A bridge too far?

by Kimberly Ghorm
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The past several months have been particularly cruel to New York crisis management firm **Bridge Associates LLC**. First, it lost its driving force when Anthony Schnelling died on July 7, 2009. Then, like its rivals, Bridge had to face the lighter caseloads, increased competition and rate compression that comes with a bankruptcy down cycle.

On Dec. 15, the firm issued a press release saying it was winding down its business. Bridge officials couldn't be reached — the phone just kept ringing at their offices — but one source in the industry notes, "As I understand it, they are simply winding down existing engagements and paying off their creditors."

Certainly, Bridge isn't alone. Other restructuring firms, especially in the crisis management sector, are beginning to feel the pinch of fewer bankruptcy filings after nearly three years of frenetic activity. As The Deal Pipeline's fourth-quarter bankruptcy league tables (starting on page 29) can attest, firms are experiencing drops in active cases and volume, leading some to already seek alternative business.

"Our firm is putting more resources in terms of staff, conferences, marketing and execution into the investment banking and capital markets area," says Ian Ratner, founder and principal of **GlassRatner Advisory & Capital Group LLC** (second among crisis management firms with 66 active cases). "As some level of liquidity has come back to the marketplace, companies can actually get deals done, so there is a benefit to having people in that area of the practice."

Many firms amassed large staffs in anticipation of the bankruptcy up cycle, which was swell as long as the cases kept coming. But now they have to find things for those big payrolls to do, leading to what's become a price war.

"As there have been less megabankruptcies like [**General Motors Corp.**], Chrysler [LLC] and Delta [Air Lines Inc.], many of the larger firms are moving downmarket in deal size where they have to cut fees," Ratner explains. "We see larger megafirms hanging on to lower-margin assignments and doing smaller deals since they are trying to keep their teams busy. In addition, there are so few barriers to [gain] entry in our profession that there are always folks coming into the space trying to compete and get assignments."

Indeed, the crisis management category in the fourth quarter welcomed newcomers and big gainers such as **Zolfo Cooper LLC** (sixth place, 36 active cases), **Scouler & Co.** (13th, 19 cases), **Bowra Group Inc.** (15th, 14 cases) and **G. Powroznik Group Inc.** (20th, eight cases). **Begbies Traynor Group plc** is now tied for fourth place with **AlixPartners LLP**, with 40 active cases.

Some crisis management firms actually gained new mandates, too. **Huron Consulting Group Inc.** reappeared in the top 10 by gaining five large-volume cases in the fourth quarter, giving it 30 total for an eighth-place finish. Huron gained mandates in the new bankruptcies of **Great Atlantic & Pacific Tea Co.** ($2.5 billion in assets), **Townsends Inc.** ($131 million) and **Lack's Stores Inc.** ($100 million to $500 million; The Deal Pipeline uses the lower figure in calculating the volume tables), but key to it gaining the most volume ($27.1 billion in assets) among crisis management firms was being hired to do some cleanup on an old case, **UAL Corp.** ($24 billion). **FTI Consulting Inc.** (174 active cases), meanwhile, kept the top spot among crisis management firms.

But gaining the most cases doesn't necessarily guarantee a firm or individual league table success, especially if you experience a steady loss of them, as well. Witness **Houlihan Lokey Inc.**, which gained the most cases in 2010 overall among investment banks (14), yet saw the most cases wrap up (11) in the fourth quarter, including exits by **Hawaiian Telcom Communications Inc.** ($1.4 billion in assets), **Canwest Global Communications Corp.** ($4.4 billion) and **Riviera Holdings Corp.** ($170.8 million). As a result, the firm fell to eighth among investment banks in active cases (12) but still finished third among them in volume, despite a $50.4 billion-in-assets loss in caseload in the fourth quarter.

That reality is something **White & Case LLP**, by virtue of its globalism, has been able to avoid. The law firm continues to lead the legal pack and actually reaped 39 new cases in the fourth quarter, bringing its total to 1,003. German insolvencies continue to flow in for White & Case, and nearly all those new cases were non-U.S. Even the lone American one — it represents bondholders in the involuntary filing against **Vitro Asset Corp.** in the U.S. Bankruptcy Court for the Northern District of Texas in Fort Worth — involves a debtor that's a subsidiary of **Vitro SAB de CV**, which is a Mexican glassmaker.

Runner-up to White & Case was **Duane Morris LLP**, with 315 active cases. The firm's Margery Reed was especially instrumental in its success, not just for the five new cases she took on, but the $49.4 billion jump in volume they provided. The bulk of that came from assignments such as **A&P** and **Chrysler Group LLC** ($39.3 billion).

Reed credits Duane Morris' reach nationwide for her landing a big-volume case such as **Loehmann's Holdings Inc.** ($100 million to $500 million). "Since Duane Morris has experienced bankruptcy lawyers in all of the major financial centers in the U.S. who have represented virtually every constituency in a variety of bankruptcy cases, we are called on frequently when a large case files," she says.

Yet Reed didn't have the largest increase in volume among lawyers. That distinction went to **Akin Gump Strauss Hauer & Feld LLP**'s Daniel Golden, who had the largest increase ($89.9 billion) in volume, catapulting 33 spots to 13th with $768.6 billion overall. New assignments in the bankruptcies of GM ($82.3 billion) and **Tribune Co.** ($7.6 billion) accounted for Golden's drastic increase.

Golden nearly single-handedly enabled Akin Gump to have the largest boost ($91.5 billion) among all law firms, helping it jump three spots into sixth place, with nearly $1.05 trillion in volume.

Conversely, **Shearman & Sterling LLP** had the steepest volume loss ($40.3 billion) among law firms, thanks to ending engagements on **Visteon Corp.** ($4.6 billion), **General Growth Properties Inc.** ($29.6 billion) and **Chemtura Corp.** ($3.1 billion). **Schulte Roth & Zabel LLP** also experienced a decline this quarter, dropping five spots to 27 after losing $30.2 billion in volume.

"The cases that we no longer list simply concluded in the fourth quarter of last year," says Adam C. Harris, who heads SRZ's restructuring practice. "We saw many cases finally resolve themselves in the third and fourth quarters last year, including **Extended Stay Hotels** [Inc.], ($7.1 billion) AbitibiBowater [Inc.] ($9.9 billion) and **Almatis** [BV] ($219.1 million). Each of these cases confirmed plans of reorganization that became effective. With the lower level of new defaults, it appears our clients are focused on cleaning up matters that have been pending, [including post-effective date matters]."

SRZ did, however, gain three new cases this quarter: Vitro (more than $1 billion), **Consolidated Horticulture Group LLC** ($153 million) and **CB Holding Corp.** ($100 million to $500 million).

Among noninvestment banks, **Lehman Brothers Holdings Inc.** ($639 billion) is still having its effect. Public-relations work on that case enabled a New York-based newcomer, **Linden Alschuler & Kaplan Inc.**, to debut in sixth place among noninvestment banks in the volume tables.

Claims agency **BMC Group Inc.** (fifth place among noninvestment banks, 113 active cases) may have lost four cases in the fourth quarter, but Tinamarie Feil, who helms the firm's legal services unit, isn't fazed.

"The common issue is 2011 debt maturities," she says. "Unless they obtain extensions or other capital infusion alternatives, [many companies will] probably have to file."

Others note that while there will be fewer filings in upcoming quarters overall, petitions by middle-market companies could rise.

"We will see fewer large company filings and continued fallout in the middle market," Harris says. "Not sector-specific, but more companies that are not leaders in their segments. We may also see some filings in the natural gas space among both producers and service providers if prices remain at historic lows."

Someone in the middle-market space, investment banker J. Scott Victor of **SSG Capital Advisors LLC** (sixth place, 14 cases), can attest to what Harris is saying, having gained eight new cases last year. His most recent pickup is Georgetown, Del.-based poultry producer and marketer Townsends. Victor projects that the poultry industry will remain troubled in the first half of 2011 and could be the source of more middle-market filings.

"The entire poultry industry is distressed because of the rising price of corn and soybeans, prices driven up by ethanol usage and corresponding low prices for chicken meat," he explains.

Victor's work on the Chapter 11 case of Bristol, Pa.-based **Lower Bucks Hospital** ($50 million to $100 million) has him convinced that only more mid- to small-market bankruptcies could come from healthcare providers. "Another troubled industry is local community hospitals that continue to struggle because they are not a part of a larger hospital network," he says. "Reimbursement rates and labor costs make it difficult for them to survive and be profitable."

Then there are the industries where the problems are becoming increasingly intractable. "There will be sectors of the economy that are impacted by changes in technology, such as booksellers," Reed says. "We likely will see some municipal filings, as well as real estate-related filings." — *Kimberly Ghorm*

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