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Top Bankruptcy Cases Of 2020: Midyear Report

By **Vince Sullivan**

Law360 (July 8, 2020, 7:31 PM EDT) -- So far in 2020, the number of corporate bankruptcy filings has spiked significantly compared to the same period last year, as unprecedented economic headwinds have generated a liquidity crisis for many struggling companies in a trend that may continue for the rest of the year and into 2021, according to bankruptcy professionals.

Coronavirus Strains Cash

As the number of cases of COVD-19 began increasing earlier this year, so did the number of Chapter 11 filings in the United States, with retail giants like J.C. Penney and Neiman Marcus succumbing to a loss of revenue and energy companies running out of cash as oil and gas prices plummeted.

Yet experts say many of the cases in the first half of the year weren't directly attributable to the pandemic, but instead were accelerated by the outbreak.

"I don't think the coronavirus pandemic has been the driver of many of the big cases," Hogan Lovells global restructuring head Christopher Donoho told Law360. "Many of them were in real trouble and had been in restructuring discussions for some period of time before this all came to pass."

Companies that had a sufficient cash cushion were able to ride out the initial elimination of most of their revenue due to business shutdowns, but that cushion may not be enough for some businesses as restrictions are reinstated and the number of coronavirus cases begins to climb in certain parts of the country.

While the first wave of Chapter 11 cases saw already-struggling companies falling into bankruptcy due to earlier financial challenges, including many retailers, the next wave may begin felling otherwise healthy enterprises.

"Even really healthy low-leverage businesses are going to have to find a way to manage the revenue hole," Jonathan W. Young, co-chair of the bankruptcy, restructuring and insolvency practice group of Locke Lord, told Law360.

Many retailers, which were already struggling prior to the COVID-19 crisis, would normally be preparing for the back-to-school shopping season and the end-of-year holidays, but with the business restrictions that marked the first half of 2020 coming back into play, those profit-generating sales seasons may not materialize as planned.

"There is no end in sight," Stephen B. Selbst, co-chair of the restructuring and finance litigation group at Herrick Feinstein LLP told Law360. "There are rumors of other big retailers that are in trouble … I don't think we're at the end of that; I think we're back in the middle of that."

Jennifer Feldsher of Morgan Lewis & Bockius LLP said COVID-19 will become a more prominent factor in filings for the rest of the year as cash continues to dwindle and lenders' willingness to grant grace periods and forbearance on maturing debt will run out.

"You are now seeing, I think, more and more retail cases where the impact of corona is not the only basis for the fling, but has become more of a factor than it was in the filings at the beginning," she said.

As more businesses are unable to satisfy their debt and other obligations, Julia Frost-Davies, also of Morgan Lewis, said leaseholders are going to start feeling pressure as tenants lose the ability to pay rent and eviction remains an unfavorable option due to the lack of businesses able to move into vacant space.

"I think you're certain to see a squeeze on commercial real estate," she said, adding that places like movie theaters will struggle to reopen due to the uncertainty about the virus.

While the bulk of new cases have been centered in the retail and energy sectors, Rick Kuebel, co-chair of the bankruptcy, restructuring and insolvency practice group of Locke Lord, said bankruptcies may begin to spread into all industries.

"There are entire sectors that have been unrepresented so far in the filings to date where we kind of look into the crystal ball a little bit and have an expectation that many other sectors and many other geographic areas are going through significant distress and are likely to file cases," he said.

And all agree that hospitality and leisure travel, including potentially some airlines, will not be able to survive without restructuring going forward.

Below is a rundown of the marquee bankruptcy cases filed so far in 2020.

J.C. Penney

The retail icon filed for bankruptcy May 15 with about $8 billion of debt, saying it had already been pursuing a comprehensive restructuring when COVID-19 obliterated its revenue. The company was forced to close all of its nearly 850 stores beginning in March.

In its Chapter 11 case, the retailer is pursuing a toggle plan where it will either complete a restructuring that would split its assets into a property-owner real estate trust and an operating entity, or sell the company altogether.

The company intends to permanently close as many as 200 stores during bankruptcy and is facing a July 8 deadline to submit a proposed business plan to senior creditors for approval.

The case is In re: J.C. Penney Company Inc., case number 20-20182, in the U.S. Bankruptcy Court for the Southern District of Texas.

Neiman Marcus

The luxury retailer hit Chapter 11 on May 7 with **$4 billion** of debt and plans to complete a debt restructuring that will allow it to emerge with $750 million in post-bankruptcy **financing**. It laid the blame for its bankruptcy filing at the feet of the COVID-19 pandemic and related business closures, but had already been exploring restructuring options before the virus began its spread.

The case is In Re: Neiman Marcus Group Ltd. LLC, case number 1:20-bk-32519, in the U.S. Bankruptcy Court for the Southern District Of Texas.

J.Crew

Clothing seller J.Crew was the first major retailer to hit Chapter 11 in the midst of the pandemic, filing on May 4 with $1.65 billion in debt. It is planning a debt-for-equity swap to deleverage its balance sheet.

J.Crew was cleared early in its case for a plan to defer rent obligations to landlords for 60 days, a tactic that has become the norm for debtors with onerous lease burdens.

The case is In re: J. Crew Group Inc., case number 20-32185, in the U.S. Bankruptcy Court for the Eastern District of Virginia.

Modell's

The sporting goods retailer filed for bankruptcy in New Jersey on March 11, saying it would wind down operations at all of its stores to deal with its more than $100 million of debt.

The company received permission to essentially "mothball" its case later that month as it was forced to cease liquidation sales at its stores due to COVID-19 business restrictions. It was one of the first debtors to effectively pause its bankruptcy proceedings to minimize administrative costs to its Chapter 11 estate in a move that gained traction in other jurisdictions.

The case is In re: Modell's Sporting Goods Inc., case number 2:20-bk-14179, in U.S. Bankruptcy Court for the District of New Jersey.

Pier 1 Imports

The home furnishing retailer, which filed for Chapter 11 in February prior to the outbreak of COVID-19 in the United States, said it needed bankruptcy protection to reset its strategy after a failed marketing shift and after it cast off underperforming store locations. The uncertainty wrought by the coronavirus, however, forced a shift to an all-out liquidation by mid-May.

The case is In re: Pier 1 Imports Inc., case number 20-30805, in the U.S. Bankruptcy Court for the Eastern District of Virginia.

Ravn Air Group

Regional Alaskan airline operator Ravn Air Group landed in bankruptcy in early April when travel restrictions imposed by state and federal governments caused its business to evaporate almost overnight. The company provides passenger, freight and critical mail service to some of the most remote parts of Alaska, including some settlements that are hundreds of miles north of the Arctic Circle and accessible only by air.

Its case started with hopes the company could secure government coronavirus aid to keep its operations going through the bankruptcy process, but those funds didn't initially materialize.

After a case opening dispute with rural Alaskan government officials threatening to seize the debtor's planes and facilities to reinstate the life-sustaining services Ravn provided, the company cruised to **confirmation** of its Chapter 11 plan to sell off assets as a going concern once government aid began flowing.

The case is In re: Ravn Air Group Inc., case number 1:20-bk-10755, in the U.S. Bankruptcy Court for the District of Delaware.

PG&E

After about 18 months in bankruptcy, California utility provider PG&E got its complex Chapter 11 plan confirmed ahead of a June 30 deadline so that it could share in the proceeds of a state insurance fund to satisfy some of the billions of dollars in liability associated with the deadly wildfires that drove it into insolvency.

The contentious case, filed in January 2019, reached the milestone in mid-June, which allowed it to move forward with the issuance of new debt and equity instruments that will help it raise new money to pay off $25 billion in wildfire claims.

The plan contains a $13.5 billion settlement with wildfire survivors.

The case is In re: PG&E Corp., case number 3:19-bk-30088, in the U.S. Bankruptcy Court for the Northern District of California.

Chesapeake Energy

The oil and gas driller filed for bankruptcy June 28 with a plan to **cut $7 billion** of its $12 billion of debt while securing billions in post-bankruptcy financing. It said years of slumping energy prices had cut into its revenue and the coronavirus outbreak had worsened its cash flow.

The case is In re: Chesapeake Energy Corp., case number 4:20-bk-33233, in the U.S. Bankruptcy Court for the Southern District of Texas.

Whiting Petroleum

Shale exploration and production firm Whiting Petroleum Corp. hit Chapter 11 on April 1 with $3.4 billion in debt, saying plunging oil and gas prices caused by declining demand and a pricing war between oil producing countries forced it into bankruptcy. The company came to court with the support of its creditors for an equity swap that will wipe out $2.2 billion of note debt.

The case is In Re: Whiting Petroleum Corp., case number 20-32021, in the U.S. Bankruptcy Court for the Southern District of Texas.

Ultra Petroleum

Wyoming-based natural gas producer Ultra Petroleum filed for Chapter 11 protection in mid-May with a plan to slash more than $1 billion of secured debt from its balance sheet. The company said the filing, its second since 2016, was caused by the downward pressures on energy commodity prices. It is scheduled to seek confirmation of its plan on Aug. 10.

The case is In re: Ultra Petroleum Corp. et al., case number 20-32631, in the U.S. Bankruptcy Court for the Southern District of Texas, Houston Division.

Hertz Global

Car rental behemoth Hertz Global was driven to bankruptcy May 22 with more than $20 billion in debt after its business stalled due to government-imposed restrictions and a massive decline in demand for its vehicles. The company plans to reduce the size of its 730,000-vehicle fleet in light of the pandemic.

Hertz received bankruptcy court permission to sell up to $1 billion of new equity on June 12 to help raise capital, but the company quickly abandoned that move after the U.S. Securities and Exchange Commission said it intended to review the stock sale.

The case is In re: The Hertz Corp. et al., case number 20-11218, in the U.S. Bankruptcy Court for the District of Delaware.

Puerto Rico

The U.S. Supreme Court resolved a critical issue in the bankruptcy case of Puerto Rico, saying the members of the Financial Oversight and Management Board can continue in their role overseeing the bankruptcy because their appointments were consistent with the constitutional authority to appoint local territorial officials without the approval of the Senate.

Puerto Rico is close to finalizing its bankruptcy plans to refinance billions of dollars in debt.

The bankruptcy is In re: Commonwealth of Puerto Rico et al., case number 3:17-bk-03283, in the U.S. Bankruptcy Court for the District of Puerto Rico.

Boy Scouts of America

The century-old youth adventure group filed for Chapter 11 protection on Feb. 18 to deal with liability stemming from decades of allegations of sexual misconduct that has already cost the organization more than $150 million. The organization is facing nearly 2,000 claims from alleged victims of sexual abuse.

The court has approved the appointments of a committee of tort claimants and a future claims representative to pursue the interest of known and unknown victims.

The case is In re: Boy Scouts of America and Delaware BSA LLC, case number 1:20-bk-10343, in the U.S. Bankruptcy Court for the District of Delaware.

--Editing by Philip Shea.