

**In the United States Bankruptcy Court
Western District of Louisiana
Shreveport Division**

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| In the Matter Of: | } | |
| | } | Case No. 13-12046 |
| Keithville Well Drilling & Services LLC | } | |
| | } | Chapter 11 |
| Debtor | } | |

**Debtor's Motion for Order Authorizing Sale of the Estate's
Unneeded Vehicles and Water Well Drilling Equipment**

Keithville Well Drilling & Services LLC, the debtor and debtor in possession in the above-captioned Chapter 11 case (the “Debtor” or “Keithville”), hereby moves this Court (the “Sale Motion”), pursuant to 11 U.S.C.A. § 363(b), for an order authorizing the sale of the estate’s unneeded vehicles and water well drilling equipment to Complete Well and Pump Services LLC, a Louisiana limited liability company (the “Buyer”). In support of the Sale Motion, the Debtor respectfully states as follows:

Jurisdiction

1. This Court has jurisdiction to consider the Sale Motion pursuant to 28 U.S.C.A. §§ 157 and 1334. This matter is a core proceeding within the meaning of 28 U.S.C.A. § 157(b)(2)(A), (N) and (O).
2. Venue is proper in this district pursuant to 28 U.S.C.A. §§ 1404 and 1409.
3. The statutory basis for the relief requested herein is 11 U.S.C.A. § 363(b) and Rules 6004 and 9014 of the Federal Rules of Bankruptcy Procedure (the “Bankruptcy Rules”).

Background

4. Keithville is a family business that was founded and operated by John Talley. Subsequently, Keithville was operated by his son, Howard Talley. Now, John Talley’s grandson,

Jeff Talley, and his great-grandsons, Jacob Talley and Eric Talley operate the family business. For many years, Keithville drilled residential and commercial water wells, and more recently, it drilled water supply and injection wells for the oil exploration and production industry. With the Haynesville Shell Play, Keithville's oil industry related work boomed and became Keithville's most significant source of revenue. This led to Keithville's purchase of surface rig one in order to enter the oil and gas well drilling business.

5. As Keithville's business rapidly expanded and became more integrated into the oil industry, the company obtained a favorable contract with BHP. In order to service that contract, Keithville purchased a larger, second surface rig, surface rig two. In order to obtain purchase money financing in the amount of \$5.5 million for the second surface rig, Keithville granted a security interest to Nations I Fund LLC ("Nations") in the second surface rig and substantially all other assets of Keithville's.

6. Surface rig two was used exclusively for the BHP contract. Generally, the contract was profitable, but it presented significant challenges. BHP, an international company, required Keithville to comply with strict operational guidelines, which significantly increased Keithville's overhead. Furthermore, most of Keithville's vendors expected to be paid on terms of net 30, but Keithville billed BHP upon completion of each job, and BHP paid on 90 to 120 day terms. As a result, the company entered into a factoring contract with Gulf Coast Bank & Trust resulting in the erosion of profitability.

7. By the time of the completion of the BHP contract, the oil drilling industry in this area had declined to the 1980's levels. Surface rig two became inactive in September 2015, and surface rig one became inactive in mid-November, 2015. Keithville maintained skeleton crews on both rigs to do repairs and maintenance. On December 14, 2015, Keithville was forced to layoff a

substantial number of surface rig employees and employees from other departments. On December 22, 2015, the company laid off the remaining surface rig employees. Keithville was forced to make further layoffs in January 2016. Keithville formerly employed more than seventy employees; by the petition date, its work force has been reduced to less than twenty employees.

8. Keithville determined that its only option was to restructure its business operations by exiting the oil and gas well drilling business and deploying all of its resources to reentering the water well drilling business.

Nations' Perfected Liens, Claims, Rights, Interests and Encumbrances

9. Nations extended prepetition financing to the Debtor pursuant to the terms of the Financed Lease and UCC Financing Statement ("Prepetition Credit Agreement"), dated as of November 21, 2014, (copies of which have been entered into the case record as Document #19-1, 19-2, 19-3 and 19-4). In connection with this financing arrangement, Nations was granted liens (the "Prepetition Liens") on substantially all the assets of the Debtor, including, without limitation, all of the Debtor's equipment, other inventory, accounts and accounts receivable (the "Prepetition Collateral").¹

10. As of the Petition Date, Nations' secured claim was in an amount of not less than \$4,447,614.75 (the "Prepetition Indebtedness") pursuant to the Prepetition Credit Agreement.

11. Nations' liens on and security interests in the Prepetition Collateral are valid and perfected to the extent perfection can be accomplished by filing UCC-Financing Statements, by certificate perfection or by possession.

Necessity for Sale

¹ Pursuant to that certain Subordination Agreement, Nations agreed to subordinate its interest in and to the Debtor's accounts receivable as to the claims of the Debtor's factor, discussed herein. Because the proposed sale does not involve a sale of any accounts receivable, Nations is the sole secured creditor with an interest and entitlement to proceeds from the sale of the Sale Equipment.

12. Prior to the Debtor's Chapter 11 filing, Nations and Keithville were negotiating a forbearance agreement, pursuant to which, Keithville intended to restructure its business operations by exiting the oil and gas well drilling business and concentrating its efforts on the water well drilling business. Keithville concluded that it was critical to reduce its ongoing operating expenses, including its payments to Nations, by returning to Nations certain pieces of the Collateral which the Debtor no longer required or requires under its intended restructuring (collectively, the "Surrendered Equipment") and in exchange therefor, and upon liquidation of the Surrendered Equipment, Nations would apply the proceeds thereof to reduce the Debtor's significant obligations to Nations. Other creditors' collection activity required Keithville to file for Chapter 11 relief before the agreement between Nations and Keithville could be completed and consummated.

13. Immediately after filing its voluntary petition, the Debtor and Nations entered into an agreement embodied in two stipulations, each approved by the court (the "Stipulations"), to continue the pre-petition strategies of the Debtor and Nations, to wit: (i) surrender to Nations certain equipment (defined as the "Surrendered Equipment"; (ii) permit Nations to liquidate the Surrendered Equipment, without formal foreclosure proceedings; (iii) give the Debtor the opportunity to have input into the processes and procedures used by Nations for the liquidation of the Surrendered Equipment; (iv) application of the net proceeds from the liquidation of the Surrendered Equipment to the Debtor's obligations owed to Nations; and (v) reduction in the monthly payments due by the Debtor to Nations, based upon the Retained Equipment (as defined below). As such sales of the Surrendered Equipment have not yet been completed, the Prepetition Indebtedness has not yet been reduced.

14. Pursuant to the Stipulations and court authority, much of the Debtor's oil well drilling

equipment and other unnecessary equipment and vehicles have been returned to Nations and subsequently placed for sale/auction. The Debtor, however, also retained certain equipment under the Court-approved Stipulations (defined therein as the “Retained Equipment”).

15. The Debtor believed that by using the Retained Equipment, it could eventually achieve a sufficient market share of the residential, commercial and industrial water well drilling business to fund a reorganization under Chapter 11. Unfortunately, the wet winter and spring, the \$7500 weekly adequate protection payments and the scarcity of oil industry related water well drilling business (salt water injection wells and frack wells for customers in the depressed oil exploration industry) have combined to frustrate the Debtor’s progress and to diminish the feasibility of reorganization. Shortly after entry of each of the Stipulations, referenced above, the Debtor was unable to make its required adequate protection payments.

16. While the Debtor intends to ultimately propose a Chapter 11 plan of liquidation to sell its remaining, unencumbered assets, including its unencumbered immovable property, to pay as much of its debts as possible, the Debtor needs to first immediately sell its property encumbered by Nations’ liens, before pursuing such any Chapter 11 Plan, thereby reducing Nations’ secured debt and benefiting the Debtor’s estate and its creditors.

Proposed Sale of Assets

17. The Debtor is the owner of certain unnecessary equipment and vehicles, located at the *Keithville Yard* in Keithville, Louisiana (the “Sale Equipment”), all of which is subject to Nations’ liens and encumbrances, and all of which was included in the Retained Equipment pursuant to the Stipulations. Attached hereto as Exhibit “A” is a detailed list of the Sale Equipment. Exhibit “A” also provides what Nations and the Debtor commonly refer to as *floor prices*, which are amounts

Nations would agree to accept if the asset were to be sold to a third party.² Nations' agreement to the floor prices is expressly subject to the entirety of the proceeds from the Sale Equipment being paid directly to Nations by the Buyer so that Nations may apply such proceeds to reduce Nations' Prepetition Indebtedness. The proposed sale prices are at or above the floor prices and the Debtor believes that the sale proceeds are equal to the fair market value of the assets.

18. The Sale Equipment is to be sold to the Buyer for \$336,703, to be paid by wire transfer, directly to Nations, on the day that the order approving the proposed sale is entered. Upon receipt of the sale proceeds, Nations will apply the proceeds thereof to reduce the Debtor's significant obligations to Nations.

19. Nations consents to the sale, and the following terms and conditions shall be incorporated into the sale order:

(1) All gross proceeds of \$336,703 shall be paid to Nations at closing, directly by the Buyer;

(2) There will be no surcharge as to the aforementioned gross proceeds, to Nations or on any other asset that constitutes Nations' Collateral;

(3) There are no other agreements between the Debtor and the buyer (and any of their respective affiliates and/or insiders), other than the agreement between the Debtor and the Buyer to sell the Sale Equipment; and

(4) Upon closing, and upon Nations' receipt in full of \$336,703 in cleared funds from the Buyer, Nations will release its lien on the Sale Equipment.

Additional Equipment Sale and Turnover

20. In addition to the Sale Equipment, the Debtor is in possession of 2 units that are part

² The "floor prices" are not release prices, as all of the Collateral constitutes collateral for all of the obligations owed to Nations, and thus, until Nations is paid in full, the Debtor is not entitled to any proceeds from the sale of any of the collateral.

of Nations' Collateral: (i) the 2009 Dragon Vacuum (Unit ending in #8060); and (ii) the 2009 Dragon Vacuum (Unit ending in #8136) (collectively, the "Dragon Vacuums"). The Debtor has determined that the Dragon Vacuums, which were previously part of the Retained Equipment under the Stipulations, are no longer needed by the Debtor and will not be part of the sale to the Buyer. As such, the Debtor requests authority to turn over the Dragon Vacuums to Nations for liquidation in accordance with the terms of the Stipulations. The Dragon Vacuums, as with the other Surrendered Equipment, are fully encumbered by Nations' liens. In essence, this request is an augmentation of the Stipulations.

21. As part of the Stipulations, the Debtor returned numerous heavy-duty equipment units to Nations for liquidation. Among the Surrendered Equipment, included two cement mixers that were part of Nations' collateral and which were mounted and affixed to two trailers (the "Two Trailers"). The Two Trailers were not part of Nations' Collateral but have very limited value when separated from the equipment mounted thereon. Further, the value of Nations' equipment on the Two Trailers is not increased by having such equipment mounted on the trailers. Ritchie Bros., Nations' liquidation agent has advised Nations and the Debtor that the combined value of the Two Trailers is approximately \$5,000.

22. The Debtor desires for Nations to continue its liquidation efforts, particularly as to the equipment mounted on the Two Trailers. Given that the Two Trailers are not encumbered by Nations' liens, but are affixed to Nations' Collateral and of little, if any, use to the Debtor, Nations has agreed, after entry of an Order of this Court, to liquidate the Two Trailers, as part and parcel to the liquidation of the Surrendered Equipment and cause Ritchie Bros. to pay to the Debtor the aggregate sum of \$5,000. The Debtor requests that the Order approving this Sale Motion authorize the sale of the Two Trailers, with the net proceeds of \$5,000 paid to the Debtor.

Waiver of Applicable Stay Period

23. Bankruptcy Rule 6004(h) provides, in pertinent part, that any order authorizing the sale of property, shall be stayed until 14-days after entry of such order, *unless the court orders otherwise*. Because this Court has already determined that Nations has a validly existing, properly perfected lien against the Sale Equipment and the Dragon Vacuums, and that Nations has graciously agreed to assist the Debtor in the sale of the Two Trailers, as part of its liquidation of the Surrendered Equipment, the Debtor respectfully requests that the Order approving the requested sale herein expressly waive the 14-day stay period. This will enable the parties to immediately consummate the various transactions and for the Debtor to focus its efforts on its plan of liquidation.

WHEREFORE, Debtor respectfully requests that this Court, after hearing on notice pursuant to Fed. R. Bankr. P. 2002, 6004 and 9014, approve this sale of the estate's interest in the Sale Equipment, the Dragon Vacuums and the Two Trailers, as more particularly described herein, that the 14-day stay period pursuant to Fed. R. Bankr. P. 6004(h) be waived, and that the Debtor be granted such other and further relief as is just and proper.

June 22, 2016

Respectfully submitted,

/s/ Robert W. Raley

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**Certificate of Service on
Debtor's Motion for Order Authorizing Sale of the Estate's
Unneeded Vehicles and Water Well Drilling Equipment**

I HEREBY CERTIFY that on June 22, 2016, a copy of the above and Foregoing *Debtor's Motion for Order Authorizing Sale of the Estate's Unneeded Vehicles and Water Well Drilling Equipment* in this Chapter 11 case filed in the above captioned case has been served on the following registered ECF participants, electronically through the court's ECF System at the email address registered with the court:

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And on the following by ordinary U.S. Mail addressed to:

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