NewPage emerges from Chapter 11

• Owner of Escanaba mill back on track with its finances

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MIAMISBURG, Ohio - NewPage Corp., owner of the paper mill in Escanaba, is back on track with its finances as it emerges from bankruptcy, company officials announced Thursday.

NewPage, headquartered in Ohio, successfully completed its financial restructuring and has officially emerged from Chapter 11 bankruptcy protection, confirmed the U.S. Bankruptcy Court in Wilmington, Del., earlier this month.

In conjunction with the plan, NewPage closed on its exit financing, consisting of a $500 million term loan led by Goldman Sachs Lending Partners LLC and a $350 million revolving credit loan led by J.P. Morgan Securities LLC.

"This is an exciting day for all of us at NewPage," said George F. Martin, president and chief executive officer. "We have successfully completed our restructuring and we have emerged as a financially-sound company. This step helps to solidify our position as the leading North American producer of printing and specialty papers."

Martin added, "We look forward to continuing to provide our customers with exceptional service and high-quality products, operating safe and efficient mills and being a responsible community member."

The CEO thanked the company's customers and suppliers for their support during the process.

"I would also like to extend my gratitude to our employees for their hard work and tireless dedication throughout the reorganization and the challenging period leading up to it," Martin added.

According to the company's website, approximately 1,050 people are employed at the Escanaba mill which has the capacity to produce about 780,000 tons of paper per year. The mill produces specialty papers, coated papers, and uncoated papers used for magazines, catalogs, annual reports, textbooks, supplements and product brochures.

The mill is owned by Escanaba Paper Company which is a subsidiary of NewPage Corp., according to website information. NewPage owns paper mills in Michigan, Wisconsin, Minnesota, Ohio, Maine, Maryland, and Kentucky.

Jay A. Epstein, senior vice president and chief financial officer for NewPage said through the recent reorganization process, the company significantly reduced its debt and emerged with a sustainable capital structure.

"Our exit facility will provide ample liquidity to meet all of our working capital and capital investment needs," Epstein said.

NewPage officials thanked Judge Kevin Gross for successfully shepherding the case through the Chapter 11 process and protecting 6,000 jobs, and Judge Robert Drain for mediating the economic settlement that paved the way for a consensual Chapter 11 plan.

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NewPage - A Good Old Fashioned Free-Fall Chapter 11 Case

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Last week's Chapter 11 filing by NewPage Corporation, a company with assets and liabilities in the billions of dollars, stands as a relative rarity in the current restructuring environment. Running contrary to the "new normal" in larger restructurings, NewPage filed for bankruptcy protection without a pre-arranged or pre-negotiated exit solution, such as a back-stopped rights offering or a stalking horse bidder for a sale of the enterprise as a going concern. The company instead will take advantage of the protections offered by Chapter 11 while it seeks to work out a solution with its creditors. It promises to be an interesting case to watch.

NewPage at first glance appears to have viable core operations and an extremely top heavy balance sheet. A deleveraged enterprise that successfully uses Chapter 11 to shed unprofitable or less profitable business lines, reject burdensome contracts, sell unneeded assets, and streamline operations would likely have substantial long term value.

The primary focus in this case therefore will be the simple question: where's the fulcrum? In other words, which level of debt in the capital structure will be entitled to receive the majority of the equity when the company emerges from Chapter 11? So far, it looks to be shaping up to be a battle of NewPage's First Lien Noteholders versus its Second Lien Noteholders. Unsurprisingly, both groups are controlled by aggressive hedge funds that specialize in buying distressed debt at prices below par.

The First Lien Noteholders are almost certainly looking to push NewPage to move forward quickly with a plan predicated on a low valuation that would cram down most or all junior creditors and deliver to themselves the equity in the reorganized enterprise. The Second Lien Noteholders will vociferously oppose any such valuation, and may be looking for the opportunity to backstop a rights offering that would cash out the First Lien Noteholders.

NewPage itself very much looks to be seeking to tee things up so that the Second Lien Noteholders will have such an opportunity to step up with new capital, rather than have this case come down to a complex and lengthy valuation fight. As part of its debtor in possession financing, NewPage sought authorization to reimburse the Second Lien Noteholders for professional fees and expenses, "subject to the Court's ultimate determination as to whether the Second Lien Lenders make a substantial contribution" to the bankruptcy case. Under the "substantial contribution" standard, a creditor that acts for the benefit all parties, and not only its own narrow interests, can be reimbursed its costs and expenses. NewPage states, "[T]his reorganization may well depend on the Prepetition Second Lien Noteholders' ability to refinance all or a portion of the first lien debt . . . The Debtors believe that such authority . . . will incentivize and expedite the administration of these cases and will prevent unwarranted litigation and benefit the estates and the reorganization."

Alliances between and among the First and Second Lien Noteholders and various other parties will be made and broken over the next several months. These will include holders of NewPage's subordinated 12% Senior Unsecured Notes and the company's trade creditors. One or more rivals may make an unsolicited purchase offer. Finnish paper manufacturer Stora Enso, which sold certain assets to the Debtors in 2007 and took back equity and structurally subordinated notes, may look to make a strategic acquisition here. Enlivening the mix will likely be the company's labor unions (particularly if NewPage seeks to modify collective bargaining agreements or retiree benefits), the EPA, the PBGC, and Cerberus Capital Management, the Debtors' primary equity sponsor.

Tags: Cerberus Capital Management, Chapter 11, NewPage Corporation