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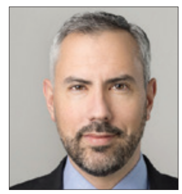
New York Law Journal

BANKRUPTCY UPDATE

Logistics Industry Bankruptcy Cases: Yellow Corporation, Western Global Airlines

December 15, 2023



By
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This issue of the Bankruptcy Update focuses on recent logistics industry bankruptcy cases of Yellow Corporation and Western Global Airlines.

'Yellow Corporation' (Bankr. D. Del. Case No. 23-11609)

On Aug. 6, 2023, Yellow Corporation and certain affiliates filed petitions for relief under Chapter 11 of the Bankruptcy Code in the United States Bankruptcy Court for the District of Delaware.

The debtors operate one of the largest transportation companies in the United States and traditionally handled millions of less-than-truckload (LTL) shipments annually under the Holland, New Penn, Reddaway and YRC Freight names.

The bankruptcy filing was precipitated by mounting net operating losses, a deteriorating liquidity position and a contentious dispute with the International Brotherhood of Teamsters regarding the company's proposed operational restructuring, with the latter leading Yellow to commence litigation in federal court in Kansas seeking $137 million in damages against the union prior to their bankruptcy filing.

In the weeks leading up to the commencement of their bankruptcy cases, the debtors ceased accepting new shipments, sent termination notices to unions representing about 22,000 employees and issued a press release announcing their intentions to wind down operations under Chapter 11 of the Bankruptcy Code.

The debtors entered Chapter 11 with in excess of $1.5 billion in secured liabilities, including a $729 million obligation to the

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federal government stemming from a 2020 pandemic assistance loan, $567 million in term loans and over $200 million in lease financing obligations.

The debtors initially intended to fund their operations under Chapter 11 with a $142.5 new money million debtor-in-possession financing facility to be provided by their term lenders who would also receive a $501.5 million roll-up of prepetition term loan obligations but pivoted after receiving competing DIP offers.

Citadel, which acquired the term loan debt, agreed to provide $100 million in DIP financing, MFN initially agreed to provide $42.5 million in financing on a junior basis and subsequently increased its funding commitment to $70 million, while Estes provided an initial $1.2 billion stalking horse bid for the debtors' truck terminals and later increased the stalking horse bid to $1.525 billion. The revised DIP financing package did not include a roll-up component and provided more competitive fees and interest rates.

The debtors were able to generate significant interest in their other assets and obtained court approval to sell 128 of their trucking terminals to 21 different purchasers.

On Sept. 15, the court entered an order authorizing the DIP financing on a final basis and also approved the debtors' proposed bid procedures which provided for an Oct. 13 deadline to submit bids for rolling stock and Nov. 9 deadline for submission of bids for other assets as well as certain bid protections in connection with Estes' stalking horse bid.

The debtors subsequently sought to extend the deadline for submission of rolling stock bids and authority to retain auctioneer Nations Capital to market and temporarily take possession of and store the rolling stock.

Meanwhile, the debtors were able to generate significant interest in their other assets and on Dec. 12 obtained court approval to sell 128 of their trucking terminals to 21 different purchasers. Stalking horse bidder Estes submitted winning bids totaling only $248.7 million for 24 terminals. Meanwhile, XPO bid $870 million for 26 terminals as well as leases for two additional terminals. Other significant winning bidders included Saia Motor Freight Line and Knight-Swift Transportation Holdings.

'Western Global Airlines Inc.' (Bankr. D. Del. Case No. 23-11093)

On Aug. 7, 2023, Western Global Airlines and certain affiliates filed petitions for relief under Chapter 11 of the Bankruptcy Code in the United States Bankruptcy Court for the District of Delaware.

The air cargo transportation and logistics provider attributed its bankruptcy filing to macroeconomic factors including diminished demand for air cargo services, shift from freight to passenger aircraft, stark increases in fuel costs and air traffic control disruptions.

The debtors commenced their Chapter 11 cases seeking to implement the terms of a restructuring support agreement reached with holders of in excess of 85% of the company's senior unsecured notes and company founder and majority shareholder James Neff.

To fund operations under Chapter 11, the debtors sought authority to enter into a $75 million DIP financing facility to be provided by Neff, Neff affiliate DKB Partners and an ad hoc group of unsecured noteholders. The DIP financing facility was approved on a final basis on Sept. 11.

Meanwhile, on Aug. 29, the debtors filed a plan of reorganization embodying the terms of the restructuring agreement. Consistent with the terms of the RSA, the RSA parties agreed to convert $75 million in DIP financing into secured convertible notes and provide an additional $11 million in exit equity capital.

Under the plan, other secured claims would be paid in full in cash, unsecured notes claims would receive five-year warrants to purchase up to 7.5% of the reorganized equity subject to certain dilution conditions or, in event of a full DIP buyout by DKB Partners, a pro rata portion of a $17.5 million cash pool; and general unsecured creditors would receive a pro rata share of a $2 million cash pool only of if the general unsecured creditor class votes to accept the plan.

A disclosure statement accompanying the plan was approved on Oct. 4 and noted the official committee of unsecured creditors was conducting an investigation into prepetition transactions involving Neff and related parties who would be slated to receive releases under the plan.

Ultimately, following the investigation, the parties were able to reach a consensual resolution and the debtors confirmed an amended Chapter 11 plan on Nov. 21.

The confirmed amended plan reduced the debtors' funded debt obligations by in excess of $460 million and incorporated a global settlement with the official committee of unsecured creditors, Neff and certain related parties which provided for, among other things, an increased unsecured creditor cash pool of $3 million, waiver of Neff's right to any distribution on account of $18 million in subordinated promissory notes, waiver of Neff affiliate and secured party DKB Partners' unsecured deficiency claims and waiver of preference actions against general unsecured creditors.

The debtors announced that the amended plan went effective on Dec. 4.