

TXCO RESOURCES, INC.

Recovery for all secured and unsecured lenders

SUMMARY

TXCO Resources (TXCO) was an independent energy company, based in San Antonio, Texas, engaged in the exploration, development and production of oil and natural gas properties.

Volatile energy prices and the global economic slowdown made it difficult for the company to raise debt and equity capital. Additionally, the company's development commitments and capital budget requirements caused a liquidity shortage, making it difficult for the company to honor financial obligations.

TXCO retained FTI Consulting in 2009 as Chief Restructuring Officer and financial advisor to provide assistance with strategic alternatives, interim financing, cash management, creditor negotiations, advisory services and execution of all reporting requirements.

The outcome was a single asset sale of approximately 90 percent of TXCO's assets, resulting in a 100 percent recovery of debt owed to all secured and unsecured lenders.

SITUATION

Founded in 1979, the independent oil and gas enterprise TXCO Resources had operations interests in Texas, as well as in Oklahoma, Louisiana, Montana, North Dakota and South Dakota. As of the end of 2008, TXCO had estimated net proved reserves of 81.7 billion cubic feet of gas equivalent.

But the volatility in energy and the tight credit markets due to the economic slowdown adversely affected the company's ability to raise capital. All attempts proved futile. The company was unable to improve liquidity through short- and long-term bank borrowings, issuance of debt instruments, sale of common stock and preferred stock, sale of non-strategic assets, joint venture financing and restructuring of existing obligations.

As a result, TXCO couldn't meet short-term cash needs, including lender and vendor commitments.

The lenders under the senior credit agreement issued a notice of the acceleration of the amounts, and the company filed for Chapter 11 bankruptcy on May 17, 2009, seeking debtor-in-possession financing of up to \$32 million.

“Our inability to reach accommodations with our vendors regarding the timing of payment in light of our limited liquidity resulted in liens filed against our properties and withdrawal of trade credit by certain vendors, which, in turn, limits our ability to conduct operations on properties.”

– TXCO Quarterly Report, 6/30/09

SOLUTION

FTI Consulting was retained by TXCO Resources as Chief Restructuring Officer and financial advisor.

In that role, FTI Consulting:

- Assisted in the negotiation of debtor-in-possession financing.
- Developed a comprehensive business plan.
- Provided debtor-in-possession cash management advisory services and execution of reporting requirements.
- Evaluated and advised the company on restructuring options, including a review of current proposals from third parties and existing lenders, as well as other alternatives.
- Appraised the company's reserve base, mineral interests and other assets.
- Testified in bankruptcy and other litigation matters.
- Helped the company liquidate its assets and wind-down operations.

RESULTS

FTI Consulting assisted the company in a sale process that resulted in a single asset sale composed of approximately 90% of TXCO's assets to two large, independent oil and gas companies for more than \$300 million.

The secured and unsecured creditors and certain preferred shareholders received a full recovery, including interest on their claims, and the common equity holders received a \$10 million recovery.

FTI Consulting was named as President and Secretary of the reorganized TXCO and Trustee of the liquidating estate during the winding down of TXCO operations.

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About FTI Consulting

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