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## Coming Events

**April 22** - Industry In-Depth Review / *Auto Dealers in Today's Market*

**May 28** - **Amity Shlaes, a syndicated columnist at Bloomberg, will discuss her book about lessons learned from the Great Depression**

See [Page 2](#) for details and the complete 2009 meeting schedule. For event signup, see our [Chapter Website](#).

## About TMA

TMA is the premier national organization of professionals dedicated to corporate renewal and turnaround management.

## A Note from this Month's Featured Sponsor



## Is it Time for a New Kind of Automotive Supplier Workout?

**By Robert Wanat, Consulting Manager at Morris Anderson & Associates, Ltd.**

The demise of automotive suppliers has become so common, it rarely even makes cable TV. But there is breaking news worth paying attention to: Detroit OEMs are showing tentative signs of adopting a more accommodating attitude when suppliers enter bankruptcy or restructuring.

The 'Detroit 3' (or D3 as I will call them here) have long approached automotive supplier work outs and reorganizations in an atmosphere of hostility, mirroring what was typically a very one-sided business relationship when the supplier was healthy. A recent case, however, hints at an attitude change that may benefit all parties to the automotive supplier restructuring.

### A primer on workout approaches

The D3 continue their one-sided business tactics when suppliers must reorganize or restructure to survive. There are three operating strategies available when any company goes into a workout: the good, the bad or the ugly.

The Ugly. This is a hard landing approach where all constituents are adversarial, funding is pulled, access and accommodation contract clauses are exercised (or attempted to be exercised), and business interruption is the norm. No one wins, workout costs are very high and the results are very disappointing for all constituents. Constituents rarely recoup all of the cash expended during the proceedings.

The Bad. There is a hostile environment where trust and cooperation do not exist, all constituents have their own agendas, and everyone lobbies to improve their individual position at the expense of the other "constituent partners" in the case. Workout costs are very high, the process takes many months or years, and all constituents end up with a very low or no upside financial realization.

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## President's Report by Nancy Terrill

Dear Ohio TMA members and friends:

Many thanks to Sharon Rader, Senior Vice President of National City Bank's CRC division for putting together the March breakfast program featuring Michael Lugli, Senior Vice President of KeyBank and Ben Berzin, Executive Vice President of PNC. The panel of workout bankers discussed how their respective banks were handling the increase in problem loans, and the best way consultants and lawyers could get on their lists for referral opportunities. The program was well attended, and the venue at the Wyndham was very well received.

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Since 1980, **MorrisAnderson** has successfully led more than 1,500 private and public companies through change and performance challenges by acting as consultants to management, investors and their lenders, and as interim managers. Our objective is to help companies facing critical challenges maximize their enterprise value.

Visit MorrisAnderson's website at <http://www.morris-anderson.com/> or contact the firm at (216) 589-9440.

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## 2009 Meeting Schedule

**April 22** – Industry In-depth Review / *Auto Dealers in Today's Market: Where the rubber (leaves the lot) and meets the road*, featuring Paul Melville, Partner in the Corporate Advisory and Restructuring Services practice at Grant Thornton LLP and an expert in the auto dealer industry, Scott Opincar, Insolvency Partner at McDonald Hopkins LLP who has represented several constituencies in automotive dealer cases, and Rick D. Sonkin, corporate partner with Sonkin & Koberna LLP who represents numerous automobile dealerships in northeastern Ohio. The program will be moderated by Liz Lynch, Vice President, Development Specialists, Inc.

Auto dealers are facing pressure from all sides. Consumer demand is down. Experts and domestic automakers think more dealerships will, and must, close. And banks continue their tight grip on lending, cutting off all but the most creditworthy from financing. Our panel will discuss the facts and figures underlying the dealerships' distress, examine the circumstances that might dictate whether a given dealer must liquidate or may restructure, and opine on the future of the industry and the consequent impact on the communities it serves. / 7:30 am: registration and buffet breakfast; 8:15 am: presentation (The Union Club, 1211 Euclid Avenue)

For more information, contact:

Louise Walsh, Chapter Administrator

216 861-5627 or [admin@tmaohio.org](mailto:admin@tmaohio.org)

**May 28** – GUEST AUTHOR: **More Than Predictable: What We Really Know About the Great Depression Causes and Why We Seem to be Recreating Them.** Amity Shlaes is a senior fellow in economic history at the Council on Foreign Relations and a syndicated columnist at Bloomberg. She has written for The Financial Times and The Wall Street Journal, where she was an editorial board member, as well as for the New Yorker, Fortune, National Review, The New Republic, and Foreign Affairs.

Her latest book, The Forgotten Man: A New History of the Great Depression, has been widely praised by prominent figures such as George F. Will, Harold Evans, Newt Gingrich, Arthur Levitt, Mark Helprin, Peggy Noonan, Paul Volcker, and in publications such as The New York Times, The Wall Street Journal, The American Spectator, The Weekly Standard, and The National Review. Amity Shlaes, an established leading historian of 20th Century finance, presents an analysis of the Great Depression which identifies the economic consequences from government intervention with clear implications for our economy today.

**June 17** – Summer Outing / 5:30 – 8:00 pm (Shoreby Club)

**July 20** – Golf Outing (Mayfield Country Club)

**August 27** – Young Professionals Event

**September 24** – Bankruptcy Judge's Panel

**October 29** –TMA - NEON/IWIRC joint meeting / Topic TBD

**November 19** – Annual Workshop

**December 17** – Holiday Party

NOTE: Exact locations and times for each event will be announced well in advance of each meeting. While it is anticipated that this schedule will be held throughout 2009, material events or other unforeseeable events could result in changes. For the most current information about meetings and events, and to sign up, visit the [TMA Ohio website](#).

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To subscribe, visit TMA [on the Web](#)

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## President's report (continued)

Next month the program will feature the automotive dealership industry. Few other industries are facing such a substantial consolidation and our panel of experts will share their views on who will survive, and how they will accomplish it. Featured speakers include Paul Melville, a partner in Grant Thornton's Corporate Advisory and Restructuring Services practice with significant experience in this industry in the US and abroad as well as Scott Opincar, Partner in the insolvency practice of McDonald Hopkins LLP. Rick Sonkin from the corporate practice of Sonkin & Koberna LLP will relate the story from the dealer's perspective.

Our last regular program before summer starts is May 28th when we will sponsor Amity Shlaes, a prominent veteran journalist and conservative economics reporter who presents economic realities and the consequences of actions taken by government in seriously weak economies. **This is an event not to be missed.**

Summer brings pure networking events including an evening stroll next to scenic Lake Erie at the Shoreby Club in June, and the annual golf outing at Mayfield Country Club in July. For young professionals we are sponsoring a free networking event in late August. Please alert young professionals in your company to the opportunity to meet their peers.

Do not forget to apply for the Ohio TMA scholarship program for business students related to an Ohio TMA member. The deadline is May 15th and we hope to have a plethora of qualified candidates to choose from this year! Find further details on how to apply in this edition of the newsletter.

We look forward to your involvement in the Ohio TMA this year. If you want to join or have any questions or comments about Ohio TMA, please feel free to contact me at 440-477-4781 or Nancy.Terrill@GT.com. Or of course, visit our [website](#).

*Nancy Terrill*, president of Ohio TMA

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## Chapter Scholarship Application Deadline Approaches

The Ohio Chapter of the Turnaround Management Association is currently accepting applications and will award up to two scholarships for the 2009-2010 academic year, each for \$2,500. As a reminder, the application deadline is May 15. Eligibility and selection criteria are:

### Eligibility and selection criteria

The scholarship is open to any student who meets all of the following criteria:

- Child, stepchild, grandchild or spouse of any current member of the Ohio TMA Chapter.
- Studying in a law or business-related degree program.
- Will be a junior, senior or post graduate level student during the 2009-2010 academic year.

Selection will be based on:

- Grade-point average.
- Evaluation of required essay (See Scholarship Application).
- Extra-curricular activities.
- Interview (optional at Committee discretion).


The application form is available on our [website](#). Encourage your eligible family members to apply soon!

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## TMA Membership Update

The following individuals have joined TMA Ohio since December 2008. Welcome!

Richard Hitchcock, BNSF Logistics LLC • Robert M. Sloan, Sloan Consulting Group • Misty A. Baker, KeyBank National Association • Zachary Schweda, BBP Partners LLC • Bruce H. Ball, Britton-Gallagher & Associates Inc. • William J. Houston, Houston Consulting • Jennifer L. Strazzella, Vorys Sater Seymour & Pease LLP • Thomas Pratt, BBP Partners LLC • Bob Girton, Jr., Candlewood Partners LLC • Michael Jarvis, Definity Partners • David A. LeBeau, LeBeau and Associates LLC • William G. Salter, Financial Solutions LLC • Thomas M. Holleran • Jeremy M. Campana, Thompson Hine LLP • Eric M. Silver, AG Real Estate Group Inc. • David L. Goldman, Goldman Venture 11 Inc. • Peter L. Rubin, The Coral Company • James Lisy, Cohen Capital Advisors Ltd. • Daniel S. Gibel, Card Palmer Sibbison & Co. • Michael F. McCullough, JPMorgan Chase Bank NA • Harvey Kay, Cuyahoga County Common Pleas Court

<p><b>Join us for the 13th Annual TMA Golf Outing</b></p>	
<p><b>When:</b> Monday, July 20, 2009</p> <p><b>Where:</b> Mayfield Country Club 1545 Sheridan Rd. Cleveland, OH 44121</p>	<p>Please plan on joining us for a day of golf, networking, camaraderie and fun!</p> <p><b>For information on the outing and sponsorship opportunities, contact:</b> Drew Parobek - 216.479.6162 or Mark Hanak - 216.344.6936</p> <p><b>Mark your calendars!</b></p>

If you or a colleague would like to join, see the [application](#) on our website.

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## Feature article (continued)

The Good. A consensual restructuring takes place, based on the constituents' mutual trust and respect, resulting in a smooth, financially equitable transition with minimal or no business interruption. Frequently this approach can be accomplished quickly outside of a reorganization bankruptcy filing, minimizing the costs and time to effect the reorganization. This is the optimum approach if the parties can come to an agreement – a real partnership.

The typical D3 workout approach has been The Bad. There is no trust, no mutual respect, just a cram down approach. Legal verbal battles replace partnership discussions and mutual respect is replaced by litigation in many cases. The result is a very costly, protracted bankruptcy that consumes large amounts of cash and time resources with no benefit to the constituents.

Recent experience suggests, however, that positive change may be on the horizon. Hope lies in the preplanned, organized, consensual workout that is executed outside a bankruptcy filing for as long as possible, and which benefit all of constituents, not just the D3.

In most cases a preplanned, cooperative restructuring can be executed in 75 to 120 days depending on the complexity of the operation, and without the upfront costs or delays of a filing. At the end of the workout process, everyone gets what they set out to achieve:

- The OEM / customer maintains a continuous supply of parts at a fair cost.
- Secured lenders have maximum collateral preservation via the timely collection of receivables and other collateral.
- Unsecured creditors gain incremental revenue and their customer is in much better financial condition.
- Suppliers survive, implementing the preapproved restructure plan in a cooperative and friendly environment, and reducing bankruptcy and litigation costs.

Two case studies will illustrate the problem with the current paradigm and a possible alternative approach.

### Case A -- The Bad

A multi-plant automotive supplier found itself in a workout after taking on several transfer tooling jobs in six months, replacing three bankrupt suppliers. Margins turned out to be too thin, but requests for pricing relief from the D3 failed, and the supplier was unable to get to break even on the parts. With no success from the friendly negotiations route, the supplier was forced to file a Chapter 11.

Immediately the D3 sent in the dogs: attorneys, financial advisors and hired guns who made incredulous demands for more parts, faster delivery, expedited order processing and so on. The adversarial relationship went on for months, and the release of DIP funding was delayed several times by one of the D3, halting

production. Expedited freight costs soared, more DIP financing was required, and so the vicious negative, hostile, and adversarial cycle continued.

At the end of the process, everyone lost. The \$6 million DIP financing was not repaid, \$4 million spent on professional fees and expenses was paid by the estate at the expense of the creditors and 1000 people lost their jobs. And the D3? The company ended up paying a new supplier a 15% unit price premium to re-source the needed volume.

Ironically, all of this could have been avoided had the D3 granted a 10% to 15% price increase on these transfer tooling jobs so the replacement supplier could at least break even on them. The D3 ended up conceding a price increase only after no supplier was willing to be the fifth supplier to go out of business. Almost \$10 million out-of-pocket cash was lost because the D3 chose a hostile, adversarial approach instead of a cooperative strategy to make the best of a bad situation.

#### Case B -- The Good

Case B shows there can be a less traumatic and less expensive restructuring alternative. This supplier lost over 50% of its volume in less than a year, ultimately deciding it was time to sell, merge or as a last resort liquidate the company. It became apparent a new business partner was not a viable alternative, so the supplier immediately went to Plan B: an orderly, organized wind down. The plan was to maximize the estate's value for all constituents outside a Chapter 11 filing, for as long as possible so the supplier and all other constituents could control the process in a timely and equitable manner at minimal out-of-pocket expense.

The supplier laid out detailed operating plans, production schedules and financing requirements to support the D3 customers' volume needs through the work out / wind-down time frame. This approach ensured an uninterrupted supply of parts for the D3 and allowed them time to find suitable replacement suppliers without interrupting their own operations.

The secured lenders agreed to "stand still" during this time period and allowed the supplier to use cash generated in normal-course activities to support the wind-down manufacturing activities. The company had inadequate working capital to support the D3's immediate production requirements, so the D3 agreed to cash-in-advance terms for all new production shipments and voluntarily cleaned up all outstanding accounts receivable balances in exchange for tooling releases on a pay-as-you-go basis. Accounts payable were frozen and suppliers agreed to COD terms to gain incremental sales at full margin, and the property, plant and equipment were put up for sale immediately to maximize the estate's value for all stakeholders.

Bottom line: This "good" wind-down strategy worked. The D3 got the needed parts without any business interruption or trauma; the tooling was transitioned smoothly to the new suppliers; the secured lenders were paid out; and once the PPE is sold the unsecured creditors should realize 60 to 90 cents on the dollar versus 0 cents on the dollar as in Case A.

The out-of-pocket expense for Case B should be less than \$500,000 and required about 75 days to complete, compared to almost \$10 million for Case A and 9 months to close-out the Chapter 11 case. Tooling, accounts receivable and preference disputes are still in litigation after the Case A was converted -- 18 months now, and still counting.

The orderly wind-down is by no means a perfect solution, but it yields a much better result for all constituents and is usually much faster than 'bad' alternatives. The key is to work as a cooperative team to make the most of a bad situation. It is safe to say that no one wants a supplier to have a financial crisis. But, behaving in a hostile and adversarial manner only makes the restructuring more difficult, costly, and time consuming, with less cash for all at the end of the process.

#### **Time for a new workout paradigm**

A new workout process paradigm is needed. Auto supplier workouts should be a four-way process (involving the D3/OEM, the supplier, the supplier's lenders and the supplier's vendors), jointly orchestrated by the constituents for the benefit of the whole, not just the D3 / OEM's. Constituents should seek an atmosphere of cooperation, mutual respect and trust to make the most of a bad situation. Will the D3 OEM or one of the Tier 1 or 2 mega suppliers agree to say goodbye to the old ways of conducting a workout? Only time will tell, but at least all constituents should be able to agree that drawn-out cases and costly bankruptcy filings benefit no one.

Case B gives us a glimmer of hope that the D3s see their past strategies and tactics are not yielding the desired financial results. Or, possibly they have been encouraged by a little soul searching in the hallowed halls of Congress. Whatever the reason, maybe—just maybe—a new (and real) partnership is in the news.