

In re Sanchez Energy Derivative Litigation

COURT: Delaware Court of Chancery
CASE NUMBER: C.A. No. 9132-VCG
JUDGE: Vice Chancellor Glasscock
CASE CONTACTS: David Wales, Mark Lebovitch, Christopher J. Orrico, Alla Zayenchik

BLB&G commenced this action on December 4, 2013 and was appointed co-lead counsel on behalf of three plaintiffs.

The Complaint alleged that the Individual Defendants breached their fiduciary duties in connection with Sanchez Energy's August 2013 purchase of working interests in the Tuscaloosa Marine Shale ("TMS") from Sanchez Resources, allegedly permitting the payment of improper royalties to Sanchez Resources, and permitting the purchase of certain assets from Sanchez Resources and the Altpoint Defendants (the "Transaction"). The Complaint further alleged that Sanchez Resources, the Altpoint Defendants and Eduardo Sanchez aided and abetted in the aforementioned breaches of fiduciary duties by the Individual Defendants. On January 28, 2014, Plaintiffs filed the Verified Consolidated Stockholder Derivative Complaint. [Here](#)

On August 22, 2014 the Court heard oral argument concerning Defendants' motions to dismiss and issued an Opinion and Order on November 25, 2014, granting Defendants' motions to dismiss (the "Motion to Dismiss Order"). Thereafter, on December 22, 2014, Plaintiffs filed a notice of appeal to the Supreme Court of Delaware. The Supreme Court of Delaware heard oral argument concerning Plaintiffs' appeal of the Motion to Dismiss Order granting Defendants' motions to dismiss on September 24, 2015. On October 2, 2015, the Supreme Court of Delaware reversed the Motion to Dismiss Order and remanded the action to the Court for further proceedings on October 20, 2015.

On November 3, 2015, the Altpoint Defendants, Sanchez Resources and Eduardo Sanchez renewed their motions to dismiss the Complaint. Thereafter the parties engaged in extensive discovery, including party and third-party document productions, totaling millions of pages of documents.

On July 18, 2016, the Court heard oral argument concerning the renewed motions to dismiss filed by the Altpoint Defendants, Sanchez Resources and Eduardo Sanchez. In a telephonic ruling on August 9, 2016, the Court denied those renewed motions to dismiss.

On July 7, 2016, counsel for all parties participated in a full-day mediation session in Houston, TX, before Robert A. Meyer, Esq. (the "Mediator"). In advance of that session, the parties submitted and exchanged detailed mediation statements and exhibits, which addressed the issues of liability, causation and damages. The mediation session ended without any agreement being reached.

Thereafter, the parties engaged in discovery of the merits of the case, as well as further settlement discussions.

As part of ongoing settlement discussions involving the Mediator, an independent committee of the Sanchez Energy Board of Directors consisting of Brian Carney, Robert V. Nelson, III, and Sean M. Maher (the "Committee") considered and determined that an acquisition by the Company of Sanchez Resources would be consistent with the long term strategic plans of the Company and would be in the best interests of the Company if effected through a settlement of the Action.

To facilitate discussions among the Parties about a possible settlement that would include, as part of the consideration provided to the Company, a transfer of the full equity ownership of Sanchez Resources to Sanchez Energy, the Committee retained Cypress Associates, LLC ("Cypress Associates") to provide a valuation of Sanchez Resources.

After extensive due diligence, Cypress Associates provided to the Committee and the Parties a report opining that the net asset value of Sanchez Resources as of June 9, 2017, was \$16.712 million (the “Cypress Valuation Report”).

After continued arm’s-length negotiations and discussions between the Parties, all of which were overseen by the Mediator, the Parties reached an agreement in principle to settle the claims asserted in the Action. On August 11, 2017, the Parties executed the Stipulation, which sets forth the final terms and condition of the proposed Settlement. [Here.](#) Among things, the settlement consideration includes: (1) \$11.75 million in cash; (2) a transfer of the full equity ownership of Sanchez Resources to Sanchez Energy which the Cypress Associates valued at \$16.7 million; and (3) the return of all override royalty rights on the oil and gas development area in the TMS to Sanchez Energy that Altpoint and Sanchez Resources acquired in the 2013 transaction at issue. Additionally, two of the Individual Defendants will resign from the Sanchez Energy Compensation Committee so that the committee will consist of a majority of independent directors.