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New York taxi operators skid into Chapter 11

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New York's largest owner of taxi medallions has alleged Uber Technologies Inc. drove several of his companies into Chapter 11.

Evgeny Freidman on Wednesday, July 22, submitted petitions for 22 of his companies in the U.S. Bankruptcy Court for the Eastern District of New York in Brooklyn. The New York and Brooklyn companies, led by Hypnotic Taxi LLC and featuring names such as Bourbon Taxi LLC, Chianti Taxi LLC and Cupcake Taxi LLC, have yet to file any first-day motions for consideration by Judge Carla E. Craig.

A summary of schedules, statement of financial affairs and list of equity security holders must be filed by Aug. 5.

In a Wednesday affidavit, Freidman, who manages at least 850 taxis, blamed the filings on the companies' relationship with lender Citibank NA and its relationship with Uber, developer of a popular ride-hailing application.

Citibank sued parties including the debtors on March 6 in the Supreme Court of the State of New York in Manhattan after a default on some of the parties' loans with the bank. A May 19 order allowed Citibank to seize the debtors' 46 medallions--the licenses for operating official cabs in New York--on June 9. The Freidman parties appealed the ruling and won a stay on July 14, but the appellate division of the court required the debtors to post a \$50 million bond, which triggered the bankruptcy petitions.

The debtors owe Citibank \$32.09 million on 22 separate loans. In addition, the lender asserts it is owed \$1.64 million on a loan to Freidman's Taxi Club Management LLC, which he disputes. The company on its website claims to have a fleet of more than 1,000 taxis, while Freidman's profile on the website of the Greater New York Taxi Association, where he serves as principal, puts the total at 850 vehicles and more than 3,000 drivers.

The debtors' relationship with the lender began in September 2011. According to Freidman's affidavit, Citibank worked with his companies to create a unique cash management system to remedy the problems his companies were having with fraudulent checks from third parties and to streamline operations. In 2014, though, Freidman said the companies began to experience "major issues" with the way Citibank managed their funds. The companies could not secure refinancing for their outstanding loans, which Freidman alleged was a result of bounced checks to other lenders. Citibank's alleged mismanagement of the debtors' accounts led to hundreds of thousands of dollars in fees, the loss of hundreds of drivers and governmental investigations.

On May 23, 2014, Citibank terminated Freidman's cash management accounts, which Freidman said "created a state of chaos for the debtors and [four nondebtor] management companies."

Citibank on Nov. 6 said it would completely terminate its relationship with the companies on Dec. 15. As a result, they had five weeks to secure a new lender, Freidman said.

"It appears that Citibank and other lenders were concerned about the effect that Uber and other nontraditional ridesharing companies would have on the traditional medallion-based taxi business model," he alleged. "In the debtors' view, this concern was misplaced as Uber only has approximately 4% of the market in New York City."

After Citibank dropped Freidman's companies, Uber obtained a \$2 billion line of credit from the bank.

Citibank director of public affairs Andrew Brent, however, offered a different viewpoint.

"Following Mr. Freidman's failure to agree to terms to settle his outstanding obligations with Citibank, we moved forward to take possession of the medallions securing his loans, and the companies subsequently filed for bankruptcy," Brent said via e-mail. "It is not the best outcome for any party, but we will move to conclude the repossession and resale of the medallions as quickly as the court will allow."

Brent called Freidman's claims that the bank dropped his companies to curry favor with Uber a "laughable conspiracy theory." He continued: "The reason we are in this position is simple. We extended loans to Mr. Freidman's businesses, they defaulted on them, and he has repeatedly refused to make a good-faith effort to work with us to resolve the matter. Period."

According to court papers, Freidman's companies want to restructure the Citibank loans so they can eventually pay the bank's allowed claim while in bankruptcy.

"The debtors require some breathing room from Citibank and its unexplained aggression so that [they] can formulate and propose a plan that makes sense for all the debtors' stakeholders, the hundreds of men and women that make a living using the debtors' medallions and taxi vehicles, and the industry as a whole that is threatened by the actions of one lender," Freidman wrote. The debtors have signed nondisclosure agreements with two potential lenders and have meetings set over the next three weeks with potential lenders, Freidman said.

"This Chapter 11 reorganization is necessary to save the jobs supported by these companies, while reorganizing their financial affairs," Freidman spokesman Ronn Torossian said via e-mail. "This Chapter 11 filing is necessary to protect hard-working taxi drivers, taxi operators and the entire taxi medallion industry from overly aggressive lenders."

Freidman's companies will continue to operate, according to Torossian.

The bankruptcy cases come as a battle wages between Uber and taxis in New York.

On Wednesday, New York Mayor Bill de Blasio threw out a plan to cap the number of Uber vehicles that can operate in the city at once, a move Uber NYC general manager Josh Mohrer called "great news for all New Yorkers" in a statement.

A day later, the Greater New York Taxicab Association challenged Uber to a debate on its effects in cities. "Explain to my fellow New Yorkers what happens if there's a blackout," GNYTA executive director Ethan Gerber said in a statement. "Explain to my fellow New Yorkers how you plan to serve those who don't have expensive, fancy I-phones [sic]. The mayor of our fine city doesn't debate with private corporations; as entrepreneurs, however, we do." In his

affidavit, Freidman took a swing at the company as well, saying, "It is not a secret that Uber is in a media war with the taxi industry."

Freidman hasn't always been so outspoken against the ride-share company, though. In fact, he once called it a friend.

In a conference held one year ago by Crain's New York Business , Freidman said: "Uber is a friend. Uber has made us move in a direction that we would not have moved before."

Despite qualms from Freidman and GNYTA, Uber and New York are moving forward with a traffic study through November to determine the impact it has on traffic in the city.

"In addition to the traffic study, the city and transportation stakeholders will participate in a larger review of the entire taxi, [for-hire vehicle] and livery industries, with a particular focus on revenue for public transit, consumer protections, driver and employee protections, and accessibility for people with disabilities," First Deputy Mayor Anthony Shorris said in a statement.

Hypnotic Taxi in court papers listed \$1 million to \$10 million in assets and liabilities. The debtors valued their taxi medallions at \$43.7 million and vehicles at \$572,100.

The New York Department of Taxation and Finance has a \$915,677 claim, and the debtors owe the New York City Department of Finance \$4,040.

The debtors' five largest unsecured creditors, all holding personal injury claims, are Josette Marie Tenas-Reynard (owed \$1 million), Juan Abreau, Shelly King, Peri Edelstein and Edward Landreth, the latter four owed an unknown amount.

Uber representatives could not be reached for comment Thursday.

Debtor counsel Maeghan McLoughlin and Fred Stevens of Klestadt Winters Jureller Southard Stevens LLP directed requests for comment to Torossian.

<http://pipeline.thedeal.com/tdd/ViewArticle.dl?id=13229753>

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