

# Avoiding Chapter 22



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# Which Companies Filed Chapter 22's ?

- AIRLINE
- MEDIA EVENTS
- NEWSPAPER PRINTING  
PRESS MANUFACTURER



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# Atlas Air Worldwide Holdings

- Atlas produces revenues of \$1.6 billion through operation of a Boeing 747 air cargo, military charter, leasing and freighter services company.
- In 2004, Atlas filed for bankruptcy protection due to weakness at that time in the global economy.
- The filing also provided Atlas the opportunity to:
  - ❑ Void lease obligations on older and less efficient 747-200 aircraft;
  - ❑ Restructure certain debt obligations converting them into equity;
  - ❑ Reduce fixed costs and debt service.
- **Z Scores were:**
  - ❑ **-1.0 just before the Chapter 11 filing**
  - ❑ **4.7 after emergence from the Chapter 11 filing**



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# Atlas Air Worldwide Holdings (cont'd)

- Since the 2004 emergence from bankruptcy, Atlas has:
  - Captured increased military charter business (i.e., Iraq and Afghanistan destinations);
  - Agreed to sell a 49% interest in its scheduled Polar Air Cargo subsidiary to DHL, in return for guaranteed capacity use in key trade lanes securing a strong future revenue stream;
  - Continued to expand its ACMI and “dry” aircraft leasing activities;
- Secured the world’s largest fleet of Boeing 747 freighter aircraft.
- Traded on NASDAQ (AAWW) — closing on Oct 6 at \$31.60.

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# Atlas Air Worldwide Holdings (cont'd)

- Atlas' Z Score was 6.4 at December 31, 2008



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# Key 3 Media

- Owner of Comdex and others making it largest computer media event company in the world.
- In 2002, Thomas Weisel Capital Ptrs (TW) saw a value play due to a over-levered balance
  - \$100 million in senior bank debt
  - \$200 million in public bonds
- TW brought at deep discounts blocking positions in bank and bond debt thereby controlling two of the three creditor classes (cost basis at approx 35% of par)
- Key 3 filed a Chapter 11 proceeding in Jan 2003; and quickly emerged in May 2003.



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# Key 3 Media (cont'd)

- TW emerged from the bankruptcy with effective majority control over Key 3 Media with:
  - a dominant industry player
  - projected EBITDA margins of 16% (58% gross margins)
  - a comfortable 1 to 1 debt to equity ratio
  - very capable management
  - a plan which anticipated new event plans based on ever changing customer needs from the rapidly changing Microsoft, Sun, Cisco, Sybase platforms
- ***and a Z Score projection of 3.4 for the next three years.***

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# Key 3 Media (cont'd)

- The 2002 Comdex Las Vegas attendance dropped to approx 95,000 and the event lost money for the first time in its history blamed largely on Sept 11.
- The drop in attendance spooked Microsoft and other exhibitors into accelerating their own web based advanced developer training.
- TW's assessment included an attendance down turn but that Comdex and other of Key 3's media events would stabilize and then grow.

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# Key 3 Media (cont'd)

- However, the content providers also switched focus and reduced their costs by moving new product introductions to the growing in popularity Consumer Electronics Show (CES).
- Ultimately, in 2005 Key 3 Media was forced to file a Chapter 22 to sell off selected events and liquidate.

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# Global Newspaper Press Manufacturer

- In 2004, a private equity sponsor acquired in a bankruptcy auction an add-on for its platform portfolio company, adding global capability.
- The Company reported over \$3.3 billion of revenues for the three years ended in 2008.
- In 2008, the Company reported a \$136 million cash loss.



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# Global Newspaper Press Manufacturer (cont'd)

- At December 31, 2008, the Company's Z Score was 1.4.
- In 2009, the Company planned to report a \$55 million cash loss.
- The Board ignored the recommendations of its turnaround advisors to reduce global excess capacity, in-house assembled parts and reduce operating costs, saying:

*“This is just a blip—the newspaper printing business will be back to 2007 levels by the end of 2009”.*

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# Global Newspaper Press Manufacturer (cont'd)

- In late September 2009, Shanghai Electric Corporation completed a strategic acquisition of this company saving a certain Chapter 22 bankruptcy event for the company.



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# Lessons Learned

- Strategy of the business
  - Sustainable
  - Competitive factors favorable
  - Rising tides or increased headwinds
- Capital structure able to withstand an unexpected operating down-draft
- Sufficient funding in plans/projections for new product development/R&D/expanded distribution

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# Lessons Learned (cont'd)

- Creative and talented management
- Capable Board members with a mix from inside and outside the Company's industry
- Incentive comp systems aligned to drive value creation
- Reporting systems capable of measuring critical operating performance metrics

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# Lessons Learned (cont'd)

- Key operating initiatives monitored at the Board level
- Conservative financial projections with debt covenants designed to keep the Company out of default
- Conservative financial reporting and planning practices
- Proper use of financial and operating leverage
- Non-Burdensome debt service



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# Wild Cards

- The uncertainty and speed of governmental and regulatory taxes, fees and mandates
- Technological change
- Geopolitical events