CASE STUDY

A Series of Unprecedented Challenges

The unprecedented set of issues in the ASR-Pioneer-Strong engagement included: an underfunded pension and closure of the related plant whose workers were covered by a Collective Bargaining Agreement (CBA); multiple operations in multiple states (only one of which had an on-site operations manager); a secured lender who was also the landlord of two of Pioneer's facilities and who terminated the debtors' leases pre-petition (substantially complicating the sale processes); the need to run multiple simultaneous sale processes and get two stalking horse bids, one of which included assets from both estates; a lack of a CEO, full-time CFO or needed financial records; esoteric government contracting rules applicable to the debtors' major contracts; and unusually tight liquidity throughout the case due to lack of an adequate borrowing base or interest from DIP lenders.

Situation Overview

The full-scale restructuring of Aviation Safety Resources (“ASR”), Pioneer Aerospace Corporation (“Pioneer”), and Strong Enterprises (“Strong”) was a complex and multifaceted Subchapter V process, jointly administered in the United States Bankruptcy Court for the Middle District of Florida. Asgaard was retained as the Financial Advisor and Transaction Advisor for the debtors, providing critical operational and financial restructuring services from April 2023 to May 2024 (with the pre-petition phase running from April 1st to November 1st, 2023). The engagement involved two distinct phases: a pre-petition operational restructuring and a Chapter 11 restructuring, culminating in Section 363 asset sales.

The debtors collectively manufactured and sold parachutes and related products for military and commercial applications. All manufacturing operations were consolidated at the Pioneer and Strong levels, rendering ASR a pure holding company. Despite a long history of supplying products critical to the U.S. Department of Defense, NASA, and private aerospace companies such as Boeing, SpaceX, and Lockheed Martin, the debtors ultimately succumbed to certain financial and operational challenges in 2023.

ASR filed for bankruptcy as a direct consequence of its disastrous acquisition of Pioneer from Zodiac, a French aerospace and defense conglomerate. Pioneer’s distress and ultimate bankruptcy filing was rooted in a disadvantageous cost structure – largely related to its Mississippi facility that lost money on a gross margin basis – and mounting financial obligations in the form of a $1.8 million underfunded pension claimed by the National Retirement Fund and over $1 million in acquisition debt owed to Zodiac. Lastly, Strong filed because a sale under the Bankruptcy Code was necessary to avoid contagion from Pioneer into Strong’s operations.

In March 2022, ASR acquired Pioneer from Zodiac under a Stock Purchase Agreement that financed a $2.2 million Secured Promissory Note and a $1 million Secured Promissory Note at the Pioneer level. These liabilities became highly unsustainable largely due to Pioneer’s Mississippi facility, which Asgaard discovered was losing approximately $500,000 per month for several years. The debtors’ management not only failed to address, but in fact exacerbated, these financial difficulties. At the time of Asgaard’s retention, the debtors had no CEO, COO, treasurer, controller, or accounts payable manager, and only a part-time CFO. The debtors, furthermore, had only one plant manager, despite operating four distinct manufacturing facilities across three states. The debtors' non-integrated physical operations in Mississippi, Connecticut, and two in Florida reflected (and stemmed from) the state of the depleted management team.

Furthermore, the debtors' financial records were in complete disarray. Not only was financial information limited in quantity, but any existing records were produced without adherence to GAAP or CAS accounting standards. This lack of visibility and insight into their finances prevented the debtors from assessing their liquidity position, profitability, and overall financial health. These challenges demanded significantly more effort and creativity on Asgaard's part to bring the debtors to break even from an operating cash perspective, and to establish and maintain an attractive level of value for any prospective buyer. The debtors' case, therefore, presented much more complexity than a typical Subchapter V – but Asgaard nevertheless moved forward to prevent the seemingly inevitable liquidation of a business so closely tied to our nation's safety and defense.

Operational Restructuring Efforts

Upon engagement, Asgaard's initial focus was to stabilize the debtors' operations and finances. This phase involved the development of a 13-week running cash flow model, which was essential in understanding the debtors' liquidity and making accurate operational decisions on a weekly basis. Asgaard professionals used the scant documents they could find, in conjunction with employee interviews across the four locations, to create a 360-degree picture of the debtors' operations and their respective cash in-flows and out-flows per week. This model informed the debtors, their board, and all professionals of the company's runway – which is represented by the period until the company exhausted all of its funds - and was the single most important financial document used throughout all phases of the restructuring process.

The strategic advice provided by Asgaard mainly took the form of closing Pioneer's Mississippi plant, the principal drain on the broader company's performance. Asgaard recommended and facilitated the closure of this facility and the subsequent consolidation of manufacturing operations into the three remaining facilities to capitalize on

manufacturing efficiencies in Connecticut and Florida, thereby reducing the debtors' cash burn rate by at least $300,000 per month. Coupled with the closing of the Mississippi plant, significant savings were realized through the shuttering of ASR's Kentucky headquarters, selective layoffs in Connecticut, the rationalization of certain expenses, and the repair of the debtors' contract-bidding process to ensure future work was bid at profitable levels. All of these operational changes were made pursuant to Asgaard's advice and instrumental role in the day-to-day operations of ASR-Pioneer.

Finally, Asgaard's role as financial advisor further increased going-concern value through the identification of approximately $1.4 million in government-issued federal Employee Retention Tax Credit (ERTC) funds attributable to the debtors.

Without Asgaard's extensive involvement, it is highly unlikely that this value enhancement – delivered through both cost cutting initiatives and improved distributable value – would have been achieved. With imminent liquidation previously on the horizon, Asgaard managed to bring the debtors to a break-even position on operations (before restructuring costs) by August 2023 – a mere four months after the engagement began.

Bankruptcy Process and 363 Asset Sales

With improved operating performance and the pending federal refund, the debtors filed for Chapter 11 bankruptcy on November 1st, 2023 to quickly and efficiently execute going-concern sales of substantially all operating assets of Pioneer and Strong. However, the debtors' continued precarious liquidity position prevented hiring additional professionals to assist in the bankruptcy process. This resulted in Asgaard not only acting as the financial advisor, but simultaneously performing sale advisory services commonly undertaken by a formal investment banker. Despite the pressure this transition placed on Asgaard, it was seemingly the only route to the debtors avoiding administrative insolvency. At the same time, Asgaard deferred fee collection by creating a Professional Fee Escrow, which represented another substantial risk undertaken for the common good.

Entering bankruptcy, the debtors had approximately $10 million in total debt obligations – over $3 million of which were attributable to First Lien Secured Notes issued in the acquisition of Pioneer. While preparing for an auction, Asgaard assisted the debtors in obtaining a $600,000 DIP credit facility secured by a senior lien on all unencumbered collateral. This DIP loan, which was provided by certain directors and shareholders, enabled the debtors to continue their ordinary course operations, avoid liquidation, and preserve value for an eventual asset sale.

Stepping into an investment banker role, Asgaard sourced the distressed company's network of suppliers and customers, comparable industry peers, and financial sponsors to compile a list of prospective buyers. Upon generating these contacts, the Asgaard team worked diligently to assemble individualized, confidential data rooms to best suit the needs of each potential buyer. These data rooms were dynamic in nature and required frequent monitoring and maintenance to ensure that all parties had access to updated information relevant to the case.

Organizing the sale of a fundamentally fragmented business with a variety of business verticals and locations proved incredibly challenging. For several months, Asgaard narrowed its list of potential buyers, maintained consistent contact with interested parties, and serviced their diligence requests, all the while acting as the sole financial advisor and running the day-to-day operations of a company on the brink of insolvency. Ultimately, this long and arduous sale process, that had begun months before the bankruptcy filing, resulted in Asgaard transitioning the business to two customers, SpaceX and Paradigm.

Sale Closing and Recoveries

The sale of Pioneer and Strong closed on December 8th, 2023, a mere 5 weeks after the petition date. The total proceeds from this sale – assuming full collection of the ERTC refunds – were close to $7,000,000. This valuation resulted in 100% recovery to all secured, administrative, and priority claims at the Pioneer and Strong levels; 71% recovery to Pioneer unsecured and trade claims on a blended-rate basis; and 68% recovery to Strong unsecured and trade claims on a blended-rate basis. Recoveries of these amounts to trade and unsecured creditors are incredibly rare in any Chapter 11, let alone Subchapter V, case. Rarer still are cases in which such recoveries are coupled with going-concern sales that retain jobs and maintain vital US aerospace and defense capabilities.

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Total Proceeds from Sale

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68% RECOVERY
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