

# ***BANKRUPTCY PROFESSIONAL:*** **SPOTLIGHT**



**Holly Felder Etlin**  
**Managing Director, AlixPartners**

With more than 850 worldwide employees, global business advisor **AlixPartners'** reputation speaks for itself. The firm's client roster is filled with some of the largest companies ever to file for bankruptcy protection: Calpine Corporation; Enron Corp.; General Growth Properties, Inc.; Lyondell Chemical Company; Refco Inc.; Tribune Company; WorldCom, Inc.—to name just a few.

According to AlixPartners, its "specialty is urgent, high-impact situations when results really matter." The firm's New York-based Managing Director **Holly Felder Etlin** has served as CEO, CRO or restructuring advisor of, among others, New Century Financial Corporation and Winn Dixie Stores, Inc. She is presently serving as CFO of Freedom Communications, Inc., owner of several TV stations and more than 30 newspapers—including the Orange County Register.

Her work on the Winn-Dixie Stores case, which took place while she was a principal with **XRoads Solutions Group**, earned Etlin the 2007 honor of the Turnaround Management Association (TMA)'s "Mega Company Turnaround of the Year." As a Certified Insolvency and Restructuring Advisor and Certified Turnaround Professional, she is also a past TMA Chairman.

We spoke with Ms. Etlin about the evolving corporate landscape, her work on the New Century Financial and Winn-Dixie Stores cases and the unique challenges faced by interim management.

**BP:** You've been involved with bankruptcies and reorganizations for nearly three decades. What originally drew you to this field?

**HE:** I started with a consulting group focused on high growth companies right out of college. Touche Ross managed venture roll-outs in the retail space. It would take a retainer with 25 to 30 stores and very quickly grow it to 250 or 350 stores.

With rapid growth like this, some percentage of stores don't work. I shrunk those chains back to get rid of the ones that didn't work—in order to save the companies.

The first company I worked on that was in serious trouble was in 1980, and the first bankruptcy I worked, Liquor Barn, was in 1985.

**BP:** What is different about today's restructuring environment as opposed to when you first began?

**HE:** In general, it's a real *profession* now. Back then, there were certainly people who regarded it as a profession but it was not broadly recognized as one. There were very key players already in the business: Jay Alix, Frank Zolfo and Steve Cooper.

There were a number of consulting or accounting firms that had restructuring businesses, but most professionals that work restructurings now are with independent restructuring firms.

The distressed debt market as it exists today did not exist back then. While there were traders in claims in

bankruptcy cases then, that really was not the sophisticated marketplace it is today.

**BP:** If you had it do over again, would you still choose the same career path?

**HE:** Yes. It's one of the few areas of consulting where you feel like you have an immediate impact on the company, its management team and its survival.

**BP:** What short and long-term impact do you see from the current economic crisis?

**HE:** Having been through five of these major economic cycles, each one is a little different but they all have things in common. They are the same in that they all involve a crisis around credit. In past cycles, it has either been a lack of available credit—like now, or the issue of high interest rates—like in the 80s.

The current crisis is different in terms of the fear and uncertainty that management teams and companies feel about predicting the future. This fear is animating everybody's behavior.

With the current economic decline, if we haven't already bottomed out, we are close. I think we'll start to see a recovery in the second and third quarters of this year; that recovery will be very slow, however—much slower than in previous cycles. This overhang in corporate debt will take three to five years to work itself out.

**BP:** In what ways, *if at all*, did the 2005 changes in the U.S. Bankruptcy Code impact your approach?

**HE:** Those 2005 changes had a huge impact. For instance, because of the largely unintended consequences of the changes in the law (regarding lease assumption and rejection) many retailers today find themselves truly unable to turnaround and reorganize themselves. They must show turnaround viability in the first 90 days of a case. Virtually no companies that go into bankruptcy can show that kind of certainty for viability in that short of a time period.

This translates into more pre-bankruptcy legwork. There is no time once inside a Chapter 11 proceeding, so you can only use Chapter 11 to “bless” whatever transaction you've already arranged. Today's bankruptcy filings for retailers are mostly only used to confirm M&A transactions or to liquidate.

**BP:** Do you see the need for further adjustments and modifications to the code?

**HE:** I am hopeful—as are most people in the profession—that the current administration will fix some of those issues, but they have a lot of other economic priorities right now, of course.

**BP:** New Century Financial had total pre-petition assets of \$27 billion. Where do you even begin with a case of this size?

**HE:** We were engaged less than 30 days prior to New Century's filing. It was really in a freefall, and that had to do with the interplay with another bankruptcy-code change involving repurchase financing. The company used repurchase financing, whereby you sell your pool of mortgage loans to the lender in exchange for 95% of the face value of those loans. You then agree to repurchase those loans under certain terms and conditions. New Century's lenders gave it additional points of advance rate, and it shifted the legal rights—allowing the lenders to seize the assets upon very little notice.

The company couldn't file bankruptcy to stave off the process because of the 2005 code amendments that allowed that particular form of financing to be exempt from the automatic-stay portion of the bankruptcy code. As a result, the company's mortgage loans were seized by the lenders pre-filing.

The company had very little in assets to secure D.I.P. financing and very little cash. New Century faced almost certain liquidation if a buyer was not found within 30 days after the filing.

New Century was also a very difficult and complex situation because of confidential financial information. We had to worry about everything from protecting consumer data and hard assets, to protecting the company's 9,000 employees as best we could (knowing that most would lose their jobs), to dealing with the company's creditors. Just about every major law firm that practices in the bankruptcy area was involved in this case in one way or another.

**BP:** At what point are you brought on board and who approaches AlixPartners about a potential engagement—e.g., corporate general counsel, petitioning counsel, financial advisor?

**HE:** It varies based on the situation with each company. When I was hired with Winn-Dixie, the company anticipated it had about 90 days to prepare for a bankruptcy filing in an orderly way to shed non-performing stores and other businesses to restructure the company and make it profitable again. Two days after I was hired, the company released quarterly ear-

nings. Winn-Dixie's trade vendors reacted so negatively to that release that \$200 million in trade credit was lost literally overnight.

I was hired on a Thursday. We received a call on the following Monday to start immediately and worked through the following weekend—a holiday weekend. In five days, we prepared for the filing. You plan for orderly ones, but things happen along the way that can cause it to go into a complete fire drill.

With a new case, I'm generally approached by members of the board, the company's general counsel, investment bankers, or the company's outside law firm.

**BP: How closely do you work with other professionals (counsel, financial advisor, accountant, claims agent, etc.) retained in a bankruptcy case?**

**HE:** I work with all the professionals on some level. The claims agents and their teams handle the back-end of the case—determining what are the claims, what bucket do they fall into, and how do we resolve them? I work very closely with the investment banker and lawyer both on strategy and execution.

**BP: When serving as interim management, do you find it necessary to “clean house” and bring in your own leadership team?**

**HE:** Quite the opposite. My role is to separate the crisis and the necessity of the restructuring from the ongoing pieces of the business. This allows management to focus on its efforts of running the day-to-day business while I deal with the difficult, extraneous parts of the business—like outside constituencies that are causing the crisis. Periodically, there are changes in management, if management does not want to deal with the process or a decision is made by the CEO to upgrade the existing management team. Most often, though, we work with, augment and bolster the existing management team.

That's why this CRO role came about. It's something that didn't exist when I came into the business: we used to be interim CFO but the CRO title began to be used in early 1990s.

**BP: What kind of reception do you get at these companies? Do you find the existing executive team and/or employees welcoming your arrival?**

**HE:** Everyone has a high degree of anxiety. CRO's are generally not hired voluntarily. They are hired because a creditor has demanded their retention as

part of a waiver or forbearance agreement. Once people understand the job that you are there to do, however, you do get a lot of welcome.

**BP: Winn-Dixie Stores had nearly 90,000 employees before filing for Chapter 11 protection. How does the pressure to protect jobs versus save the company impact your approach?**

**HE:** I think you set the issue of jobs aside initially and look at getting at the core survivable business. What really is the viable business model and how do you get to that? Unfortunately, that sometimes involves jettisoning geographies or businesses that no longer work for the business. With Winn-Dixie, however, we were able to sell to non-performing stores to competitors that retained many of the company's employees.

You have to remember that each case has a real impact on employees with families and obligations, and you do your best to save the business and get it to a viable state.

**BP: If you were brought on as General Motors' CRO, what is the first thing you would do?**

**HE:** I can't comment on the specifics of any company out there; that's our standard firm policy. But with any company, there are two things to focus on:

- 1) Cash and liquidity—how much have we got, how long will it last, how quickly are we burning through it? How much runway do we have to get to a viable company?
- 2) Try to drive towards consensus in the management team for a viable business model. Is the company viable? While certain business operations of any company may be viable, the company overall may not be viable on a stand-alone basis for different reasons. You'd have to get to a relatively pure definition of viability and then drive towards that conclusion—be that a restructuring, a break-up sale, or some other form of retrenchment.

**BP: What about the smaller companies—the restructurings that are not considered mega-cases?**

**HE:** The middle-market business is of profound interest to me; in fact, I co-lead our middle-market team at AlixPartners. In many respects, middle-market situations are more difficult: there's less management, less management depth and experience, and fewer

resources to call on. And middle-market companies are truly suffering in this economic cycle and find themselves increasingly the target of M&A and private equity-leverage activity.

Also, lending institutions will find themselves owning more and more of these companies, and this has a much larger impact on the economic landscape than even the ownership of bigger companies.

**BP:** Can you share with our readers a particularly memorable moment in your professional restructuring career?

**HE:** Wow. It's hard. Frankly, I miss all the management teams that I've worked with. They all, generally, find themselves rising to the task and we build great friendships and relationships in the process. The degree of relationships and genuine fondness we develop is profound. I've had people tell me, "It was incredible to work with you, but please don't be offended if we say we never want to see you again!"

The logo for Alix Partners, featuring the word "Alix" in a blue serif font and "Partners" in a black serif font.

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