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AMR Group, LSP Energy, Patriot Coal: Bankruptcy

By Carla Main - Jul 26, 2012

US Airways Group Inc. (LCC) Chief Executive Officer Doug Parker said he expects American Airlines parent AMR Corp. (AAMRQ) to set up a fair, transparent process to evaluate merger options against its own bankruptcy plan.

US Airways should get documents from American soon that will lay out the procedure and let the carriers examine each other's financial records, Parker said yesterday on a conference call. His Tempe, Arizona-based company has been pushing for a merger with its larger competitor since January.

US Airways has been lobbying AMR creditors and bondholders to build support for a combination, after signing tentative labor agreements with the Fort Worth, Texas-based American's unions in April. The merger would create the world's largest airline, surpassing United Continental Holdings Inc. (UAL)

AMR has said it prefers to remain a stand-alone carrier. US Airways would be concerned with a process that puts potential merger partners at a disadvantage or slows the review to the point that alternatives aren't fully vetted, Parker said yesterday.

Separately, US Airways Group reported record second-quarter profit that exceeded analysts' forecasts as it paid less for jet fuel and collected higher fares.

The quarter included $15 million in one-time charges related to auction-rate securities arbitration, early debt payments and new labor contracts at a regional-carrier unit, and a gain from a vendor settlement.

The bankruptcy case is In re AMR Corp., 11-15463, U.S. Bankruptcy Court, Southern District of New York (Manhattan).

Watch List

San Bernardino, California, to Defer $6.4 Million in Payments

San Bernardino, the third California city to move toward a bankruptcy filing this year, will defer paying $3.4 million in pension bonds and $2.2 million toward retiree health care to tide it over before seeking court protection from creditors.

The city of 209,000, about 60 miles (100 kilometers) east of Los Angeles, suspended a total of $6.4

million in payments under an emergency budget adopted July 24 in a unanimous City Council vote.

Pressured by declines in property taxes and rising employee costs, as well as accounting irregularities, San Bernardino's City Council voted July 10 to seek bankruptcy protection and followed up a week later by declaring a fiscal emergency. That lets San Bernardino bypass state-required mediation with creditors and proceed directly to U.S. Bankruptcy Court.

The deferrals, together with a hiring freeze and employee concessions previously reached, will save $12 million over the next three months, Travis-Miller said. The city will need to cut long-term expenses by 30 percent to stay solvent, she said.

Officials didn't say when the city planned to go to court. The filing is being held up by difficulty untangling previous budgets, said Gwen Waters, a city spokeswoman.

If the city seeks protection, it would join California's Stockton, an agricultural center of 292,000 east of San Francisco, and Mammoth Lakes, a mountain resort town of 8,200 south of Yosemite National Park. Mediation with creditors undertaken by both cities failed to produce agreements needed to keep them out of court.

The moves by Stockton, Mammoth Lakes and San Bernardino may undermine confidence in the credit of other California cities, state Controller John Chiang said by telephone before the meeting.

San Bernardino confronts a deficit that has reached $45.8 million on revenues of $120.4 million and would probably run out of money before the end of the negotiation period, according to the city's fiscal emergency document. Revenues have dropped 9.8 percent since their peak in 2008, according to the document.

In addition to putting off payments for pensions, leases and retiree health care, the emergency budget would postpone all capital projects, maintain employee vacancies and continue employment concessions negotiated with unions.

The budget doesn't envision immediate firings of workers.

Other Updates

LSP Energy's Sale Approval Met With Objection by TPF Group

LSP Energy, LP, the bankrupt gas-fired electric generating company, is faced with an objection by a group known as TPF II, to its motion to approve the sale of its assets, according to court papers.

The bid would permit the payment of a so-called break-up fee of $7.5 million to stalking horse bidder South Mississippi Electric Power Association, or SMEPA, court files revealed.

Three limited partnerships together known as TPF II have objected to the approval of SMEPA's bid, Grant H. Davis, senior vice president of Tenaska PFG II, LLP, the general partner of TPF II, LP, one of limited partnerships, said in court papers.

TPF II, which has conducted due diligence and negotiations with the debtor before and since the bankruptcy filing, "was ready to submit a qualified bid" and intended to participate in the July 18 auction under the rules established by the court's bidding procedures order. That order, Davis said in a filing, "prohibited bidders from receiving break-up fees or other stalking horse benefits."

The debtor has asked the court for an amended sales procedures order.

"The stalking horse bid did not induce TPF II to submit a bid," Davis said. TPF II "is willing to submit a higher and better bid than SMEPA's current bid if all parties are treated equally," Davis said in the filing.

A hearing is scheduled for today on TPF's motion.

LSP filed for Chapter 11 reorganization on Feb. 10 and secured final approval in February for a $20 million secured loan provided by lenders including John Hancock Financial Services Inc.

The case is In re LSP Energy LP, 12-10460, U.S. Bankruptcy Court, District of Delaware (Wilmington).

Northampton Generating Asks for Third Plan Extension

Northampton Generating Co. LP has asked the U.S. Bankruptcy Court in Charlotte, North Carolina to extend its time as the only one that may file a plan of reorganization and gather support for it.

This is the debtor's third request for more time.

Earlier, the bankrupt owner of a 112-megawatt electric generating plant in Northampton, Pennsylvania, persuaded the court to enlarge its exclusive time to submit a proposed plan. While Northampton wanted an enlargement of exclusivity by three months to Sept. 30, the court in Charlotte, North Carolina, at that time only pushed the deadline out to Aug. 17.

On the current request, Northampton is asking that the period of exclusivity be extended to Sept. 14 and the time to solicit support extended to Nov. 13.

A hearing is scheduled on the motion for Aug. 14.

Northampton is a so-called merchant electric generator as a result of the termination of a power-purchase agreement with Metropolitan Edison Co. It is now part of the PJM Interconnection LLC network. The plant is fueled by waste products such as waste coal, fiber waste, and tires.

The Charlotte, North Carolina-based company defaulted on bonds in 2009. Debt includes $73.4

million owing on senior bonds issued through the Pennsylvania Economic Development Financing Authority. The Authority also issued junior bonds on which $21.8 million is owing, according to a court filing.

Filed in December, the petition lists assets and debt both in excess of $100 million. Later, the company filed official lists showing assets of $205 million and debt totaling $121.5 million, including $95.4 million in secured debt.

The case is In re Northampton Generating Co. LP, 11-33095, U.S. Bankruptcy Court, Western District of North Carolina (Charlotte).

Briefly Noted

Patriot Coal Said to Set Price on Portion of DIP Loan Financing

Patriot Coal Corp. set the price it will sell a $375 million portion of its debtor-in-possession loan, according to a person with knowledge of the matter.

Patriot is proposing to sell the debt at 98 cents on the dollar, said the person, who asked not to be identified because the terms are private. The so-called original issue discount reduces proceeds for the borrower and boosts the yield for investors.

The St. Louis-based coal producer will pay interest at 8 percentage points more than the London interbank offered rate on the debt and the lending benchmark will have a 1.5 percent minimum, according to data compiled by Bloomberg.

Citigroup Inc., Barclays Plc and Bank of America Corp. are arranging the debt, which includes a $125 million line of credit that pays interest at 3.25 percentage points more than Libor.

Lenders must let the banks know by 5 p.m. in New York on July 31 if they will participate in the deal, the person said.

Patriot filed for bankruptcy protection on July 9. It listed assets of $3.57 billion and debt of $3.07 billion as of May 31. The company is one of the largest coal producers in the U.S.

The case is In re Patriot Coal Corp. (PCXCQ), 12-br-12900, U.S. Bankruptcy Court, Southern District of New York (Manhattan).

Post-Bankruptcy

Metro-Goldwyn-Mayer Said to Hire JPMorgan, Goldman Sachs for IPO

MGM Holdings Inc., the parent of Hollywood studio Metro- Goldwyn-Mayer, hired JPMorgan Chase &

Co. and Goldman Sachs Group Inc. to manage its initial public offering, according to two people familiar with the situation.

JPMorgan will lead the share sale, said the people, who declined to be identified because the information isn't public.

MGM said it submitted a draft IPO registration statement confidentially to the U.S. Securities and Exchange Commission, according to a statement dated yesterday. Los Angeles-based MGM didn't say how much it plans to raise or how many shares are being offered.

The company emerged from bankruptcy at the end of 2010.

Downgrades/Other Ratings Actions

Heineken Placed on Credit Watch Negative, S&P Says

Heineken NV, the beer brewer and distributor, had its long- and short-term corporate credit ratings placed on credit watch negative yesterday by Standard & Poor's Ratings Service, according to a statement by the ratings company.

S&P changed Heineken's BBN+ and A-2 long- and short-term corporate credit ratings from stable to negative following the company's announcement of its offer to acquire the stake of its joint-venture partner Fraser & Neave in Asia Pacific Breweries Ltd., S&P said in the statement.

The credit watch negative "reflects our view that the debt-funded acquisition would weaken the group's credit metrics, despite further supporting Heineken's strong business risk profile," S&P said in the statement.

Bank Downgrades Impact Market for Sales of Structured Notes

Sales of securities that package debt with derivatives and provide banks with fees that average 2 1/2 times what they receive underwriting corporate bonds are tumbling as credit downgrades of the world's largest financial companies curb investors' appetite.

Issuance of the structured notes, which offer customized bets tied to stocks, currencies, commodities and interest rates, have fallen 34 percent to $65.8 billion this year from the same period of 2011, according to data compiled by Bloomberg. Buyers of structured notes, which include institutional investors as well as high net-worth individuals, bear the risk both of the bank selling the securities and of the underlying assets. Eight of the 10 largest issuers have been downgraded this year, making the notes less attractive to investors seeking safe assets as the economy slows and Europe's crisis deepens.

U.S. issuance fell 23 percent this year to $21.7 billion, the lowest level since 2010, when Bloomberg started tracking the market in that country. In Europe and Asia, where numbers go back to 1999, sales fell 38 percent to $44.1 billion. That's the least since 2002 and the most severe drop in three years.

For more, click here.

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