

IN THE UNITED STATES BANKRUPTCY COURT
FOR THE WESTERN DISTRICT OF TEXAS
MIDLAND DIVISION

In Re: §
§
Surface Drilling of Texas, LLC, § Case No. 17-70155-tmd
Debtor. § Chapter 11 Case

DEBTOR’S EXPEDITED MOTION FOR AUTHORITY TO SELL PERSONAL PROPERTY OF THE ESTATE FREE AND CLEAR OF LIENS

TO THE HONORABLE TONY M. DAVIS, United States Bankruptcy Judge:

COMES NOW, Surface Drilling of Texas, LLC, the debtor- in-possession in the above-entitled and numbered bankruptcy proceeding (“**Surface Drilling**” or “**Debtor**”), and files this Expedited Motion for Authority to Sell Personal Property of the Estate Free and Clear of Liens (the “**Motion**”), pursuant to the provisions of 11 U.S.C. Sections 363(b) and 363(f) and in accordance with Bankruptcy Rules of Procedure 6004(c), and in support of such Motion would respectfully show the Court as follows:

I.
Jurisdiction and Venue

1. This Court has jurisdiction over the subject matter of the Motion pursuant to 28 U.S.C. §§ 157 and 1334. Consideration of this Motion is a core proceeding pursuant to 28 U.S.C. § 157(b)(2)(A) and (O). The relief requested in this Motion is sought pursuant to 11 U.S.C. § 363.

II.
Factual Background

2. The Debtor is a Texas company that owns two (2) oil well drilling rigs and associated equipment. A list identifying the Debtor’s rigs and primary equipment is set forth on the attached Exhibit “A” and incorporated herein for all purposes.

3. The Debtor filed for relief under Chapter 11 of the United States Bankruptcy Code on September 19, 2017 (the “**Petition Date**”). The Debtor has the rights, powers and duties of a debtor in possession and continues to hold possession of and maintain its personal property pursuant to the authority of the Bankruptcy Code set out in §§ 1107 and 1108, and further subject to an involuntary bankruptcy

petition which is currently pending requested dismissal.

4. Pursuant to the "Guidelines for Early Disposition of Assets in Chapter 11 Cases" set forth in Exhibit "T" of the Local Court Rules of the United States Bankruptcy Court for the Western District of Texas, the Debtor further provides the following information regarding this proposed sale:

- a) Creditors' Committee: As of the date of filing this Motion, a creditors' committee has not been appointed in this proceeding.
- b) Counsel for Committee: n/a
- c) Sale Contingencies: The Debtor seeks to auction all of its rigs and equipment through Kruse Energy & Equipment Auctioneers, LLC of Odessa, Texas ("Kruse Auctioneers"). The Debtor further seeks the option to forgo the sale of its assets at auction and enter into a private sale of the assets for any prior written bids equal to or in excess of \$200,000.00.
- d) Creditor Contact List: The debtor does not have the phone/fax numbers of its largest 20 unsecured creditors but has given notice of this pleading to all creditors in this bankruptcy case pursuant to the attached mailing matrix.
- e) Est. Administrative Expenses:

Est. Commission to auctioneer/broker (10%):	\$20,000.00
Est. advertising and yard expenses:	\$2,500.00
Est. trucking:	\$34,000.00
Engine start-ups:	\$3,200.00
Unloading equipment:	\$1,000.00
Est. ad valorem taxes:	\$15.60
Est. U.S. Trustee distribution fees:	\$1,625.00
Est. fees and expenses of Debtor's counsel related to this sale transaction:	\$3,500.00
- f) Proceeds from Sale:

Assuming gross proceeds at auction of \$200,000.00, the net proceeds anticipated from such sale is \$33,203.43 after payment of the secured claim and lien to Frost Bank.

Assuming gross proceeds of a private sale of \$200,000.00, the net proceeds anticipated from such sale would be \$75,544.03 after payment of the secured claim lien to Frost Bank.
- g) Debt Structure of Debtor: The amount of the Debtor's secured debts is approximately \$100,955.97 owing to Frost Bank. The amount of priority claims are unknown at this time. The amount of general unsecured claims is \$2,296,387.55.

- h) Need for Quick Sale: The Debtor is no longer operating and its rigs and equipment are currently sitting idle. The last available opportunity to auction its assets this year through Kruse Auctioneers is December 6-7, 2017.
- i) Negotiating Background: The Debtor has informally sought offers to purchase its assets since its Petition Date and has allowed various interested parties to inspect its rigs and equipment. To date, no formal offers have been made. Kruse Auctioneers has inspected the Debtor's rigs and equipment and anticipates selling the assets at auction for gross proceeds of approximately \$185,000.00. The next auction Kruse Auctioneers has scheduled is for December 6-7, 2017. The Debtor currently has no employees.
- j) Marketing of Assets: The Debtor has informally solicited potential purchasers of its assets in the months both before and after its petition date on September 19, 2017. All of its assets sold at auction will be advertised by Kruse to its clients.
- k) Decision to Sale: No formal offer to purchase the Debtor's assets has been made to date.
- l) Relationship to Buyer: n/a
- m) Post Sale Relationship with Debtor: n/a
- n) Relationship with Secured Creditor: The payment of the balance of the secured claim and lien of Frost Bank will result in the release of the guaranty of the Debtor's current manager, Tyson Cornwell, and former co-manager, Kenneth Burnfield.
- o) Insider Compensation: none
- p) Notice Timing: A request for a shortened notice for objections and expedited hearing will be filed in conjunction with the filing of this motion.

5. The Movant intends to sell at public auction or through a private sale, all right, title and interest in the Debtor's personal property. The Debtor intends to sell this property free and clear of all encumbrances and liens, with the liens to attach to the proceeds of the sale.

6. The sale of the personal property will be held by public auction on or before December 6-7, 2017 and will be conducted by Kruse Auctioneers . The sale will be on a cash basis only. To the extent that Kruse may identify a private purchaser that is willing to make a competitive bid of \$200,000.00 or more for

the Debtor's assets prior to the auction date, the Debtor seeks permission to accept such offer to avoid incurring certain expenses associated with the auction and to otherwise make additional funds available for the bankruptcy estate.

7. Upon closing of the sale, the Debtor will deliver to the winning bidder(s) good and marketable title to the property.

8. Any ad valorem taxes owing to the Ector County and Midland County taxing authorities will be paid in full from the proceeds of the sale.

9. Currently, the Debtor is aware of liens and encumbrances against the Debtor's personal property in favor of Frost Bank in the approximate amount of \$100,955.97. Therefore, pursuant to the provisions of 11 U.S.C. Section 363(f), as well as the provisions of Bankruptcy Rule of Procedure 6004(c), the Debtor desires to sell the property described in this motion free and clear of any and all interests, including those of Frost Bank, with the liens against such property to attach to the proceeds. The Debtor further seeks to pay Frost Bank on its secured claim in full from the proceeds of the sale.

10. The Debtor further seeks to provide for the payment of certain 11 U.S.C. Section 506(c) claims associated with the sale of its personal property to include the auctioneer/broker's commission and reimbursement of expenses as well as the attorney's fees and expenses of Debtor's counsel associated with this sale. The Debtor also seeks to pay the U.S. Trustee's fees, as determined pursuant to the Guidelines of the U.S. Trustee's Office regarding Quarterly Fees which are based on the amount of money disbursed by the Debtor per quarter. In summary, the requested relief includes authorization for Kruse Auctioneers to withhold from proceeds derived from the sale of the property sufficient funds to pay its commission and expenses as well as the estimated amount of attorney's fees and expenses of Debtor's counsel and any quarterly fees which must be paid to the Office of the U.S. Trustee.

WHEREFORE, PREMISES CONSIDERED, Surface Drilling of Texas, LLC, prays that the Court determine that adequate notice and opportunity for hearing of this Motion has been given to creditors and parties in interest in this bankruptcy case, and that after considering the merits of such Motion that the Court

grant the Debtor authority to sell the personal property described herein free and clear of any and all interest with the liens against such property to attach to the proceeds and to be distributed in accordance with the orders of the Bankruptcy Court, and for such other and further relief whether at law or in equity as the Court may deem necessary and proper.

Respectfully submitted,

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Lubbock, Texas 79401
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Email: tjohnston@mcjllp.com

By: /s/ Todd J. Johnston
Todd J. Johnston; SBN 24050837
Proposed Attorneys for the Debtor

CERTIFICATE OF CONFERENCE

I, Todd J. Johnston, do hereby certify that on October 18, 2017, I spoke to Blue Hyatt, counsel for Frost Bank, the secured creditor in this bankruptcy proceeding, regarding the filing of this Motion, who indicated that he was not opposed to the relief requested herein.

/s/ Todd J. Johnston
Todd J. Johnston

CERTIFICATE OF SERVICE

I, Todd J. Johnston, do hereby certify that a true and correct copy of the foregoing *Motion* was served by either court enabled electronic service or regular first class U. S. Mail upon the following listed parties on this 19th day of October, 2017:

1. U. S. Trustee's Office
615 E. Houston Street, Ste. 533
San Antonio, Texas 78205
2. Surface Drilling of Texas, LLC
PO Box 53240
Midland, TX 79701
3. B. Blue Hyatt
Lynch, Chappell & Alsup, P.C.
300 N. Marienfeld, Suite 700
Midland, TX 79701
Attorney for Frost Bank

4. Kruse Energy & Equipment Auctioneers, LLC
11611 W County Road 128
Odessa, TX 79765
5. All parties in interest registered with the
U. S. Bankruptcy Court to receive electronic
notices in this case.
6. All creditors and parties in interest
listed on the attached mailing matrix.

/s/ Todd J. Johnston

Todd J. Johnston

Exhibit “A”

Exhibit "A"

RIG 1

IDECO Rambler H35-KD S/D w/CAT Head Back-In Drilling Rig, S/N-A721 p/b CAT 3406 Diesel Engine w/QUINCY Air Compressor, ALLISON 5860 Trans. & 15" Dbl. Hydromatic Brake w/IDECO KM-96' x 212000# Hyd. Raise & Scoped Mast w/150-Ton Block Hook Kelly Stand & Hose Racking Board & Spool of 1" Line, Mtd. on 4-Axle Carrier w/(4) Hyd. Level Jack & Utility Winch, Hyd. Line Spool (NOTE: BILL OF SALE ONLY)

8'W X 5'H X 40'L (4) Comp. Shaker Tank w/BANDIT Agitator p/b 60HP Electric Motor, Hopper & 6'L Cover Porch w/(2) COBRA 5 x 6 x 11 Cent. Pumps p/b 60HP Elec. Motors & 10'L Shaker Porch, Skidded

CONTINENTAL EMSCO DB 550 Duplex Mud Pump p/b CAT 379 Diesel Engine, SN-68B07744 & Hydril 3000# Dampner, Skidded

15'W x 9'H x 15'L Telescoping Substructure w/20'W Folding Base Beam, Rotary Drive

IDECO 175F Rotary Table

Spindle Top 500-Bbl. Portable Frac/Water Tank (NOTE: BILL OF SALE ONLY)

8'W x 28'L Top Doghouse w/(2) 6'L Porches w/(2) US GENERAL Air Compressors p/b 5HP Electric Motors & 60-Gal. Tank, 4' x 4' x 8' Storage Box, Knowledge Box, Lockers, Mtd on T/A Trailer w/Landing Gear, King Pin, Air Brakes (NOTE: BILL OF SALE ONLY)

(x) 2006 GULFSTREAM Cavalier T/A 8'W x 27'L Bumper Pull Pushers House, VIN-1NL1GTR2X61027791 w/Bedroom, Queen Bed, Kitchen/Living Room w/Fridge, Stove, Microwave, Dbl. Sink, 72" Sofa Sleeper, (2) Bunk Beds & Bathroom, Shower, Toilet & Sink

2006 CAT XQ230 Portable Gen Set S/N-X3R00368 p/b CAT C9 Diesel Engine, Mtd on T/A PINTLE Pull Trailer w/Fuel Tank, Landing Gear, Elec/Hyd Brakes & 235/75R/17.5 Tires (NOTE: BILL OF SALE ONLY)

5000# Choke Manifold w/3-1/8" 5M Valve, (2) 2-1/16" 5M Valves. 4-Way Cross & (1) Best 2-1/16" 5M Choke Valve on Adj. Skid

4-1/4" x 50'L Kelly w/SKYTOP 150-Ton ISX Swivel, Kelly Bushing & Mouse & Rat Holes

(1) 5'W x 8'H x 8'L Water Storage Tanks

(2) 3" x 96"L Elevator Links

(2) Man Rotary Tongs

(2) 8'W x 20'L Pipe Racking Boards

(4) 42" x 28'L Pipe Racks

(2) 4'W x 4'H x 25'L Cat Walks

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RIG 2

IDECO H-35 KD S/D Drilling Rig p/b DETROIT 8V-92T Diesel Engine, ALLISON 5860 Trans. & 16" Dbl. (2) CAT Heads, Hydromatic w/IDECO 108' x 268000# Hyd. Raised & Scoped Mast w/Pipe Stand & IDECO 110-Ton Block/Hook, KELLY Stand & Hose, Mtd. on 4-Axle Carrier w/(4) Hyd. Leveling Jacks, Winch & Side Walkways, Hand Rails (NOTE: BILL OF SALE ONLY)

FOREST RIVER 8'W x 28'L 5th-Wheel RV w/Kitchen, Bathroom & Shower, Bedroom w/Queen Bed & (2) Slide Outs

Approx. 2500' of 1" Drilling Line

18'W x 10'H x 15'L Substructure w/Base Beam, EMSC 17-1/2" Rotary Table & right Angle Dive, Air Tank Stairs, Hand Rails & V-Door

Approx. 28 Asst. X-Over & Lift Subs

(2) Man Rotary Tongs 2-3/4" x 96"L Elevator Links, 4-1/2" WTM 150-Ton DP Elev Kelly Spinner, IDECO 200-Ton Swivel, 4" Square Kelly w/Bushing, Rat & Mouse Hole

(2) Choke Manifolds

(4) Sets of 42" x 28'L Pipe Racks

(2) 4'W x 4'H x 25'L Cat Walks

10' Dia. x 30'L Water Tank w/(2) MISSION 3 x 4 x 13 Cent. Pumps p/b 30HP Electric Motors

(1) 5'W x 8'H x 8'L Water Storage Tanks

275KW Generator p/b CUMMINS 6-Cyl. Diesel Engine, Mtd in 8'W x 7'H x 28'L Parts/Gen House (Full of Parts)

8'W x 8'H x 30'L Round Top Telescoping Doghouse House w/Lockers, Storage, Knowledge Box, Heater, Mtd on T/A 8'W x 42'L Float w/ GD Electra Saver II Air Compressor & QUINCY 255 Elec Air Compressor (NOTE: BILL OF SALE ONLY)

CONTINENTAL EMSCO DB-700 Duplex Mud Pump p/b CAT D379 Diesel Engine, S/N-68B6816 Rebuilt by Gen Mach 3-2011 on 3000# Dampner, Skidded

CONTINENTAL EMSCO DB-700 Duplex Mud Pump p/b CAT D379 Diesel Engine, S/N-68B5899 Rebuilt by Gen Mach 8-2010 on 3000# Dampner, Skidded

10'W x 5'H x 50'L (3) Comp. Shaker Pit w/4'L Cover Porch, (2) Fluid System B4X-12 Liner Motion Shakers, DERRICK 2 lane Desanders & 10-Cube Destiller, (1) MCM & (1) MISSION 5 x 6 x 11 Cent. Pumps p/b 50HP Electric Motors, 4-Way Fluid Set, Skidded

(2) 8'W x 20'L Pipe Racking Boards & (1) 8' x 10'L Racking Board

COMPONENTS/MISC.

IR Portable Air Compressor p/b John Deere 4-Cyl. Diesel Engine

CAT D-379 Diesel Engine (CORE)

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3-1/2" 5M 40'L Kelly Hose (NEW)

(2) 2-1/2" x 72"L Elevator Links

(4) Mud Buckets, Bit Breaker, Drill Collar & Pipe Slips, Mud Hopper

DRILL PIPE

9207 (297 Jts.) 4-1/2" Range 2 Drill Pipe

Approx. (2573') 83 Jts. of 4-1/2" R2 Drill Pipe

DRILL COLLARS

16-6" Slick Collars

1-8" Slick Collars

2-8" Spiral Collars

(3) 8" Spiral Collars

(1) 6" Spiral Collars

(13) 6" Slick Collars