



Allied Systems Holdings BANKRUPTCY UPDATE

NOVEMBER 8, 2012

FOR ONGOING UPDATES

The Teamsters Union continues to play an active role in this case and will monitor developments closely to keep you updated. Please click on the Allied button on the Top Issues page at www.teamster.org or go directly to www.teamster.org/content/allied-bankruptcy. You can find all the court related filings by following the "Bankruptcy Court Document and General Information" link on the Teamster/Allied web page.

TIMELINE OF EVENTS

- **January 18, 2012:** Black Diamond and other Lenders file "Majority Lender" lawsuit in New York State Court.
- **May 17, 2012:** Black Diamond and Spectrum Investment Partners file "involuntary" bankruptcy proceedings attempting to force Allied into bankruptcy.
- **June 10, 2012:** Allied files "voluntary" bankruptcy proceedings. Yucaipa provides debtor in possession financing (DIP) to fund Allied's stay in bankruptcy.
- **October 18, 2012:** Allied files motion for Bankruptcy Judge to hear and determine "Majority Lender" issues.
- **October 25, 2012:** Bankruptcy Judge agrees to hold a hearing on Tuesday, November 13, 2012 to determine whether the Bankruptcy Court should be the sole court to decide the "Majority Lender" and related issues.
- **November 13, 2012:** Bankruptcy Court hearing to be held on which court will decide "Majority Lender" issues.
- **February 18, 2013:** Date targeted by Company and other parties for resolution of "Majority Lender" issues.

IMPORTANT COURT HEARING SCHEDULED NOVEMBER 13



Allied's second venture into bankruptcy has been about one thing—who controls the company. If you remember, in May 2012 two hedge funds filed "involuntary" bankruptcy proceedings—effectively trying to force Allied into bankruptcy against its wishes. Those hedge funds, Black Diamond (yes the same folks who took PTS into bankruptcy and ultimately forced a strike that led to liquidation) and Spectrum Investment Partners, dispute Yucaipa's role as the "requisite" or majority lender in Allied's capital structure. The majority lender has a lot of control over a company, including in a bankruptcy proceeding.

Prior to that involuntary filing, on January 18, 2012 a number of lenders lead by Black Diamond filed a lawsuit in New York State Supreme Court challenging the validity of Yucaipa's majority lender position. That lawsuit is currently pending in the New York state courts.

In response to the "involuntary" bankruptcy filing, Allied filed its own "voluntary" bankruptcy petition on June 10, 2012 stating in a letter to employees (emphasis added):

Over the past several months, the management team has been analyzing the best way to address the Company's debt. When two hedge funds tried to force us into an involuntary bankruptcy and take control of our fate in May, it became clear that the best way to address the Company's financial condition and the involuntary proceeding was to implement a financial restructuring through a new Chapter 11 filing **that we can control.**

The "we" in the statement above is Allied's Management and Board of Directors, who are controlled by its current equity and majority debt holder Yucaipa Companies ("Yucaipa"). Yucaipa is the private equity firm that

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IMPORTANT COURT HEARING SCHEDULED NOVEMBER 13 *Continued from front*

brought Allied out of its previous bankruptcy. As mentioned earlier, being the majority lender is a key position, including in any bankruptcy proceeding. If Black Diamond can get a judge to invalidate Yucaipa's position, Black Diamond and/or possibly other lenders are likely to gain control of the Allied and thus Allied's position in the bankruptcy process.

It's safe to say that the path for Allied to exit bankruptcy (either coming up with a plan to sell the company or reorganize the company as a stand alone business) is stuck in limbo while there is an outstanding dispute over who is the majority lender. To put it more plainly, Allied can't reorganize while this issue is unresolved. It is important for the bankruptcy process to proceed because Allied currently has finite financing to use to operate.

To resolve that majority lender dispute and allow the bankruptcy to proceed forward, Allied filed a motion in bankruptcy court on October 18, 2012 with the support of other key constituents to attempt to bring the majority lender issue before the Bankruptcy Judge to decide the matter. On October 25, 2012 the Bankruptcy Judge agreed he would hold a hearing on Tuesday, November 13, 2012 to determine whether the Bankruptcy Court should be the sole court to decide these and related matters.

So the next key date is Tuesday, November 13 where the Bankruptcy Court Judge will hear the parties' positions on whether the Bankruptcy Court should be the court to decide the majority lender and related issues. If the judge determines that the Bankruptcy Court should decide these issues it is

unclear when the judge will rule on the merits of these issues. However, the company and other constituents have agreed to seek a ruling by the Bankruptcy Court on the majority lender issue, and any credit bid by Yucaipa (see below), by February 18, 2013.

In a related development to move the bankruptcy process forward, Yucaipa, in a court filing (language below), has expressed interest in purchasing Allied using Yucaipa's ownership of certain Allied debt as the currency for its bid—called a credit bid—all subject to higher or better bids that other entities might submit:

Yucaipa has notified the Debtors and the Committee that it intends to submit a credit bid for substantially all assets of the Debtors pursuant to Section 363 of the Bankruptcy Code, subject to the Debtors' marketing process and the submission of higher and better bids and an auction (the "Yucaipa Credit Bid") pursuant to procedures approved by the Court (the "Bidding Procedures"). The Debtors are considering a Yucaipa Credit Bid, among other things, as a way to maximize the value of their estates and move the Bankruptcy Cases toward a conclusion.

While Yucaipa has expressed this interest, it would be extremely difficult for the process of finding a buyer (marketing the company) to reach a conclusion until the majority lender issue is resolved.