

BANKRUPTCY UPDATE

Expert Analysis

Helicopter Industry Restructurings Connected to Oil Market

This issue of the Bankruptcy Update focuses on recent restructurings in the helicopter industry, including Waypoint Leasing, PHI and Bristow Group, as the industry reacts to a years-long drop in oil prices and corresponding reduced demand for aviation services by offshore oil and gas operators.

By
Edward E. Neiger



energy companies lacked funding to fly personnel back and forth from oil rigs, leading to a liquidity crisis. As of October 2018, the debtors reported a net loss of approximately \$52 million and had approximately \$1.23 billion in liabilities, including \$1.1 billion in funded debt.

Waypoint, together with a committee of its secured lenders, began exploring an asset sale in August 2018 and reported engagement with six potential bidders as of the petition date. On Dec. 10, 2018, the debtors filed a motion seeking approval of bidding procedures in connection with the sale of substantially all of their assets. Macquarie Rotorcraft Leasing was selected as the stalking horse bidder with a \$650 million bid for substantially all of the debtors' assets, including 165 helicopters.

On Feb. 12, 2019, the court held a hearing in connection with the sale motion and approved a series of sales which most notably included a sale of 130 helicopters to Macquarie for \$445 million. The court also approved sales to Waypoint's secured lenders Lombard North Central and Sumitomo Mitsui Banking Corporation who each bid on the collateral (17 helicopters

Helicopter leasing company Waypoint Leasing Holdings Ltd. and affiliated debtors filed petitions for relief under Chapter 11 of the Bankruptcy Code in the U.S. Bankruptcy Court for the Southern District of New York.

each) securing their respective debt facilities. The sales were approved over objections by Macquarie, who argued that Lombard violated confidentiality restrictions by discussing the resale of helicopters to a third party. Subsequently, on March 7, 2019, Lombard sold the acquired assets to LCI Helicopters. On April 3, 2019, Macquarie commenced litigation against LCI arguing it engaged in discussions prohibited by the non-disclosure

EDWARD E. NEIGER is a co-managing partner at ASK LLP, a national law firm focusing on bankruptcy law. He can be reached at eneiger@askllp.com. MARIANNA UDEM, partner at the firm, assisted in the preparation of this column.

agreement governing the Waypoint bidding process.

'PHI'

On March 15, 2019, helicopter operator PHI Inc. and affiliated debtors filed petitions for relief under Chapter 11 of the Bankruptcy Code in the U.S. Bankruptcy Court for the Northern District of Texas. *PHI Inc.* (Bankr. N.D. Tex. Case No. 19-30923).

The company, founded in 1949 as Petroleum Helicopters, has more than 2,000 employees and operates in 45 countries. The debtors have 230 aircraft with approximately half employed to transport crew to and from offshore oil and gas rigs and the other half used to provide medical transportation in the United States. PHI attributed its bankruptcy filing to a long cyclical downturn in the oil and gas markets that, in turn, caused customers to cut back on helicopter use. In addition, a \$126 million purchase of competitor HNZ Group in late 2017 exacerbated the debtors' liquidity concerns.

As of the petition date, the debtors reported approximately \$700 million in secured debt, including \$500 million in notes with an impending maturity date and a \$70 million term loan from Blue Torch Capital that the company obtained immediately prior to the bankruptcy filing to fund operations in Chapter 11.

On April 1, 2019, the debtors filed their proposed plan of reorganization and accompanying disclosure statement. The plan generally contemplates a balance sheet deleveraging transaction through the issuance of shares of the reorganized debtors' new common equity to holders of certain secured and unsecured claims, a \$70 million new

money equity investment through a rights offering available to certain holders of unsecured notes claims, aircraft lessor claims and general unsecured claims to the extent such holders vote to accept the plan, entry into a new \$150 million asset-backed exit facility, and entry into an exit facility provided by Blue Torch Capital, modifying its prepetition facility.

The plan drew immediate opposition from the official committee of unsecured creditors and all major stakeholders agreed to participate in a judicial mediation to attempt to break the deadlock over the terms of the plan. Contemporaneously with this process, the official committee of unsecured creditors filed a motion seeking to terminate the debtors' exclusive period to file and solicit a plan so that it could file and prosecute its own plan. A hearing in connection with the committee's motion to terminate exclusivity is scheduled for June 5, 2019.

'Bristow Group'

On May 12, 2019, aviation services company Bristow Group and affiliated debtors filed petitions for relief under Chapter 11 of the Bankruptcy Code in the U.S. Bankruptcy Court for the Southern District of Texas. *Bristow Group* (Bankr. S.D. Tex. Case No. 19-32713).

The debtors have about 3,000 employees and operate across the globe providing personnel transport and search and rescue services to oil and gas companies with offshore operations. Similarly to Waypoint and PHI, Bristow suffered from the consequences of a years-long drop in oil prices that decreased demand for aviation services. In addition to the above-described industry financial pressures, Bristow

was burdened by a failed \$560 million acquisition of competitor Columbia Helicopters which led to shareholder litigation.

The debtors report in excess of \$1.7 billion in liabilities, including almost \$1 billion in secured debt and approximately \$750 million in unsecured debt.

The debtors entered bankruptcy armed with a restructuring support agreement with the majority of their senior secured noteholders. The restructuring support agreement lays out the framework for a plan whereby certain secured lenders would receive the majority of stake in the reorganized debtors and backstop a \$200 million equity offering and provide a \$75 million debtor-in-possession loan to finance operations under Chapter 11.

Notably, the debtors' unsecured noteholders are not parties to the restructuring support agreement and an ad hoc group of unsecured noteholders has already filed pleadings setting out its opposition to the proposed restructuring framework. The unsecured noteholder group argues that the debtors' enterprise value is significantly higher than what the debtors assert causing potential unsecured noteholder recoveries to be artificially reduced. In the absence of a consensual resolution, this disagreement will likely result in a protracted valuation battle.