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TURNAROUND MANAGEMENT ASSOCIATION

Chicago / Midwest Chapter

TMA

2008 Chapter *of the* Year

What's Inside?

From Our President: See you in Lincolnshire!

Thoughts from Joe Fobbe, Managing Director, Regions Business Capital

Joe Fobbe

The Third Annual MidAmerica Regional Conference is poised to be the best ever. "Riding the Storm Out" is this year's theme and the conference will be held at the beautiful Marriott Lincolnshire Resort September 9-10 in Lincolnshire, IL.

I'm highlighting this event in my President's letter this issue because I believe it's one of the best, if not *the* best, value propositions we have within our chapter. It combines a great balance of education and networking over a two-day period. You also get top-notch educational programs, speakers and regional networking opportunities at an extremely affordable price.

The event will kick off on Wednesday as it has in the past with a relaxing round of golf at the resort, with up to 120 of our colleagues from the participating chapters (Chicago/Midwest, Upper Midwest (MN), Detroit and Missouri). Tee time will be right after lunch. A networking reception will follow golf and be a prelude to a terrific dinner outside overlooking the resort. I'm guessing a little extra networking will be done somewhere on the grounds after dinner among a contingent of the attendees prior to getting a good night's sleep.

Thursday is again ambitious with a 7:30 a.m. breakfast keynote by Stuart Hoffman, chief economist of PNC, and a luncheon keynote, Phillip LeBeau, MSNBC's automotive expert. In between, there will be three concurrent panels presented two times each with a networking coffee break in between. These panels will consist of: Asset Valuations in Challenging Times; Preserving Liquidity, a Survival Guide for Obligors; and Detecting and Preventing Fraud. After lunch, a Bank Restructuring panel will conclude the conference before—I'm sure—some attendees head out for a mid-afternoon tee time somewhere in Chicago's beautiful northwest suburbs. *Please note: Sponsorship opportunities still exist and more conference information can be found on page 5.*

Hat's off to your Chapter's President-Elect Tom Pabst for coordinating this large Regional Committee which was led on the local level by our Special Programs Co-Chairs: Gail Heldke of Wells Fargo Business Credit, Chris Horvay of Gould & Ratner LLP and Howard Mullin of Fordham Financial. Special thanks also goes out to Jeff Kolke of GE Capital for joining the committee and helping out the sponsorship drive and approaching LeBeau of MSNBC, an affiliate of GE.

Nominating Process

Like any organization, people are our most valuable resource in the Chicago/Midwest TMA. We are now in the heart of our chapter's nominating process, and I encourage you to see some information on page 4 of this newsletter about how to get involved. We are always striving for the right balance of experience and new faces in our leadership, and I encourage you to look for information in your email about the positions available and reach out to the existing leadership to learn more about what you're interested in.

Jack Welch and Other Upcoming Events

An outstanding Regional Conference is just the beginning of our sprint to the finish of 2009. One week after this event we have our September breakfast meeting, "Lions of Investing: Private Equity Opportunities in Turbulent Times," moderated by none other than Jamie Sprayregen of Kirkland & Ellis. The following week we have our Cubs vs. Brewers event at Miller Park in Milwaukee (of course), and October includes the TMA International Conference in Phoenix, our annual Texas Hold'm event, and a Milwaukee programming event. November will include a Women's Group Networking event, a possible breakfast program, an expanded Executive Speaker Event—"Winning in Turbulent Times with Jack Welch." See pages 3 and 5 for more information. The year will conclude with a new venue for our TMA Holiday Party: Macy's on State Street overlooking the Christmas tree!

As I said some time ago—Now is our Time!

P.S. Thank you again for making the Turnaround Management Association your primary networking and professional development association. We won't let you down.

Joe Fobbe

Successful Breakfast Forum Series Continues

By Aaron L. Hammer, Esq., and Brian J. Jackiw, Esq., Freeborn & Peters LLP

Attendees got off to an early start at the May 8, 2009, Breakfast Forum, "Legends of Liquidation: 2009 Asset Valuations in Turbulent Times." Moderating this esteemed group was Ira J. Kreft, managing director and regional manager of RBS Business Capital. The panelists included Harvey M. Yellen, chairman and partner of the Chicago-based Great American Group; Robert J. Maroney, managing director, principal and co-president of the commercial and industrial division at Gordon Brothers Group; Arnie Dratt, CEO of Hilco Appraisal Services; and David S. (Andy) Gronik, Jr., co-founder, president and CEO of AccuVal.

One noteworthy piece of information from this discussion was that the four panelists agreed on virtually every issue at hand. The first discussion topic revolved around the robustness of liquidation in today's turbulent economic times. All in all, the panelists agreed that selling large industrial assets was becoming increasingly difficult in the current business environment. With companies and people tightening their belts and credit becoming increasingly difficult—and sometimes impossible—to obtain, asset prices have plummeted. One panelist also pointed out that much of the heavy industrial equipment in the U.S. is being shipped overseas for auction.

The panelists also spent considerable time discussing valuations. In the past, financial institutions, their corporate borrowers and asset purchasers accepted or relied upon appraisals conducted annually. Today, however, entities have become increasingly conservative when looking at the age of comparables. Rather than using years as a barometer, financial institutions and buyers are looking at months, or even days, when evaluating the legitimacy of comparables.

This practice directly affects how people are doing business. All of the experts on the panel agreed that in order to be accurate in today's market, and to know the true current market value of hard assets, valuations and appraisals should be updated regularly. Slight disagreements arose as to how often is enough, but weekly and monthly appraisals were the norm, depending on the longevity of the asset and its use.

Chicago/Midwest Chapter Award-Winning Turnarounds, Transactions, and Individual honored at May Breakfast Forum

By Michael P. Ban, Commercial Sourcing Division, Six Degrees Consulting LLC

The annual TMA awards presentation of the Chicago/Midwest Chapter kicked off the May 8 breakfast forum at the University Club, with over 240 members, guests and friends in attendance. Hosted by Dan Wikel and Mike Ban, co-chairs of the 2009 Awards Committee, awards were presented for Turnaround of the Year-Large Company, Turnaround of the Year-Midsize Company, Transaction of the Year, and the Annual Individual Member of the Year.

Amcom Distribution – Midsize Turnaround of the Year

Accepting the award for Midsize Turnaround of the Year (Amcom Distribution) included Mitch Rasky, Bob Coresntino, Chapter President Joe Fobbe, Christopher Atayan and Andrew Plummer. Photos by Nicole Krakora.

The Amcom Distribution case earned the Midsize Turnaround of the Year Award. Bob Corsentino and Mitch Rasky formerly of Bank of America Business Capital and Christopher Atayan (President) and Andrew Plummer (CFO) of Amcom received plaques recognizing this most interesting and successful turnaround. At the time the need for turnaround became evident, the company competed in three business segments: cigarette and convenience store distribution; ownership and operations of a 13-store chain of health food stores; and a water bottling and distribution unit, consisting of two acquired companies. Company ownership had decided in the early part of the decade that the distribution business was characterized by low margins and limited growth opportunities, and sought to offset that situation through a series of acquisitions in the retail and water segments. These acquisitions were financed with bank debt via LaSalle National Bank as the lead bank. Because of continuing losses in the bottled water segment, the company went from profitable operations in 2003 to losses in 2004 and 2005. The losses caused a liquidity crisis, and relations with LaSalle became strained. To address the liquidity situation, the company sold preferred stock to an investor in early 2006, and Atayan was named president to begin the turnaround.

It was clear to management and the bank that major steps were required to preserve the company as an ongoing operation. First, the new management worked with the bank to establish a new bank line and an overadvance facility to maintain what had historically been the company's core business, the distribution segment. It was clear the bottled water operations were in a highly competitive niche, and generating ongoing profits would be a difficult task; therefore, it was decided to divest the company of one of the acquisitions it had made in that segment and to discontinue operations of the other acquisition. The company was successful in both activities, allowing management to focus on improving operations in both the wholesale distributing and retail operations of Amcom and to bring in experienced professionals for the critical financial positions.

Under the leadership of Atayan and Plummer, and with the cooperation and support of Corsentino and Rasky from Bank of America, Amcom returned to profitability and significantly reduced its bank debt, a clear hands-down choice for 2008 TMA Midsize Turnaround of the Year, representing the best in cooperation among bankers and their customers.

Solo Cup – Large Turnaround of the Year

The Large Turnaround of the Year Award was presented to Solo Cup, Robert Korzenski (CEO), Norm Alpert, Jeff Long, Kevin Mundt and Dan O'Connell of Vestar Capital, a major investor in Solo, and David Garfield and Darin Facer of AlixPartners LLP, who worked with Solo and Vestar as the consultants on the turnaround team. Founded over 70 years ago, Solo Cup, with 20 facilities and 20 distribution centers in North America, the United Kingdom, Japan, and Panama, is one of the largest manufacturers in the world of paper and plastic cups, plates, bowls and cutlery, with global revenue of $2.5 billion. The company sells direct through large retail channels and through major distributors, and is in a competitive marketplace, particularly in the foodservice industry, with both domestic and international competitors. The company has grown organically and through a major acquisition in 2004.

Darin Facer accepts the award on behalf of the Large Turnaround of the Year (Solo Cup) team, with Chapter President Joe Fobbe.

Solo faced both internal challenges and external factors, which contributed to a deteriorating financial situation that became clear in 2006.

- Externally, gross margins were under significant pressure.
- Raw material costs were increasing substantially.
- Solo's primary market segments were dominated by highly demanding customers like McDonalds and Starbucks, whose pricing pressures impacted the company's already weakening gross margins.
- Their heretofore profitable categories were being attacked by low-cost producers using price as their competitive strategy.
- Internally, the company had not yet been successful in integrating their major acquisition and was dealing with over 15,000 SKUs, among other integration challenges.
- Information systems were weak, limiting management's ability to make appropriate decisions at many levels.
- Solo's global manufacturing footprint led to costs well above industry benchmarks.
- High and unpredictable inventory levels were a cash-flow drain.

Gross margins decreased substantially as a result of higher raw material, utility and transportation costs, resulting in a 2006 loss. Debt levels were increasing and cash from operations moved into the negative. Solo had entered into an investment agreement with Vestar Capital, and the company's underperformance triggered a clause in the investment agreement. Accordingly, Vestar took control of Solo's board in late 2006, at which time Korzenski was named Chief Executive Officer of Solo.

AlixPartners, in conjunction with the rest of the turnaround team, focused on cash flow, capital structure and profitability. Their efforts resulted in a complete turnaround of Solo in only nine months. The AlixPartners team conducted a profitability analysis which identified candidates for divestiture, and four business units were subsequently sold. The team then implemented a comprehensive performance improvement program covering manufacturing and engineering, distribution and logistics, sales and marketing, and sourcing—virtually the full range of company operations. The effect of the team's activity was substantial, including moving from a net loss to profitability, generating substantial additional cash from asset sales and improved operations, gross profit improvement, decreased SG&A, inventory reductions, finished goods cost decreases and improved service levels.

The award celebrates a substantial improvement in a multi-billion dollar company in a surprisingly short period of time, a tribute to the efforts of the turnaround team which richly deserved this year's award for Large Company Turnaround of the Year.

Trinsic, Inc. – Large Company Transaction of the Year

Accepting the award for Large Company Transaction of the Year (Trinsic Inc.) included David Egan, William Howard, Aaron Hammer, Jeff Mattson, Paul Rosenblatt and Thomas Fawkes along with Chapter President Joe Fobbe.

The Large Company Transaction of the Year was a most interesting case involving chapter 11 proceedings of a national provider of integrated telecommunications services to both residential and business subscribers throughout the United States. A broad-based team of professionals, including a district bankruptcy judge, participated in this complicated situation which had a highly desirable outcome. The team included the creditors committee, the company advisors and Freeborn & Peters.

Trinsic was a reseller of the telecommunications services, and purchased those services wholesale from the largest telcoms in the US. Accordingly, the official committee of unsecured creditors included David J. Egan of AT&T Wholesale, Inc.; William G. Cummings of Verizon Communications; Juliette Morrow Campbell of Sprint Nextel Corporation; Elizabeth K. Flanagan of Holme Roberts & Owen; and Vincent M. Oddo of Access Integrated Networks. An advisory team was constituted, including Paul M. Rosenblattt, Esq., Kilpatrick Stockton LLP; Reginald Greene, Esq., AT&T Services Inc.; Suzanne C. Leslie, Esq., AT&T Services Inc.; Darryl S. Laddin, Esq., Amail Golden Gregory LLP; and David I. Swan Esq., McGuireWoods LLP; joined by the Freeborn & Peters team of Aaron L. Hammer, Esq., William N. Howard, Esq., Jeff Mattson, Esq. and Thomas R. Fawkes, Esq. As the events unfolded, U. S. Bankruptcy Judge Margaret A. Mahoney from the Southern District of Alabama was very supportive of the team's efforts to improve the outcome. *— continued on page 10* *continued from page 9*

Trinsic's challenges included significant operating and net losses, exacerbated by a large amount of redeemable preferred stock outstanding. A senior management change took place, and the new team was tasked with enhancing the company's operating performance, simplifying the balance sheet and reducing the outstanding liabilities. Adding to the challenge were several rulings from the FCC forcing the company to pay substantially higher rates for services it had earlier been receiving at lower pricing levels. Further, Trinsic had been forced to enter into a high-cost receivables factoring arrangement when the provider of its previous working capital facility exited the telecommunications space. However, with no notice and without any material change to Trinsic's financial performance, the factor withdrew the funding, resulting in a shortfall in cash to meet obligations. As a result of the funding termination, Trinsic instituted chapter 11 proceedings with the factor as the debtor-in-possession lender.

An early bidder emerged for the assets of the company. Concurrently, the unsecured creditors' committee was appointed by the court. At the same time, the factor began the process of liquidating the company's assets under the interim DIP financing facility, thereby depriving the company of liquidity which would be required to extend the auction process and accordingly secure a better return for the creditors. The committee and its legal professionals assumed control of the sale process and the committee's financial advisor was appointed sale advisor with the approval of the court. The committee contacted dozens of prospective purchasers, and seven bids were received. The sale was completed at a price 25% higher than the initial bid, transforming the case from one in which administrative insolvency was almost a foregone conclusion to a case in which unsecured creditors should realize a meaningful recovery.

The committee and its professionals played a key role in virtually every aspect of Trinsic's situation:

- Dismantling the DIP financing facility, which had onerous fee provisions that hindered the sale process.
- Negotiating a global settlement concerning the administrative claims of each of the company's incumbent telecommunications providers.
- Investigating potential claims and causes of action against Trinsic's purported secured creditors, which were later pursued and remain ongoing.

This transaction represented an exceptional turnaround to a situation where the sale price of the company was enhanced, with major activity taking place in a brief 30-day period. Judge Mahoney praised the committee and its professionals for successfully handling what had appeared to be an impossible mission, as did the Awards Committee with this award for Large Transaction of the Year.

Katie Pamenter – Individual of the Year

Katie Pamenter accepted the award for Individual of the Year.

TMA's Chicago/Midwest Chapter's success and reputation are indeed the sum of all its members, and no individual better represents the tireless commitment and energy of those members than Katie Pamenter, who deservedly received the coveted Individual Award for 2008.

Katie took on the role of co-chair of the Women's Group with complete enthusiasm. She was instrumental in creating the "Leading by Succeeding" luncheon series, which included three luncheons focused on business development. The series concluded with a highly successful networking and wine-tasting reception at Bin 36. Katie held committee meetings, lined up speakers, designed flyers and made sure that all women members of TMA were contacted, sharing her enthusiasm and commitment with the membership, both women and men.

Katie continues her involvement as co-chair of this year's Newsletter Committee, and represents the best of TMA. She richly deserved this award.

Heartiest congratulations to all of the winners, to all those who entered, and thanks to the 2008 committee, Carl Lane (AlixPartners), David Bogetz (Burnham Capital Partners LLC) and Frank Mack (Project Special Situations), for their outstanding work in sorting through the entries and coming up with this exceptional slate of winners. It is the 2009 committee's expectation that this year's economic conditions will provide a fertile ground for a most interesting group of entries and winners for the awards to be presented in 2010, and members are encouraged to be thinking about candidate cases to present.