



## Lowenstein Bankruptcy Lowdown Video 32 – Sanchez Energy: Fifth Circuit Affirms Single Satisfaction Rule

By [Eric Chafetz](#) and [Carolyn M. Gauvin](#)

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- Carolyn M. Gauvin: In *In re Sanchez Energy Corporation*, the Fifth Circuit recently questioned whether unsecured creditors were entitled to a significant equity stake in the reorganized debtors based on the value of avoided liens, or whether the secured creditors were entitled to all the equity under the Bankruptcy Code’s “single satisfaction” rule.
- Eric Chafetz: That’s right, Carolyn. Sanchez Energy filed for bankruptcy in 2019, owing over \$2 billion, of which \$500 million was secured by senior secured noteholders’ liens. After the bankruptcy filing, these senior noteholders also provided \$100 million in new debtor-in-possession financing to fund the debtors’ Chapter 11 cases.
- Carolyn M. Gauvin: The Bankruptcy Court confirmed the debtors’ Chapter 11 plan and preserved the lien avoidance litigation until after the debtors emerged from bankruptcy, which caused a big dispute over whether the prepetition liens could be avoided as preferential transfers under Section 550 of the Bankruptcy Code that would be awarded to creditors in the form of reallocated reorganized equity.
- Eric Chafetz: What does Section 550 provide with respect to the value of preferential transfers, Carolyn?
- Carolyn M. Gauvin: Great question, Eric. Section 550 of the Bankruptcy Code states that a debtor—or, as here, creditors acting on the debtors’ behalf—can recover either the property subject to the preferential transfer, or the value of such property, but not both, due to Section 550(d)’s single satisfaction rule.
- Eric Chafetz: Exactly, and here, the Bankruptcy Court avoided the senior noteholders’ liens as preferential transfers, valuing them at approximately \$200 million. Initially, the court awarded the

unsecured creditors 70% of the equity in the reorganized debtors, based on the value of the avoided liens.

Carolyn M. Gauvin: But the senior noteholders appealed, and the Fifth Circuit reversed the Bankruptcy Court's decision, hinging its finding on the fact that the senior noteholders' prepetition liens were already returned to the estates under the debtors' Chapter 11 plan's boilerplate provision that stated that on the effective date, all liens against the estates revert to the reorganized debtors.

Eric Chafetz: This means that the estates had already received a single recovery when the prepetition liens were returned to the estates under the plan, so unsecured creditors were not entitled to an additional recovery based on a hypothetical value of those liens.

Carolyn M. Gauvin: And just recently in July, the Fifth Circuit denied a request for rehearing, so the decision stands. This ruling underscores that bankruptcy courts cannot award a double recovery for avoided liens—once the property is returned, that's it, the estates are not also entitled to the value of the liens.

Eric Chafetz: Thank you for joining today's episode of [Lowenstein Bankruptcy Lowdown](#).