declined to comment on the possibility of a prepackaged bankruptcy filing.

Venoco on Wednesday blamed its financial troubles on a combination of low oil prices and the closure of pipeline run by Plains All American Pipeline LP. That pipeline breached on May 19 and spilled more than 100,000 gallons of oil in the vicinity of Refugio State Beach in Santa Barbara, Calif.

Venoco ceased production from one of its platforms in the Santa Barbara Channel following the spill. The company noted Wednesday that there is no set date for the pipeline to reopen, and that its closure has resulted in Venoco cutting its production by more than half.

Venoco has been working for a long time to manage its debt load.

The company completed a capital structure retooling last April that allowed it to raise $250 million in new debt, swap out some old debt, and repay and terminate its revolving credit facility.

But Venoco acknowledged on May 15 that it was evaluating further deleveraging efforts.

Moody's Investors Service Inc. asserted soon after, in a May 27 report, that further distressed exchanges were likely as Venoco works to manage its "untenable" capital structure.

As of Sept. 30, Venoco and its holding company, Denver Parent Corp., had a combined $995.57 million in debt. Denver Parent Corp. has no assets other than 100% of Venoco's common stock. It was formed as a vehicle for Venoco founder Timothy Marquez to use to take the company private in a $435 million buyout that closed Oct. 3, 2012.

The company's debt load comprises the previously-mentioned 8.875% senior unsecured notes due Feb. 15, 2019, which last traded at 8.71 cents on the dollar Wednesday according to Bloomberg Finance data; $133.84 million in second-lien notes due in February 2019, bearing interest at 8.875% in cash or 12% in kind; $175 million in 12% first-lien notes due Feb. 28, 2019; and a $74.32 million first-lien term loan due Dec. 11, 2017 and bearing interest at Libor plus 400 (signed June 11, 2015).

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