



## **Riding the Wave: Navigating the Stormy Seas of the Credit Markets in 2009**

**JoEllen Minchak, Esq., Squire Sanders & Dempsey L.L.P.**  
**Winifred Pinet, CTP, Sycamore Associates LLC**  
**Megan Short, CTP, Agilysys, Inc.**



## Session objectives

- Understand the current trends in the capital markets
- Market Drivers in 2009
- Discuss bank return disciplines
- Bank capitalization issues and why they matter to you
- How market dynamics have changed the rules
- Current trends and changes
- Unsecured to Secured: A Tale of Two Credits
- The wild world of workout
- New legal issues to beware



# Bank Capitalization Issues and the Ripple Effect

- Capital Strains=Tight Credit
- Higher Cost of Capital, for all Financials
- New Ownership
- Strategic Changes
- Credit Scrutiny
- Down grades “ as abundance of caution”
- Changes in return disciplines
- New regulatory environment
- TARP implications



## Fall and Winter 2008-9

*Now is the winter of our discontent  
Made glorious summer by this sun of York*

Shakespeare: *Richard the Third*,  
*I,I*

Or, maybe not.....



# The Winter of Our Discontent

- As a result of the economy and the struggle in the financial sector borrowers experience the following:
  - Higher Pricing
  - LIBOR Floors
  - More Covenants
  - Higher Fees
  - Pressure to reduce Capital (=better return)
  - Pressure to shorten tenor (=better return)
  - Structural changes (tighter baskets, elimination of various rights)



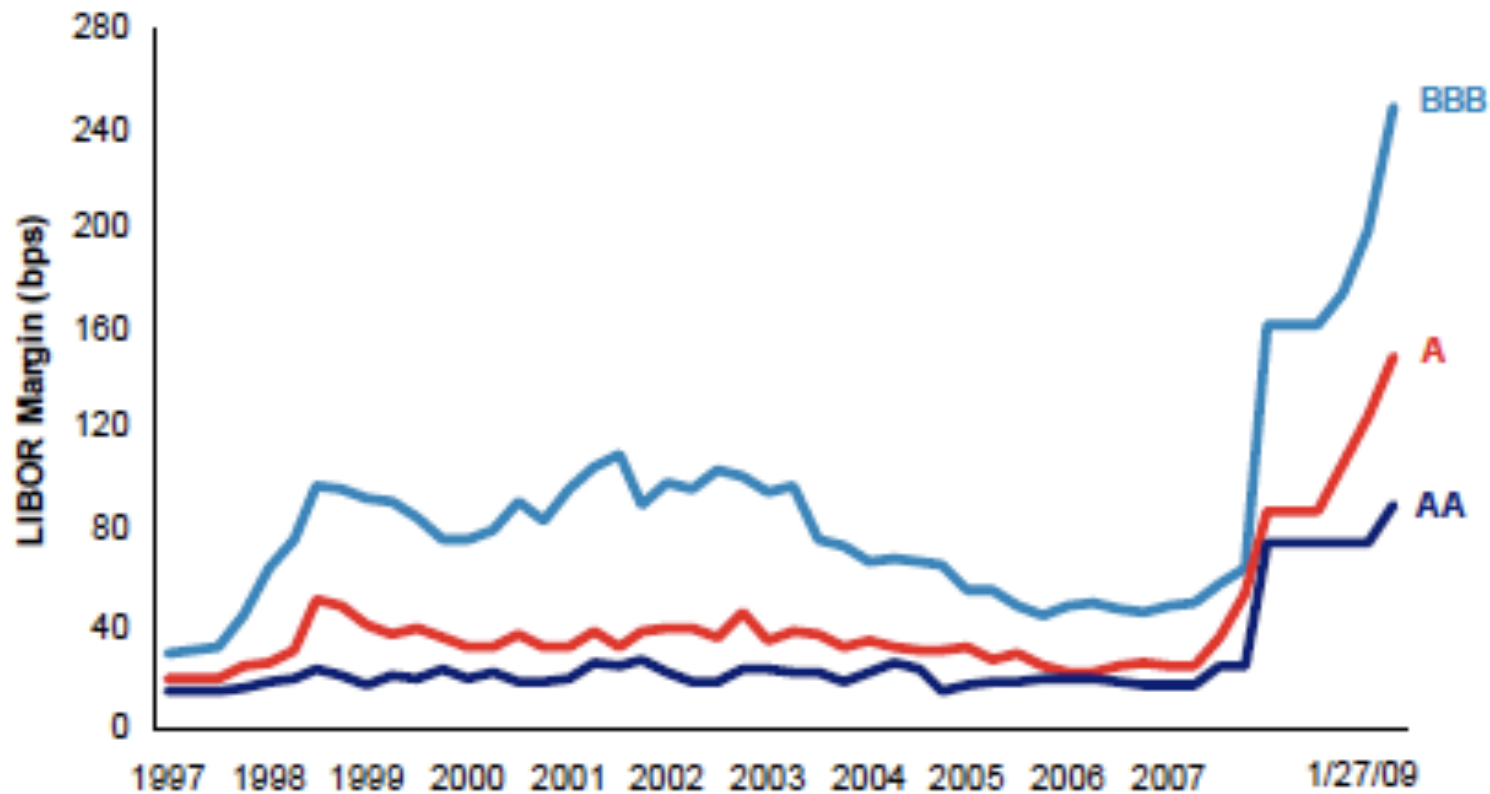
# Public Bond Spreads 11/08/08

- Little life in the market in November 2008
- IGR companies pay huge spreads as bond market struggles

<u>Date</u>	<u>Issuer</u>	<u>Ticker</u>	<u>Industry</u>	<u>Amt</u>	<u>Securities</u>	<u>Maturity</u>	<u>Coupon</u>	<u>Price</u>	<u>Yld</u>	<u>Spr</u>	<u>Mdy</u>	<u>S&amp;P</u>
11/03/08	Virginia Electric Power	D	Utility	\$700.0	Sr Nts	11/15/38	8.875%	99.995	8.875%	496	Baa1	A-
11/03/08	GATX Corp.	GMT	Transportation	\$203.5	Pass-Thru	11/15/13	9.000%	100.000	9.000%	627	A3	A-
10/30/08	Verizon	VZ	Telecom	\$2,000.0	Sr Nts	11/01/18	8.750%	99.438	8.836%	487.5	A3	A
10/30/08	Verizon	VZ	Telecom	\$1,250.0	Sr Nts	03/01/39	8.950%	97.483	9.200%	487.5	A3	A
10/30/08	Estee Lauder Co Inc.	EL	Consumer	\$300.0	Sr Nts	11/1/13	7.750%	99.932	7.767%	500	A2	A
10/30/08	Kimberly-Clark	KMB	Consumer	\$500.0	Sr Nts	11/01/18	7.500%	99.634	7.553%	362.5	A2	A
10/29/08	Coca-Cola Enterprises	CCE	Consumer	\$1,000.0	Sr Nts	03/03/14	7.375%	99.897	7.402%	468	A3	A
10/27/08	3M Corp.	MMM	Industrial	\$800.0	Sr Nts	11/01/11	4.500%	99.830	4.561%	275	Aa1	AA
10/23/08	National Rural Utilities	NRUC	Finance	\$1,000.0	CollTrBds	11/01/18	10.375%	99.237	10.500%	680.1	A1	A+

# Investment Grade Woes: Market Bellwether for Mid-Market as Trends Come Down- Market

Average Quarterly Investment Grade Pricing (Drawn), 1997 – 1/27/09



Source: Reuters LPC



## Some IGR Issuers Pay the Price in the New World

Year	Name	Tranche	Pricing	Rating (Close)	Purp.
2009	Pfizer	\$22.5B bridge	L+250	Aa1/AAA	Acq
2008	Lender Processing	\$510M TLB	L+250	Ba1/BB+	Spinoff
2007	Univision	\$7B TLB	L+225	B1/B	LBO
2007	Clarke American	\$1.8B TLB	L+250	B1/B	Acq
2007	Tropicana Enterta	\$1.53B TL	L+250	Ba3/B+	Acq
1999	Allied Waste	\$1.25B TLB	L+250	Ba3/BB-	Acq
1988	RJR Nabisco	\$6B bridge, \$3.5B TL	L+250	A3/BBB-	LBO

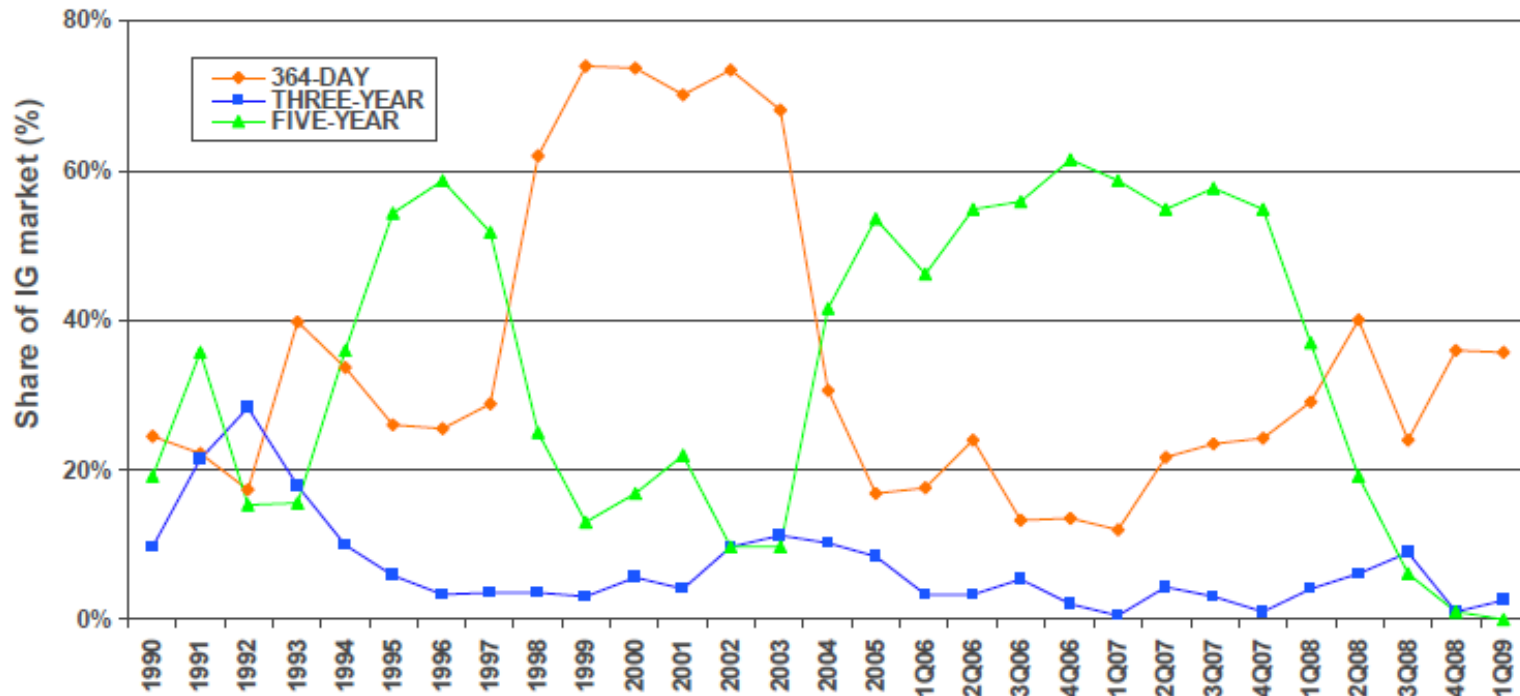
Source: Thomson Reuters LPC



# Back to the Future... the Return of the 364 Day Tranche

(source, Reuters LPC)

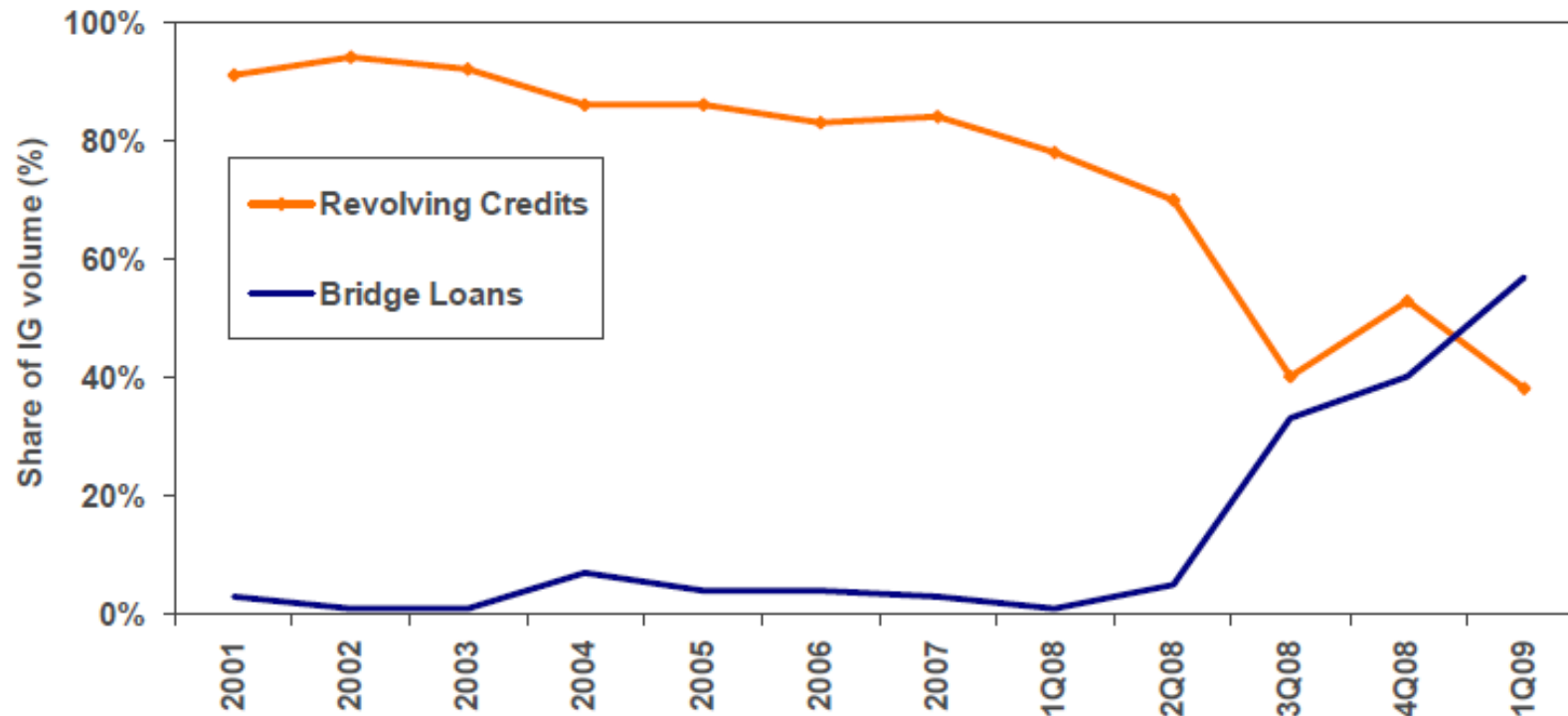
U.S. IG 364-day, 3-year, 5-year RC market share



- Revolvers (364-day,3yr,5yr) market share hits lowest level on record
  - 38-39% of IG market since 3Q08
  - Next lowest: 53% of IG market in 1990

# Bridges to Somewhere? Bridge Loans Succeed Where Revolvers Do Not

Source: ReutersLPC



- Bridge loans made up 33% and 40% of IGR lending in 3Q08 and 4Q08
- In 1Q09, Pfizer took out a \$22.5 billion bridge loan
- BLs made up nearly 60% of IG lending in 1Q09

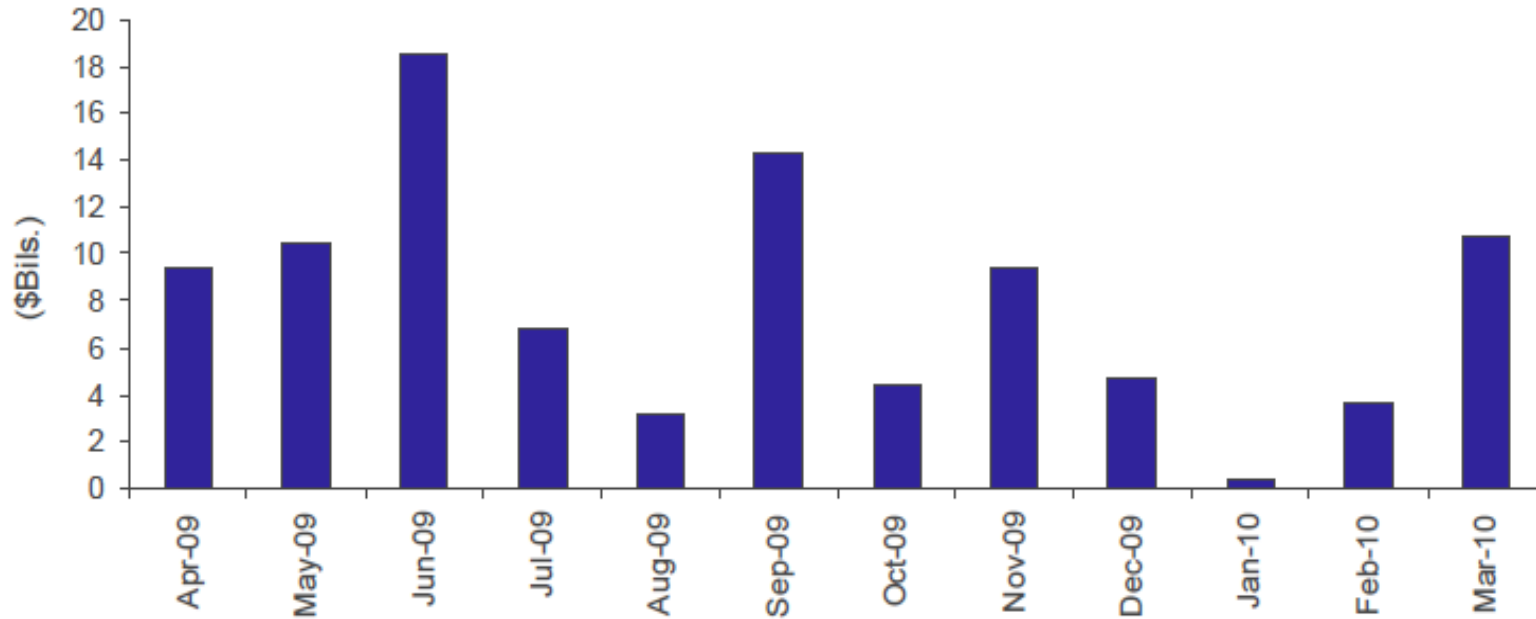
# Bond Spreads 2/28/09: Bond Markets Recovering and Open to All IGR Issuers: Spreads Narrow

## Public Debt Market

Select New Issue:

Date	Issuer	Industry	Amt	Securities	Maturity	Coupon	Price	Yld	Spr	Mdy	S&P
19-Feb-09	Snap-On Inc	Industrial	\$100.0	Sr Nts	03/01/14	5.850%	99.912	5.870%	400	A3	A-
19-Feb-09	Snap-On Inc	Industrial	\$200.0	Sr Nts	03/01/19	6.700%	99.832	6.723%	387.5	A3	A-
18-Feb-09	Roche Holdings	Healthcare	\$3,000.0	Sr FRN	02/25/10	3mL+100	100.000	3mL+100	100	Aa1	AA-
18-Feb-09	Roche Holdings	Healthcare	\$750.0	Sr FRN	02/25/11	3mL+200	100.000	3mL+200	200	Aa1	AA-
18-Feb-09	Roche Holdings	Healthcare	\$2,500.0	Sr Nts	03/01/12	4.500%	99.470	4.690%	335	Aa1	AA-
18-Feb-09	Roche Holdings	Healthcare	\$2,750.0	Sr Nts	03/01/13	5.000%	99.274	5.166%	335	Aa1	AA-
18-Feb-09	Roche Holdings	Healthcare	\$4,500.0	Sr Nts	03/01/19	6.000%	99.428	6.213%	345	Aa1	AA-
18-Feb-09	Roche Holdings	Healthcare	\$2,500.0	Sr Nts	03/01/39	7.000%	97.278	7.223%	365	Aa1	AA-
17-Feb-09	Coca Cola Enterprises	Beverage	\$350.0	Sr Nts	03/01/12	3.750%	99.812	3.816%	258	A3	A
17-Feb-09	Coca Cola Enterprises	Beverage	\$250.0	Sr Nts	03/01/15	4.250%	99.227	4.397%	270	A3	A
17-Feb-09	Union Pacific Corp.	Transportation	\$350.0	Sr Nts	02/15/14	5.125%	99.975	5.131%	345	Baa2	BBB
17-Feb-09	Union Pacific Corp.	Transportation	\$400.0	Sr Nts	02/15/20	6.125%	99.607	6.175%	350	Baa2	BBB
17-Feb-09	Honeywell International	Industrial	\$600.0	Sr Nts	02/15/14	3.875%	99.736	3.934%	225	A2	A
17-Feb-09	Honeywell International	Industrial	\$900.0	Sr Nts	02/15/19	5.000%	99.643	5.046%	237.5	A2	A
12-Feb-09	Cox Communications	Media/Telecom	\$1,250.0	Sr Nts	03/01/39	8.375%	99.613	8.410%	490	Baa3	BBB-
11-Feb-09	Marathon Oil Corp	Energy	\$700.0	Sr Nts	02/15/14	6.500%	99.585	6.559%	487.5	Baa1	BBB+
11-Feb-09	Marathon Oil Corp	Energy	\$800.0	Sr Nts	02/15/19	7.500%	99.296	7.602%	487.5	Baa1	BBB+
10-Feb-09	Paccar Inc.	Finance	\$250.0	Sr Nts	02/15/12	6.375%	99.892	6.415%	500	A1	AA-
10-Feb-09	Paccar Inc.	Finance	\$500.0	Sr Nts	02/15/14	6.875%	99.974	6.881%	500	A1	AA-
9-Feb-09	PepsiAmericas Inc.	Beverage	\$350.0	Sr Nts	02/15/14	4.375%	99.369	4.517%	250	Baa1	A
9-Feb-09	McKesson Corp	Healthcare	\$350.0	Sr Nts	02/15/14	6.500%	99.936	6.515%	450	Baa3	BBB+
9-Feb-09	McKesson Corp	Healthcare	\$350.0	Sr Nts	02/15/19	7.500%	99.659	7.549%	450	Baa3	BBB+

# Refinancing Risk Returns with the 364-Day Facilities



- Nearly \$100 billion in 364-day investment grade facilities are coming due in 2009

# Public Spreads 7/25/09: As Robust Issuance Continues, Spreads Stabilize and Narrow Further

## Public Debt Market

### Select New Issues:

Date	Issuer	Ticker	Industry	Amt	Securities	Maturity	Coupon	Price	Yld	Spr	Mdy	S&P	Call
23-Jul-09	Boeing Co	BA	Industrial	\$750.0	Sr Nts	02/15/15	3.500%	99.157	3.669%	110	A2	A+	MW
23-Jul-09	Boeing Co	BA	Industrial	\$750.0	Sr Nts	02/15/20	4.875%	98.958	5.003%	130	A2	A+	MW
23-Jul-09	Boeing Co	BA	Industrial	\$450.0	Sr Nts	02/15/40	5.875%	97.680	6.042%	145	A2	A+	MW
23-Jul-09	Bank of America Corp.	BAC	Bank	\$2,500.0	Sr Nts	08/01/16	6.500%	99.749	6.545%	330	A2	A	MW
23-Jul-09	BB&T Corp.	BBT	Bank	\$250.0	Sr Nts	07/28/11	3.100%	99.933	3.135%	210	A1	A	NC
23-Jul-09	St. Jude Medical Inc.	STJ	Healthcare	\$700.0	Sr Nts	07/15/14	3.750%	99.849	3.784%	120	Baa1	A	MW+20
23-Jul-09	St. Jude Medical Inc.	STJ	Healthcare	\$500.0	Sr Nts	07/15/19	4.875%	98.730	5.039%	132.5	Baa1	A	MW+25
23-Jul-09	Centrais Electricas Brasileiras S.A.	ELEBRA	Utility	\$1,000.0	Sr Nts	07/30/19	6.875%	99.112	7.000%	336.2	NR	BBB-	MW
23-Jul-09	Korea National Oil Corp.	KOROIL	Energy	\$1,000.0	Sr Nts	07/30/14	5.375%	99.344	5.527%	300	A2	A	MW
23-Jul-09	Dolphin Energy Ltd LLC	DOLNRG	Energy	\$1,250.0	Sr Sec Nts	06/15/19	5.888%	100.000	5.888%	337.5	Aa3	NR	MW+50
22-Jul-09	Empresas Publicas de Medellin	EPM	Utility	\$500.0	Sr Nts	07/29/19	7.625%	98.292	7.875%	432.5	Baa3	BB+	MW
22-Jul-09	BB&T Corp.	BBT	Bank	\$1,000.0	Sr Nts	07/27/12	3.850%	99.961	3.864%	237.5	A1	A	MW
22-Jul-09	GAZ Capital	GAZPRU	Energy	\$1,275.0	Sr Nts	07/31/14	8.125%	100.000	8.125%	573.6	Baa1	BBB	MW
22-Jul-09	Celulosa Arauco	CELARA	Forest Products	\$500.0	Sr Nts	07/29/19	7.250%	98.910	7.406%	387.5	Baa2	BBB	MW+50
22-Jul-09	Heinz (H.J.) Co.	HNZ	Food/AG	\$250.0	Sr Nts	08/01/39	7.125%	99.741	7.146%	270	Baa2	BBB	MW+40
22-Jul-09	GE Capital Corp.	GE	Bank	\$650.0	TLGS Nts	09/28/12	2.000%	99.910	2.030%	56.5	Aaa	AAA	NC
21-Jul-09	Westpac Securities	WNZL	Bank	\$1,000.0	Govt Gty Nts	07/28/14	3.450%	99.782	3.498%	116.8	Aaa	AA+	MW
21-Jul-09	GE Capital Corp.	GE	Bank	\$750.0	TLGS FRN	09/21/12	3mL+0	100.000	3mL+0	0	Aaa	AAA	NC
20-Jul-09	Poland, Republic of (add-on)	POLAND	Sovereign	\$1,500.0	Sr Nts	07/15/19	6.375%	99.786	6.404%	279	A2	A-	MW
20-Jul-09	Bemis Co. Inc.	BMS	Industrial	\$400.0	Sr Nts	8/1/2014	5.650%	99.831	5.689%	325	Baa1	BBB	MW+50
20-Jul-09	Bemis Co. Inc.	BMS	Industrial	\$400.0	Sr Nts	08/01/19	6.800%	99.691	6.843%	325	Baa1	BBB	MW+50
20-Jul-09	Citigroup Inc.	C	Bank	\$2,500.0	Sr Nts	07/15/39	8.125%	97.971	8.310%	380	A3	A	MW
20-Jul-09	Wal-Mart Stores Inc. (add-on)	WMT	Retail	\$500.0	Sr Nts	04/15/38	6.200%	106.001	5.769%	130	Aa2	AA	MW
20-Jul-09	Plains All American Pipeline	PAA	Energy	\$500.0	Sr Nts	09/01/12	4.250%	99.802	4.317%	275	Baa3	BBB-	MW+40
20-Jul-09	TJX Companies Inc	TJX	Retail	\$400.0	Sr Nts	08/15/15	4.200%	99.992	4.201%	170	A3	A	MW+30



## Pricing Falls for IGR and Confidence Builds

- As the foregoing slides demonstrate, the bond market has seen significant spread narrowing from the first of the year
- The senior bank markets follow the public bond markets and we expect IGR pricing to continue to fall, albeit in still-choppy waters as banks review each story and evaluate exposure carefully
- For IGR bank deals, the story is becoming more about return than capacity



## Market Dynamics Stabilize and Begin to Favor Borrowers in late Q2

- Market tone is improving: although published grids reflect the high end, deals are beginning to price based on the CDX index (106 bps at 8/10/09)
- ThomsonReuters reports pricing averages are headed downwards, based on 16 deals in various segments in June
- Spreads for new capital raising also vary from existing deals
- Each situation is still to some extent a bank-by bank negotiation
- Funds and other lender capacity has shrunk significantly



# Current Events and Trends to Follow

- Default rates: August 20, 2009: Moody's announces it believes default rates will NOT go as high as previously predicted (15%). Moody's cites the re-opening of the high yield bond market as a positive factor
- Bond Market trends: Capacity is still good
- Does success in IGR really translate to other markets? High Yield Market re-opens with \$71B issuance YTD, a causative factor for the Moody's prediction regarding defaults
- Private Placements: will investors go for a broader swath of credit profiles? Still to be seen
- We begin to see 3 year revolvers,
- Amend and Extend
- Some banks have repaid TARP funds
- Regulatory issues remain hanging over the heads of banks, especially those with TARP funds
- Credit underwriting is still paramount, but
  - *We have heard our first comments from banks looking ahead to create earnings for 2010, if not 2009*





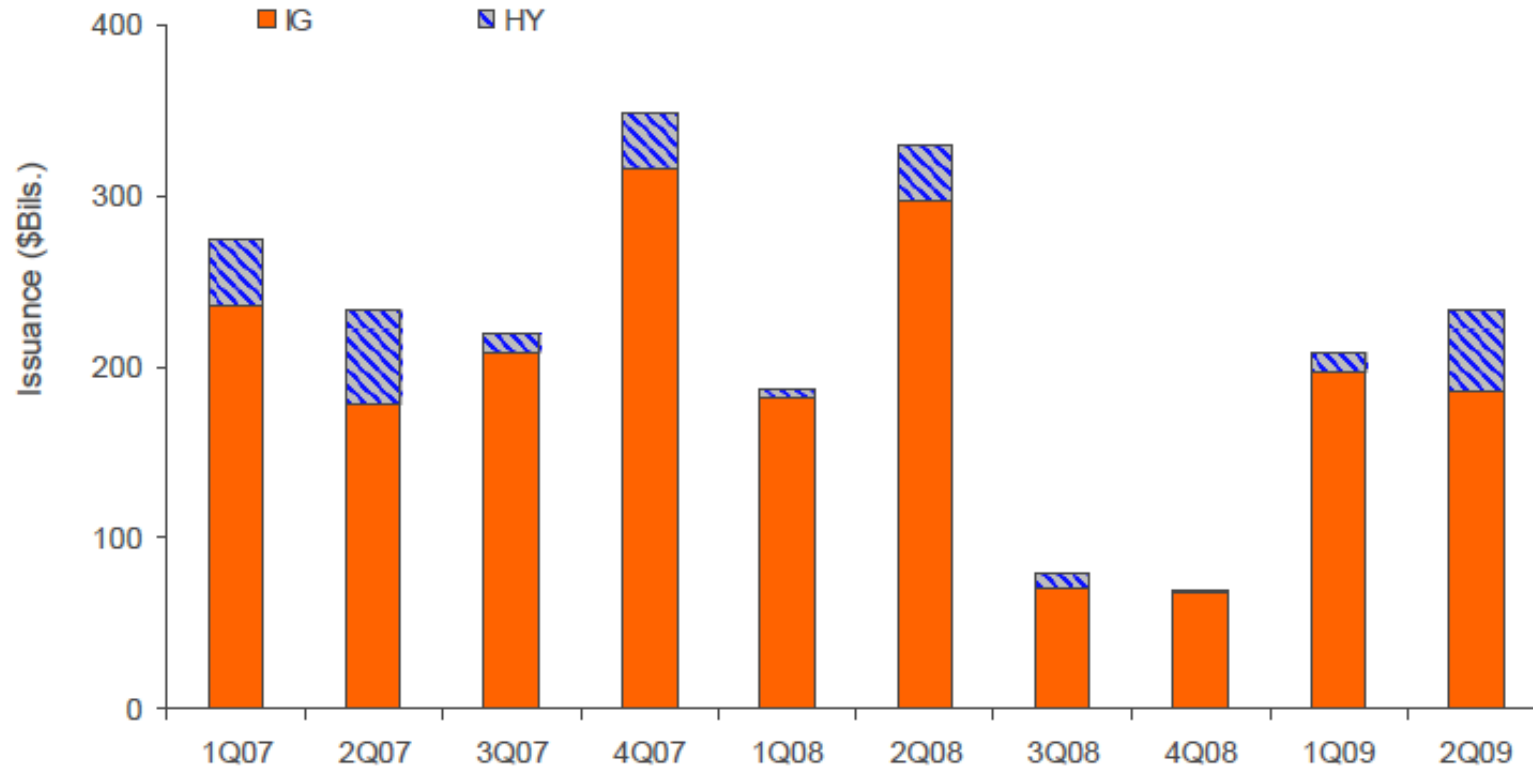
## Capital Markets Alternatives: Creativity is Back

- Bond versus convert spreads can be competitive
- We see clients considering new alternatives: convert, debt exchanges, equity as various markets show pockets of capacity and tolerance



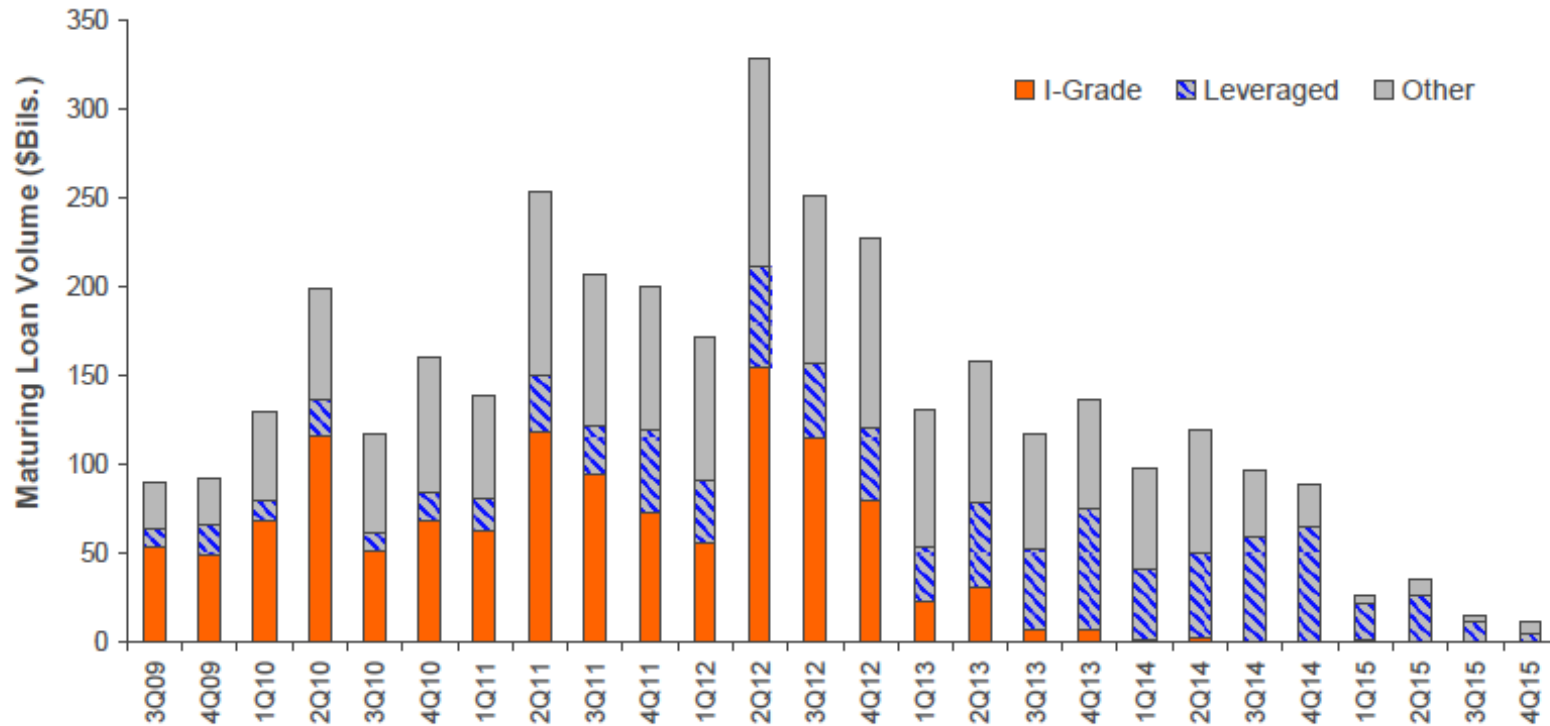
# Corporate Bond Issuance Rebounds

(source: *ThomsonReuters*)



# Corporates Face Mountain of Maturities

Maturing U.S. loan volume remains a big concern

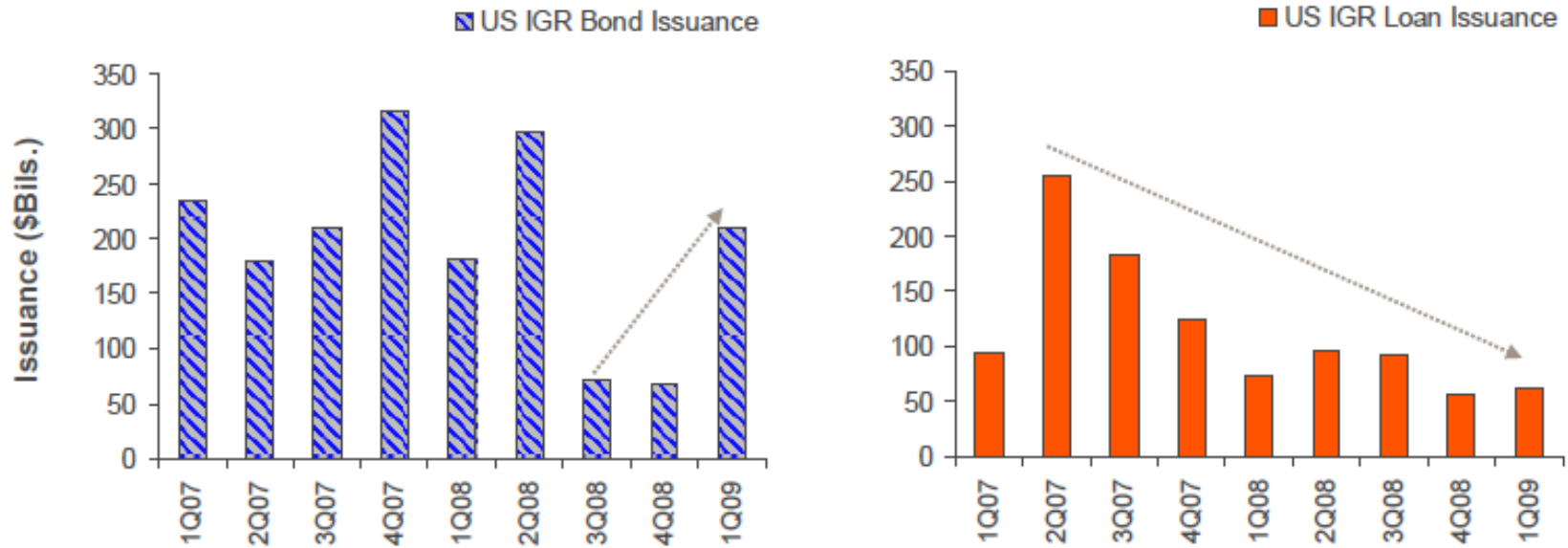




# For Investment Grade, a Return to the Bond Market to Reduce Reliance on Banks

Source: ReutersLPC

IGR Loan vs. Bond issuance



Public Bond Spreads 8/21/09: This week sees the first below-100bps spread for an IGR Issuer since 10/07. Spreads are improving but it is still case-by-case (source: USBank Capital Markets)

Public Debt Market

Select New Issues:

Date	Issuer	Ticker	Industry	Amt	Securities	Maturity	Coupon	Price	Yld	Spr	Mdy	S&P
26-Jun-09	Campbell Soup Co.	CPB	Food/AG	\$300.0	Sr Nts	06/15/14	3.375%	99.944	3.386%	87.5	A2	A
25-Jun-09	Smithfield Foods, Inc.	SFD	Food	\$625.0	Sr Sec Nts	15-Jul-14	10.000%	96.201	11.000%	841	Ba3	BB
25-Jun-09	Torchmark Corp.	TMK	Insurance	\$300.0	Sr Nts	06/15/19	9.250%	100.000	9.250%	571.6	Baa1	A
25-Jun-09	Analog Devices Inc.	ADI	Technology	\$375.0	Sr Nts	07/01/14	5.000%	99.576	5.097%	250	A3	BBB+
24-Jun-09	Belden Inc.	BDC	Industrial	\$200.0	Sr Sub Nts	15-Jun-19	9.250%	96.866	9.750%	606	Ba2	B+
24-Jun-09	Time Warner Cable	TWC	Media/Telecom	\$1,500.0	Sr Nts	06/15/39	6.750%	97.131	6.980%	260	Baa2	BBB
23-Jun-09	Virginia Electric Power	D	Utility	\$350.0	Sr Nts	06/30/19	5.000%	99.805	5.025%	137.5	Baa1	A-
22-Jun-09	Merck & Co	MRK	Healthcare	\$1,250.0	Sr Nts	06/30/11	1.875%	99.976	1.887%	75	Aa3	AA-
22-Jun-09	Merck & Co	MRK	Healthcare	\$1,000.0	Sr Nts	06/30/15	4.000%	99.598	4.076%	137.5	Aa3	AA-
22-Jun-09	Merck & Co	MRK	Healthcare	\$1,250.0	Sr Nts	06/30/19	5.000%	99.802	5.081%	140	Aa3	AA-
22-Jun-09	Merck & Co	MRK	Healthcare	\$1,000.0	Sr Nts	06/30/36	5.850%	99.802	5.864%	145	Aa3	AA-
19-Jun-09	Magellan Midstream Ptnrs	MMP	Energy	\$300.0	Sr Nts	07/15/19	6.550%	99.653	6.597%	280	Baa2	BBB
19-Jun-09	General Dynamics	GD	Industrial	\$750.0	Sr Nts	07/15/11	1.800%	99.554	2.022%	80	A2	A
18-Jun-09	Quicksilver Resources	KWK	Energy	\$600.0	Sr Nts	1-Jan-16	11.750%	97.717	12.500%	916	B2	B-
18-Jun-09	Lorillard Tobacco	LO	Tobacco	\$750.0	Sr Nts	06/23/19	8.125%	100.000	8.125%	428.9	Baa2	BBB-
16-Jun-09	Pacific Life Insurance Company	PACLIF	Insurance	\$1,000.0	Surplus Nts	06/15/39	9.250%	99.952	9.255%	475	A3	A
16-Jun-09	Valspar Corp.	VAL	Chemical	\$300.0	Sr Nts	06/15/19	7.250%	99.574	7.311%	362.5	Baa2	BBB
15-Jun-09	Comcast Corp.	CMCSA	Media/Telecom	\$700.0	Sr Nts	07/01/19	5.700%	99.763	5.731%	200	Baa1	BBB+
15-Jun-09	Comcast Corp.	CMCSA	Media/Telecom	\$800.0	Sr Nts	07/01/39	6.550%	99.502	6.588%	200	Baa1	BBB+

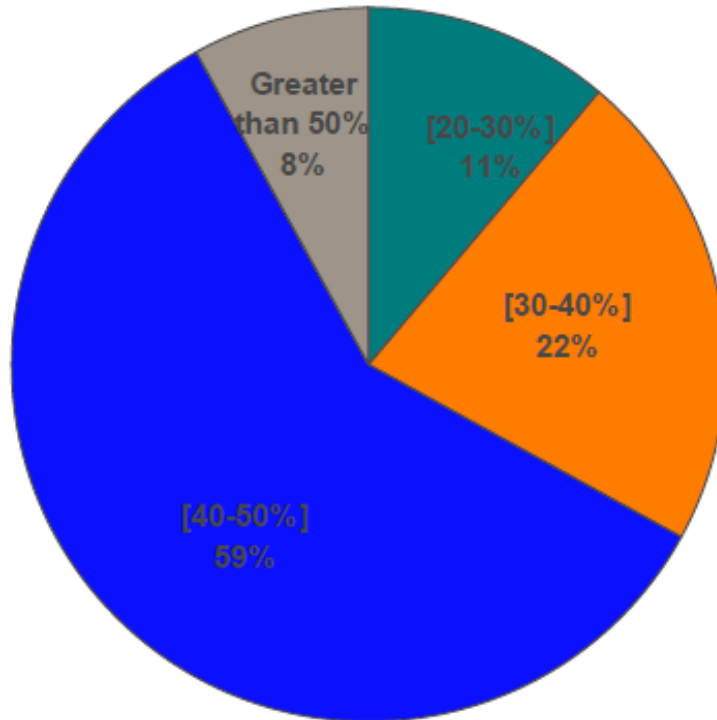
**Market Commentary:** Almost \$47 billion priced in the high-grade market in the last two weeks, with about half coming from gov't gtd and sovereign deals. The total for the first half of the year is just over \$700 billion. We are starting to see mixed performance on new issue deals. Some deals have been coming with a large concession to outstandings, pricing wide to whisper levels and not performing well in secondary. Others are performing just the opposite. For example, Campbell Soup (A2/A) printed \$300mm of a 5yr at +87.5, the first double digit 5-yr we have seen since Oct. 2007. This was inside of where their outstandings were trading and the bond still traded tighter post pricing. Secondary spreads did not do much over the two weeks, finishing off at +333, just 5bps tighter. The high yield market remains busy. Despite some softness in the secondary market, a mix of credits have come to market and for the most part are performing well. Secondary spreads were 68bps wider, finishing off the week at +1109.



# Lenders Want More Equity, Again

(source: ThomsonReuters)

Min. acceptable equity contributions

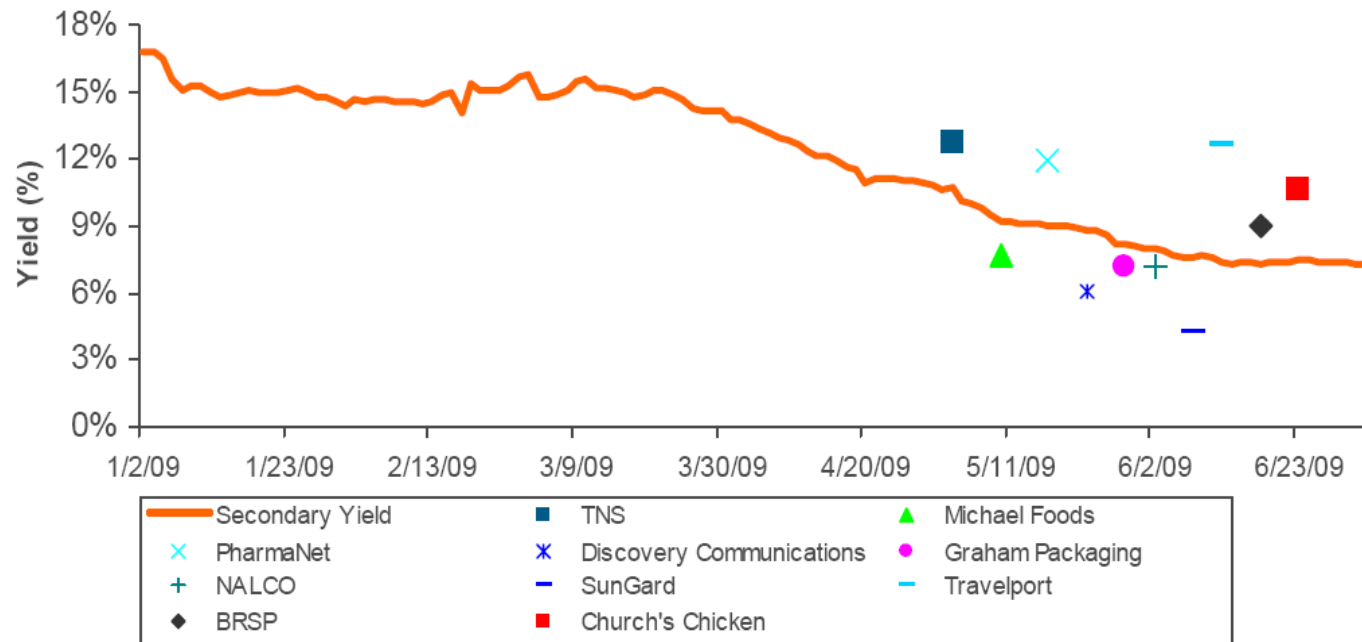


Share of lenders who prefer equity contributions of at least >40%

- 2002 – 16%
- 2007 – None
- 2Q09 – 67%

# Pricing - a Difficult Task in Today's Market

A look at yields on recent deals





# Pricing Snapshot in the US Loan Market

Borrower name	S&P	Moody's	Drawn spread is tied to:	Floor	Cap	CDS/CDX (07/07/09 intraday)	CDS/CDX (near close)	Deal Close
Halliburton	A	A2	One year CDS	125	500	37.04	50.20	10/10/2008
Praxair	A	A2	One year CDS + 25 bps (floor/cap tied to ratings)	25	75	61.33	51.75	10/31/2008
United HealthCare	A-	Baa1	One year CDS	75	200	145.54	168.40	11/7/2008
Transocean	BBB+	Baa2	One Year CDS mid-rate (floor/cap tied to ratings)	125	250	73.42	177.90	11/25/2008
Boeing	A+	A2	One Year CDS mid-rate (floor/cap tied to ratings)	35	150	97.82	230.20	12/4/2008
United Parcel Services	AA-	Aa2	One year CDS	NA	NA	31.08	131.37	12/15/2008
Oracle	A	A2	30 day moving average of one-year CDS mid-rate	50	200	35.93	92.21	3/1/2009
Deere & Co	A	A2	One year CDS	85	235	68.45	151.79	3/3/2009
Toyota Motor Credit	AA+	Aa1	One year CDS	100	400	185.10	390.30	3/6/2009
Baker Hughes	A	A2	One year CDS	NA	NA	32.27	79.96	3/30/2009
Hewlett-Packard	A	A2	One year CDS	50	200	33.56	46.67	3/31/2009
Verizon Communications	A	A2	One year CDS	75	200	38.28	49.28	4/15/2009
HJ Heinz	BBB	Baa2	One year CDS	200	400	24.76	38.85	4/29/2009
HJ Heinz	BBB	Baa2	Three year CDS	200	400	40.20	55.61	4/29/2009
Bunge Limited Finance	NR	Baa2	CDX.NA.IG series 12 five year	250	NA	141.94	123.96	6/3/2009
Automatic Data Processing	AAA		50% of CDX.NA.IG series 12 5-yr 30 day avg.	35	NA	141.94	140.71	6/24/2009

Note: Data shown in bps.

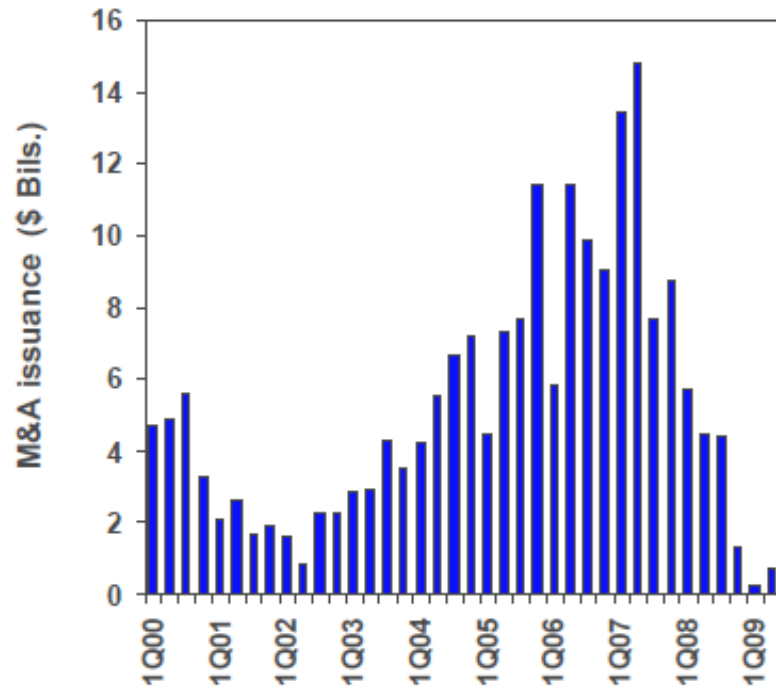




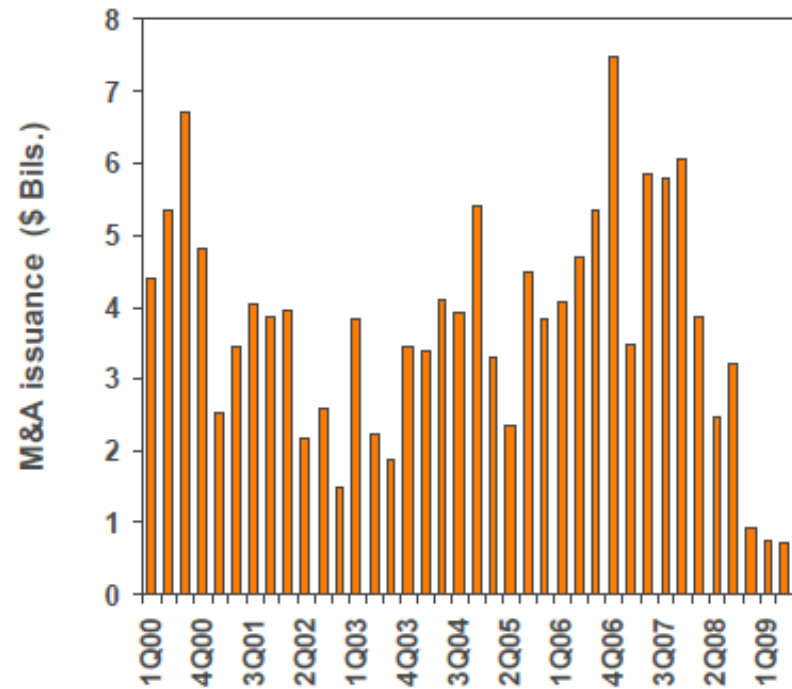
# M&A Issuance at Historic Lows Source:

*ThomsonReuters)*

### Sponsored M&A Issuance



### Non-Sponsored M&A Issuance





# Middle Market Pricing Through the Roof

- Pricing continues to reflect yield concerns and capacity constraints
- Comfort with recovery tends to lag
- More structure, not easily relinquished
- Spreads at high levels and returns still paramount



## Market Tone improving for Some Credit Profiles: Amendments Attract New Money

- **New deal for Cedar Fair (BB) (5 bps amendment fee) utilizes amend and extend**
- Secondary market spreads continue to tighten
- A few deals begin to show lighter margins
- LIBOR floors are backfiring on companies, as they hit the floor and are stuck there

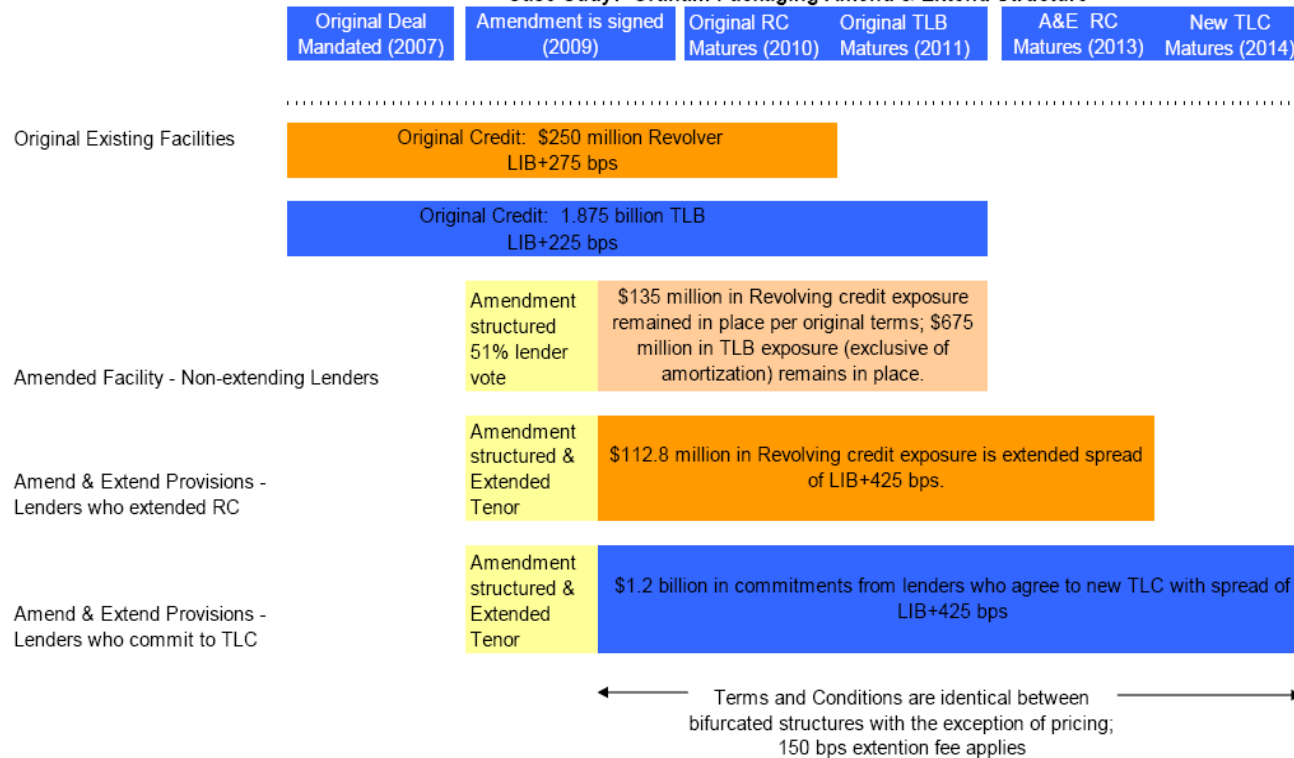


# Impact of Market Dynamics on Terms, Pricing, and other Elements

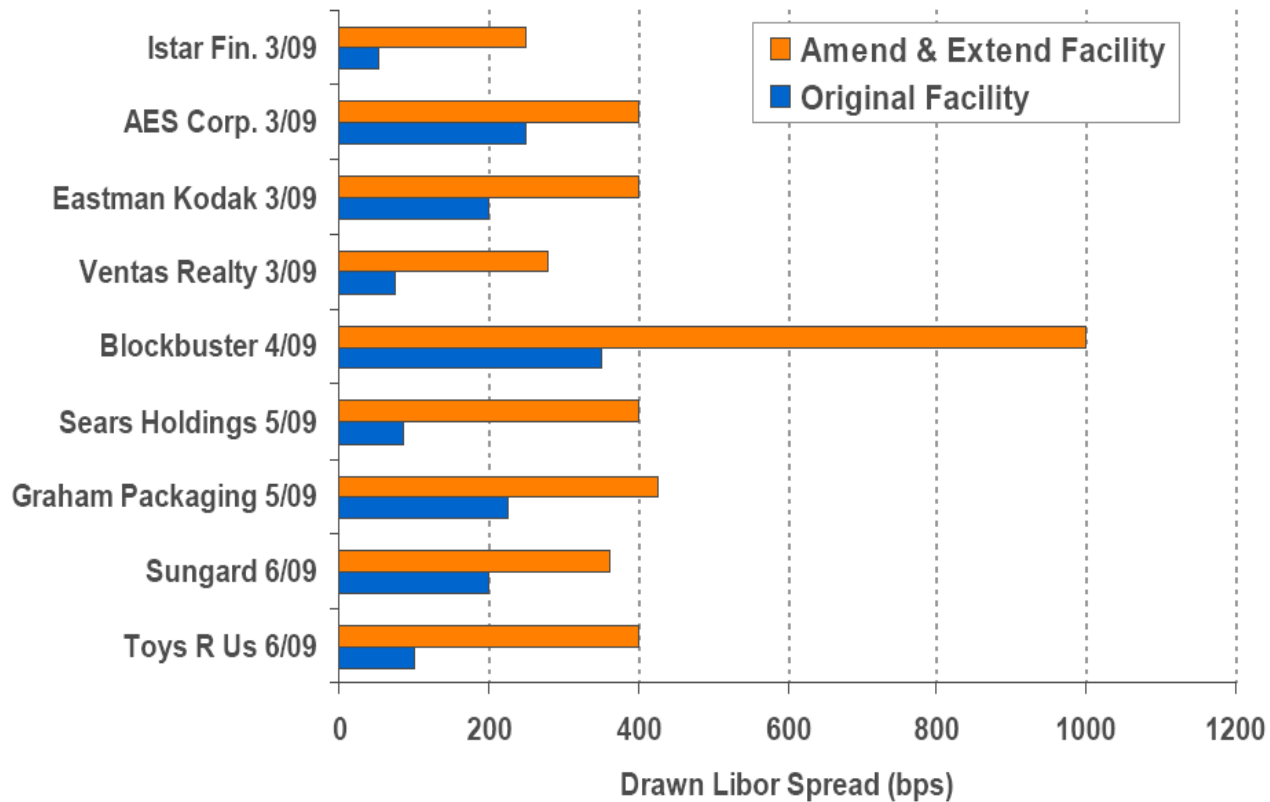
- Then
  - Amendments
  - Increases
  - Extensions
  - Covenants
- Now
  - Amendments
  - Increases (*What Increases?!*)
  - Extensions
  - Covenants

# The New Deal: Amend and Extend - An Example

## Case Study: Graham Packaging Amend & Extend Structure



# Spreads Skyrocket on Amend and Extend



# Recent Amend and Extend Transactions

SELECT AMEND & EXTEND TRANSACTION DETAILS								
Company	Deal Close	Amount Extended	Revolver Commitment	Covenants & Structure	Original Maturity	Extended Maturity	Old Pricing	New Pricing
Toys R Us	6/19/2009	RC: \$1.53BN out of \$2.0BN	RC commitment increased, \$517MM non-extended	\$150MM FILO tranche eliminated, 100% ABL	Jul-2010	May-2012	L+175	L+400, 1.5% Libor Floor
Sungard	6/11/2009	TL: \$2.7BN out of \$4.4BN RC: \$580MM out of \$1.0BN	RC is reduced to \$829MM from \$1.0BN	Amended covenants, acquisition basket increased	TL: Feb-2014 RC: Aug-2011	TL: Feb-2016 RC: May 2013	L+200 TLB	L+362.5 TLB
Rockwood Specialties	6/15/2009	TL-E: \$940MM out of \$1.14BN TL-G: \$275MM out of \$326MM	RC to be extended from 7/2010 to 7/2012. Details TBD	Amended covenants	TLE & TLG July 2012	May-2014	L+200 (TLE) L+275 (TLG)	L+425 (TLE) L+450 (TLG) 2% Libor Floor
International Game Technology	6/8/2009	RC: \$1.67BN out of \$2.5BN	RC is reduced to \$2.075BN from \$2.5BN	Amended covenants	Dec-2010	Jun-2012	L+37.5	L+260
Graham Packaging	5/28/2009	TL: \$1.2BN out of \$1.875BN RC: \$113MM out of \$250MM	-	Amended covenants	Oct. 2011 (TL) Oct. 2010 (Revolver)	Apr-2014 (TL) Oct-2013 (Revolver)	L+225 (TL), L+275 (RC)	L+425, 2.5% Libor Floor
CSC Holdings	5/27/2009	TL: \$1.17BN out of \$3.5BN	Option to extend RC exists	Modify certain definitions and provisions	Mar-2013	Mar-2016	L+175	L+325
Sears	5/21/2009	RC: \$2.44BN out of \$4.0BN	RC increased to \$4.1BN from \$4.0BN	-	Mar-2010	Jun-2012	L+87.5	L+400, 1.75% Libor Floor
Wynn Las Vegas	4/17/2009	RC: \$610MM out of \$1.0BN	RC reduced from \$1.0BN to \$697MM	Waived through 2011 and loosened thereafter	Aug-2011	Jul-2013	L+162.5	L+300
Blockbuster	4/2/2009	RC: \$250MM out of \$500MM	-	Amended covenants	Aug-2009	Sep-2010	L+350	L+1000, 3.5% Libor floor
Eastman Kodak	3/31/2009	RC: \$500MM out of \$1.0BN	-	Converted from cash flow to ABL, amended covenants	Oct-2010	Mar-2012	L+200	L+400

• Of the select deals shown, on average, 60% of the original total commitment was extended



- 6 out of the 10 deals also amended covenants
- 3 deals reduced original commitment by 15-30%



## Financing Considerations Today

- Then: Impact of the credit crunch outside of the broadly syndicated transactions has been less severe
  - Now: affects all market participants
- “Club” loan syndications among core relationship lenders have been less vulnerable, depending on lender institutional issues
  - Intense scrutiny on covenants, terms, pricing
  - Capital “tax” in Q1 2008
- The risks:
  - Greater risk of “surprises” in the credit approval process as institutions feel impact of conditions in the broader market
  - Continued disarray in the capital markets stretches capacity at bank lending institutions
  - Economy weakens and credit portfolio performance suffers—leading to lower bank lending appetite
  - How quickly credit departments relax dependent on earnings performance





# Advice for Treasury Professionals

- Risk Management: within the bank group
- Diversify providers
- Do not take relationships for granted
- Expect to pay more for less
- Pay attention to fair allocation of fees and other services



# Unsecured to Secured: A Tale of Two Credits

- AGYS credit facility migration
  - 2008
    - \$200M unsecured revolver
    - Issue:
      - Untimely 10-K & 10-Q filings
        - →Suspension of borrowings
    - Alternatives:
      - Restructure current facility
      - Terminate & re-negotiate
  - 2009
    - \$50M secured ABL w/\$25M accordion



# Unsecured to Secured: bring your checklists... and calculators

- Secured facility
  - Banker's aspect:
    - Repayment of loan through collateral vs. cashflow
    - Acts as 1<sup>st</sup> position lienholder on domestic assets
    - Strong focus on monitoring asset base
  - Corporate's aspect:
    - Holy reporting Batman!



## Unsecured to Secured: key definitions

- Key definitions of an ABL facility
  - Dominion account:
    - Special account in which bank has exclusive control for withdrawal purposes
  - Dominion trigger period:
    - Event of default occurs or
    - Low availability
  - Financial covenant trigger period:
    - Event of default occurs or
    - Low availability



# Unsecured to Secured: collateral administration

- **Borrowing base certificate (What is available to borrow?)**
  - Due 15<sup>th</sup> day of each month based on prior month actuals
  - Lesser of 85% eligible A/R or \$50M
  - A/R ineligible:
    - > 90 days past invoice date
    - Customers outside the US & Canada
    - Federal, state and school customers
    - Insolvent customers
    - Deferred revenue, progress payments, etc.
    - >50% of customer's balance must be eligible, if not other portion is ineligible
    - Offsetting payable from vendor/supplier
    - Customers with extended terms
    - Credits > 90 days



# Unsecured to Secured: affirmative covenants and collection control

- Unsecured (cashflow)
  - Reporting
  - No security interests
  - No changes to current bank account structure
  - Right to audit; however not scheduled audits
- Secured (assets)
  - Extended Reporting
  - Security interests in all bank accounts, intangibles, inventory, equipment, investment property
  - All deposit accounts must ZBA to dominion account. No wire or ACH capability out of deposit accounts. Accounts held at other institutions must enter deposit control agreement governed by dominion trigger period.
  - Audits 2-4x per year at borrower's expense



# Unsecured to Secured: negative covenants

## ○ Unsecured (cashflow)

- Capital expenditures
- Dividend compliance: Prior to and after capital distribution company must be in full loan compliance
- Asset disposition: No cap as long as no event of default has occurred
- Acquisitions: Cap based on leverage ratio or rating for each specific acquisition

## ○ Secured (assets)

- Reduction of Capital expenditures
- Dividend compliance: Prior to and after capital distribution company must have availability as well as comply with a fcc ratio; dividend cap
- Asset disposition: Cap if loans are drawn/undrawn
- Acquisitions: Reduced cap during term of facility with fcc of ratio compliance and availability



# Unsecured to Secured: fees

- Unsecured (cashflow)
  - Facility fee
- Secured (assets)
  - Facility fee
  - Unused line fee
  - Audit fee
  - Appraisal fees





# Key Success Factors for compliance

- Prepare a succinct reference guide
- Identify reporting due dates
- Accountability and ownership within functional areas
  - Legal
    - Entity changes
  - Financial planning & analysis
    - Accurate forecasts-real time
  - Business leaders
    - Unusual transactions effecting AR eligibles
- Constant projection of covenants
- Open lines of communication with your bank



# The New World of Amendments

- Then and Now:
  - Pricing
  - Fees
  - Boilerplate
  - Baskets



## New Boilerplate Provisions in Loan Agreements

- “LIBOR Market Disruption Provision” added to insure that interest rates would be adjusted in the event that the lender’s cost of funds exceed LIBOR.
- “LIBOR Floor” or similar provision added to insure that base rates were not lower than LIBOR.
- Issuing loans at Original Issue Discount or shortening interest periods (limiting to 30-day LIBOR).
- Defaulting Lender or Non-Funding Lender Provision added to protect performing lenders against non-performing lenders (due to bank failures).
- Provision added specifically limiting the ability of the Borrower to repurchase its own debt from lenders.



# The Wild World of Workout

- What if you need more? Repeated covenant breaches or material covenant breaches.
- How do you approach your lenders? Goal is to avoid going into lenders' workout groups.
  - Be proactive - Much better if the lenders learn of the default from you.
  - Maintain your credibility. Be trustworthy, open and honest.
  - Be cooperative. Offer more reporting, more collateral, hiring of experts, etc.
- Be prepared to grovel rather than to take a tough negotiating stance.



# The Wild World of Workout

- **Workout Process**
  - Each situation is unique, depending on the nature of the defaults and the reason for the deterioration of borrower's business.
  - Lenders' goal is to increase the likelihood of voluntary repayment and to improve lenders' ability to enforce rights and remedies to result in ultimate recovery.
  - Meetings and communication among borrower and lenders are essential.
  - Borrower's ability to master timely and accurate financial and collateral reporting and forecasting is important.



# The Wild World of Workout

- Typical Workout Documentation
  - “Notice of Default” and “Reservation of Rights” letters
  - Other types of “Pre-workout Agreements”
  - Forbearance Agreement
  - Amendment or Workout Agreement



# The Wild World of Workout

- Negotiate other options if possible
  - Bankruptcy (perhaps a prepackaged bankruptcy, if secured lenders are cooperative)
  - Sale of equity or assets
  - Sale to secured lenders
  - Refinancing with different lenders
  - Pledge additional collateral or guaranties

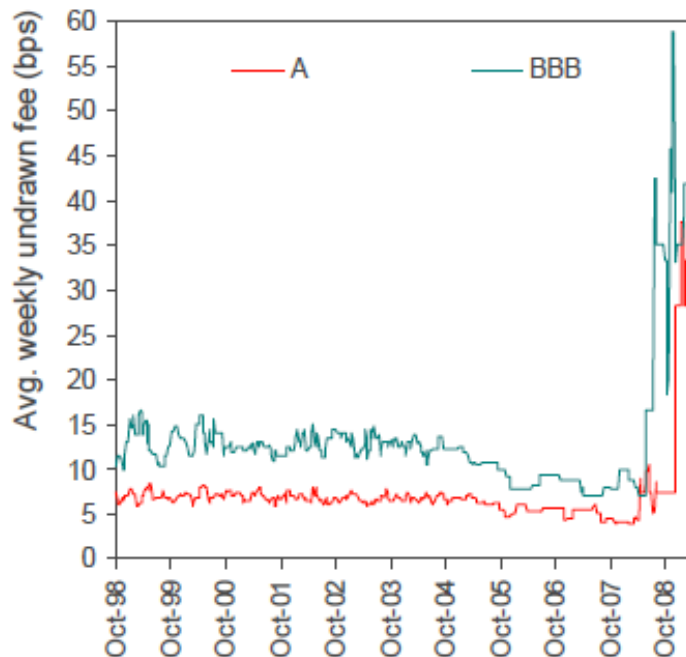


# Appendices

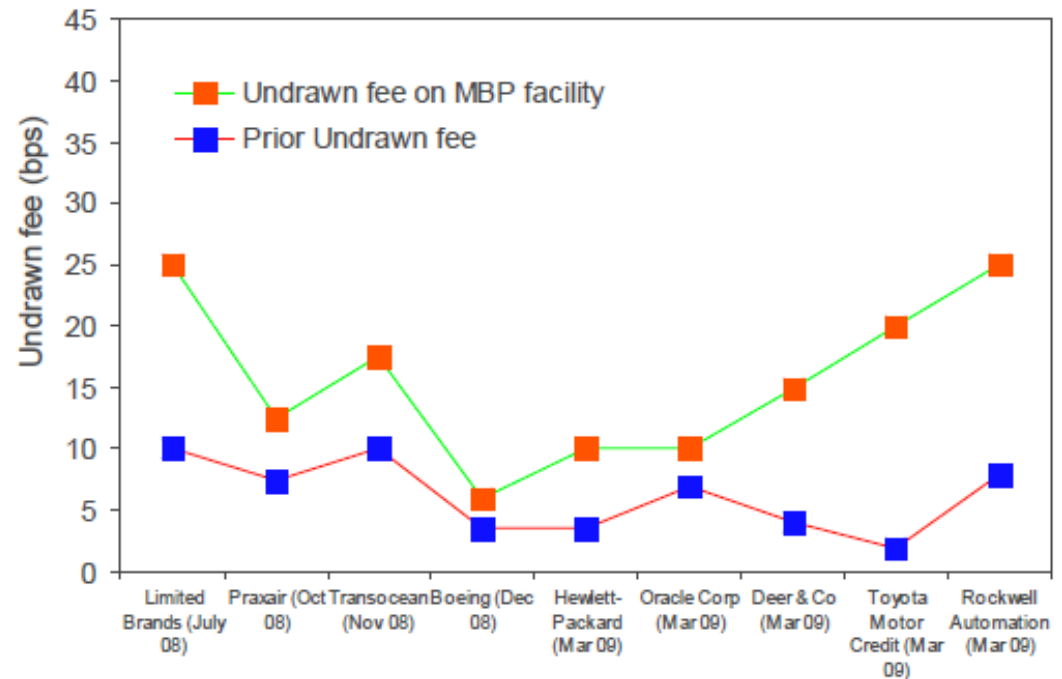


# Undrawn Pricing Marks to Market as Well

Avg. undrawn fees – 364-days



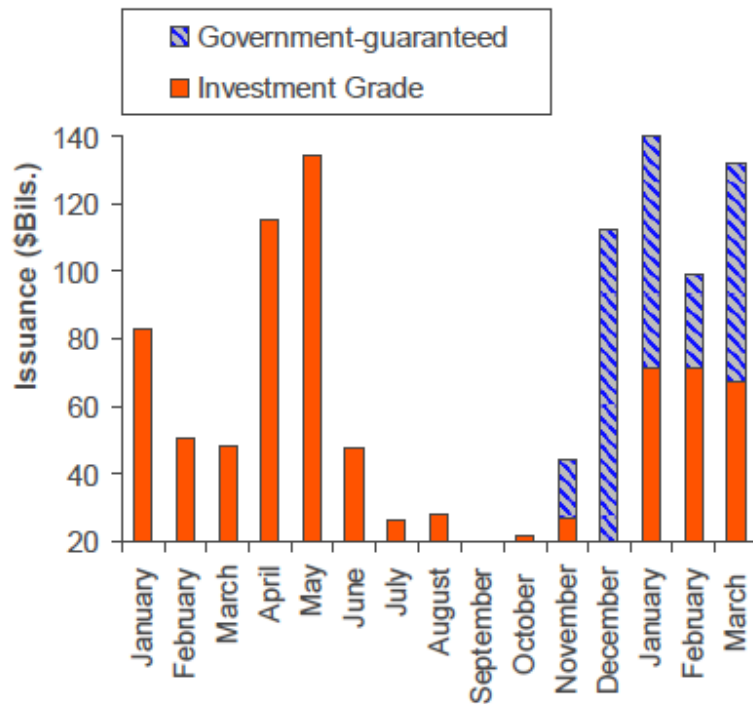
Undrawn fees – Facilities with MBP



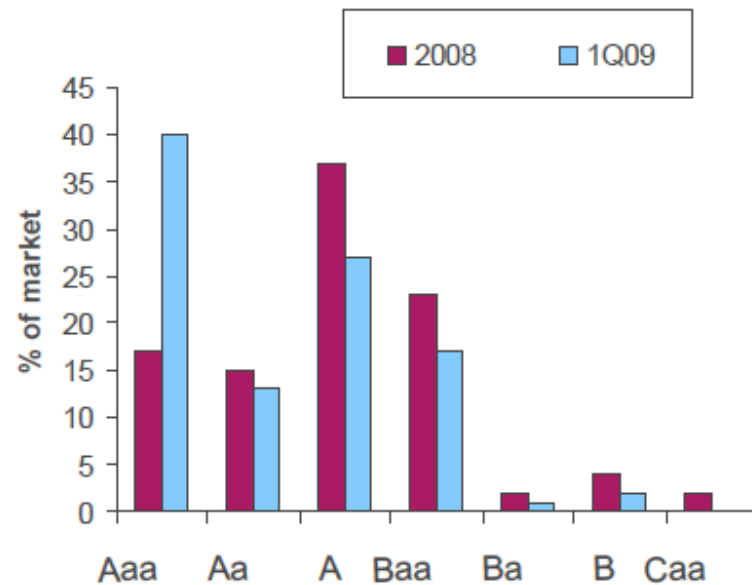
- Undrawn fees reach 10+ year highs

# Investment Grade Bonds are the Bright Spot

Bond issuance 2008-2009



Bond issuance by rating

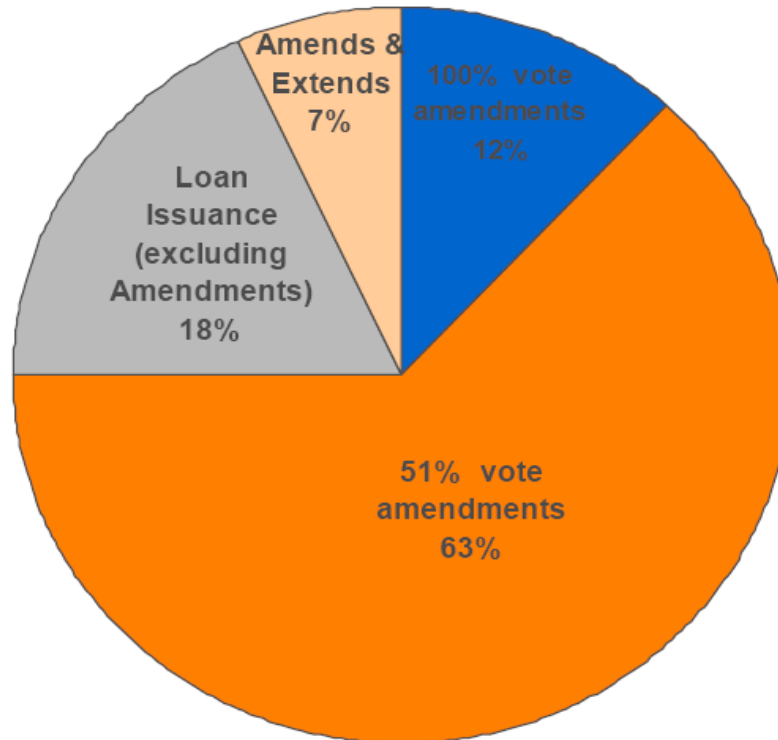


Source: Thomson Reuters Fixed Income Data/EJV, Thomson Reuters LPC

# Amendments Take Center Stage in 2009 First Half

(source: ThomsonReuters)

Beginning in Q2 09, banks begin to extend maturity for select situations

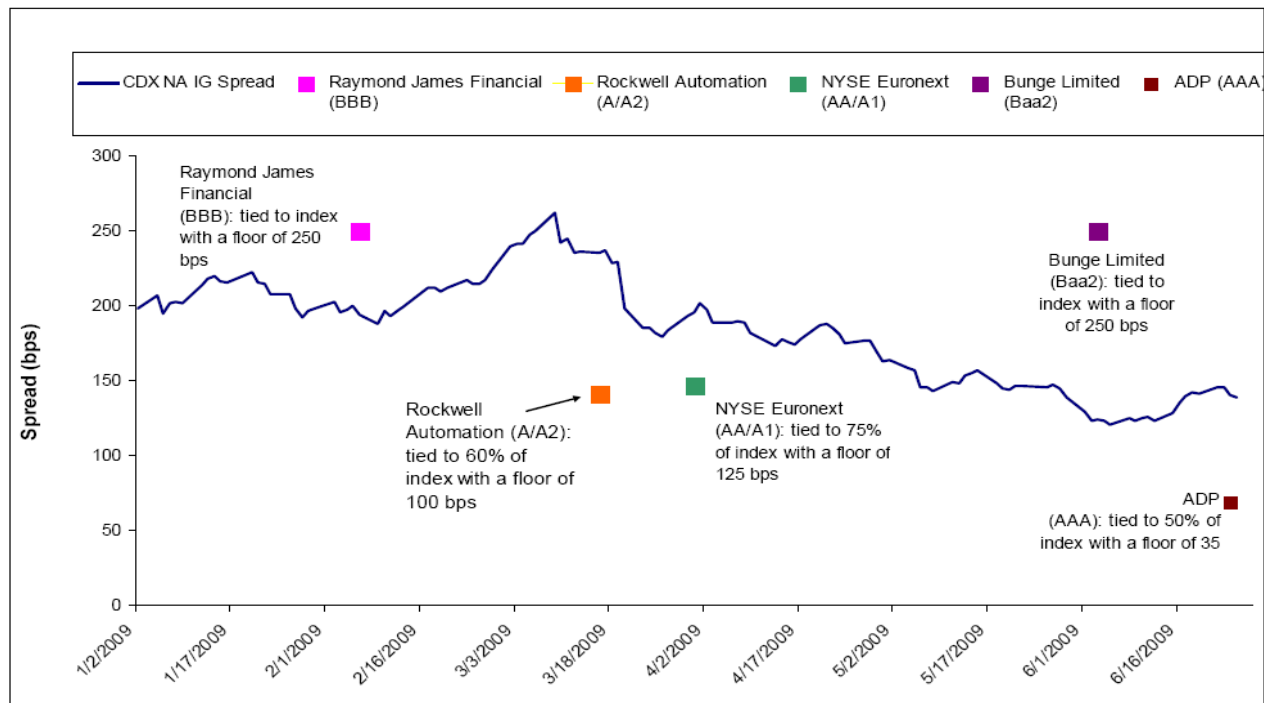




# Market Based Pricing Trends

Source: Thomson Reuters

## CDX NA IG spread tightens



Note:

\* Raymond and Bunge's floors are higher than the index at time of close.

\* Rockwell and NYSE are tied to a certain % of index and are higher than floors. The scatter plots indicate the index value multiplied by such %.



# More Comps

**Noteworthy Deal:**  
**Whirlpool Corp**  
BBB-/Baa3

Whirlpool Corp. has just wrapped an "amend and extend" of a portion of its \$2.2 billion revolver maturing 12/2010, in the process reducing the overall facility size to \$1.9 Billion. \$522 million will remain in the original tranche, which was re-priced last March at 50 bps undrawn and L+ 300 bps first-dollar drawn (with a 100 bps utilization fee for usage above 50%). The new 3-year, \$1.35B tranche is priced at 62.5 bps undrawn and L+350 bps first dollar/400 bps fully drawn. Extending lenders were offered an extension fee and a 20% commitment reduction. The Company also received covenant relief, with the extension of a scheduled leverage covenant step-down and the loosening of an interest coverage test.



# More Comps

**Noteworthy Deal:**  
**Jarden Corp.**  
Corporate Credit - B+/B1

An amend-to-extend transaction for this consumer products company seeks to permit a new \$600 million TLB to mature Jan 2015 ("B-4"). The new TL will be priced at L+325 bps; the up-front (OID) has not been released. The loan will be extended from among a series of 3 existing term loans totaling \$1.4B and all maturing in January 2012. Two of these loans (B-1 and B-2) are priced at L+175 bps and one at L+250 bps (B-3). Several tweaks to the initial offer have helped win investor approval: First, the amendment fee paid to consenting lenders will be 15 bps, rather than the 5 bps initially offered. Second, the issuer initially tried to have most of the extended tranche composed of commitments from the higher priced B-3 tranche. Now 2/3's of the allocations will come from the lower priced loans.