

Bankers of the Apocalypse

The restructuring team at Evercore has had a front-row seat for U.S. corporations' ride into the economic abyss.

By Imogen Rose-Smith

PHOTOGRAPHS BY MIKE MCGREGOR



David Ying
(opposite) and
William Repko
have led the
restructuring
group of Evercore
since 2005

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On the evening of December 31, 2008,

while hundreds of thousands of people were making their way toward New York's Times Square to watch the famous Waterford crystal ball drop, investment banker David Ying was hosting a far less ebullient gathering in downtown Manhattan. As co-head of restructuring for boutique bank Evercore Partners, Ying was advising LyondellBasell Industries, the world's third-largest chemicals company, which was on the brink of bankruptcy. The only way to prevent a complete shutdown of LyondellBasell's operations was to raise \$4.75 billion of debtor-in-possession financing — larger than any DIP loan in history. The sheer size wasn't Ying's only problem. The capital markets had been completely frozen since investment bank Lehman Brothers Holdings had filed for bankruptcy a few months earlier.

"We had to raise \$4.75 billion of financing at the nadir of the DIP market," Ying says.

For New Year's Eve, Ying and his team at Evercore invited LyondellBasell's major lenders, including banks, private equity firms and hedge funds, to the offices of Cadwalader, Wickersham & Taft, the chemicals maker's legal counsel. Also present was the LyondellBasell's biggest equity holder, Access Industries, a U.S.-based industrial holding company controlled by Russian-American billionaire Leonard Blavatnik, whom many of the creditors blamed for creating the mess after his Basell Holdings paid \$20 billion in borrowed cash to acquire Lyondell Chemical Co. the previous year. Ying's job was to shuttle among the different constituents, encouraging and cajoling,

suggesting and insisting, until an agreement could be forged.

Negotiations dragged on.

Afraid to miss any of the action, Gavin Baiera, a distressed-debt analyst with a LyondellBasell creditor, \$23 billion alternative-investment firm Angelo, Gordon & Co., didn't go home for three days. On Monday, January 5, Daniel Celentano, the other senior Evercore partner on the deal, led his firm's team as they dialed through the night to round up support for a crucial standstill agreement necessary to prevent any creditors from forcing LyondellBasell into receivership in a jurisdiction outside the U.S. Baiera remembers eventually being woken up by a groggy Celentano at 4:00 in the morning on Tuesday, January 6, to get a signature on a loan agreement. The radical solution Ying and Celentano brokered was an innovative partial roll-up of the first lien debt. The agreement made \$3.25 billion of that debt equal in seniority to the \$3.25 billion of term-loan DIP financing, but with the important proviso that the rolled-up loan could be satisfied by issuing new debt, as opposed to cash. Combined with an additional \$1.5 billion to \$2 billion in asset-backed DIP financing, LyondellBasell had its lifeline.

That same day, Lyondell Chemical and 93 other affiliates of LyondellBasell began the process of filing for bankruptcy. Though one of the largest and most complex restructurings of all time, LyondellBasell's \$27 billion Chapter 11 filing turned out to be only the sixth largest in 2009. Evercore acted as lead adviser on that year's two biggest bankruptcies, the Chapter 11 filings of carmaker General Motors Corp. and financial services company CIT Group.

The past 24 months have been an unprecedented white-knuckle ride for corporate America. The credit crisis and the collapse of the capital markets put enormous strains on companies, many already overloaded with debt they acquired during the previous decade of easy money. The result has been a boom for restructuring, with Evercore right in the thick of things. To save these broken companies, the firm's bankers have had to innovate and improvise, sometimes reinventing the rules as they went along. Now, as the U.S. economy seeks to right itself, it remains to be seen if these fixes, and others like them, will be enough.

Beltway Bailouts

Flash back to January 1977. Jimmy Carter had just been sworn in as the 39th president, and just like today the U.S. was facing some daunting economic problems. It fell to young Ralph Schlosstein, a deputy assistant secretary of the Treasury — now president and CEO of Evercore Partners — to keep the lights on in New York City.

Two years earlier the Big Apple had literally run out of money. It was surviving on a series of short-term loans from the federal government while the Carter administration figured out how to fix the problem. "One of my responsibilities was

to run the loan guarantee program," making sure that the city got its funds, says Schlosstein.

It took more than a year of negotiations among federal, state and city officials to settle upon a solution to New York's fiscal dilemma. Eventually, the U.S. government agreed to back the city's debt, enabling it to raise money from the public markets.

Almost as soon as a solution was found to New York's problems, Chrysler Corp. came calling. The Detroit-based carmaker's then-CEO, Lee Iacocca, told the Carter administration that his company was in real trouble and needed a rescue. By then, Schlosstein had moved to the White House as associate director of the domes-

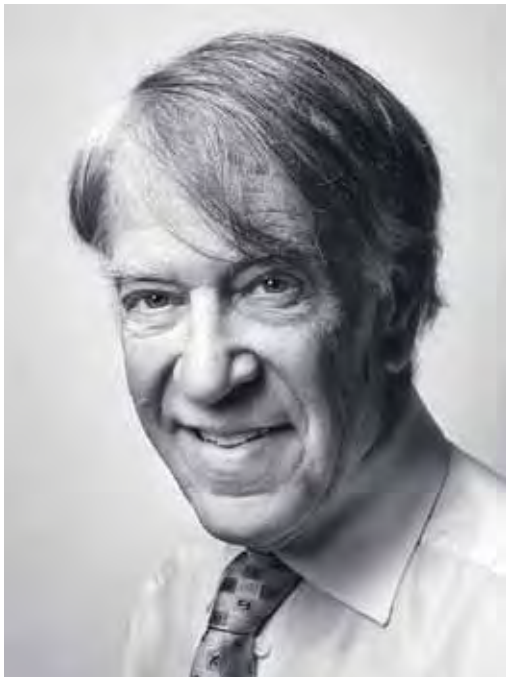
tic policy staff. His former boss at Treasury, assistant secretary Roger Altman, now Evercore's co-founder and chairman, ended up doing much of the work on the Chrysler bailout.

"The Chrysler bankruptcy was modeled on the New York City bankruptcy," says Schlosstein. "They were mirror images of each other. Like New York, the Chrysler bailout used loan guarantees in the private sector." Both situations were resolved out of court, avoiding the kind of government-aided Chapter 11 cleanup that General Motors Corp. and Chrysler would go through some 30 years later.

"Nobody likes bailouts," says Schlosstein. "However, there are times when both governmental

entities and very important private entities get into liquidity problems, when they can't finance themselves, and when that happens, you have to make a critical judgment: Are the entities viable over the long run? If they are, then there can be a discussion about whether it makes sense to do something."

Following Carter's loss to Ronald Reagan in the 1980 presidential election, Altman and Schlosstein left Washington for Wall Street, both joining Lehman Brothers. It wasn't the end of Altman's association with Chrysler, however. He became the company's investment banker and helped with its 1983 initial public offering. Schlosstein went on to create Lehman's



Roger Altman (left), the founder and chairman of Evercore, last year recruited his longtime friend, BlackRock co-founder Ralph Schlosstein, to be president and CEO of the investment banking boutique

After a record boom in leveraged buyouts, the U.S. is facing an impending wall of debt. According to Credit Suisse estimates, \$985 billion of high-yield bonds and leveraged loans are set to mature between 2011 and 2014 — and much of that will need to be refinanced. “Every refinancing conversation is a potential restructuring,” says Ying’s fellow co-head of restructuring, William Repko.

The senior members of Evercore’s workout team are an eclectic crew. The slightly ruffled Repko, 61, is a self-described gearhead who worked at one bank for 32 years and loves gadgets and golf. The cerebral Ying, 56, is a Massachusetts Institute of Technology graduate who could easily have become a quant. Before joining Evercore as a senior managing director, the 59-year-old Celentano had to

interest rate swap business and head its mortgage and savings institutions group.

The two bankers’ paths diverged further in 1987, when Altman joined the emerging banking and private equity firm Blackstone Group as head of its mergers and acquisitions advisory business. The next year Schlosstein helped co-found money management firm BlackRock.

Both men remained actively involved in Democratic politics. Altman went back for a second stint at Treasury during the Clinton administration. Schlosstein was an early supporter of President Obama. Though they are dismissive of the suggestion that Evercore’s Washington ties help the firm win business, they agree

that their insider status can help them as advisers.

“We are fortunate enough to be able to talk to some of the decision makers, and that gives us an understanding of their thinking,” says Altman.

The longtime friends reunited last year when Schlosstein joined Evercore, replacing the bank’s co-founder Austin Beutner, who had retired as CEO in 2008 after being seriously injured in a mountain-biking accident. This January the mayor of Los Angeles tapped a recovered Beutner to be that city’s first deputy mayor and chief executive for economic and business policy. It seems Evercore bankers can’t ever shake the public policy bug. —I. R.-S.

prepare his own company for bankruptcy when he was working at Bear Stearns Cos. Senior managing director Qazi Fazal, 37, left his native Bangladesh at the age of 15 for prep school in the U.S. And Stephen Hannan, 48, the newest member of the team, landed in restructuring after a career that began in accounting and included a stint at a hedge fund. None of the group conforms to the traditional mold of a financial adviser. But then, as Repko puts it, restructuring is “the dark side” of investment banking.

By contrast, Evercore founder Roger Altman, 64, is the quintessential banker

— tall, well dressed, charismatic and famously connected. Last year the former Lehman banker and two-time Treasury Department official brought in Ralph Schlosstein, 59, a founding partner of \$3.4 trillion money management firm BlackRock, to be president and CEO of Evercore. Altman and Schlosstein, however, are no strangers to the art of restructuring (see “Beltway Bailouts,” left).

Altman co-founded Evercore in 1996 as a boutique investment bank offering advice free of the conflicts of larger institutions. In 2006, capitalizing on investors’ then fondness for financial services companies, he took the firm public. Net revenue for 2006 was \$208 million, climbing in 2007 to \$321.6 million, of which \$295.7 million was generated from advisory work. Although Evercore does not break out restructuring in its financials, it is a safe bet that in 2007 the vast majority of the firm’s advisory revenue came from mergers and acquisitions. Global M&A deal volume, as tabulated by Thomson Reuters, hit a record \$4.4 trillion that year. Evercore ranked 12th in total volume for U.S. deals, second only to Lazard among independent investment banks, according to Thomson Reuters.

Then the world changed. As the credit markets started showing cracks, the lucrative advisory business began to wither. Deal volume fell to \$2.9 trillion in 2008; Evercore had only \$181.6 million in advisory revenue that year. But amid the gloom the restructuring business was booming. Restructuring accounted for roughly half of Evercore’s 2009 advisory revenue of \$293.3 million. Bankruptcy fees are always a sensitive topic, for obvious reasons, but Evercore made \$47 million from GM’s restructuring, \$50 million from its work for CIT and \$41 million from LyondellBasell.

Boosted by advising to the likes of GM and CIT, as well as counseling GM on the bankruptcy of auto-parts manufacturer Delphi Corp., Evercore was ranked second by Thomson Reuters for worldwide completed restructuring deals in 2009. It finished behind Houlihan Lokey, a Los Angeles-based boutique bank that advised CIT’s creditors on that restructuring and worked with the creditors of Lehman Brothers and GM during those companies’

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bankruptcies. Altman’s goal for the next few years is for Evercore to be considered one of the top three banks in restructuring. He’ll have his work cut out for him.

For the first half of this year, Evercore ranked just fifth for worldwide completed restructurings and 18th for announced deals. Widely regarded as the current king of bankruptcy, Lazard tops the chart for completed deals this year (up from No. 7 in 2009). Altman also has to worry about up-and-comers like Moelis & Co. Founded in 2008 by Kenneth Moelis, former head of UBS’s investment bank, the New York-based boutique ranks fourth in completed restructurings this year, one rung above Evercore. In his firm’s defense, Ying says “a large percentage of what we do never ends up in bankruptcy and doesn’t show up in the league tables.”

Evercore’s limited global footprint is a challenge for the firm. With so many European countries facing severe economic shortfalls and Europe-based companies having taken on leverage, many U.S. investors believe that the next real action in the current distressed cycle will occur on the other side of the Atlantic. Altman and Schlosstein are working to build up Evercore’s European franchise on both the restructuring and M&A sides of the business. “We need to expand the number of partners [and] senior managing directors that we have

[in Europe] both on an industry basis and also to have more critical mass there,” Schlosstein told analysts in April. But restructuring presents a particular difficulty in Europe because the bankruptcy process varies from country to country.

LyondellBasell, a Netherlands-based company, chose to file for bankruptcy in the U.S., where the process is unique largely because of the existence of Chapter 11. That part of the bankruptcy code provides legal breathing room for companies to try to fix themselves. “There is no equivalent [in Europe] to Chapter 11,” says Lyondell-Basell’s CFO, Kent Potter. “If this had been a solely European company, we would have been in liquidation.”

In 2005, Congress legislated the first significant changes to the bankruptcy code in almost 30 years. The controversial legislation, which originally passed the House of Representatives in 1997 and was lobbied for by the credit card companies, sought in part to speed up the process of corporations reorganizing through bankruptcy court. The events of the past two and a half years have put the reforms to the test, and the results have been mixed. Although companies like GM and CIT have been able to emerge from bankruptcy in record

time, retailers such as Circuit City Stores have struggled to renegotiate leases quickly enough to avoid liquidation.

The other major change in this distressed cycle is the number of different groups now seated at the workout table. Originally, banks were the only lenders to attend the party, but they are now joined by private equity managers, hedge funds and other distressed-debt investors. Meanwhile, securitization and the boom in the credit derivatives market have created a whole new set of instruments — specifically, collateralized debt obligations and credit default swaps — that provide a way for investors to bet on companies.



Evercore senior managing directors Qazi Fazal (left) and Daniel Celentano were key players in some of the past year’s biggest bankruptcies, including the restructurings of CIT Group and LyondellBasell

For creditors that hold both the debt and the CDSs of a company, it might not always be in their best interest to see that company survive. “If a noteholder also has CDSs and you don’t know his exact position, it is much harder to determine his ultimate agenda,” Celentano says. The result can feel like a never-ending poker game. That game got especially tense during the recent credit crisis, when counterparty risk became a major issue and many hedge fund managers had financing problems of their own that may have influenced their decision making.

BY ROGER ALTMAN’S OWN ADMISSION, EVERCORE WAS late to the restructuring game the last time the economy melted down, following the bursting of the stock market bubble in 2000. “It took us too long to develop a restructuring group, and that was my fault,” he concedes. But the Evercore founder and chairman made up for lost time with the hiring of Bill Repko and David Ying in 2005.

Ying and Repko would seem an unlikely pair. Repko is all jowls and jokes, a father of six who epitomizes the word *avuncular*, while the tall, angular Ying comes across as icy and aloof. “Bill is clearly the

more gregarious of the two of us, and I am the more intellectual,” Ying says. But first impressions can be wrong. Ying has a sharp, wicked sense of humor, and Repko is a cunning tactician. Ying jokes that for most of their careers he was always careful not to anger Repko, because the latter was the one with the checkbook.

Bill Repko moved around a lot as a kid — his father was an executive with Pepsi-Cola Co., as it was then called — and he wanted to design and build sports cars when he grew up. To that end, he studied engineering at Lehigh University until a course on theoretical mathematics sent him to the finance department instead. Graduating with a BS in finance, Repko joined Manufacturers Hanover Trust Co. in 1973 as a management trainee, ending up in the New York-based bank’s corporate lending division. “Back then restructuring wasn’t even a cottage industry,” he says. Over the next 32 years, while Repko worked his way up the banking ladder, the world around him was changing. Manufacturers Hanover became, through a series of mergers, JPMorgan Chase & Co., and corporate credit took off — along with the job of restructuring troubled companies.

Repko’s group was involved in most of the major corporate reorganizations of the past three decades, including Adelphia Communications Corp., Enron Corp., Lucent Technologies, United Airlines and WorldCom. “He likes to say, ‘No one cares how much you know until they know how much you care,’” explains Norma Corio, treasurer at JPMorgan Chase, who was a protégée of Repko’s in the restructuring group. Repko’s passion for products like cars and airplanes — he is never happier than when he is at an auto show or visiting a factory — helps him connect with clients, making them comfortable so his bankers can better do their jobs.

The son of Chinese immigrants, Ying wanted to be a mathematician or a chemist when he arrived at MIT in the fall of 1972, but he ended up studying management. A pupil of Robert Merton, one of the architects of modern financial theory, who would go on to become a founding principal of hedge fund Long-Term Capital Management,

“It took us too long to develop a restructuring group, and that was my fault.”

— Roger Altman, Evercore Partners

Ying was tapped to join the professor’s doctoral program. The New York native, however, was drawn to banking. After graduation he got his MBA from the University of Pennsylvania’s Wharton School, then landed a job in 1978 as a generalist investment banker at Shearson Hayden Stone (which would become Shearson Lehman Brothers).

“When you came up without contacts in the late 1970s, you pulled yourself up by your bootstraps,” Ying says.

In 1985, Ying joined New York boutique investment bank Drexel Burnham Lambert and wound up in the exchange-offer group, which handled tender offers. Paul Levy, then head of the group, remembers him well. “David was an extremely talented generalist, and I was lucky enough that he joined my restructuring team,” Levy says. He adds Ying “was more analytical than I am, and I was more outgoing,” foreshadowing the dynamic between

Ying and Repko. The combination worked. “We really dominated the exchange-offer business,” Levy says.

Out in Drexel’s Los Angeles office, another Wharton graduate was busy transforming the high-yield bond market and the balance sheets of corporate America. During the ’80s, as head of Drexel’s high-yield and convertible bond department, Michael Milken had persuaded U.S. companies and investors to issue and buy lower-rated, higher-risk debt — junk bonds — and with that, the leveraged buyout industry had taken off. But by 1990 the high-yield market was crumbling, Milken had been indicted for securities fraud as part of an insider trading investigation, and Drexel was teetering on bankruptcy. In January of that year, Ying, who by then was heading up Drexel’s restructuring practice in New York, moved the majority of his group to Smith Barney. Three years later Donaldson, Lufkin & Jenrette recruited him to lead that firm’s restructuring business.

During the summer of 2005, Repko, who had recently retired from JPMorgan, and Ying, who had just left the boutique advisory firm Miller Buckfire & Co., bumped into each other on Manhattan’s Park Avenue and made plans to meet. During that lunch they discovered that each of them had been contacted by a headhunter to gauge his interest in becoming the new head of restructuring at Evercore. “We decided that whatever we did next, we should do it together,” Repko recalls. So they suggested to the headhunter that Altman hire them both.

Repko and Ying joined Evercore on September 30, 2005. From the moment he arrived, Ying was struck by the collegial atmosphere of the firm, which reminded him of “the good old days at Drexel.” Still, he and Repko didn’t have a lot to do at first, as corporate bankruptcies were few and far between. The global and corporate default rate for speculative- and investment-grade bonds was at a near all-time low of 0.55 percent, according to Standard & Poor’s. But that would soon change.

Repko and Ying’s first crucial hire was Celentano. The son of a rocket scientist — his father, who had a Ph.D. in biochemistry, worked on nuclear missile defense contracts — Celentano originally planned on being an architect until art classes at night school convinced him he could not draw. Instead, he earned his MBA in finance from Wharton and began a career on Wall Street as an account officer covering metals and mining in Citibank’s World Corporation Group, which managed the bank’s relationship with multinational companies. In 1988 he joined Bear Stearns’ restructuring department.

As a senior restructuring banker, Celentano got a call in early March 2008 from Richard Metrick, a close confidant of Bear Stearns CEO Alan Schwartz. The firm was in deep trouble, and Metrick asked Celentano to prepare it for a possible bankruptcy filing — a grim task that Celentano had to perform a second time when Bear Stearns feared that its shareholders would not approve JPMorgan’s agreement to purchase the bank for \$2 a share (the offer was later raised to \$10 a share).

The day after the JPMorgan–Bear Stearns transaction closed, Celentano joined Evercore. He brought with him an extremely important engagement: Delphi. Celentano was GM’s adviser on the seemingly never-ending restructuring of Delphi, GM’s largest autoparts supplier and former subsidiary. “We stayed with Dan; we trusted him,” says Frederick (Fritz) Henderson, GM’s former CEO. Delphi had filed for Chapter 11 in October 2005; it would emerge in October 2009.

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Another key hire was Qazi Fazal. Born in Bangladesh, Fazal wanted to attend university in the U.S., but in the late '80s, U.S. schools were reluctant to take students from that country because of concerns over forged academic records. So, Fazal instead applied for and received a scholarship to prep school Phillips Exeter Academy in Exeter, New Hampshire. Two years later he was accepted at Harvard University, where he went on to major in economics and study Sanskrit.

In 1994, after graduation, Fazal entered the throng of Wall Street, first as an analyst in the management consulting group of Bankers Trust Co., then as an investment banker at Wasserstein Perella & Co. In 2002 he was part of the restructuring group that spun out to form Miller Buckfire. That's where he got to know Ying, eventually following him to Evercore in late 2008.

FEW COMPANIES WERE MORE POORLY positioned when the financial crisis hit than the U.S. car manufacturers. Detroit's Big Three — GM, Ford Motor Co. and Chrysler Corp. — had been in peril for decades, struggling with massive pension and health care costs, battling immovable unions and burdened with debt. Their more nimble non-U.S. competitors, not hindered by legacy labor issues, had been handily beating them in the marketplace. And like mortgage lenders and credit card providers, the automakers, which had large finance arms and sold most of their vehicles through leasing arrangements, were highly leveraged to the U.S. consumer.

Few bankers have closer ties with the carmakers than Repko, whose relationship with GM goes back to 1992, when he was at Chemical Bank and helped put together a \$20.6 billion credit facility for its lending subsidiary, General Motors Acceptance Corp. As recently as 2006, while at Evercore, he advised GM's board on its sale of a 51

percent stake in GMAC to Cerberus Capital Management. That same year, Repko also advised Ford, the only major U.S. car company not to go into receivership.

"Bill likes cars, and he has an infectious attitude," says Henderson, who was GMAC's group vice president of finance in 1992 and served as GM's CEO from March 2008 through March 2009. "With Bill, it's not simply about finance, it's about how finance supports the business."

Despite Repko's reputation as banker to the cars, it was Altman who got the call in June 2008 when GM needed to look for new financing options. In hindsight, it seems inevitable that GM, which was wobbling under \$77.1 billion in debt, would have to be reorganized through a government-assisted Chapter 11 process, but at the time, a public bailout on such a large scale had never been achieved. That summer, Evercore's main task was to try to find private financing — but there wasn't any.

"Bill told us point-blank, 'You aren't going to be able to get this done,'" Henderson recalls.

Once GM entered Chapter 11 in June 2009, Evercore's most important roles were coming up with a valuation — no easy task given the highly complex nature of GM's balance sheet and the multiple moving parts of the bankruptcy — as well as working with Treasury and GM to structure the \$66 billion in financing. GM was in and out of Chapter 11 in just 39 days, but for Evercore, as Repko says, "GM's bankruptcy was a whole year's worth of work."

If GM's bankruptcy was characterized by government involvement, the immediate cause of CIT's 2009 bankruptcy was the government's decision not to intervene. The improving capital markets at the time convinced officials that the economy could survive such a shock. This was bad news for Jeffrey Peek.

Peek was the former head of investment banking at Merrill Lynch & Co., which he left in 2001 after losing a battle with E. Stanley O'Neal to become CEO. Eventually, he landed at CIT Group, a then-sleepy Livingston, New Jersey-based lender. As CEO, Peek moved CIT's headquarters to Manhattan and began expanding its operations in areas such as subprime mortgages and student loans. During the credit crisis, however, that strategy quickly unraveled.

In April 2008, shortly before Peek hired Evercore to advise the board, CIT stopped making student loans. In July it sold its home mortgage business. By June 2009, CIT had converted itself into a bank holding company so it could participate in the Troubled Assets Relief Program, but the \$2.3 billion it received from the government wasn't even close to enough to cover its \$64.9 billion in liabilities. CIT approached the Federal Deposit Insurance Corp. about government backing for a bond sale and was turned down.

"CIT was on the verge of an uncontrolled bankruptcy, just like Lyondell," recalls Ying. Initially, he and his team thought they had lined up a lender, but at the last minute, that bank backed out. The failed negotiations had wasted 48 hours — time that CIT didn't have. "David and I walked into an empty conference room," Fazal recalls. "We looked at each other and said, 'What do we do now?'"

But a potential savior had already emerged. New York-based hedge fund Centerbridge Partners was a large CIT bondholder. "This situation was ripe for a rescue," says Jeffrey Aronson, co-founder of the \$12 billion firm. He reached out to Ying and offered to help raise the money, but Centerbridge wanted a closed process.

The half dozen invited investors collectively had to come up with \$3 billion. In return, they would receive interest payments on the senior secured loan of about 13 percent. As part of the agreement, CIT had to present a restructuring plan to the Group of Six, as the rescue lenders came to be known, for approval. Rather than present CIT's board with temporary financial solutions, Evercore suggested a \$55 billion debt restructuring, including a \$35 billion debt-for-equity swap, all through a prepackaged Chapter 11 process. Getting the company and the creditors to agree to what would be the largest-ever prepackaged bankruptcy put Ying's powers of persuasion to the test.

"To convince a board of directors and a senior management team who were sure, not unreasonably, that if CIT were to announce bankruptcy that their franchise would be over took some doing," says J. Gregory Milmo, head of the restructuring group at CIT's legal counsel, Skadden, Arps, Slate, Meagher & Flom in New York.

"David had to explain to the company that a Band-Aid doesn't solve the problem," adds Aronson. "He told the company that the

right thing to do, not only for the creditors but also for the health of the business, is to fix it through this prepack.”

On October 13, 2009, Peek announced that he would be leaving CIT before the end of the year. The company filed for bankruptcy less than three weeks later, but thanks to Evercore’s plan, it was able to emerge from Chapter 11 in just 38 days.

Like CIT, MGM Mirage (now MGM Resorts International) got neck-deep into the areas hit hardest by the credit crisis. In August 2007 the hotel-and-gaming company announced a landmark 50-50 joint venture with Dubai World, the investment arm of the wealthy Persian Gulf emirate, to build a project called CityCenter. Sprawling across three Las Vegas blocks, the 16.8 million-square-foot complex was slated to include everything from a high-end resort and spa to ultrachic shopping and casinos to luxury condominiums. Dubai World agreed to put up \$2.7 billion to help pay for CityCenter and to purchase \$2.4 billion in MGM shares.

But then the credit crisis hit. By March 2009 both MGM and Dubai were in serious financial trouble, and there were doubts as to whether the \$8.5 billion project would ever be completed. To finish the job, the two partners needed to raise a further \$2.8 billion; Dubai World tried to get out of the deal by suing MGM for breach of contract and refused to make a \$200 million payment required to keep CityCenter on track.

Evercore senior managing director Stephen Hannan remembers the events well, as they unfolded during his first week on the job. The Sunday before, he flew to Las Vegas with Fazal, Repko, Ying and Eduardo Mestre, Evercore’s vice chairman, for a meeting with MGM’s board and management. It would be the first of many trips, says Hannan, who joined Evercore from \$5 billion Greenwich, Connecticut, hedge fund Black Diamond Capital Management.

“We had never had to deal with this kind of situation before,” says MGM Resorts CFO and treasurer Daniel D’Arrigo. “We were a little bit of a fish out of water.”

MGM had blown through its credit agreements with all of its lenders and needed to renegotiate its debt immediately. But Evercore also had to help MGM persuade Dubai World and the banks, which were on the

line for about \$3.5 billion, to continue with their commitment to CityCenter. Evercore’s solution was to create a structure where both MGM’s and Dubai World’s commitment were supported by bank letters of credit. CityCenter was completed in December 2009; Eduardo, Hannan, Repko and Ying all flew to Vegas for the opening party.

For companies like MGM, the next 18 months are critical. Will the U.S. economy continue to improve, or is it headed toward a double-dip recession? And if economic conditions worsen or interest rates rise, does MGM have a large enough financial cushion to survive?

“We have created a lot more liquidity for ourselves,” D’Arrigo says. “But this is not going to be the kind of V-shaped recovery that we have seen in the past.”

“This is not going to be the kind of V-shaped recovery we’ve seen in the past.”

— Daniel D’Arrigo, MGM Resorts International

In early August, MGM Resorts announced that it had taken a \$1.12 billion write-down on CityCenter’s value in its second-quarter earnings and that CityCenter had an operating loss of \$128 million for the quarter. But there were some favorable metrics as well. June was the first month since October 2007 that MGM’s revenue per available room on the Las Vegas Strip increased.

Things are definitely looking up for LyondellBasell, which emerged from Chapter 11 with \$7.2 billion in total debt and \$2 billion in cash. After a fraught bidding war over who should provide the exit financing — in which Evercore, and in particular Celentano, played a pivotal advisory role — LyondellBasell hopes to soon be filing to list on the New York Stock Exchange 564 million shares that it had issued to creditors.

On August 18, General Motors Co. filed for its long-awaited IPO. The offering, which is being led by underwriters JPMorgan and Morgan Stanley and is expected to be completed sometime this fall, will be closely watched as an indicator of the health of the auto industry.

There remains plenty for Ying, Repko and the rest of the restructuring team to do. Off the back of its work with MGM


Resorts, Evercore has acted as an adviser to the Marnell family on its M Resort in Las Vegas. It also advised Apollo Management when the private equity firm was considering acquiring a different struggling resort project, Fontainebleau Las Vegas. And along with Morgan Stanley, Evercore has been counseling the oil and gas exploration company Delta Petroleum Corp. on its strategic options to help pay down its debt. The firm has also been retained as an adviser to troubled U.K. oil and gas company BP.

There is little doubt that the pendulum is swinging back toward M&A advisory. During Evercore’s second-quarter conference call, Altman said he expects restructuring to account for “meaningfully less” than half of Evercore’s overall advisory revenue in 2010. He went on to say that the firm’s “restructur-

ing business is quite healthy, but in reality, the cycle is slowly shifting, and as M&A recovers, the restructuring tends to soften. But the shift is going on slowly.”

In preparation for the good times ahead, Evercore has been on a hiring spree. In June, Altman and Schlosstein brought in Philip Kassin as a senior managing director in the firm’s advisory practice. A chemicals and energy specialist, Kassin previously worked as head of M&A and financing for, of all companies, LyondellBasell investor Access Industries. There he became very familiar with the chemicals company, its travails and the work of Evercore’s restructuring team. In fact, as Access’ representative on the LyondellBasell supervisory board, Kassin was a key player during the long days and nights in January 2009 when Ying and Celentano were negotiating for the chemicals company’s survival.

Still, Roger Altman believes that restructuring can be a business for all seasons. “This is a good business,” he says, “and one wants to be in it in a leadership way every day of the week.” ●●

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