Automotive Supplier Liquidity: Challenges & Strategies

February 27, 2009

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Foley & Lardner Overview

- More than 1,000 attorneys in U.S. and foreign offices (Brussels, Shanghai and Tokyo)
- Nearly 400 attorneys have been awarded Martindale-Hubbell's highest rating
- 15 practice groups recognized by *Chambers USA*: America's Leading Business Lawyers

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Foley's Automotive Industry Team

- Foley's Automotive Industry Team (AIT) represents companies throughout the automotive supply chain, with an emphasis on representing Tier 1 suppliers
- More than 50 attorneys practice in Foley's Business Reorganizations Practice Group, including in New York, Delaware, Michigan and other jurisdictions
- Foley is the only national law firm with a Detroit office and dedicated Automotive Industry Team, with deep knowledge of dealing with financially troubled customers and suppliers
- We regularly represent suppliers in contract matters with each of the Detroit 3 OEMs

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5

GE Commercial Finance Overview

- **Smarter Capital for Your Business**
  - With more than $16 billion in assets and 40 locations across North America, GE Commercial Finance - Corporate Lending is a leading provider of asset based, cash flow, and structured financial solutions
  - Backed by GE's AAA credit rating, our Detroit team combines deep financial expertise and a research-based approach to build innovative solutions tailored to the automotive industry

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GE Commercial Finance Overview (cont'd)

- **Typical Customer Profile**
  - Public and private companies located in North America with:
    - Financing needs of $20 million to $2 billion or more
    - Annual revenue in excess of $50 million
    - EBITDA of $10 million or more
    - Strong balance sheet and cash flow
    - Asset-intensive industries

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FTI Consulting Overview

- Who We Are: The Company Behind the Headlines
  - Founded in 1982
  - NYSE listed with $3 billion plus market value
  - 300+ Senior Managing Directors
  - 3000+ employees worldwide
  - 44 offices in 21 countries

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FTI Consulting Overview (cont'd)

- Automotive Capabilities
  - Cash Management and Projections
  - Capital Structure and Liquidity
  - Analysis of Product Portfolio/OEM Relationships
  - Vendor, Customer and Other Constituent Relationship Management
  - Cost Realignment
  - Asset Redeployment
  - Strategic Assessment and Business Planning
  - Bankruptcy Pre-Planning/Administration
- Dedicated team based in Detroit with significant automotive operational and financial experience. Broad, deep and relevant automotive experience located throughout U.S. and Europe

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Topics for Discussion

- Government Funding Update
- Capital Markets Overview
- Defaults and Forbearance – Market Trends and Drafting Strategies
- Managing and Using Cash Before and After a Bankruptcy Filing
- DIP Issues in Bankruptcy

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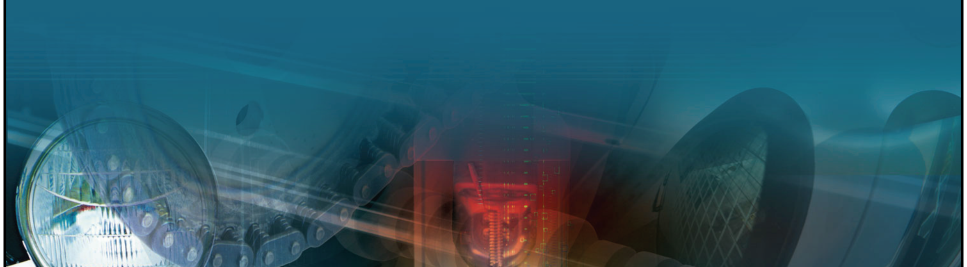
Government Funding Update



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Government Funding of Suppliers

- TARP (Troubled Asset Relief Program)
- DOE Section 136 Loan Program
- MEMA/OESA Supplier Funding Proposals to U.S. Treasury

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TARP (Troubled Asset Relief Program)

- Established by the Emergency Economic Stabilization Act of 2008 (EESA), the "TARP" covers "financial institutions" but also "any other institution" that
  - Has "significant US operations";
  - Has a US (federal, state or territorial) charter; and
  - Is neither a foreign central bank nor owned by a foreign government
- What can the U.S. Treasury buy from such an institution?
  - Mortgages and mortgage backed securities
  - "Any other financial instrument" deemed necessary for financial stability
- To date, the U.S. Treasury has made aggregate TARP loans to GM and Chrysler of $17.4 billion, with another $21.6 billion of funding requests from GM and Chrysler pending

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TARP (cont'd)

- Guidelines for "Automotive Industry Financing Program," which would include suppliers, issued in late December 2008
  - Institution must be "important"
  - Test: "Whether a major disruption of the institution's operations would likely have a materially adverse effect on employment and thereby produce negative spillover effects on overall economic performance" (high bar)
- To date, no TARP loans have been made to automotive suppliers

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TARP Funding of OEMs – Timeline

- Initial term sheets signed December 19th
- Initial $4 billion loans to GM/Chrysler made last week of December/first week of January
- Additional $9.4 billion of loans made in January and February to GM, for a total of $13.4 billion
- Viability Plans filed with U.S. Treasury February 17th
  - GM requested additional $16.6 billion; Chrysler $5 billion
  - These amounts are in addition to substantial DOE requests

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TARP Funding of OEMs – Timeline (cont'd)

- Government Task Force reviewing GM/Chrysler submissions
- GM/Chrysler continue to negotiate with UAW, bondholders and others to achieve Loan Agreement restructuring targets
- Viability determinations to be made by March 31st
- Bankruptcy path/DIP funding being planned in parallel

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DOE Section 136 Loan Program

- "Advanced Technology Vehicles Manufacturing Incentive Program"
  - Enacted in 2007
  - $25 billion of funding in October 2008
  - Purpose is to upgrade tooling for better fuel economy
  - Program covers both OEMs and suppliers
- Requirements
  - Parts in question must be designed to improve fuel economy
  - Borrower must be "financially viable"; i.e., "reasonably likely" to make scheduled payments of principal and interest
- Status of Funding
  - First round of applications submitted by December 31, 2008
  - Approximately 75 applications filed, totaling a reported $38 billion
  - Most applications rejected or additional information requested
  - Some applications have been approved, and loans made
  - Substantial DOE funding requests of Detroit 3 are pending
  - Recently enacted Stimulus Plan also includes alternative energy funding

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MEMA/OESA Supplier Funding Proposals to U.S. Treasury

- Quick Pay – reduce to 10 day payment terms to provide liquidity
- Government Guaranty of Supplier Receivables – provide a guaranty of OEM receivables to support bank loans
- Government Guaranty of Supplier Loans – provide guaranty of loans from commercial lenders

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Status of MEMA/OESA Proposals

- Initial submission to U.S. Treasury on February 2nd; formal request submitted on February 13th
- Working group formed by MEMA/OESA
- Ongoing dialog with U.S. Treasury
- To date, no action on these requests has been taken by U.S. Treasury; unclear whether and to what extent these will result in enhanced liquidity for suppliers

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Capital Markets Overview

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2008: An Economic Year to Forget…as Loan Issuance Plummets

- **2008/2009 Economic Lowlights:**

  GDP – down 3.8% in Q4 2008

  Unemployment – 7.5%, rising

  Consumer Confidence – record low in Jan/09

  E C O N O M Y

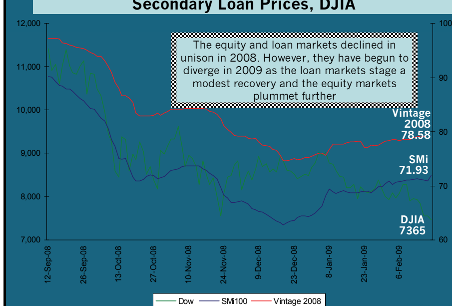
  Retail Holiday Sales – weakest in four decades

  Vehicle Sales – down 37% in Jan/09

  Housing Starts, Permits – record low in Jan/09

- **New issue volume down dramatically in full year 2008 and dries up completely in the fourth quarter**

Secondary Loan Prices, DJIA



Source: Yahoo Finance, SMi

New Issue Volume

	New	Total
2007	$535.16	$535.16
2008	$126.89	$153.17
Change	-76%	-71%

Source: Standard & Poors LCD

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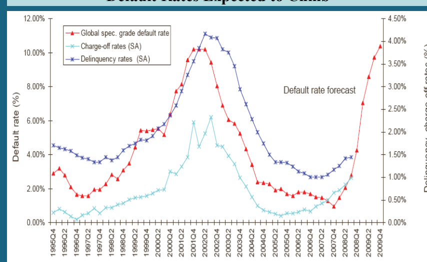
Loan Defaults Trending Higher, Likely Leading to Future Losses

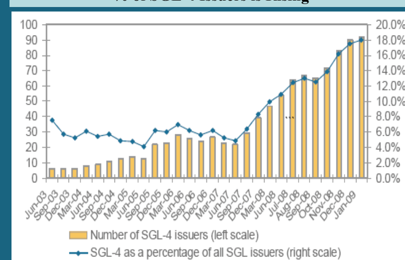
- With the U.S. economy in a severe recession, rating agencies forecast defaults to be 10-13% by year end, with possibility of 15%
  - The forecasted default rate is expected to increase dramatically; many issuers are struggling: approximately half of all issuers experienced EBITDA contraction in 2H 2008
  - Delinquency and charge-off rates are expected to increase alongside rising defaults in 2009
- According to a recent survey, investors expect first-lien recovery rates to be 62%, well below the historical average of 70%
  - Loan pool includes 5.5% second lien loans and 15.4% covenant-lite structures, two recent phenomena that haven't been stress-tested through a credit cycle
  - Lack of liquidity creates less opportunity for distressed buyers
  - Debt exchanges may elevate unsecured debt to senior secured status, in the process diluting the collateral pool
  - The average price for loans trading in default had been 66, but fell to a record low of 41 in Q4 2008
- Liquidity measures are weakening at an accelerating rate, according to Moody's Speculative Grade Liquidity (SGL) Ratings
  - Moody's categorizes the liquidity position of issuers with its SGL Rating, which measures a firm's ability to meet its obligations
  - The scale is SGL-1 (Very Good) to SGL-4 (Weak) ; SGL-4s are increasing

Default Rates Expected to Climb



Source: Federal Reserve, Moody's

% of SGL-4 Issuers is Rising



Source: Moody's

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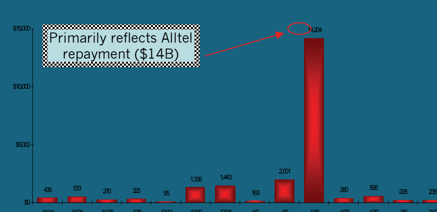
Bank Loan Secondary Prices Improve in 2009

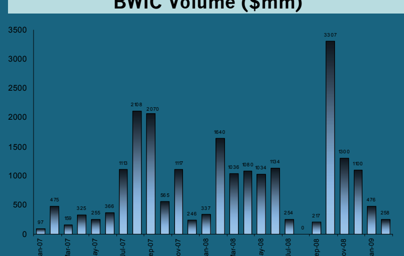
- Several technical factors have helped the supply-demand imbalance, leading to steady improvement in secondary levels since mid-December
  - Loan repayments/amortization
  - Very limited new issues
  - Capital inflows growing slowly
  - BWIC supply receded

Weekly Institutional Loan Repayments ($mm)

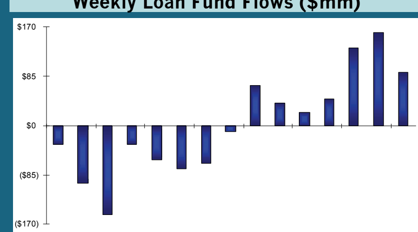


Source: Standard & Poor's LCD

BWIC Volume ($mm)



Weekly Loan Fund Flows ($mm)



Source: Standard & Poor's LCD

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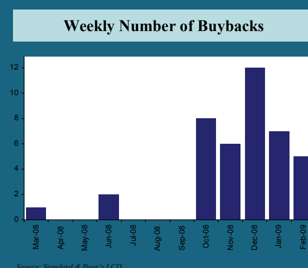
Loan Buybacks Grow in Popularity

- Depressed secondary levels and weakening performance have led to an increased trend in buybacks
- Most buybacks require an amendment, that have been approved at little or no cost (assuming covenant relief is not being requested), because tenders typically:
  - Inject needed liquidity into the market
  - Allow investors to exit or decrease exposure
  - Reduce leverage
- However some have failed or required adjustments to gain investor support
  - If investors perceive the tender as covenant relief, they will push for mark to market pricing through the amendment process
- Buybacks in 2008 totaled $1.3 billion of debt from 15 separate issuers
  - Of the 29 attempts in 2008, only three failed

Corporate Buyback	Sponsor Contribution
– Company uses cash on hand or ECF sweep to repurchase debt, non pro rata, at a price below par	– Sponsor tenders for debt as a qualified assignee or contributes capital to repurchase debt, non pro rata, at a price below par
– Debt is typically retired – Alternatively, companies may leave the debt outstanding and place it in a newly created subsidiary	– If sponsor does not retire the debt, voting rights on the repurchased debt will be an investor concern
– Citadel, Manor Care, LNR, Rent-A-Center, RH Donnelley, Allison, Hanesbrand, Sorenson, IPC, and Booz Allen, Affinion, III Exploration	– Arizona Chemical, Fresh Start Bakeries, FiberVisions, Wynn Resorts, Cooper-Standard and Vision Logistics



Source: Standard & Poor's LCD

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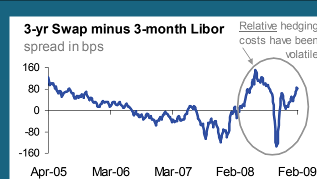
Interest Rates at Record Lows, but Deficits Cause Concern

More at www.GErates.com

LIBOR declines further after extraordinary monetary accommodation

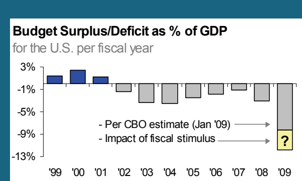
- Since Oct 10, 1 & 3-month U.S. Libor declined 414 & 360 bps respectively following government participation in the banking system and Fed easing
- In January, 1 & 3-month U.S. Libor fell a respective 2 & 24 bps
- The futures market anticipates 3-month Libor rising modestly to 1.31% by Sep '09 and 1.50% by Dec '09

Relative hedging costs adjust as the yield curve shifts



- In Jan, 3-year U.S. swap rates fell to their lowest levels in history
- So far in Jan, 1-month U.S. Libor fell to a historic low and 3-month Libor reached its lowest level since June 2003
- Cost of achieving interest rate certainty has been volatile as financial markets adjust to Fed policy and changing dynamics in the banking system and the economy

Debt supply to surge in fiscal '09, may impact Treasury yields



- The U.S. Treasury is issuing an unprecedented amount of debt to fund government programs that are providing a safety net to the economy and the financial system
- The growing debt burden is expected to intensify this year & in 2010 and is shaping up to be a key risk for higher U.S. interest rates in the medium and long-term.

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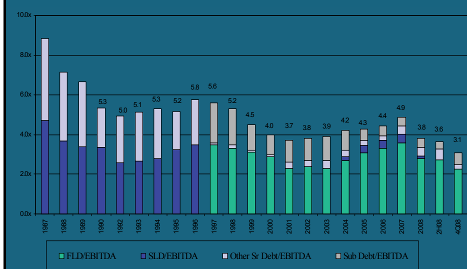
Structuring – Lower Leverage, More Equity

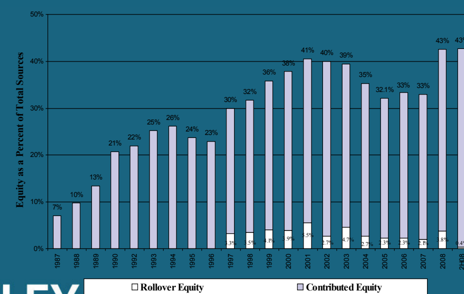
- Future transactions will be more conservatively structured, smaller, and pricier
  - Leverage has already fallen to approximately 3x total leverage and senior to less than 2.5x
  - Equity contributions reached a record high of 43% in 2008 and likely to rise as purchase price multiples have not fallen as dramatically as lending multiples. Equity will fill the gap.
  - According to a recent survey of bank credit officers, 98% of banks have raised rates for large commercial and industrial loans
- Investors remain very cautious and not focusing on the primary market
  - Investors focused on debtor-in-possession, amendments, work-outs, investment-grade lending, and house account transactions

Leverage is Declining



Source: Standard & Poor's LCD

Equity Contributions, % of Total Sources



Source: Standard & Poor's LCD

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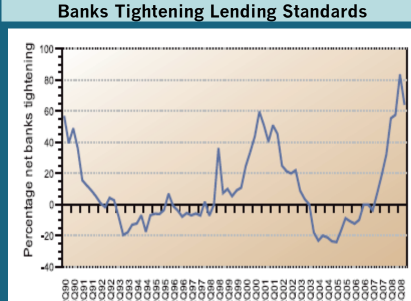
Outlook for 2009 – Tighter Standards, Fewer Investors

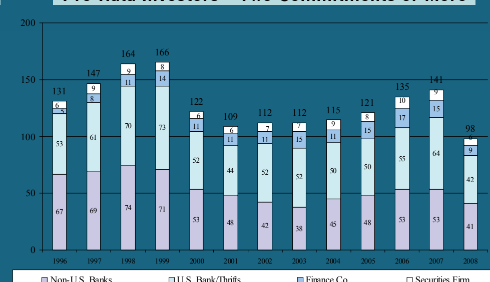
- Credit standards are tightening
  - Per surveys of bank credit officers, 64% have tightened standards; this is down from the peak of 85% in December
  - Covenants – more of them and less headroom; baskets – much tighter and highly negotiated
  - Tenors shortening, more amortization and stricter excess cash flow sweeps
  - Smaller unused revolvers priced at higher levels
- Number of investors is shrinking, making relationships even more important
  - According to LPC, an estimated 40-50% of underwriting capacity has been removed from the leveraged debt market due to massive bank consolidation, strained balance sheets, and the retreat of CLOs
  - The number of institutions declined in 2008 to 246 from 307 in 2007. However, the number of active accounts fell harder from 261 to 85. The field of investors with meaningful capacity is significantly smaller

Banks Tightening Lending Standards



Source: Federal Reserve

Pro-Rata Investors – Two Commitments or More



Source: Standard & Poor's LCD

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ABL Transactions are Falling into Three Categories

- DIPs
  - DIPs account for a significant portion of the new issue market. According to LPC, DIPs account for 72% of all leveraged lending so far in 2009
  - Spreads on recent DIPs have averaged L+820 since October 2008
- Larger or storied issuers
  - There is a price premium for deal size and challenging credit stories
  - ABL lenders not supportive of weakly performing credits or out of favor industries. Capacity limited to defensive actions taken by the lending group, so such terms cannot be extrapolated as "market"
  - As lending becomes concentrated in commercial banks (vs. finance companies), market depth shrinks dramatically for collateral dependent (cash burn) borrowers. Such facilities are criticized assets on the Shared National Credit (SNC) review. They are heavily scrutinized and carry very high capital charges
- Smaller, fully conforming structures to performing borrowers
  - Depending on ancillary business opportunities, deals can price below "market"
  - Relationships critical to successful execution

Latest Deals	Ratings	Amount	Deal Type	Leverage	LIBOR Spread, Unused	Upfront Fees	LIBOR Floor	Tenor
Tyson Foods	BB/Ba3	$1BB	Refi	4.3x	L+400, 100	0.75% - 1.25%	none	36 months
Invista	BB/Ba2	$500MM RC $100MM TL	Refi	N/A	L + 400, 100	N/A	2.5%	48 months 48 months
Smurfit-Stone	D/Ca	$315MM RC $435MM TL	DIP	1.5x	L+650, 100	4.50%	3.5%	12 months, with two extensions
Jones Apparel	BB-/Ba2	$600MM RC	Amendment	3.6x	L + 400, 100	0.75%	none	16 months
Hyundai	BBB-/Baa3	$300MM RC	Refi	N/A	L+325-375 (grid), 75	0.50%	none	36 months
Tronox	Ca	$125MM RC	DIP	N/A	L+950, 300	3.00%	3.0%	12 months

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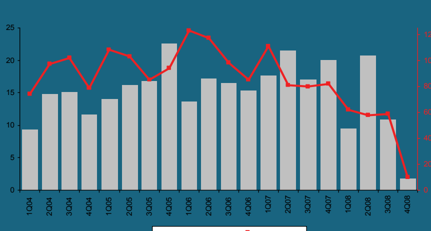
ABL is Most Active Segment in the Shrinking Leveraged Loan Market

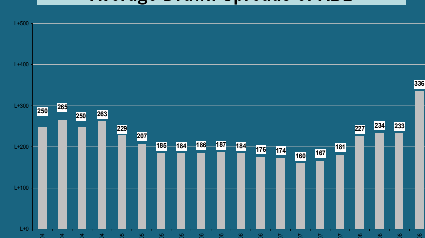
- While volume was down, ABL share of the overall leveraged loan market jumped to nearly 15%, up from 5% in 2007
- Recent transactions suggested ABL market capacity of approximately $600MM; recent $1BB Tyson deal will test new ceiling
- Spreads, upfronts and unused fees all increasing
  - Many new deals priced at L+400 and increasing; unused fees for lower usage credits rising to 75-100 bps
  - Upfronts highly negotiated, especially for larger commitments
  - Smaller, better performing credits with traditional ABL structures and collateral may price tighter
- Investors are taking their time evaluating credits and are cautious to commit
  - Increased focus on credit quality
  - Higher coupon unable to provide incentive for investors to look at "story" credits
  - Average marketing period is being extended with greater scrutiny on credit documentation

ABL Deal Volume and Count



Source: Reuters LPC

Average Drawn Spreads of ABL



Source: Reuters LPC

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Loan Connector Weekly Poll

A February Poll by Reuters LPC of Bank Lenders and Institutional Investors Indicated a Luke Warm Attitude At Best Toward DIP Loans, With a Solid Majority of Respondents Expressing Either No Interest (34%) or an Interest in Defensive DIPs Only (24%).

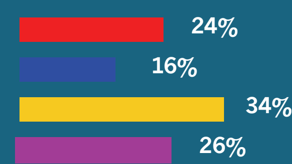
In 2009 a number of DIP loans are using more traditional ABL structures (fully secured assets with hefty appraisals). But is there market appetite? Is your institution looking to buy into fully secured asset based DIPs?

Yes: But only defensive rollovers in which my institution is already a participant

Yes: But only for new DIP financings

No: No appetite, looking to exit those transactions

Maybe: Limited appetite for DIPS, may consider on a case by case basis



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Source: Reuters LPC

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There Have Been Only 31 Syndicated DIP Loan Packages Since January 2008, Per LPC—Priced at an Avg. Margin of Nearly 600bps Over LIBOR

Company Name Source: Reuters LPC	Date	Deal Amt. (USD m)	Tranche Amt. (USD m)	Tranche Type	Tranche Maturity (mos)	Tranche Expiration	Base Rate	Margin	Top Tier Arrangers
Spectrum Brands	18-Feb-09	$235.0	$235.0	Other Loan					Goldman Sachs & Co, Wachovia Bank
Smurfit-Stone Container	9-Feb-09	$750.0	$250.0	Revolver/Line >= 1 Yr.			LIB	650	Banc of America Securities Ltd, Deutsche Bank AG, GE Capital Ma
Smurfit-Stone Container	9-Feb-09	$750.0	$65.0	Revolver/Line >= 1 Yr.			LIB	650	Banc of America Securities Ltd, Deutsche Bank AG, GE Capital Ma
Smurfit-Stone Container	9-Feb-09	$750.0	$400.0	Term Loan			LIB	650	Banc of America Securities Ltd, Deutsche Bank AG, GE Capital Ma
Smurfit-Stone Container	9-Feb-09	$750.0	$35.0	Term Loan			LIB	650	Banc of America Securities Ltd, Deutsche Bank AG, GE Capital Ma
Gottschalks Inc	28-Jan-09	$125.0	$125.0	Other Loan					GE Capital Corp
Constar International Inc	17-Dec-08	$75.0	$75.0	Revolver/Line < 1 Yr.	9	30-Sep-09	LIB	400	Citicorp USA Inc
Lennox International Inc	16-Dec-08	$85.0	$85.0	Revolver/Line >= 1 Yr.			LIB	400	UBS AG
Pilgrim's Pride Corp	2-Dec-08	$450.0	$450.0	Revolver/Line < 1 Yr.	12	1-Dec-09	P	1055	Bank of Montreal
VeraSun Energy Corp	28-Nov-08	$196.5	$196.5	Term Loan	12	28-Nov-09			Agstar Financial Services PCA, Wilmington Trust Co
Storm Cat Energy Corp	26-Nov-08	$85.5	$21.5	Revolver/Line < 1 Yr.	4	31-Mar-09	P	1330	Wells Fargo Bank NA
Storm Cat Energy Corp	26-Nov-08	$85.5	$23.9	Term Loan A	4	31-Mar-09	P	780	Wells Fargo Bank NA
Storm Cat Energy Corp	26-Nov-08	$85.5	$40.2	Term Loan B	4	31-Mar-09	P	1330	Wells Fargo Bank NA
Circuit City Stores	13-Nov-08	$1,100.0	$1,100.0	364-Day Facility	12	12-Nov-09	LIB	400	Bank of America
WCI Communities Inc	24-Sep-08	$150.0	$80.0	Term Loan	12	24-Sep-09	LIB	600	Bank of America, Wachovia Bank
WCI Communities Inc	24-Sep-08	$150.0	$70.0	Revolver/Line >= 1 Yr.	12	24-Sep-09	LIB	600	Bank of America, Wachovia Bank
Motor Coach Industries Internat	19-Sep-08	$166.4	$166.4	Revolver/Line >= 1 Yr.	12	19-Sep-09	LIB	600	General Electric Capital Corp
Mervyn's LLC	27-Aug-08	$465.0	$39.7	Term Loan B	15	27-Nov-09	LIB	450	Wachovia Bank
Mervyn's LLC	27-Aug-08	$465.0	$400.3	Revolver/Line >= 1 Yr.	16	27-Dec-09	LIB	350	Wachovia Bank
Mervyn's LLC	27-Aug-08	$465.0	$25.0	Term Loan A	16	27-Dec-09	LIB	450	Wachovia Bank
Hines Nurseries Inc	22-Aug-08	$53.0	$53.0	Revolver/Line >= 1 Yr.			LIB	425	Bank of America
SemGroup Energy Partners LP	11-Aug-08	$250.0	$250.0	Revolver/Line < 1 Yr.	9	11-May-09	LIB	600	Bank of America
Lake Las Vegas Resort	5-Aug-08	$127.0	$127.0	Term Loan B	12	5-Aug-09	LIB	750	Credit Suisse
Boscovs Department Stores Inc	5-Aug-08	$250.0	$250.0	Revolver/Line >= 1 Yr.	12	5-Aug-09	LIB	300	Bank of America
Vertis Inc	17-Jul-08	$380.0	$50.0	Term Loan A	3	17-Oct-08	LIB	550	GE Capital Markets Inc
Vertis Inc	17-Jul-08	$380.0	$200.0	Term Loan	3	17-Oct-08	LIB	300	GE Capital Markets Inc
American Color Graphics Inc	17-Jul-08	$135.0	$135.0	Standby Letter of Credit	24	17-Jul-10	LIB	700	Bank of America
Vertis Inc	17-Jul-08	$380.0	$130.0	Revolver/Line < 1 Yr.	3	17-Oct-08	LIB	275	GE Capital Markets Inc
Goody's Family Clothing Inc	12-Jun-08	$175.0	$175.0	Revolver/Line >= 1 Yr.	36	12-Jun-11	LIB	275	General Electric Capital Corp
Greektown Casino	9-Jun-08	$150.0	$15.0	Revolver/Line >= 1 Yr.	15	9-Sep-09	LIB	625	Merrill Lynch & Co Inc, Wachovia Bank NA
Greektown Casino	9-Jun-08	$150.0	$135.0	Delay Draw Term Loan	3	9-Sep-08	LIB	625	Merrill Lynch & Co Inc, Wachovia Bank NA
Hilex Poly Co	8-May-08	$140.0	$90.0	Revolver/Line >= 1 Yr.	12	8-May-09	LIB	350	General Electric Capital Corp, Morgan Stanley Senior Funding Inc
Hilex Poly Co	8-May-08	$140.0	$50.0	Term Loan B	12	8-May-09	LIB	800	General Electric Capital Corp, Morgan Stanley Senior Funding Inc
Linens 'n Things Inc,	5-May-08	$700.0	$700.0	Revolver/Line >= 1 Yr.	12	2-May-09	LIB	325	General Electric Capital Corp
VICORP Restaurants Inc	4-Apr-08	$60.0	$25.0	Revolver/Line < 1 Yr.	12	4-Apr-09	LIB	750	Wells Fargo & Co
VICORP Restaurants Inc	4-Apr-08	$60.0	$35.0	Revolver/Line >= 1 Yr.	12	4-Apr-09	LIB	750	Wells Fargo & Co
SCO Group Inc	18-Mar-08	$95.0	$95.0	Term Loan	60	8-Mar-13			Stephen Norris & Co Capital Partners LP
Leiner Health Products Inc	12-Mar-08	$74.0	$44.0	Term Loan B	54	12-Sep-12	LIB	750	General Electric Capital Corp, UBS AG
Leiner Health Products Inc	12-Mar-08	$74.0	$13.5	Revolver/Line >= 1 Yr.	54	12-Sep-12	LIB	350	General Electric Capital Corp, UBS AG
Leiner Health Products Inc	12-Mar-08	$74.0	$16.5	Term Loan A	54	12-Sep-12	LIB	450	General Electric Capital Corp, UBS AG
Wellman Inc, ALG Inc, Carpet F	26-Feb-08	$225.0	$225.0	Revolver/Line >= 1 Yr.	12	26-Feb-09	LIB	275	Deutsche Bank AG
Holley Performance Products Ir	13-Feb-08	$65.0	$25.0	Revolver/Line >= 1 Yr.			LIB	350	Wells Fargo Bank NA
Holley Performance Products Ir	13-Feb-08	$65.0	$40.0	Term Loan B			LIB	350	Wells Fargo Bank NA
Sirva Worldwide Inc	6-Feb-08	$150.0	$85.0	Revolver/Line < 1 Yr.	4	30-Jun-08	LIB	650	JP Morgan Chase Bank NA
Sirva Worldwide Inc	6-Feb-08	$150.0	$65.0	Term Loan B	4	30-Jun-08	LIB	650	JP Morgan Chase Bank NA
TOUSA Inc	5-Feb-08	$134.6	$134.6	Revolver/Line < 1 Yr.	11	5-Jan-09			Citigroup
Propex Inc	23-Jan-08	$60.0	$60.0	Revolver/Line >= 1 Yr.	12	23-Jan-09	LIB	400	BNP Paribas SA
Buffets Inc, Buffets Holdings Inc	22-Jan-08	$385.0	$300.0	Term Loan B	12	22-Jan-09	LIB	725	Credit Suisse Cayman Islands
Buffets Inc, Buffets Holdings Inc	22-Jan-08	$385.0	$85.0	Delay Draw Term Loan	12	22-Jan-09	LIB	725	Credit Suisse Cayman Islands

Source: Reuters LPC

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31

There Have Only Been 12 Syndicated Exit Loan Packages Since January 2008, Per LPC—Priced at an Average Margin of 515 bps Over LIBOR

Company Name Source: Reuters LPC	Date	Deal Amt. (USD m)	Tranche Amt. (USD m)	Tranche Type	Tranche Maturity (mos)	Tranche Expiration	Base Rate	Margin	Top Tier Arrangers
PF Holdings Inc	12-Dec-08	$95.0	$75.0	Revolver/Line >= 1 Yr.	48	12-Dec-12	LIB	375	Wells Fargo Bank NA
PF Holdings Inc	12-Dec-08	$95.0	$20.0	Term Loan	48	12-Dec-12	LIB	475	Wells Fargo Bank NA
Boscovs Department Stores Inc	4-Dec-08	$210.0	$10.0	Term Loan	36	4-Dec-11	LIB	600	Bank of America
Boscovs Department Stores Inc	4-Dec-08	$210.0	$200.0	Revolver/Line >= 1 Yr.	36	4-Dec-11	LIB	400	Bank of America
Vertis Inc	6-Nov-08	$399.5	$122.0	Term Loan C	44	17-Jul-12	LIB	900	Ableco Finance LLC
Vertis Inc	6-Nov-08	$250.0	$25.0	Revolver/Line >= 1 Yr.	44	17-Jul-12	LIB	900	GE Commercial Finance [GECF]
Vertis Inc	6-Nov-08	$250.0	$225.0	Revolver/Line >= 1 Yr.	44	17-Jul-12	LIB	400	GE Commercial Finance [GECF]
Vertis Inc	6-Nov-08	$399.5	$123.0	Term Loan C	44	17-Jul-12	LIB	900	Ableco Finance LLC
Vertis Inc	6-Nov-08	$399.5	$4.5	Delay Draw Term Loan	44	17-Jul-12	LIB	900	Ableco Finance LLC
Vertis Inc	6-Nov-08	$399.5	$150.0	Term Loan B	44	17-Jul-12	LIB	900	Ableco Finance LLC
Goody's Family Clothing Inc	22-Oct-08	$175.0	$175.0	Revolver/Line >= 1 Yr.					GE Capital Corp
Hancock Fabrics	18-Aug-08	$100.0	$100.0	Other Loan					GE Commercial Finance Corporate Lending
Hilex Poly Co	9-Jul-08	$125.0	$75.0	Revolver/Line >= 1 Yr.	48	9-Jul-12	LIB	275	General Electric Capital Corp, Morgan Stanley Senior Funding Inc
Hilex Poly Co	9-Jul-08	$125.0	$50.0	Term Loan	48	9-Jul-12	LIB	800	General Electric Capital Corp, Morgan Stanley Senior Funding Inc
Dura Automotive Systems Inc	27-Jun-08	$110.0	$110.0	Other Loan	48	27-Jun-12	LIB	275	General Electric Capital Corp
Movie Gallery Inc	20-May-08	$100.0	$100.0	Revolver/Line >= 1 Yr.	36	20-May-11	LIB	300	Bank of New York
Sirva Worldwide Inc	12-May-08	$215.0	$85.0	Term Loan B	48	12-May-12	LIB	650	JP Morgan
Sirva Worldwide Inc	12-May-08	$215.0	$130.0	Revolver/Line >= 1 Yr.	48	12-May-12	LIB	650	JP Morgan
Calpine Corp	31-Jan-08	$7,300.0	$1,000.0	Revolver/Line >= 1 Yr.	74	29-Mar-14	LIB	288	Credit Suisse, Deutsche Bank AG, Goldman Sachs & Co, Morgan Stanley
Dana Corp	31-Jan-08	$1,430.0	$1,430.0	Term Loan B	84	31-Jan-15	LIB	375	Citicorp USA Inc
Calpine Corp	31-Jan-08	$7,300.0	$6,300.0	Term Loan B	74	29-Mar-14	LIB	288	Credit Suisse, Deutsche Bank AG, Goldman Sachs & Co, Morgan Stanley
Calpine Corp	31-Jan-08	$300.0	$300.0	Bridge Loan	13	1-Feb-09	LIB	288	Credit Suisse, Deutsche Bank AG, Goldman Sachs & Co, Morgan Stanley
Dana Corp	31-Jan-08	$650.0	$650.0	Revolver/Line >= 1 Yr.	60	31-Jan-13	LIB	200	Barclays Bank Plc, Citicorp USA Inc
Global Power Equipment Group Ir	22-Jan-08	$150.0	$50.0	Standby Letter of Credit	72	22-Jan-14	LIB	275	Morgan Stanley
Global Power Equipment Group Ir	22-Jan-08	$150.0	$10.0	Revolver/Line >= 1 Yr.	72	22-Jan-14	LIB	275	Morgan Stanley
Global Power Equipment Group Ir	22-Jan-08	$150.0	$90.0	Term Loan B	72	22-Jan-14	LIB	675	Morgan Stanley

Source: Reuters LPC

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32

DIP Financing Availability Currently is Attributable to Several Factors:

- The global credit contraction and the de-leveraging of financial institutions worldwide
- The "loan heavy" condition of many distressed balance sheets today compared to previous default cycles—meaning that a greater proportion of a failed company's total debt is represented by senior secured loans rather than unsecured debt when a company enters bankruptcy
- The immense popularity of second lien loans in 2005-07 has encumbered the collateral cushion that traditional lenders look to before entering a DIP loan
- The Bankruptcy Reform Act of 2005 (BAPCPA) enacted several major changes to the Code that are widely considered "creditor friendly", which add financial burdens and time constraints on a Debtor that arguably reduce the likelihood of a successful reorganization, namely:
  - Administrative claim status given for goods received within 20 days of filing
  - Maximum of 210 days to accept or reject unexpired real property leases
  - Exclusivity period for Debtor to submit a reorganization plan limited to 18 months

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DIP Financing Availability Currently is Attributable to Several Factors (cont'd):

- The pervasive laxity of lending standards between 2005-2007—especially with respect to covenant-lite loans—means that firms that do fail in this current default cycle will be arguably more broken, perhaps irreparably so, than failed firms of previous cycles
- High anxiety by prospective DIP lenders over appraisal values of collateral, especially inventory, in an economic environment characterized by slumping customer demand and, in some instances, deflation
- The severe drought with respect to exit financing makes prospective DIP lenders reluctant to enter a situation from which they may not be able to extricate themselves
  - Exit financing loans are usually longer in tenor than DIPs, and hence, more risky for lenders
  - Interstate Bakeries saw its emergence from a four-year stay in bankruptcy nearly jeopardized by complications over its exit financing package, while Delphi Corp. remains stuck in Chapter 11 largely due to exit financing issues

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A Preponderance of DIP Financing in the last 12 months have been "Defensive DIPs"

- Existing senior lenders participate in the DIP loan to protect their pre-petition loan, which typically rolls up into the DIP
- Pre-petition lenders are intimately familiar with the prospective Debtor and its rehabilitation prospects and may want to preserve a key business relationship
- "New money" availability is often limited, and sometimes fairly minimal
- Nonetheless, upfront fees are often charged on the entirety of the DIP facility
- DIP margins have become expensive too, in the range of 500-1,000 bps currently compared to 200-300 bps before the credit crisis began in mid-2007
- More recently, defensive DIP loans are typically not intended to carry a Debtor through a traditional reorganization process. Rather, they are often considered a bridge to a sale or liquidation, either explicitly or implicitly forcing a Debtor to resolve its case via an auction sale of the company—often on an expedited timetable.
  - In May 2008, Linens 'N Things received a DIP facility from its pre-petition lenders that gave it 210 days to reach agreement on a reorganization plan with its creditors. When it became clear that this deadline would not be met, the Debtor decided to put itself up for sale in late-September. When no going concern buyer emerged in auction, the Debtor had no choice but to liquidate.

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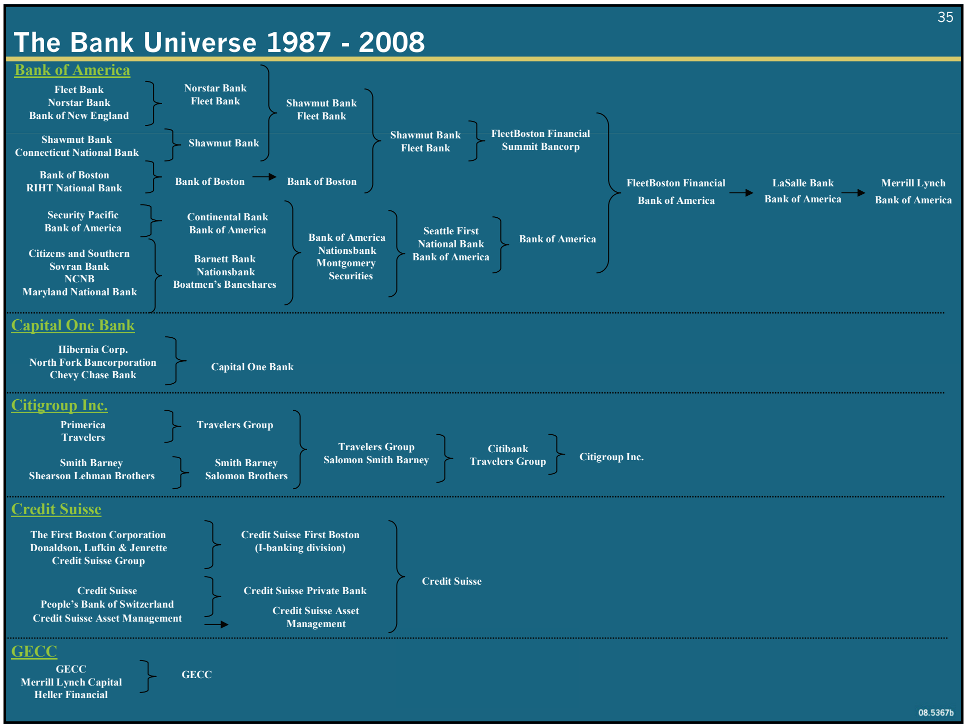
35
The Bank Universe 1987 - 2008
Bank of America
Fleet Bank
Norstar Bank
Bank of New England
Norstar Bank
Fleet Bank
Shawmut Bank
Fleet Bank
Shawmut Bank
Connecticut National Bank
Shawmut Bank
Shawmut Bank
Fleet Bank
FleetBoston Financial
Summit Bancorp
Bank of Boston
RIHT National Bank
Bank of Boston
Bank of Boston
FleetBoston Financial
Bank of America
LaSalle Bank
Bank of America
Merrill Lynch
Bank of America
Security Pacific
Bank of America
Continental Bank
Bank of America
Bank of America
Nationsbank
Montgomery
Securities
Seattle First
National Bank
Bank of America
Bank of America
Citizens and Southern
Sovran Bank
NCNB
Maryland National Bank
Barnett Bank
Nationsbank
Boatmen's Bancshares
Capital One Bank
Hibernia Corp.
North Fork Bancorporation
Chevy Chase Bank
Capital One Bank
Citigroup Inc.
Primerica
Travelers
Travelers Group
Travelers Group
Salomon Smith Barney
Citibank
Travelers Group
Citigroup Inc.
Smith Barney
Shearson Lehman Brothers
Smith Barney
Salomon Brothers
Credit Suisse
The First Boston Corporation
Donaldson, Lufkin & Jenrette
Credit Suisse Group
Credit Suisse First Boston
(I-banking division)
Credit Suisse
Credit Suisse
People's Bank of Switzerland
Credit Suisse Asset Management
Credit Suisse Private Bank
Credit Suisse Asset
Management
GECC
GECC
Merrill Lynch Capital
Heller Financial
GECC
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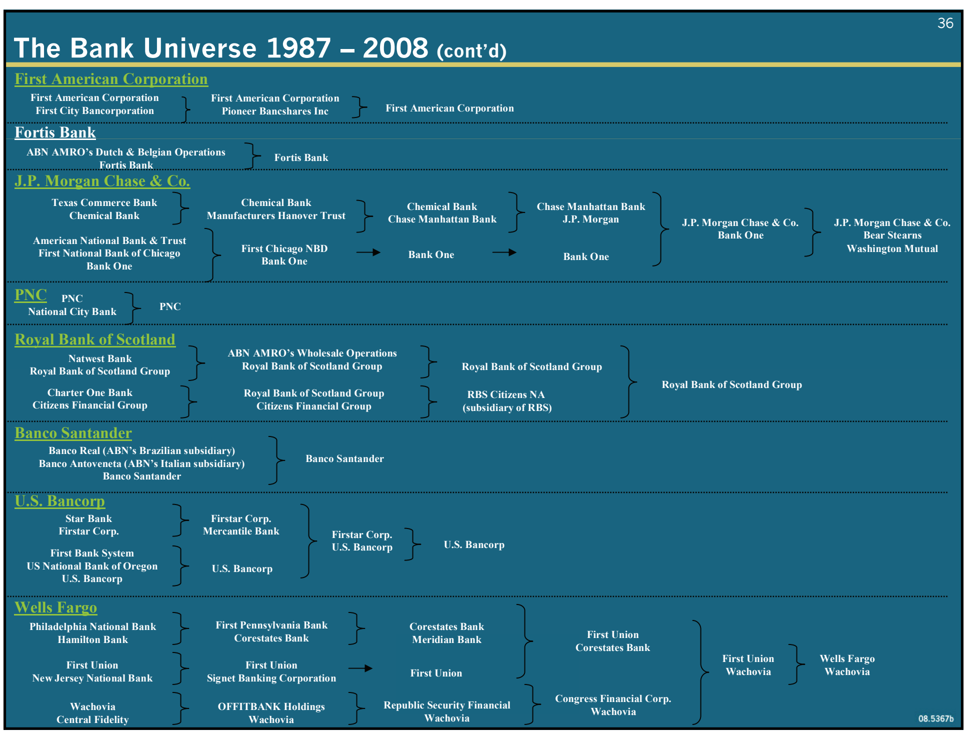
36
The Bank Universe 1987 – 2008 (cont'd)
First American Corporation
First American Corporation
First City Bancorporation
First American Corporation
Pioneer Bancshares Inc
First American Corporation
Fortis Bank
ABN AMRO's Dutch & Belgian Operations
Fortis Bank
Fortis Bank
J.P. Morgan Chase & Co.
Texas Commerce Bank
Chemical Bank
Chemical Bank
Manufacturers Hanover Trust
Chemical Bank
Chase Manhattan Bank
Chase Manhattan Bank
J.P. Morgan
J.P. Morgan Chase & Co.
Bank One
J.P. Morgan Chase & Co.
Bear Stearns
Washington Mutual
American National Bank & Trust
First National Bank of Chicago
Bank One
First Chicago NBD
Bank One
Bank One
Bank One
PNC
PNC
National City Bank
PNC
Royal Bank of Scotland
Natwest Bank
Royal Bank of Scotland Group
ABN AMRO's Wholesale Operations
Royal Bank of Scotland Group
Royal Bank of Scotland Group
Royal Bank of Scotland Group
Charter One Bank
Citizens Financial Group
Royal Bank of Scotland Group
Citizens Financial Group
RBS Citizens NA
(subsidiary of RBS)
Banco Santander
Banco Real (ABN's Brazilian subsidiary)
Banco Antoveneta (ABN's Italian subsidiary)
Banco Santander
Banco Santander
U.S. Bancorp
Star Bank
Firstar Corp.
Firstar Corp.
Mercantile Bank
Firstar Corp.
U.S. Bancorp
U.S. Bancorp
First Bank System
US National Bank of Oregon
U.S. Bancorp
U.S. Bancorp
Wells Fargo
Philadelphia National Bank
Hamilton Bank
First Pennsylvania Bank
Corestates Bank
Corestates Bank
Meridian Bank
First Union
Corestates Bank
First Union
Wachovia
Wells Fargo
Wachovia
First Union
New Jersey National Bank
First Union
Signet Banking Corporation
First Union
Wachovia
Central Fidelity
OFFITBANK Holdings
Wachovia
Republic Security Financial
Wachovia
Congress Financial Corp.
Wachovia
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Defaults and Forbearance – Market Trends

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Defaults and Forbearance

- Automotive industry production volumes and working capital compression have made it extremely difficult for suppliers with financial covenants to remain compliant
  - Most common violations/issues:
    - Minimum EBITDA
    - Leverage and fixed charge coverage ratios
    - Borrowing base availability
- Expectation of many, and sometimes repeat, waiver negotiations through 2009 as Borrowers try to maintain access to liquidity and Lenders make tough choices on which suppliers to continue supporting
- Market conditions relative to refinancing and sale valuations significantly limit options of lenders and company

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Defaults and Forbearance (cont'd)

- With limited DIP availability, should cash on hand be used for restructuring?
- Opportunities for Banks to "give" in forbearance process
  - Limited overadvances with highly visible duration
  - Flexibility in EBITDA definitions for covenant purposes – allowance of add-backs, non-recurring items, discontinued operations, etc.
  - Other covenant relief, particularly when one-time or a plan to return to previous compliance levels is realistic (options limited)
  - Higher advance rates possible with working capital enhancements

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Defaults and Forbearance (cont'd)

- In return, banks typically ask for/require:
  - Assistance of an advisor
  - Incremental collateral
  - Equity support in the form of:
    - Cash
    - Guarantees (limited/unlimited) and collateral
  - Compensation in the form of fees and higher rates
  - Accelerated non-core asset sales; liquidity more important than value concerns
  - More frequent reporting and monitoring

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Defaults and Forbearance (cont'd)

- Facility reduction
- Availability block to increase collateral cushion
- Stronger covenants relating to customer concentration, non-US entities, advance rates on OEM and Tier I customers
- Distressed borrowers with significant availability present particular risk to Lenders and have leverage in negotiations
- Customer participation in liquidity support

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Defaults and Forbearance (cont'd)

- Customers are increasingly being pulled into liquidity issues bank forbearance agreements
  - Quick pay
  - Settlement of commercial issues such as short pays, tooling, EDD, shipping/quality disputes
  - Accelerated PPAP
  - Non-resource and plant closure support
  - Suppliers and Lenders seek collateral "bullet-proofing" to enhance liquidity
  - Customer willingness to provide loans and/or participate in existing banking relationships to provide operating liquidity and facilitate deleveraging transactions

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Defaults and Forbearance (cont'd)

- Tradeoffs can include commercial risks, fees, access rights, resourcing support, tooling acknowledgments and bargain purchases on OEM specific capital
- The ability to enhance collateral base depends on which components are emphasized
- Accounts receivable relatively straight-forward to enhance with quick-pay and/or set-off limitations
- Inventory buy-backs common, but have more execution risk
- Fixed assets present the most risk with some kind of going-concern sale necessary to come close to OLV recoveries

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Drafting Strategies in Dealing with Defaults

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Types of Defaults

- Financial Covenant Default
  - Minimum EBITDA
  - Leverage and Fixed Charge Ratio
- Inability to issue Borrowing Request pursuant to Revolving Credit Facility
  - Typically requires reconfirming representations and warranties (insolvency, absence of material adverse change)
- Defined "Events of Default"
  - Material Adverse Change
  - Cross-defaults
  - Bankruptcy defaults
- "Going Concern" qualification in audited financials

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Consequences of Defaults

- Inability to borrow funds to meet liquidity needs
- Potential acceleration of loan balance
- Forces discussion with the lenders on a short-term/long-term solution (are you going to be a "winner" or a "loser"?)

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Strategies re: Covenant Defaults

- Breaches of financial covenants ordinarily trigger an event of default
- Depending on supplier leverage with the lender when you negotiate Forbearance/Loan Agreement, it may be possible to limit the consequences solely to increased pricing
  – For instance, if borrower fails to comply with the EBITDA covenant by no more than 5%, that failure could trigger only an increase in pricing rather than an event of default
  – Negotiate with lender to allow certain add-backs to the definition of EBITDA

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Revolving Credit Facilities

- Require a "bring down" certificate each time that company borrows funds
- Need to bring down representations and warranties (insolvency, pension funding, etc.)
- Typically need to state that no Material Adverse Change (MAC) since:
  - Certain specified date (e.g., date of credit agreement); or
  - Last borrowing request

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Issues re: MAC Clauses

- Carefully study definition
- Consider excluding general economic conditions that do not have a disproportionately negative impact on the borrower

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Baskets re: Certain Default Provisions

- Baskets are commonly found in:
  - Cross-default provision
    - A default in respect of other indebtedness in excess of a threshold amount triggers a default under the credit agreement
  - Limitations on indebtedness and liens
    - Additional debt and liens are permitted so long as the obligations do not exceed a threshold amount

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Bankruptcy Defaults

- The list of events of default should omit references to:
  - "any action in furtherance thereof" or
  - "any corporate action in furtherance thereof"
- These are nebulous concepts that trap borrowers who are simply planning for contingencies

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Deposit Arrangements/Set-Off

- Credit agreements may require borrowers to maintain all (or a significant portion) of their deposit accounts with a specific bank (usually the lead lender)
- The ability of a lender to setoff against a borrower's deposits and apply the funds to other obligations should be limited in two ways
  - First, the lender should only have the ability to setoff if the borrower has defaulted on its obligations under the credit agreement
  - Second, the lender should only be able to setoff against amounts owed by the borrower to that lender as opposed to all lenders under the credit agreement

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Default/Forbearance Agreement

- Often a lender will seek to accelerate the loan in connection with a forbearance agreement
- Problems with cross-defaults to other funded debt agreements
- Lender may seek admissions from borrower re: existence of defaults
- Convert to discretionary lending/ uncommitted line

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Managing and Using Cash Before and After a Bankruptcy Filing

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Managing Cash Pre-Bankruptcy

- Selective payment of outstanding payables
- Avoiding termination of contracts
- Managing UCC Section 2-609 demands
- Know whether contracts are long term or order by order

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Using Cash Post-Petition

- Pre-bankruptcy liens do NOT continue in property acquired after the bankruptcy EXCEPT as to proceeds of property subject to such prepetition liens (e.g. A/R, cash)
- “Cash collateral” means cash, negotiable instruments, documents of title, securities, deposit accounts, or other cash equivalents subject to a lien
- A debtor cannot use cash collateral post-petition without (i) the consent of the creditor who has a lien on such cash, or (ii) a court order entered after notice and hearing
- Because most cash is the proceeds of a prepetition lender's lien on inventory or accounts receivable, generally, debtors cannot use any cash post-filing without a hearing

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Using Cash Post-Petition (cont'd)

- The lender with an interest in the cash can request that the court condition or prohibit the use of cash collateral as is necessary to provide the lender "adequate protection" for the interest in the cash
- Adequate protection can be cash payments, a replacement lien, an equity cushion or other "indubitable equivalent"
- Because debtors need cash immediately, hearings are held for interim relief (amounts required to be used to avoid immediate and irreparable harm)
- Best practice is to file when cash collateral (or cash, if not subject to a lien) is highest

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DIP Financing

- Fewer active DIP lenders and plummeting asset values have made DIP financing harder to find and more expensive
- Price competition was predicated on sufficient collateral value to cover incumbent and DIP lenders allowing "priming" fight; now there is limited appetite to take on incumbent lender
- Incumbent lenders see risk in DIP recoveries that used to be considered fairly certain
- In some cases, the incumbent benefits from "rolling up" facility into DIP and that balances risk of incremental financing

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DIP Financing (cont'd)

- 503(b)(9) claims combined with automotive industry conditions lead to real risk of "administrative insolvency" (value of estate less than amount of administrative claims)
- Customers increasingly have to play a role in DIP financing to protect supply and get even the incumbent to extend DIP financing
- Preemptive bankruptcy filings are expected to increase as companies with upcoming debt maturities draw their lines and file early

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DIP Financing (cont'd)

- Cash collateral is unlikely to fully meet a debtor's needs during its chapter 11
- The debtor might need additional financing to continue operating its business and preserve going concern value of the company for secured and other creditors
- As such, the Bankruptcy Code contains provisions that might serve to entice lenders to offer financing in bankruptcy

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DIP Financing (cont'd)

- Unsecured credit
  - Unsecured credit in the ordinary course of business is permitted, with repayment to be given administrative expense priority under 11 U.S.C. § 364(a) (e.g. trade debt)
- Obtaining Credit or Incurring Debt on a Superpriority or Secured Basis
  - If the debtor is unable to obtain unsecured credit as an administrative expense, the court may authorize the obtaining of credit or the incurring of debt
    - With superpriority over other administrative expense claims, including professionals' fees;
    - Secured by a lien on unencumbered property; or
    - Secured by a junior lien on encumbered property. 11 U.S.C. § 364(c)
  - The debtor must be able to demonstrate that it has reasonably attempted, and failed, to obtain the credit on an unsecured basis (or without superpriority status)
  - Usually lender's unwillingness to lend without lien protections is sufficient

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DIP Financing (cont'd)

- Priming Liens
  - If the debtor cannot obtain the credit or incur the debt it needs by other means, the court may authorize the obtaining of such credit or the incurring of such debt secured by a senior or equal lien on encumbered property
  - In order to prime, the primed lienholder must be adequately protected. Examples of adequate protection in 11 U.S.C. § 364(d):
    - An equity cushion (i.e. lender's claim is less than value of the property) might support a grant of so-called "priming" liens
    - Also, the new loan might actually increase the value of the primed lenders' collateral and increase the equity cushion (e.g. financing to build improvements on encumbered real estate). See In re 495 Central Park Avenue Corp., 136 B.R. 626, 631 (Bankr. S.D. N.Y. 1992)
- In addition to the adequate protection analysis in the financing context, courts have noted requirements that: (i) the proposed transaction is necessary to preserve the estate and the reorganization, and (ii) the terms are fair and reasonable

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Control Through the DIP

- Lenders use the DIP funds and covenants to control proceedings
- More typical controls include:
  - Sale milestones
  - Plan milestones
  - Payment of prepetition secured debt in full

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The Scarcity of Speculative-Grade Financing in General, Including DIP Financing, Has Encouraged Highly Distressed Firms to Consider These Unconventional Alternatives:

- Distressed exchanges outside of bankruptcy
  - S&P has already noted a flurry of distressed exchanges in 4Q08, with 8 of 17 U.S. defaults in Dec. 2008 resulting from distressed exchanges. It expects this trend to continue in 2009 if credit market conditions don't improve markedly
  - The rating agencies consider most distressed exchanges equivalent to an event of default even if they do not result in a bankruptcy filing or if the value of the exchange offer exceeds the market price of the old securities to be tendered
  - Distressed exchanges typically involve unfavorable revisions (for debt holders) to key terms of the original claim, such as coupon rate, maturity or principal. Recent exchanges have involved below par debt tenders in exchange for higher seniority new securities
  - Distressed exchanges are usually coerced transactions, as impacted creditors realize they will likely fare worse in a bankruptcy scenario without such an exchange
  - Recent examples cited by S&P include Harrah's Entertainment, Level 3 Communications and ResCap and Neff Corp., American Media

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The Scarcity of Speculative-Grade Financing in General, Including DIP Financing, Has Encouraged Highly Distressed Firms to Consider These Unconventional Alternatives (cont'd):

- Preemptive Revolver Drawdown
  - Drawing down completely on revolvers where possible, usually in anticipation of an impending credit event, in order to maximize cash balances should an eventual bankruptcy filing be necessary
    - In April 2008, Masonite International drew down its remaining $336mm of availability on a $350mm revolver in anticipation of financial covenant violations in 2Q08. The Company still has forbearance agreements in place as it negotiates a workout with its banks and note holders.
    - In February 2009, Clear Channel Communications drew down $1.6 billion of remaining availability on a $2.0 billion revolver citing "continuing uncertainty in credit market and economic conditions."
  - Such drawdowns may anticipate that DIP financing will not be available in the event of bankruptcy filing
  - These preemptive drawdowns may ultimately hasten a bankruptcy filing by antagonizing existing lenders and undermining their willingness to be accommodating if and when a credit event occurs

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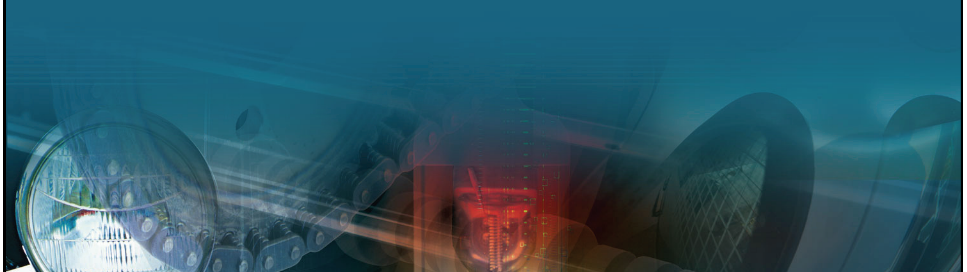
Questions and Answers



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