

Large Company

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for the turnaround of Wellman, Inc.

South Carolina-based manufacturer Wellman Inc. was the second largest producer in the United States of PET resin, a chemical used mainly in plastic beverage bottles. This material is preferable to glass and aluminum because it is unbreakable, lighter, provides better taste and insulating qualities, and is environmentally friendly.

Wellman was also the second largest producer of a polyester fiber, which, when blended with cotton, is found in a variety of apparel and home furnishings. And, its recycled segment converted carpet into nylon used in automotive injection molding.

While Wellman's business was recyclables and the recycled, the company's experience as a victim of its market and of the economy almost kept it from salvaging itself.

Wellman sold its products in a market in which it differed little from its competitors. In the years prior to bankruptcy, several occurrences exposed Wellman to market variables that affected its already slim operating margins. Rising oil and gas prices and Hurricane Katrina helped drive up raw material costs. Increased polyester imports from Asian competitors that did not experience U.S. supply chain disruptions flooded the market.

The phase-out of a certain additive drove the gasoline industry to purchase the same raw materials that Wellman and other companies depended on for polyester production but, unlike its competitors, Wellman was not able to replace that raw material depletion by producing its own. And, though demand for PET resin grew in the last decade as beverage and food companies switched to plastic, manufacturing continued to outpace this demand, here and in Asia, driving prices down further.

By Fall 2007, it became clear that Wellman needed a significant financial restructuring. Kirkland & Ellis

(K&E) and Lazard, Freres & Co., LLC (Lazard) helped the company determine that a Chapter 11 filing was in its best interest and, at the time Wellman filed in February 2008, it had 1,000 employees, was \$575 million USD in debt and had earnings of only \$27.1 million.



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As the credit crisis loomed, debtor-in-possession lenders would not agree to provide Wellman the flexibility to fix operations and negotiate a Chapter 11 plan. Instead, they offered a more restrictive agreement that required a sale of most of Wellman's assets within six months of the Chapter 11 filing or face default.

K&E and Lazard worked with the lenders to extend the deadlines under the initial loan so Wellman could work on a reorganization. When this plan was also contested, they helped Wellman streamline operations around its core strength, PET resins, and painfully exit the others, necessitating significant job losses. However, they also helped Wellman find a buyer for one of its three facilities, saving more than 240 jobs in a South Carolina community that could ill afford to lose them.

Facing liquidation a number of times but finding a solution after a three-day negotiation marathon in December 2008 that finally satisfied all parties, by the end of January 2009 Wellman successfully emerged from bankruptcy stronger than when it entered it.

The company substantially reduced its funded debt to \$125 million and was able to obtain exit financing and new money investment.

As the judge in the case, Hon. Stuart M. Bernstein, U.S. Bankruptcy Judge for the Southern District of New York, declared, "... As far as I'm concerned, this case is a poster child for what Chapter 11 is supposed to be." *