The turnaround of Hawker Beechcraft, Inc. and its affiliates was a comprehensive restructuring effectuated through a pre-arranged chapter 11 case. The eight-month case resulted in a de-leveraging of all of the company’s prepetition funded debt and an overhaul of its operations that put the reorganized company, now known as Beechcraft, on a path to thrive.

Prior to filing its chapter 11 cases, the company’s financial performance had declined severely due to the recent economic downturn. To evaluate restructuring alternatives and address liquidity concerns and impending defaults under the company’s credit documents, the company engaged Perella Weinberg Partners as investment banker (led by Michael Kramer and Agnes Tang, among others), Kirkland & Ellis as legal counsel, and Alvarez & Marsal as financial advisor, each of whom played key roles in the turnaround. The company also enlisted veteran turnaround specialist Robert Steven “Steve” Miller Jr. as CEO.

At the center of the turnaround was a consensual debt-for-equity recapitalization transaction whereby all prepetition funded debt would be converted into equity (81.9% to the secured lenders and 18.9% to unsecured creditors), which was embodied in a restructuring support agreement (RSA) agreed to by a majority of holders of the company’s secured credit facility obligations and senior unsecured notes. The company entered chapter 11 on May 3, 2012, to effectuate the RSA transaction.
The company engaged in a marketing process to determine whether a third-party transaction could provide more value than the RSA transaction. The company selected Superior Aviation Beijing, an entity backed by the Beijing municipal government’s investment arm, as a stalking horse bidder. Superior sought to acquire all of the company’s operations, including the company’s jet product line, which the company otherwise intended to discontinue. To address concerns about Superior’s ability to close the highly-regulated transaction, and the costs of maintaining the jet business while negotiating with Superior, the company obtained a non-refundable $50 million deposit from Superior to fund the jet business during the negotiation period. Ultimately a final agreement was not reached, but the company retained the deposit, giving the company and creditors a free option on the Superior transaction.

The restructuring included a settlement with the PBGC and the company’s employee union (IAM) regarding the treatment of the company’s pension plans. Under the settlement, the company froze and retained responsibility for the union pension plan, and PBGC took over the company’s two non-union pension plans, which were underfunded by several hundred million dollars.

The company also used the chapter 11 process to reorganize its business around its most consistently profitable product lines, which included the discontinuation of the company’s jet product lines (thereby discharging hundreds of millions of dollars of contractual obligations), consolidation of manufacturing facilities, and renegotiation of vital vendor agreements.

The company’s reorganization plan was overwhelmingly accepted, and Hawker Beechcraft emerged from chapter 11 on February 15, 2013. The plan eliminated approximately $2.6 billion in debt, addressed hundreds of millions of dollars of underfunded pension liability, streamlined the company’s business operations, maximized value for each of the company’s creditor constituencies, and provided ongoing employment for approximately 5,100 employees.

The company re-branded itself as the Beechcraft Company and emerged from chapter 11 with a clear and renewed focus on its core Beechcraft product lines. The company currently is a word-leading manufacturer of business, special mission, and trainer/attack aircraft, and stands poised to succeed for decades to come. In fact, on August 1, 2013, Beechcraft announced it had secured an order for up to a total of 105 King Airs, valued at $788 million, representing the largest general aviation propeller driven aircraft order in history.