Inside

Latest Reports:
- *Will Subprime Woes Trigger Bankruptcies?*
- *Chapter 11 Filings Drop During First Quarter*
- *Bursting of Liquidity Bubble Could Prove Decisive in 2007*

Research Report:
Who's Who in Mortgage Lenders Network USA, Inc.

Worth Reading:
The Human Side of Mergers and Acquisitions: Managing Collisions Between People, Cultures, and Organizations

Special Report:
Regional and Local Bankruptcy Accounting Firms

Special Report:
Outstanding Young Restructuring Lawyers – 2007

Gnome de Plume:
Automotive Bargains

turnarounds & workouts

News for People Tracking Distressed Businesses

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Subprime Woes

Are Subprime Lenders the Next Wave of Bankruptcies?

by Julie Schaeffer

With a number of subprime lenders exploring restructuring, the subprime sector could soon face a wave of bankruptcies – bankruptcies that will be different from many others, say two managing directors at PricewaterhouseCoopers Corporate Advisory and Restructuring LLC (PwC CAR).

The situation in the subprime lending market should be nothing new to most readers. To recap, however, the housing boom was helped by generous lending to all kinds of borrowers, including those with poor credit histories. Those subprime borrowers made up 21 percent of borrowers during the past two years, up from 9 percent between 1996 and 2000, according to Moody's Investors Service. And today, many of these subprime

continued on page 2

Large Chapter 11 Filings Decline

Mortgage Industry Tops List of Bankruptcies

by David Buzzell

According to statistics compiled by the Beard Group, the number of large bankruptcies (debtor assets of $100 million or more) fell sharply during the first quarter of 2007. However, the total number of Chapter 11 filings (of debtors with assets of $1 million or more), jumped by over 20 percent from the year before.

During January, February, and March of this year there have been just 11 bankruptcy filings by corporations reporting assets of $100 million or more. In 2006, there were nearly double that amount (20). During the first quarter of 2005, there were 16 Chapter 11 filings by large corporations, and in 2004 there were 31.

When the larger landscape of Chapter 11 filings by companies with assets of $1 million

continued on page 2

Bursting the Liquidity Bubble

The Tipping Point Could Come in 2007

by Julie Schaeffer

Bankruptcy professionals are palpably excited. Over the past several years, the availability of capital has obscured the weakness of many companies, but a day of reckoning may be near – and when it comes, bankruptcy and restructuring professionals will likely be in high demand. What will trigger the next wave of defaults – and when?

As mentioned last month, one obvious explanation for the current situation is the strength of the housing market, which created liquidity on the consumer side. The question is, how long will this situation continue? "Much of the rise in home values was driven by the development of mortgage instruments that allowed a significant segment of the home-buying market to access mortgages they wouldn't have been able to obtain before –

continued on page 2

Subprime Woes, *from page 1*

borrowers are having difficulty making their mortgage payments. At the end of 2006, 4.5 percent of subprime mortgages were in the process of being foreclosed – up from just 3.3 percent a year earlier according to the Mortgage Bankers Association. At the same time, 13.3 percent of subprime borrowers were behind in their payments, the highest level since 2002. Indeed, if you look at the entire mortgage market, foreclosures hit a record high.

That makes Cyrus Pardiwala, Senior Managing Director at PwC CAR, and Michael Milani, Managing Director and leader of the Chicago practice at PwC CAR, worry that a new wave of mortgage defaults is imminent – a situation that would flood the housing market with an even greater supply of unsold homes and potentially weaken the U.S. economy as a whole.

This sentiment is echoed by others throughout the industry. "The very rapid growth of subprime mortgage loans practically assures more mortgage repayment problems in the years ahead," Moody's said in a March report.

Moreover, the situation could worsen, "especially for those who took loans with atypical structures," says Pardiwala. A variety of aggressive mortgages became popular in recent years, including adjustable-rate mortgages, interest-only mortgages, and mortgages that allow borrowers to skip principal payments and pay only part of their interest payments. As interest rates have risen – as they have done recently – many borrowers have felt new pressures.

The impact, of course, is not just on the borrower, but, says Pardiwala, "on whoever holds the paper or bought the loans as securities." For example, in early February, the second and third largest issuers of subprime loans in the United States – New Century Financial and HSBC Holdings, which made $13.8 billion and $11.7 billion of subprime loans from July to September 2006, respectively – said rising subprime mortgage defaults will weigh unexpectedly on their results.

New Century Financial said it not only projects a fourth-quarter loss, but expects to restate each of the previous three quarters' earnings lower because it did not set aside enough money to buy back subprime loans that went bad. All of New Century Financial's bank lenders have cut

continued on page 6

Bankruptcies, *from page 1*

or more is surveyed, the picture is different. In the first three months of 2005, 302 such companies filed for bankruptcy. In 2006, there was a decline of 19 percent to a total of 247 filings. In 2007, this trend was reversed, with filings increasing 28 percent to a total of 317 (see Exhibit 1 on page 4). The number of filings by companies with assets of $1 million or more is the highest for the first three months of a year since 2004, when there were 395.

The eleven bankruptcy filings of $100 million or more during the first quarter are listed in Exhibit 2 on page 4. Mortgage lenders and servicers, hurt by the softening housing market and the rising delinquencies and defaults, populate the list. The largest bankruptcy of 2007 to date is People's Choice Financial Corporation, which reported assets in excess of $4.7 billion when it filed on March 20. The Irvine, California-based company is one of many subprime lenders that has sought Chapter 11 protection in recent months. People's Choice Financial Corporation is being represented by the Los Angeles office of Pachulski Stang Ziehl Young Jones & Weintraub.

Another victim of the shakeout in the mortgage lending industry is Mortgage Lenders Network of Middletown Connecticut. The fifteenth largest issuer of subprime loans, Mortgage Lenders Network reported assets of over $460 million when it filed for Chapter 11 in February. The lender is also represented by Pachulski Stang Ziehl Young Jones & Weintraub. A third subprime lender also made the list of the top bankruptcies for the first quarter. ResMAE Mortgage Corporation, based in Brea, California, reported assets of more than $100 million when filing on February 5.

Other sectors of the economy are faring better. In contrast to prior years, few manufacturers have filed for Chapter 11 during the first three months of 2007. The initial months of 2006 were notable for a spate of bankruptcies by large manufacturers, including Dana Corporation, Pliant Corp., Blue Bird Company, Integrated Electrical Services, Nellson Nutraceutical, and Oneida. Dana was the largest bankruptcy of 2006, with total assets of $7.9 billion. The largest manufacturer to file for Chapter 11 this year is Citation Corporation, a $360-million maker of industrial parts.

continued on page 4

Liquidity Bubble, *from page 1*

adjustable-rate mortgages, zero-interest mortgages, and negative-amortization mortgages," says Benjamin Feder, a partner with Thompson Hine, a 400-lawyer Cleveland-based law firm, says an factor to watch is a change in certain mortgage instruments. "But now, as home values are flattening, these mortgages are beginning to adjust up to higher levels." Indeed, in 2006, more than $300 billion worth of hybrid ARMs readjusted for the first time, a number that will jump to approximately $1 trillion in 2007, according to the Mortgage Banker's Association. "That is going to limit the amount of disposable income that many people have to spend," says Feder.

To Feder, the consumer side of the question is nowhere near as important a reason for the current state of the distressed debt market than what he calls "the supply side of the equation" – that is, the extraordinary flow of funds into the alternative investment arena, which includes hedge funds and private equity firms.

The result, says Feder, has been a source of capital for distressed companies – companies that a few years ago would have had no alternative but to go through a formal restructuring, most likely a Chapter 11. "The measure lenders usually look at are being stretched beyond recognition in doing these loans," he says. "[These companies] have been able to refinance their way out of trouble."

That, Feder believes, means that when an alternative investment firm helps a company refinance its way out of problem, it's not solving the problem; it's simply postponing the inevitable. "I think that the day of reckoning is coming; it's just a question of how long the spigot will remain open," says Feder. "How long will the money flow into these funds and how long will these funds make loans to troubled companies?"

It may be sooner rather than later. According to an annual survey of the hedge fund industry by Deutsche Bank AG, hedge funds focused on U.S. markets will see net redemptions for the first time ever in 2007 as investors shift money to emerging-market managers, especially those specializing in China. U.S.-focused funds are likely to see outflows of 8 percent this year, the poll suggested.

"If hedge funds have to start paying out on redemptions, that's something

continued on page 4

Research Report

Who's Who in Mortgage Lenders Network USA, Inc.

by Francoise C. Arsenault

Mortgage Lenders Network USA, Inc. (Mortgage Lenders) is a privately held full-service residential mortgage company that originates wholesale loans to credit-impaired borrowers, frequently referred to as sub-prime borrowers, who generally are unable to obtain financing from traditional banks or savings and loan associations. In the third quarter of 2006, Mortgage Lenders was the 15th largest sub-prime lender in the United States, with $3.3 billion in loan originations for that quarter. More than 80 percent of the company's loans were made through brokers, with the rest made directly to consumers. At the close of 2006, the company's monthly loan volume was approximately $1.5 billion. Mortgage Lenders is headquartered in Middletown, Connecticut.

Before December 29, 2006, Mortgage Lenders had three major components to its business: wholesale loan originations, which comprised the largest portion of Mortgage Lenders business; retail loan originations; and interim and full-time loan servicing for certain loan purchasers. To finance its loan originations, Mortgage Lenders obtained more than $2.2 billion of financing from its Warehouse Credit Facilities with Residential Funding Company, LLC (a unit of GMAC Financial Services, which was providing a $529 million line of credit) and Merrill Lynch (providing a $1.7 billion line of credit).

In early December, two other sub-prime lenders (Ownit Mortgage Solutions, Inc., and Sebring Capital Partners LLC) went out of business. When Mortgage Lenders reported the pricing problem for the A++ Loans to its Warehouse Lenders, the Lenders significantly lowered their advance rates on the funds used by Mortgage Lenders to originate loans. According to the company's Chief Restructuring Officer, the lowering of advance rates required Mortgage Lenders to post additional collateral as security for the funds. When the company was unable to do so, the Warehouse Lenders declined to advance amounts in excess of their commitments, forcing Mortgage Lenders Network to shut down its wholesale loan originations on December 29, 2006. Mortgage Lenders employed approximately 1,800 people, one-half of whom worked in Connecticut.

On January 17, 2007, the United States District Court for the Southern District of New York issued a $7.6 million judgment against Mortgage Lenders in favor of Wachovia Bank, National Association. On January 19, 2007, the Connecticut Department of Banking issued a Temporary Order to Cease and Desist against Mortgage Lenders, directing it to stop further lending activity and to obtain replacement funding for the unfunded loan commitments. On January 30, the Connecticut Department of Banking issued an amended and restated Cease and Desist Order. Mortgage Lenders also received similar Cease and Desist Orders from Massachusetts, Vermont, Rhode Island, Pennsylvania, New Hampshire, New York, Michigan, and Maine.

As a result of the cease and desist orders, Mortgage Lenders halted its retail lending activities, and Residential Funding Company, LLC stopped financing the retail loan originations. At that time, Mortgage Lenders had retail loan commitments upon which it had closed, but not funded. On January 24, 2007, Freddie Mac terminated the company's servicing rights (certain other entities also terminated Mortgage Lenders' as the servicer of their loans).

Mortgage Lenders filed for Chapter 11 reorganization on February 5, 2007, in the United States Bankruptcy Court for the District of Delaware. In its Chapter 11 filing, Mortgage Lenders identified more than 7,000 creditors and listed assets and debts of more than $100 million each. Mortgage Lenders has stated that it plans to seek bankruptcy court permission to liquidate in the second quarter of this year.

Mitchell L. Heffernan, the founder, President, and Chief Executive Officer of Mortgage Lenders, resigned on February 5, 2007 (James Pedrick was the co-founder of Mortgage Lenders).

There have been reports that Mortgage Lenders former top executives are trying to re-enter the mortgage business through a brand new company, InHome Capital LLC, which is being organized in some of the same office space where Mortgage Lenders had conducted its business. According to sources, Heffernan, Pedrick, and the former CFO and CIO of Mortgage Lenders would be key executives in the new company.

The Debtor

Daniel Scouler is serving as the Chief Restructuring Officer of Mortgage Lenders Network USA, Inc.

Pachulski Stang Ziehl Young Jones & Weintraub LLP is serving as the bankruptcy counsel. **Paula Davis Jones**, **David M. Bertenthal**, **James E. O'Neill, III**, **Curtis A. Hehn**, and **Brad R. Godshall**, partners with the firm, are working on the case.

The law firm of **Thelen Reid Brown Raysman & Steiner LLP** is serving as special regulatory counsel. **Norman H. Roos**, a partner at the firm, directs the work on the case.

Scouler Andrews LLC is providing financial advisory services.

The Official Committee of Unsecured Creditors

The Official Committee of Unsecured Creditors includes **Merrill Lynch Mortgage Lending, Inc.**, **Lehman Brothers Bank, FSB**, **Wachovia Bank, N.A.**, **Duffy White Construction, LLC**, **MTM Technologies, Inc.**, **Workstage, LLC**, and **David D. Hagburg**.

The law firm of **Blank Rome LLP** represents the Committee. **Regina Stango Kelbon**, **Bonnie Glantz Fatell**, and **Michael B. Schaedle**, partners, and **David W. Carickhoff**, an associate with the firm, are working on the case.

FTI Consulting, Inc. is providing the Committee with financial advisory services. **Ronald Greenspan**, a senior managing director, leads the engagement.

The U.S. Trustee

The U.S. Trustee is **Kelly Beaudin Stapleton**.

The Judge

The judge is **The Honorable Peter J. Walsh**.

Bankruptcies, *from page 2*

Exhibit 1: Number of Chapter 11 Filings for the First Quarter, 2007

	Debtor Asset Size		
	$1 Billion Plus	*$100 Million Plus*	*$1 Million Plus*
2004	2	31	395
2005	2	16	302
2006	1	20	247
2007	1	11	317

Exhibit 2: Largest Chapter 11 Filings for the First Quarter, 2007

Debtor	*Date of Filing*	*Assets*
People's Choice Financial Corp.	March 20	$4.7 billion
Mortgage Lenders Network Inc.	February 5	$464.8 million
Citation Corporation	March 12	$360.2 million
Galaxy Minerals Inc.	January 26	$300.0 million
Pacific Lumber Company	January 18	$254.8 million
Hancock Fabrics Inc	March 21	$241.8 million
LID Ltd.	March 17	$157.7 million
Enesco Group Inc.	January 12	$155.3 million
Roman Catholic Diocese of San Diego	February 27	$152.5 million
ResMAE Mortgage Corp.	February 12	$100 Million+

Liquidity Bubble, *from page 2*

very different from a decrease in inflows, because at that point they have to start liquidating positions, which is a negative liquidity event," says John D. Penn, a bankruptcy specialist and partner with the 450-lawyer Haynes and Boone, LLP, in Fort Worth, Texas.

Yet another possible factor is interest rates. "If the federal funds rate continues its rise, you're going to hit a tipping point at which it won't be cheap enough for companies to try to finance ether way out of trouble," says Feder.

Just what that tipping point will be is debatable, but in October 2006 the *Daily Bankruptcy Review* and the American Bankruptcy Institute (ABI) asked 90 restructuring professionals how high the federal funds rate needs to rise in order to trigger a new wave of defaults. The majority of them said 7 percent, just 175 basis points higher than today's rate.

What it will take to get interest rates to that point depends on a number of macroeconomic factors, of course, but Feder thinks oil prices will play a major role. The price of a barrel of crude has dropped from almost $70 in the middle of 2006 to around $55 in January 2007, according to the U.S. Department of Energy. Feder says that has cooled fears of inflation. But, he says, "anything that reverses that trend is almost certainly going to lead to a rise in interest rates."

Feder also points to the value of the dollar against Asian currencies, and in particular the Chinese yuan, as something to watch. "A falling dollar would normally lead to a rise in interest rates on U.S. Treasuries because foreign buyers would have to be compensated for the fall in the relative value of the dollar," he says. "But so far, at least China and Japan have shown a willingness to continue to buy U.S. securities and prop up the dollar – probably because that keeps their products attractively priced in the United States."

At least one bankruptcy professional – Penn – disagrees with the theory that any one factor will trigger the next wave of defaults. He thinks it will be a general realization that credit quality matters. Lenders, he says, have been more interested in market share than credit quality, and at some point, they could simply "wake up one morning and realize the world has changed."

So when might a new wave of defaults occur? The majority of respondents to the ABI survey (around 71 percent) said within the next six to 18 months. A few pessimists (around 19 percent) said 18 months to three years, and a few optimists (around 11 percent) said within six months.

But 2007 seems to be a good ballpark. That's when Penn thinks the crunch will come. David T. Hamilton, director of corporate default research at Moody's, agrees, noting that "the credit quality

continued on page 8

Calendar

Turnaround Management Association
1st Annual Credit & Bankruptcy Symposium
April 26-27, 2007
Mohegan Sun, Uncasville, CT
Contact: www.turnaround.org

International Bar Association
International Insolvency Conference
April 29 -May 1, 2007
Zurich, Switzerland
Contact: www.ibanet.org

American Bankruptcy Institute
9th Annual New York City Bankruptcy Conference
May 7, 2007
Millennium Broadway Hotel & Conference Center
New York, New York
Contact:www.abiworld.org

Renaissance Global Management and The Beard Group
Fourth Annual Conference on Distressed Investing Europe
May 24-25, 2007
Le Meridien Piccadilly Hotel – London, UK
Contact: http://renaissanceamerican.com

Association of Insolvency & Restructuring Advisors
23rd Annual Bankruptcy & Restructuring Conference
June 6-9, 2007
Westin River North, Chicago, Illinois
Contact: www.airacira.org

Renaissance American Management and The Beard Group
Tenth Annual Conference on Corporate Reorganizations
June 21-22, 2007
The Millennium Knickerbocker Hotel - Chicago
Contact: http://renaissanceamerican.com

National Association of Bankruptcy Judges
NABT Convention
Aug. 23-26, 2007
Drake Hotel, Chicago, Illinois
Contact: www.nabt.com

Special Report

Regional and Local Bankruptcy Accounting Firms

Firm	Bankruptcy Professionals	Senior Partners/ Professionals	Representative Clients
Barbee & Associates, Inc. Coconut Creek, FL Tel. (954) 949-5715 www.barbee-associates.com	9	John P. Barbee Alan R. Barbee John L. Heller Hylton B. Wynick	Starcash, Inc.; Teligent, Inc.; Hospital Staffing Services, Inc.; Autotech Leasing, Inc.; Southeastern Paper Products, Inc.
Bederson & Company, LLP West Orange, NJ Tel. (973) 736-3333 www.bederson.com	22	Edward P. Bond Timothy J. King Matthew Schwartz Sean Raquet	DMX Creditors Liquidation Trust, Federal Mogul, G1 Holdings, Omne Staffing, PT1 Communications, Solomon Dwek
Herbein + Company, Inc. Reading, PA Tel. (610) 378-1175 www.herbein.com	1	Robert M. Caster	Transportation, Construction, Communications, Retail, Manufacturing and Distribution
J. A. Compton & Co. Houston, TX Tel. (713) 659-5080 www.jacompton.com	10	Jeff Compton Allen Wendler	Imperial Sugar (Debtor); McGinnis Funds (Trustee); Safescript (Unsecured Creditors); Dunhill Resources, Inc. (Trustee); Reliant Exploration (Trustee)
J.H. Cohn LLP Edison, NJ Tel. (732) 549-0700 www.jhcohn.com	35	Bernard A. Katz Sharon Bromberg Kevin P. Clancy Howard L. Konicov Clifford A. Zucker	Enron, WorldCom (Examiner), UMDNJ (Examiner), General Media (Unsecured Creditors), Metromedia Fiber Network (Unsecured Creditors), Centennial Healthcare (Unsecured Creditors), Fleming Companies (Special Committee), Marcal Paper (Debtor)
Lain, Faulkner & Co. Dallas, Texas Tel. (214) 720-1929 www.lainfaulkner.com	6	Dan B. Lain Dennis S. Faulkner Marla C. Reynolds Ed McKee D. Keith Enger Stephen H. Thomas	Cummins Utility (Creditors' Committee), Empire Funding Corporation (Debtor), Gadzooks (Debtor), Midway Airlines (Trustee), Schlotzsky's (Debtor), Swan Transportation (Debtor)
RosenfarbWinters, LLC New York, NY Tel. (212) 686-0220 www.rosenfarbwinters.com	10	Paul C. Pershes	Not Available
Weiser LLP New York, NY Tel. (212) 812-7000 www.weiserllp.com	30	Harry C. Steinmetz Bernard Patrusky James Horgan Stuart Gollin Frank Conrad Ken Pogrob Glen Podhorzer Stephen Brecher	Comdial Corp, D & K Stores Inc., NVF Co., Student Financial Corp., Adelphia, FMI Inc., Internal Intelligence Service Inc., Markson Rosenthal & Co., Popular Club Plan Inc., St. Vincent's Catholic Medical Centers of New York, Sources Enterprises Inc., Sudano Inc., Victory Memorial Hospital , Wave Wireless Corp., Westchester Square Hospital

Worth Reading

The Human Side of Mergers and Acquisitions – Managing Collisions Between People, Cultures, and Organizations

Authors: Anthony F. Buno and James L. Bowditch
Publisher: Beard Books
Softcover: 337 pages
Listprice: $34.95

Review by Henry Berry

As Buno and Bowditch point out from the start, there are inevitable "collisions" in any merger or acquisition. One term common to mergers and acquisitions – hostile takeover – denotes collision. However, the coauthors also note that "even friendly, collaborative ventures that should seemingly result in stronger, more competitive institutions involve costs and sacrifices for both organizations and their members."

A merger or acquisition is more than just the act of bringing different companies together, like putting a small box inside a bigger box or joining entities at some interface or seam. In most cases, a myopic focus on this aspect will result in a failed merger or acquisition.

The Human Side of Mergers and Acquisitions – Managing Collisions Between People, Cultures, and Organizations looks at the impact of mergers and acquisitions on a corporation's most important asset – its human resources (or human capital as it was once called). As the authors stress throughout the book, the essence of a company is its employees, and a merger or acquisition exacts a major toll on them.

Almost every merger specialist, investment banker, corporate owner, top executive, or board member acknowledges the importance of employees. Even so, the focus during a merger or acquisition is usually on costs and projected financial gains. But as Buno and Bowditch instruct, costs and earnings are ultimately decided by the performance of employees. Thus, the success of a merger or acquisition depends upon the ability of management to foresee key issues and problems that arise when employees from different companies are required to work together.

Any merger or acquisition calls for great management savvy and skills. The employee-related issues inherent in any corporation are amplified many fold by the disruption, stress, anxiety, and sacrifice caused by bringing two corporations together. "Since culture is so much a part of ourselves and our lives, we are often unaware of it until it comes into conflict with or is contrasted to a different culture," say the authors.

The challenge facing those enacting a merger or acquisition is to bring the structures of two companies together to create a stronger, more profitable single company, while also ensuring that the inevitable friction does not prove ruinous. This working out of differences between two different groups of employees is not a marginal or secondary issue, but a fundamental issue. Buno and Bowditch understand that psychology is at least as important as financial calculation. As they put it, "If mergers and acquisitions are to be successful over the long term, the basic nature of such change as a human process...must be acknowledged, understood, and integrated into the planning process."

Author or editor of seven books, Anthony F. Buno has professorships in both management and sociology at Bentley College. Management-consulting, organizational change, and interorganizational strategies are his primary research interests. James L. Bowditch does research in the fields of the human effects of organizational transformation with a concentration on mergers and acquisitions. He has held positions with large religious and academic institutions.

This book may be ordered by calling 888-563-4573 or by visiting www.beardbooks.com or through your favorite Internet or local bookseller.

Subprime Woes, *from page 2*

off funding or informed the company of their intent to do so because of its failure to make payments. It is now facing possible bankruptcy, and the Securities and Exchange Commission (SEC) is examining accounting errors at the company.

HSBC, for its part, has said it plans to set aside $10.6 billion for bad debts, 20 percent more than the $8.8 billion it said analysts expected.

But more companies have exposure to the subprime sector than is commonly known. H&R Block stock has declined amid concern about its subprime mortgage unit, and General Motors has said it plans to inject $1 billion into its lending division because of losses there.

"HSBC is a massive financial institution with a strong balance sheet, so they likely have the flexibility to deal with this issue," says Pardiwala. "And if some of these companies have loan servicing groups, maybe those groups can survive bankruptcy. But some of the smaller players – who may not be as well capitalized or may have a greater portion of their portfolios exposed to subprime debt – are going to have no option but to file for bankruptcy. I think clearly this sector is going to see significant restructuring and potential Chapter 11 situations. I think we'll see what we saw in the late 1980s and early 1990s in the subprime consumer loan market."

Moreover, according to Pardiwala, bankruptcies in the subprime mortgage sector are different from most other bankruptcies. "What are the assets? What is of value in these entities?" he asks.

"It's only the portfolio or loans, which is very likely to be sold to a hedge fund or private equity fund type of entity as quickly as possible at the highest value possible," notes Milani. "It will be a unique process in that most of the company's liquidity will go away quickly; the rest of the process will be a matter of handling administrative and estate issues."

Pardiwala also points out that what's happening in the subprime mortgage sector could be a harbinger of things to come in other sectors. "The subprime issue has an impact on

continued on page 8

Special Report

Outstanding Young Restructuring Lawyers – 2007

Lawyer	Firm	Outstanding Achievements
Matthew S. Barr	Milbank, Tweed, Hadley & McCloy New York, NY (212) 530-5194 mbarr@milbank.com	Represented Satélites Mexicanos S.A. de C.V. as Chapter 11 debtor-in-possession; Represented the Official Committee of Unsecured Creditors of Winn-Dixie Stores, Inc. and Refco, Inc. and affiliates; and counsel to an ad hoc committee of noteholders in connection with Wolverine Tube, Inc.
Alan D. Halperin	Halperin Battaglia & Raicht New York, NY (212) 765-9100 halperinlaw.net	Leads firm's engagement as conflicts counsel to Official Committee of Unsecured Creditors in Dana Corp. and M. Fabrikant & Sons, and as counsel to Official Committee of Unsecured Creditors in Air America. Outside general counsel to litigation trust formed under Meridian Automotive Systems' plan.
Benjamin S. Kaminetzky	Davis Polk & Wardwell New York, NY (212) 450-4259 ben.kaminetzky@dpw.com	Lead litigation counsel to Delta with respect to multiple aspects of bankruptcy proceedings; to Bertelsmann in Napster's Chapter 11 case; to Bank of America as agent bank and major creditor in Conseco Chapter 11 proceedings; and to Welsh, Carson, Anderson & Stowe in Bridge Information Systems bankruptcy.
Gary L. Kaplan	Fried, Frank, Harris, Shriver & Jacobson New York, NY (212) 859-8812 gary.kaplan@friedfrank.com	Represents WR Huff Asset Management Co. as significant creditor in Adelphia Communications Corp. case; Official Committee of Equity Security Holders in Calpine; and Official Committee of Unsecured Creditors in Home Products. Debtor representations include AAIPharma, Ivaco, and Rand McNally.
Jonathan I. Levine	Andrews Kurth New York, NY (212) 850-2816 jonathanlevine@andrewskurth.com	Counsel to Ad Hoc Committee of Holders of Preferred Stock in Metromedia International Group (over $300 million liquidation preference); Ad Hoc Committee of Equity Security Holders in Refco; and Ad Hoc Committee of Equity Security Holders in Allied Holdings.
Christopher J. Marcus	Weil, Gotshal & Manges New York, NY (212) 310-8106 christopher.marcus@weil.com	Currently representing Silicon Graphics and Footstar, playing a leading role in Footstar's sale of "Foot Action" athletic shoe division to Foot Locker. Counsel to the company in Chapter 11 cases of WorldCom, Adelphia Business Solutions, Enron, Bradlees, Thermodyne, Genesis Health Ventures, and Bruno's.
Lorenzo Marinuzzi	Otterbourg, Steindler, Houston & Rosen New York, NY (212) 905-3635 lmarinuzzi@oshr.com	One of the firm's leaders in representing creditors' committees of Northwest Airlines, US Airways, Aloha Airlines, and Independence Air; leads the representation of the creditors' committee of Tyringham Holdings, and post-confirmation committee in Hechingers.
Ron E. Meisler	Skadden, Arps, Slate, Meagher & Flom Chicago, IL (312) 407-0549 rmeisler@skadden.com	Key leader in the firm's representation of Delphi Corporation in its restructuring since July 2005; one of firm's lead attorneys as special restructuring counsel to Comdisco, Inc. in its emergence from a fast-track Chapter 11 reorganization and in its sale of various businesses.
Christopher R. Mirick	Cadwalader, Wickersham & Taft New York, NY (212) 504-5733 christopher.mirick@cwt.com	Primary responsibility for real estate sales and dispositions in the Saint Vincent Catholic Medical Centers of NY Chapter 11 case; represented equity in Chapter 11 case of TW, Inc. (d/b/a "The Wiz"), successfully defending against committee's challenge to $136mm intercompany claim.
Ray C. Schrock	Kirkland & Ellis Chicago, IL (312) 861-2413 rschrock@kirkland.com	Lead partner in Collins & Aikman case; represented Sun Capital Partners in acquisitions of distressed companies; Norwood Promotional Products, Inc. and NRG Energy in out-of-court restructurings; Official Financial Institutions' Committee of Kmart; member of distressed lending teams in Laidlaw.
Robert J. Stark	Brown Rudnick New York, NY (212) 209-4862 rstark@brownrudnick.com	In IMAX out-of-court restructuring, serves as co-lead counsel to an ad hoc committee comprised of a large percentage of IMAX noteholders; leads the out-of-court restructuring of Summit Global Logistics; lead counsel to indenture trustee for $412mm in subordinated unsecured notes issued by Delphi Corp.
Steven Wilamowsky	Bingham McCutchen New York, NY (212) 705-7960 steven.wilamowsky@bingham.com	Represented successful bidder for assets of Conseco Finance Corp. in a transaction involving total consideration in excess of $1 billion; represents interests of the plan administrators in the Refco Chapter 11 cases; represented official creditors' committee of Planet Hollywood International, Inc.

Gnome de Plume

Automotive Bargains

by Christopher Beard

Everyone seems to want to be in the car business. The business is attracting the marquee names in private capital. And they're loading up.

Wilbur Ross' International Auto Components Group has concluded major deals with Lear, Collins and Aikman Europe, Safety Components, and Oxford Automotive. Ross has extensive experience with rollups in out-of-favor industries including a stunning investment in steel where he successfully romanced the unions and then sold the whole package to Mittal.

Cerberus Capital Management bought 51% of GMAC and most of Tower Automotive, is trying to close a deal to acquire Delphi, and is on the short list negotiating to buy Chrysler. Is there a Cerberus Motor Company in our future?

The most recent new entrant, Kirk Kerkorian, has made runs at auto manufacturers several times before. Earlier this month he offered $4.5 billion for Chrysler. His longtime advisor, Jerome B. York, says that results won't come quickly and projects a five-, six-, or seven-year turnaround. Kerkorian is 89 years old.

And there's also Carl Icahn, Centerbridge, Appaloosa, Ripplewood, Texas Pacific, and Blackstone in or trying to get in the business. So what's got all these guys so excited?

The global automobile market is growing, and there are booming markets with huge potential in China, India, and Brazil.

The prices are right. The flood of bad news has beaten down the stock prices.

And private capital has a few other edges. Deep-pocketed investors give management the financial strength to resist demands for price reductions and to invest in operational efficiencies. They have access to easy credit to restructure debt, enhancing cash flow post-acquisition. And every investor has certainly compiled a list of the target's product lines and business units they intend to kill when out of the glare of publicity of a public company.

But the American automobile business has suffered real pain in recent years. The parts manufacturers have been brutalized by the OEMs, and many ran out of string last year. The manufacturers were desperate because the market was brutalizing them. This year all of the Big Three have seen their lives flash before them.

Competition in the parts business varies depending upon various factors such as the technology involved, the shipping costs to the assembly plant, and vehicle demand in the relevant market. But, in general, the business is low-margin and depends on a handful of customers, many of which have their own serious problems.

The American automobile manufacturers have been in decline for nearly fifty years, getting occasional reprieves from hot products. The continued erosion of their markets and reputations has brought them to the edge.

Mr. York's time frame of five to seven years to rebuild Chrysler and make it competitive seems reasonable and applicable to GM and Ford as well. So where does a considerable investment and years of brilliant management get you? It positions you to compete with Honda and Toyota, two profitable and successful companies with seasoned management teams and excellent products and service.

Is a strategic withdrawal from the business hoarding cash while in retreat, à la Eddie Lambert, a viable game plan? The business is big, complex, and integrated, and a slow liquidation would likely get very messy and risk a rapid meltdown with minimal residual value.

A great price and a growth market may not always be an opportunity.

Christopher Beard is the publisher of Turnarounds & Workouts

Future Issues:

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- *Special Report: Best Internet Bankruptcy Resources*
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Subprime Woes, *from page 6*

how the average middle-class family deals with its disposable income, and as a result, on consumer confidence, which can impact other industries as well," he says.

Indeed, in March, home improvement giant Lowe's said it could be hurt by problems in the subprime mortgage sector if homeowners don't have the cash for home projects.

But the trickle-down effect on the economy as a whole may be more pronounced only if borrowers with better credit who work with major mortgage lenders begin to have problems. Although shares of larger lenders such as Washington Mutual, BankUnited Financial, and Countrywide Financial fell sharply when news of the subprime problem began to break, they edged higher as it became clear that they have limited exposure to the subprime market. ¤

Liquidity Bubble, *from page 4*

pendulum appears set to swing the opposite direction in 2007." Moody's predicts that the pace of defaults of speculative grade debt will rise to 2.6 percent by the end of 2007.

Feder doesn't want to speculate, but he's like a kid in a candy store at the prospect. "This is a very exciting time for anyone who does this type of work," he says. "No one has had a chance to fully understand how the 2005 amendments to the bankruptcy code will play out. We also have all these new players in the market, and they'll probably have a very different viewpoint than the banks that have traditionally been the senior lenders in most Chapter 11 cases. I feel like an athlete getting excited for the big game, but nobody knows when it's going to be," he says.

But there are some people who aren't getting excited. "Whoever has the paper [when defaults increase] is going to have to deal with the workout," says Penn. "No greater fool will come along." ¤

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