



Launching an International Deal: Rocketing to the Top

When the M&A Advisor puts out our annual call for international deals, such as our current call for this coming [October 11, 2011 awards](#), we receive a host of nominations from every corner of the globe and from sectors across the markets.

And while these transactions are significant in scope and complexity, what we can say is that we had not ever received any international deal-transaction details that involved space rockets, \$2.4B in bankruptcy claims, U.S. CFIUS rules, reluctant DIP lenders, Russian dealmakers, Ukrainians crews, new tax havens and the saving of over 100 jobs.

Well, that was before Chris Picone and his team at Buccino Associates was awarded both the 2010 M&A Advisor's Turnaround Deal (cross-border) and the 2011 ACG New York Champion's Award (media and technology) for the firm's Sea Launch deal.

Picone is President and General Counsel at the firm, bringing significant experience in financial restructurings, operations, turnaround situations, bankruptcy, litigation support matters, real-estate development, construction and asset management. And his willingness to step into complex deals is reflected in his easy vivaciousness.

After several rounds of searching for the right dealmaker, the creditors and the bankruptcy court choose Picone (and his firm) for his personal hands-on, get-the-deal-done approach. An incisive decision by all.

Sea Launch is one of only three companies worldwide that launches commercial satellites. So why is that significant and what does it mean for the markets? Well, as the U.S. has officially closed NASA's ride to the International Space Station, commercial flights are now the only way to travel the Milky Way.

Further, flight numbers were limited and in decline as Sea Launch—formed in May 1995 by Boeing Commercial Space; RSC Energia; Aker, Yuzhnoye; and Yuzmash ("Partners") to provide reliable, cost-effective, heavy-lift (4,000–6,000 kg) commercial satellite launch services for commercial customers—went on the chopping block in bankruptcy court.

While the Company had successfully executed 29 launches, 27 from the Odyssey and 2 from the land-based Baikonur Space Center, as a result of cost overruns exceeding \$119M and a launch anomaly resulting in a \$44.4M arbitration award against it, the Company commenced Bankruptcy on June 22, 2009.

To provide the Company lift-off from bankruptcy, Buccino Associates arranged for two tranches of Debtor in Possession financing. The result, Sea Launch filed its Plan of Reorganization in the Bankruptcy Cases on May 10, 2010. The Plan provided for the discharge of \$2B+ of prepetition debt and the restructuring and reorganizing of operations. The Plan also provided for the injection of \$155M of "equity" by Russian entity Energia Overseas Limited ("Investor") and provided for access to a \$200M revolving credit facility. Finally, after more than one year of negotiations, the largely consensual Plan incorporated numerous settlements with Sea Launch's Partners, customers and unsecured creditors, resolving approximately \$2B, \$348M and \$8M in claims respectively.

Finally, had Sea Launch not successfully emerged from Chapter 11, a duopoly would have resulted, which could severely limit commercial access to space and most certainly result in increased market pricing as a result of extremely limited competition.

Because we want to assure dealmakers that even the most complex deals can take flight, we asked Picone, just how this deal was closed, the current state of the company and his role going forward.

M.A.: How did Buccino Associates come to participate in the deal?

C.P.: We were recommended for the Chief Restructuring Officer ("CRO") role by one of the lawyers for one of the major creditors on the Creditors Committee. We were one of a number of firms/people that were recommended. We were fortunate enough to be selected following a rigorous selection process.

M.A.: What did your firm do to resolve some of the difficult cultural issues among the various entities you mentioned (Russians, Ukrainians, US and other deal members)? In other words, how did you establish trust?

C.P.: We were open, honest, fair and transparent at all times. We also maintained constant communication with all parties so that everyone was always up to speed on what was going on in the case.

M.A.: Can you take us through the overall restructuring process? How is the company organized now and where does the Company currently maintain its operations and why?

C.P.: The overall restructuring process was very complicated due to the heavily regulated nature of Sea Launch's business, as well as the international aspects of the business. We first moved to quickly streamline the Company's operations to reduce the Company's monthly operating losses. We then had to locate a source of debtor-in-possession ("DIP") financing to finance the Company's ongoing operations while the Company was in Chapter 11. We ended up needing a second tranche of DIP financing which came from a second source. Next, we looked for a strategic acquirer that would have the financing capabilities and technical expertise to operate this complex business. While all this was happening, we also met with past and potential new launch customers to convince them that the Company was going to survive and exit Chapter 11 as a stronger more efficient Company, and to sign new launch contracts that would be effective once the Company emerged from Chapter 11. We also restructured the Company's operations to cure some long term supply chain and operational issues that plagued the Company (see Part III, Section F of the application). Once a suitable acquirer was found and a deal agreed upon, the transaction required the approval of the Committee on Foreign Investment in the U.S. ("CFIUS") because the acquirer was a non U.S. Company (Russian).

The company currently maintains its U.S. Home Port operations in Long Beach, CA. The corporate headquarters is now located in Berne, Switzerland, following a brief period of incorporation in Luxembourg.

M.A.: Who are the main investors and what did they bring to the deal transaction to help with the reorganization (e.g.: capital, operations expertise, and so forth)?

C.P.: The acquirer was Energia Overseas Limited (a subsidiary of RSC Energia, an original member of the Sea Launch consortium and a major supplier to Sea Launch). Energia Overseas Limited brought the necessary capital, technological and operational expertise to successfully close this transaction and operate this Company once it emerged from Chapter 11.

M.A.: What was the financial structure of the bankruptcy; and was it to the satisfaction of most or all of the creditors?

C.P.: The Plan provided for an equity investment by Energia Overseas Limited of \$155M. The Plan also provided that Energia Overseas Limited would make a \$200M line of credit available to the reorganized Sea Launch to fund future rocket hardware purchases. The unsecured creditors received a payment of 17 ½ cents on the dollar. This was to the satisfaction of nearly every creditor and as a result, the Plan was a consensual Plan.

M.A.: What was done to the supply chain to help control costs going forward?

C.P.: The foreign supply chain is now controlled by the Russians, who are both closer geographically and culturally to foreign suppliers, and therefore can maintain tighter controls over the manufacturing process. This should result in reduced costs, increased product quality and tighter schedule discipline. Sales, marketing, finance and legal will be handled by the U.S. entity, which is structured to handle these matters most efficiently. As a result, the newly combined entity benefits its launch customers by mitigating unexpected price increases and launch delays.

The Deal also resulted in the Company switching from an expensive fixed cost method of operations to a variable cost method utilizing third party contractors to provide launch related personnel and services on an as needed basis, rather than maintaining a full time "standing army".

M.A.: Who were some of the more helpful team members and outside consultants; and what did they provide to help the firm emerge from Chapter 11?

C.P.: The team at Alston & Bird (Dennis Connolly, Brian Betancourt, Matthew Levin, Sage Sigler, Tom Crocker and Sam Kaywood) were instrumental in their representation of the Company as a Chapter 11 debtor. Without their legal expertise and guidance, this deal would not have happened. Claude Montgomery and Lee Whidden of Salans, LLP were also very important to the overall success of this case. They represented Energia Overseas Limited, the Russian acquirer.

M.A.: Were there any Chapter 11 rules that were of particular importance?

C.P.: Not really. The complexities in this case did not come from Chapter 11 rules but instead came from international tax rules, CIFIUS, ITAR (“International Traffic In Arms”) regulations and other U.S. ,Russian and other foreign laws and regulations that were applicable to this transaction.

M.A.: What are some of the competitive advantages of the newly reorganized entity?

C.P.: The company continues to be a provider of reliable, cost-effective, heavy-lift (4,000-6,000 kg) commercial satellite launch services for commercial customers. Sea Launch offers a one-of- a-kind sea based equatorial launch with the most direct route to geostationary orbit, offering maximum lift capacity for increased payload mass or extended spacecraft life.

M.A.: What is your role in the Company going forward?

C.P.: I am a member of the Board of Directors of the reorganized entity and my firm continues to provide post reorganization consulting services to the company.

M.A.: Thanks, Chris and congratulations on deal liftoff!



**First post-Chapter 11 rocket arrival.
Home Port, Long Beach, California.
July 14, 2011.**

About Buccino & Associates Inc.,

Founded in 1981, Buccino & Associates, Inc. is one of America's premier strategic and financial consulting firms providing clients comprehensive advisory services designed to enhance cash flow and position companies for long-term profitability. Services include strategic and financial assessment of business operations; turnaround consulting; financial advisory services to lenders, creditors and other economic stakeholders; crisis and interim management; valuation; real estate; insolvency and reorganization services; corporate restructuring; forensic analysis; litigation support and expert testimony.

For more information see www.buccinoassociates.com

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