



European Restructuring Report

Default, Restructuring and Recoveries in 2008- 2010

by Attila Takacs



Contents

- Foreword 3.
- 1. Introduction 4.
 - *LBO Distress Flowchart 2008-2010*
 - *Restructurings vs covenant resets*
 - *Debt restructurings peaked in 2009*
 - *Private equity vintage 2006-07 came back to restructure*
 - *Average post-restructuring leverage was 6.1x EBITDA*
- 2. Write downs and sustainability 11.
 - *Average debt write down stood at 53%*
 - *More junior debt remained in the structure in 2010*
 - *Zombie deals and second restructurings*
- 3. Equity and new money 15.
 - *Ownership has shifted from senior to mezzanine in 2010*
 - *New equity and new debt played equal parts*
 - *Sponsors walked away in half of LBO restructurings*
- 4. Recoveries 18.
 - *Average senior recovery was 65%-70%*
 - *Recoveries improved in 2010*
- 5. Triggers and timelines 21.
 - *Covenant breaches triggered restructuring negotiations*
 - *Most restructuring talks lasted between six to nine months*
 - *Out of court agreements dominated the scene*
- 6. Landmark restructurings 25.
- 7. Covenant resets 2008-2010 34.
- 8. Appendices 35.
 - 8.1 Covenant amendments table

Written by:

Attila Takacs
Head of Research Europe
 attila.takacs@debtwire.com
 +44 20 7059 6167

Data Research:

Attila Takacs
Head of Research Europe

Thomas Alline
Debtwire Analyst

Foreword

It would be virtually impossible to summarise three years of financial trends and events on one page, especially the turbulence we experienced between 2008 and 2010.

The bursting of the subprime bubble in 2007 kicked off a rollercoaster period that sparked a full-blown melt-down of the financial markets in the autumn of 2008, resulting in the collapse of Lehman Brothers. The financial crisis, which shut down the leveraged loan and high yield primary markets, soon derailed the real economy. The resultant contraction in earnings (starting in the construction, automotive and manufacturing sectors) and evaporating liquidity put pressure on covenants, and in many cases on corporates' ability to meet debt service payments.

Restructuring activity in Europe during these years peaked in 2009, with our calculated default rate increasing to 13.9%. Full-blown restructurings dominated market activity with 49 deals compared to the 34 covenant amendments we recorded. As new business plans revealed a significant shortage in EBITDA over the coming years and lending banks found it difficult to provide new liquidity, private equity sponsors were often able to impose aggressive strategies and force creditors to swallow substantial haircuts.

As the primary and secondary markets started to recover in 2010, covenant resets, holidays or 'amend and extend' deals once again became more frequent than debt-for-equity swaps or discounted debt exchanges. Junior recoveries increased significantly from 2009 levels, albeit partly as a result of 'zombie' restructurings/amendments. Banks and CLO investors were unwilling to suffer unnecessary write-downs, resulting in deals that may still end up with unsustainable post workout capital structures.

While this report is purely retrospective, the data suggests that the high proportion of amendments and debt-heavy capital structures, exacerbated by economic stagnation and sovereign risk fears, will likely keep the European distressed debt market busy in the coming years.

We gathered relevant data from our full LBO universe, which comprises 386 credits within Western Europe and around EUR 367bn of drawn debt. Our real-time coverage on the financial restructuring and covenant resets provided us with the information for the dataset this report is based on.



Attila Takacs

Debtwire
Head of Research Europe

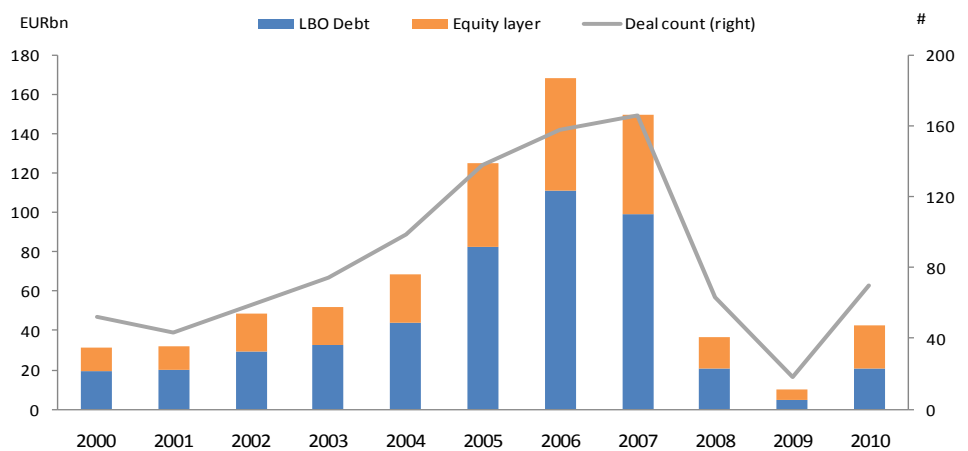
1. Introduction

Right after the LBO boom

After the 2006-2007 LBO boom, banks and CLO managers were forced to concentrate on their existing portfolios, virtually shutting down the primary market.

The global recession severely impacted the European leveraged loan market. Primary markets virtually shut down in 2009 and recovered only slightly the following year. With the exception of a few club deals, banks were forced to close their leveraged loan books, while CLO managers were more than busy managing credits in their existing vehicles.

European private equity LBO transactions



Source: Mergermarket

During the three peak years (2005-2007) of the European LBO boom, sponsors issued around EUR 300bn of debt to back new private equity acquisitions. But before LBOs had time to delever their capital structures, the environment underwent significant upheaval in 2008, and earnings quickly started to fall short of original business projections.

As the general economy gradually recovered in 2010, covenant amendments began replacing heavy debt restructurings.

In late 2008 and early 2009, a wave of companies breached covenants or defaulted on debt service payments. For many of them, slashing debt became essential as leverage frequently spiked to 15x-20x EBITDA. The LBO default rate jumped to 13.9% by the end of 2009, before retracting to 6.8% in 2010.

As earnings showed signs of recovery in 2009 and 2010, covenant amendments became a more viable option for many troubled LBOs. This was supported by the improving long-term profitability outlook and the desire of banks and CLOs to avoid a financial restructuring. In contrast, distressed funds with positions in capital structures at significant discounts typically agitated for aggressive solutions to push for more upside in the equity layer.

Adjusting stressed/ distressed capital structures

Categorised by the need to adjust their capital structures, around 44% of our European LBO universe experienced some sort of stress/ distress.

The last three years were undoubtedly one of the most extraordinary and eventful periods in the European leveraged loan market.

At Debtwire, our Western European LBO universe included 386 deals launched between 2008 and 2010, which accounted for around EUR 367m of drawn debt. Around 24% of the companies defaulted (missing an interest or amortisation payment, filing for bankruptcy or implementing a discounted debt exchange/ buyback) and 21% ended up in full-blown financial restructurings. Some 23% of the companies had to renegotiate their covenants as decreasing headroom put pressure on compliance and around 4% of the companies bought back debt at a discount to delever their capital structure.

LBO Distress Flowchart 2008- 2010

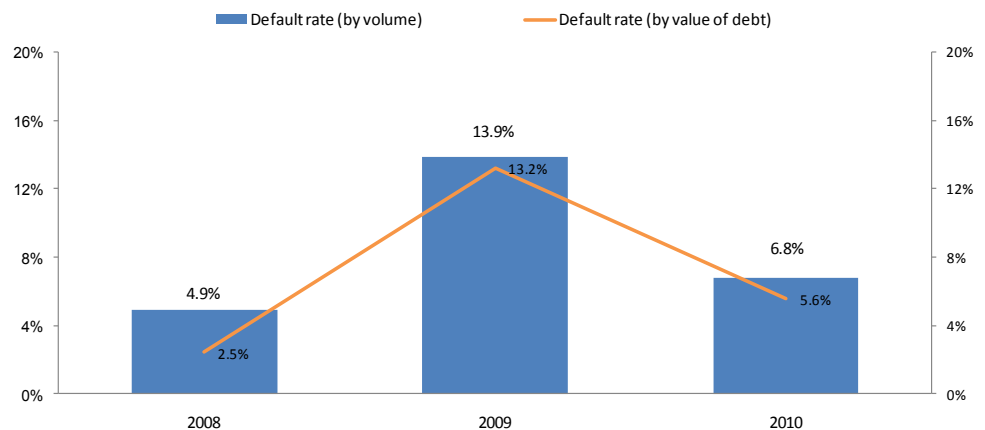


Restructurings vs. covenant resets

The 12-month trailing default rate for European LBOs peaked in 2009 at 13.9%, according to Debtwire proprietary intelligence.

After stagnating around the 2%-3% level from 2003 to 2007, default rates jumped in 2008 (according to data from Standard & Poor's). Debtwire calculated the trailing 12-month default rate peaked in 2009 at 13.9% at the end of the year. This represented around 13.2% of the total LBO universe in terms of debt value.

Default rate - Western European LBOs

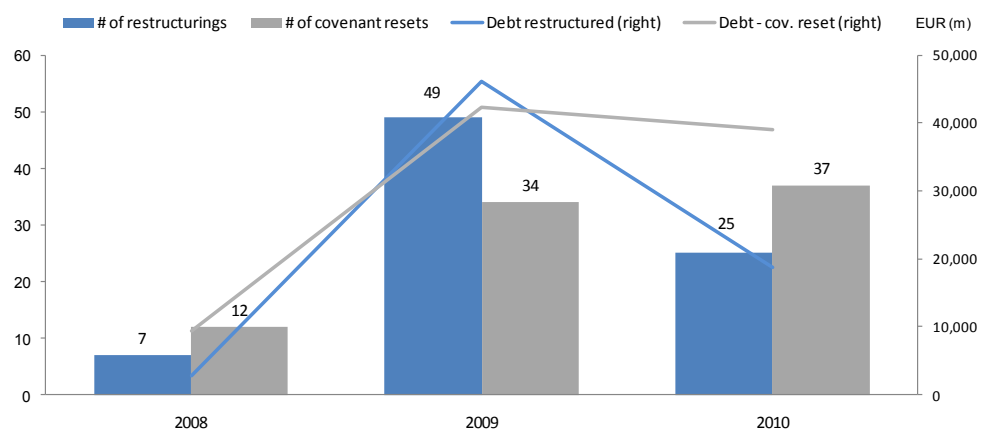


In 2010, default levels decreased to 6.8% as a result of the recovering economy underpinning the performance of individual portfolio companies.

Covenant resets once again became the norm rather than restructurings in 2010, supported by more optimistic profitability forecasts.

The decrease in default rates was a result of fewer capital structure negotiations with lenders (around 30% less versus 2009) and a higher proportion of covenant amendments. The majority of these companies were able to negotiate a covenant reset or covenant holiday, avoiding the need to write down part of the outstanding debt. Earnings forecasts for the next three years became more optimistic, which supported higher EV multiples and consequently higher sustainable debt levels.

Restructurings and covenant resets in 2008- 2010

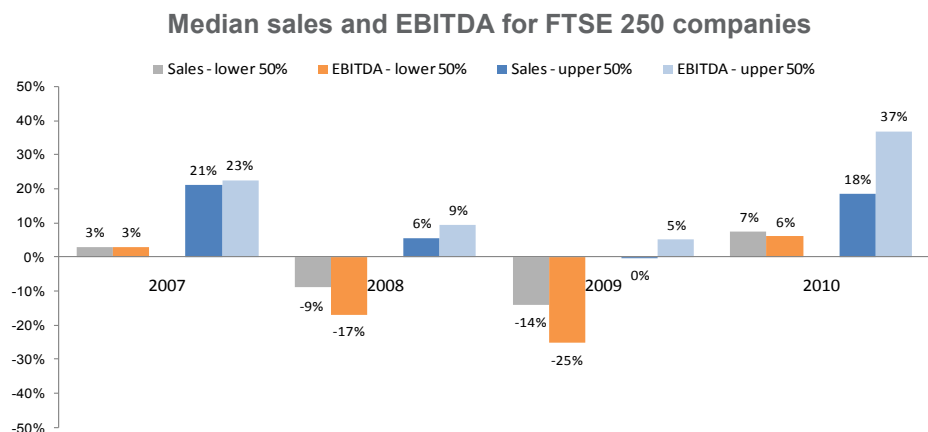


Restructured LBOs almost halved EBITDA in 2009

64% of restructurings came from the private equity peak 2006- 2007 vintage.

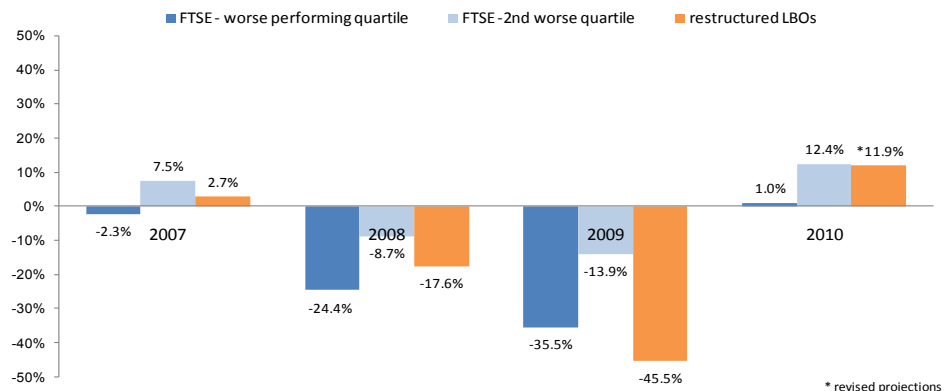
Most European countries entered into recession in 2008, the first time since the early 1990s, and the first time in the 21st century. The collapse of the US housing market and a subsequent banking crisis caused credit markets to freeze, knocking the real economy off course and bringing a 16-year run of growth to an end. The recession started in the third quarter of 2008, which experienced a second consecutive quarterly contraction, with the UK economy shrinking 0.9% QoQ and the euro-area by 0.4%. The trough of the cycle arrived in early 2009, with the UK recording a 2.6% QoQ and 6.0% YoY contraction of GDP, and the euro zone posting a 2.5% QoQ and 5.3% YoY decrease.

The following sample of public companies (FTSE 250) shows how much the weakest corporates suffered in 2008 and 2009. In 2008, average (trimmed) sales of the lower median of the sample decreased by 9% YoY, translating into a 17% EBITDA drop. The sales and EBITDA decline was even more severe during 2009, with EBITDA shrinking as much as 25% on average.



By contrast, earnings for LBOs that underwent a financial restructuring during this period deteriorated even more severely in 2009 than those of the companies in the lowest quartile of our FTSE sample. In 2009, the median YoY change of EBITDA of our distressed LBOs was -45.5%, after a median YoY decrease of 17.6% in 2008.

Median EBITDA change yoy; FTSE 250 vs. restructured LBOs



Debt restructurings peaked in 2009

In total, EUR 67bn of debt was restructured between 2008 and 2010, with EUR 32bn of debt remaining in new capital structures.

A total of EUR 67bn of debt was restructured between 2008 and 2010, issued by 81 companies in our universe. Companies emerged post-restructuring with EUR 32bn of debt, representing an average write down of 52%. The largest restructuring was Netherlands-based chemical company LyondellBasell, which filed for US Chapter 11 in January 2009. Some USD 18bn of the group's USD 24bn (EUR 18.5bn) debt was written off, USD 3.9bn (EUR 3bn) was rolled-up, and USD 3.1bn (EUR 2.5bn) of new financing was provided by the end of the process.

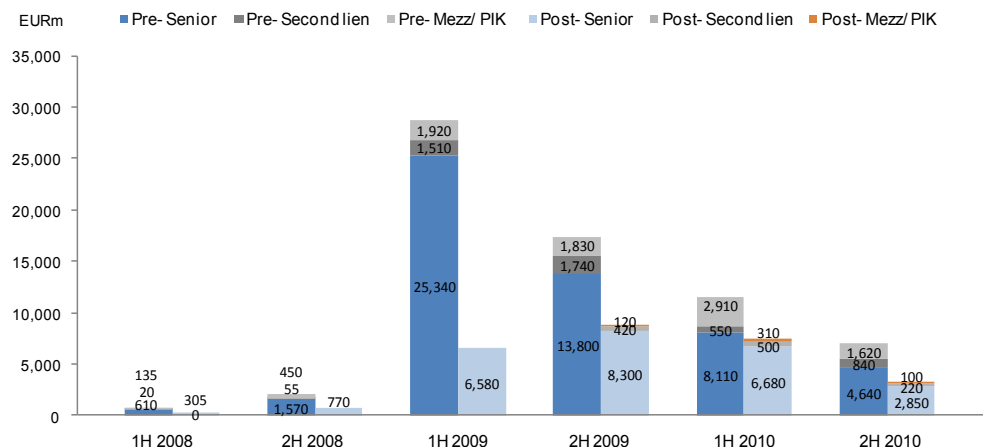
Restructuring activity peaked in 2009, when 49 of 81 total restructurings amounting to EUR 46bn debt were agreed out of court or filed for a court-driven process. While the first half of 2009 represents a higher level of activity by value of debt, significantly more deals were agreed in the second half of 2009: 32 deals in 2H09 versus 17 in 1H09. In 2010 some 25 workouts were agreed to restructure around EUR 18bn of debt.

Junior lenders wrote off their debt in full in the first 26 restructurings of 2008-09.

The first restructuring in which junior lenders were able to retain some debt did not take place until late 2009, with agreements on Burton's Food and Hilding Anders in October 2009, and Argenta and Oystar in December 2009. In the first three cases, junior lenders retained around 50% of their debt, while Oystar's mezzanine lenders were able to keep their EUR 30m debt whole, recording the first 'flip-to-PIK' restructuring.

In 2010, nine out of 26 total restructurings maintained some junior debt in the restructured capital, totalling around EUR 1.1bn. However, with the exception of Gala Coral and Deutsch Group's EUR 150m and USD 60m second lien debt, junior lenders were required to flip their interest in full or at least partially to payment-in-kind (PIK), to bring the company's cash interest charges down to sustainable levels. Four of the five post-restructuring mezzanine tranches and four of the seven second-lien facilities flipped the entire interest to PIK.

Pre- and post-restructuring debt breakdown

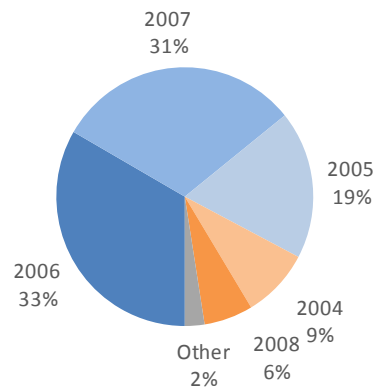


Private equity vintage 2006-07 came back to restructure

64% of restructurings came from the private equity top of the cycle 2006-2007 vintage.

The breakdown of restructurings by vintage reflects the private equity boom of late 2006 and early 2007, with 64% of workouts representing deals from those two years. The most common vintage was 2006 with 27 companies. Out of 25 restructured companies acquired in 2007, 20 came from the first half of the year.

Restructurings by vintage

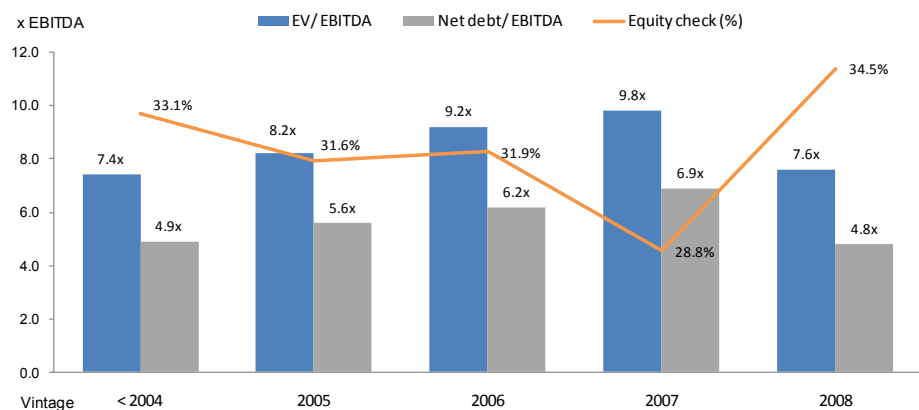


Acquisition multiples peaked in 2007, reaching an average of 9.8x EBITDA compared with less than 8x for acquisitions made before 2004. In parallel to increasing multiples, the average equity cheque decreased from around 33% to 29%, while average initial net leverage of subsequently restructured companies increased to 6.9x.

Restructured companies were around 0.6x more levered than the average LBO company at the time of its acquisition.

Initial leverage for restructured companies at the time of their acquisition was around 0.8x higher on average than all the LBOs with a 2006- 2007 vintage (at 6.6x versus 5.8x), while 2005 and earlier vintage restructurings were on average 0.5x more levered than the full LBO sample group.

Initial leverage of restructured companies by vintage year



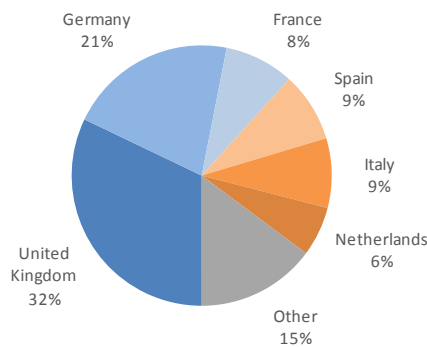
Average post-restructuring leverage was 6.1x

During 2008-2010, 81 of our 386 LBO companies went through a financial restructuring in 13 different countries and across 16 industries.

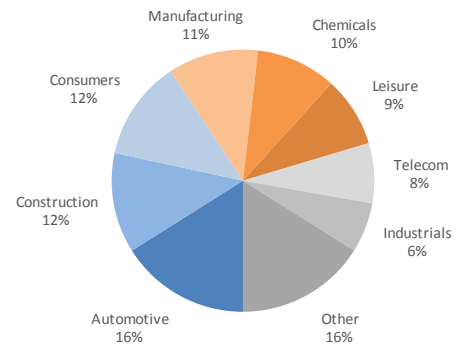
Between 2008 and 2010, 81 LBO companies in our universe underwent a financial restructuring where lenders were forced to accept some form of haircut on their principal or cash interest. The highest number of restructured companies were based in the UK (26), followed by Germany with 17 LBOs. While restructured UK companies came from a wide range of sectors, German restructurings were mostly centred around the automotive (41% of all Debtwire German restructurings), manufacturing (24%) and chemical (18%) sectors. In Spain, four of the seven LBO restructurings came from the construction industry and two were from the consumer sector.

Breakdown of European restructurings 2008-2010

Breakdown of countries



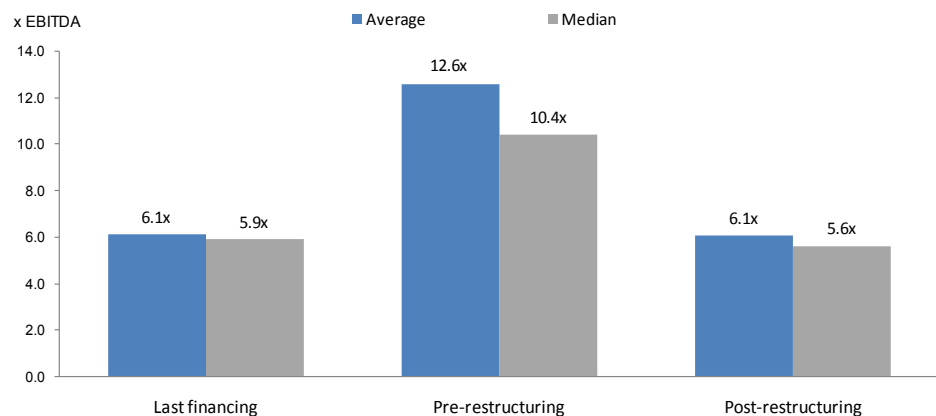
Breakdown of industries



Average net leverage decreased by more than 50% during the restructurings, from 12.6x to 6.1x EBITDA post-restructuring. This is the same average level deals started off with following their buy-outs, most of which occurred between 2006 and 2007. A total of 42 companies were more than 10x levered pre-restructuring (with 14 companies higher than 15x), while 10 out of the 81 companies were still more than 10x levered post-restructuring.

Pre- and post-restructuring net leverage

Average net leverage decreased by more than half, from 12.6x to around 6.1x EBITDA post-restructuring.



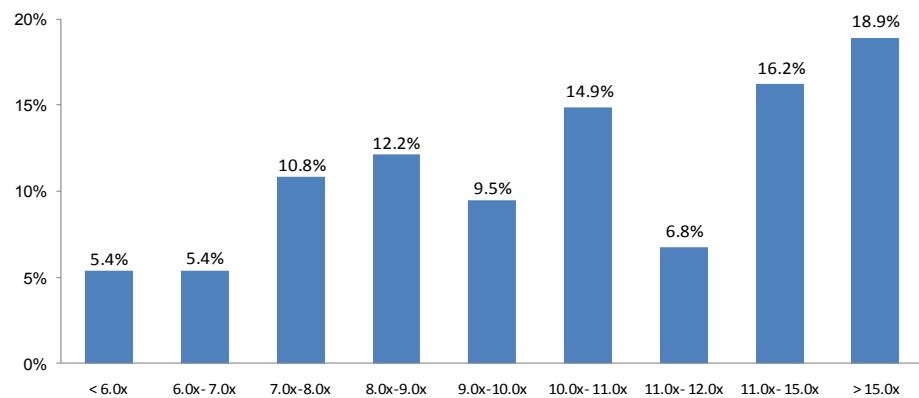
2. Write downs and sustainability

More than half of the LBOs recorded double-digit leverage ratios at the time of their restructuring.

The vast majority of Debtwire restructurings were initially triggered by covenant compliance difficulties as a result of rapidly deteriorating profitability in 2008 and 2009.

Most LBO covenants were set at single-digit leverage, but by the time the companies completed their restructurings (usually 6-12 months after a covenant trigger), their leverage increased further, rising well above the 10x EBITDA threshold in some cases. As a result, slightly more than half of the LBO universe recorded double-digit leverage ratios at the time of their restructuring, clearly demonstrating unsustainable capital structures.

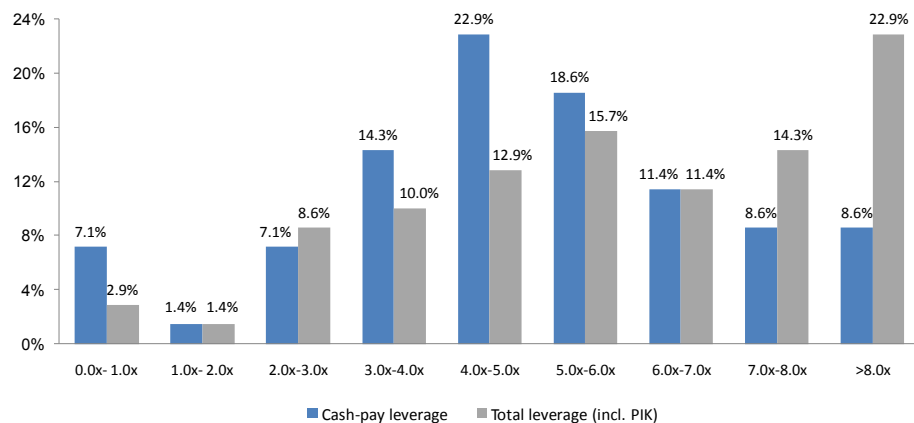
Pre-restructuring leverage (x EBITDA)



Post-restructuring leverage came in at an average of 6.1x. Cash-pay leverage averaged even lower at 4.9x EBITDA. In order to avoid debt write-downs, lenders often agreed to PIK interest on junior debt, which resulted in 37% of the group of companies ending up with post-restructuring leverage above 7.0x. Cash pay leverage was above 7.0x for 12 companies (17%), however in many of these cases the cash interest was significantly below original levels, often hitting margins as low as 25bps-50bps over Libor.

Post-restructuring leverage came in at an average of 6.1x. Cash-pay leverage averaged even lower at 4.9x EBITDA. In order to avoid debt write-downs, lenders often agreed to PIK interest on junior debt, which resulted in 37% of the group of companies ending up with post-restructuring leverage above 7.0x. Cash pay leverage was above 7.0x for 12 companies (17%), however in many of these cases the cash interest was significantly below original levels, often hitting margins as low as 25bps-50bps over Libor.

Post-restructuring leverage (cash-pay and total)



Average debt write down stood at 53%

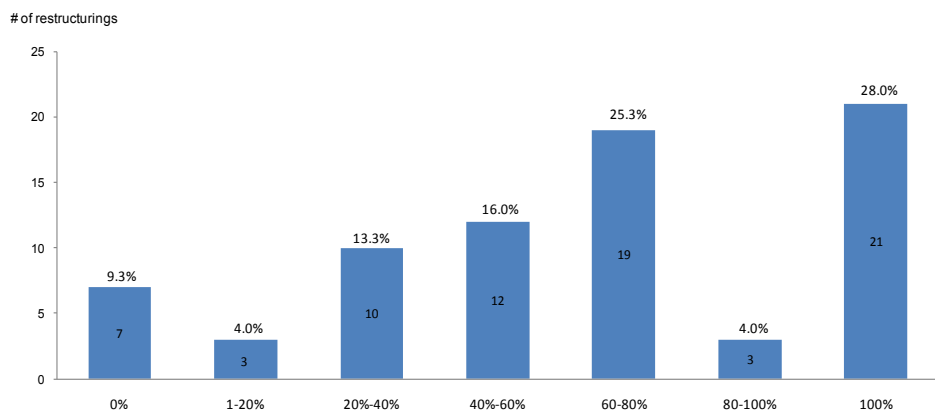
Around half of the outstanding debt was written off at implementation, resulting in restructuring values breaking within the senior debt.

Pre-restructuring debt structures comprised 77% first-lien and 23% junior debt on average. With typically half (53%) of outstanding debt being written off during restructurings, the value generally broke in the senior debt, requiring first lien holders to accept a haircut.

On average, seniors were asked to accept a 34% haircut on their assets, with a median haircut of 36%. Senior lenders kept their debt whole in 21 restructurings (28%), but suffered a full write down in seven cases (9%).

In 2008, the average senior haircut was 48% (based on five debt-for-equity swaps that year), but it gradually decreased to a 38% senior write-down in 2009 and 23% in 2010.

% of senior debt remaining in the structure



The biggest senior haircuts unrelated to liquidations and debt-for-cash deals came from Bavaria Yachtbau (91% senior write-down), TI Automotive (86%), Famosa (83%), Lyondellbasell (82%) and Vita Group (80%). In the case of Lyondell, Bavaria and TI Automotive, senior lenders received a majority (90%+) equity holding in exchange for debt write downs.

Four cases resulted in practically debt free structures, with lenders receiving cash compensation in exchange for their debt.

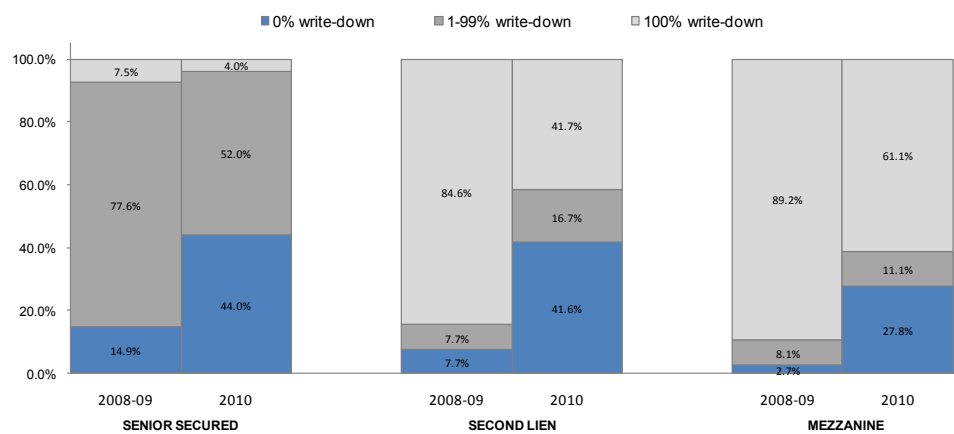
Four cases resulted in effectively debt free structures, with lenders receiving cash compensation in exchange for their debt. For example, JVH Gaming's existing sponsor committed EUR 127m of new equity to buy back all the company's outstanding debt. TMD Friction and Visicorp were respectively auctioned through German insolvency and pre-pack asset sale processes, while Saeco was sold to trade investor Phillips.

More junior debt remained in the structure in 2010

The improving financial performance in 2010 resulted in the value generally breaking lower in the debt structure.

From 2008 to 2010, senior lenders wrote off 52% of their outstanding debt during financial restructurings. Senior creditors wrote off all their exposure in only 7% of cases, while second lien lenders, who lost 77% of their outstanding debt on average, experienced a total write down in 27 out of 38 cases (71%). Mezzanine and PIK lenders were wiped out in 80% of cases, on average giving up 92% of their exposure.

Pre- and post-restructuring debt breakdown

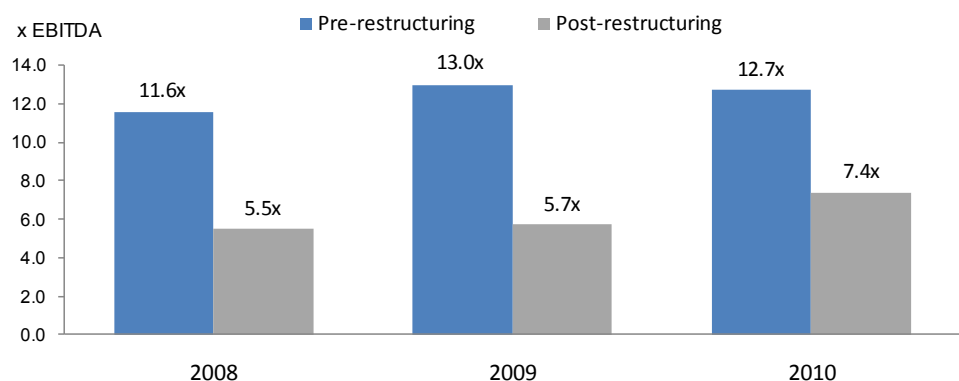


Improved financial performance in 2010 resulted in higher valuations and the value breaking lower in the debt structure, which reduced the average write-off ratio of seniors, but even more so for subordinated lenders. In 2010, 44% of restructurings resulted in senior lenders retaining full exposure, compared to only 15% of cases during 2008-09. Second lien and mezzanine lenders were wiped out in 78% and 89% of restructurings between 2008 and 2009 respectively, compared to 42% and 61% between 2009 and 2010.

More optimistic business projections and a shift towards higher PIK quantum also increased debt remaining in capital structures.

Post-restructuring leverage also increased in 2010 to 7.4x from 5.7x EBITDA in 2009, which can mostly be explained by more optimistic business projections and higher PIK layers in capital structures.

Pre- and post-restructuring net leverage



Zombie deals and second restructurings

Banks and CLOs typically tried to minimise write downs, often crowding out potential new investors/ money providers and resulting in zombie deals.

The sharp deterioration in financial performance and the reluctance of banks and CLOs to write off large parts of their exposure (which would have exacerbated their own balance sheet problems at the peak of the financial crisis), led some pre-2008 deals (and most covenant amendments) to come back for a second round of negotiations. A significant number of later restructurings, however, may still be positioned in a 'zombie' phase with unsustainable balance sheets.

Within the last three years, we recorded five companies that completed second restructurings, typically two years after completion of their first workout.

Companies with second restructurings

Company name	Debt before first restructuring (m)	First restructuring	Debt after first restructuring (m)	Second restructuring	Debt after second restructuring (m)
Polestar	GBP 814	2006	GBP 257	2008	GBP 140
TMD Friction	EUR 435	2006	EUR 375	2008	EUR 125*
SEA SpA	n/a	2007	EUR 204	2009	EUR 106
Treofan	EUR 300	2007	EUR 218	2009	EUR 60
Grupo Levantina	EUR 543	2008	EUR 543	2010	EUR 300

** post dividend*

As we saw previously, the restructuring tally peaked in 2009, with most deals finalised in the second half of the year. Post-restructuring indebtedness could suggest many companies in our report will have to approach lenders again within two years for amendments, maturity extensions or possibly new rounds of restructuring to cut debt structures further.

Potential zombie deals can be identified by: (1) high total leverage left in the structure; (2) a high proportion of PIK rather than cash pay debt; and (3) lower than market rate cash pay interest for most of the capital structure (25bps-100bps in some instances). These signs all suggest that cash generation could be below levels required to service the debt in the long-term. In the absence of significant turnaround, companies with these characteristics could find themselves in trouble when they try to return to market to refinance, or even earlier if liquidity comes under pressure or covenants start to bite.

Around one fourth of 2008-10 restructurings could fall back into distressed, should the general economy fail to recover by 2012-13.

Among the 81 companies that restructured their debt in our records between 2008 and 2010, almost half of the companies were more than 6.0x levered on a total level post-restructuring, 26 had total leverage above 7.0x and 20 deals had cash pay debt above 6.0x EBITDA.

On the basis of these numbers, we estimate that around 20-30 (25%-37%) of 2008-10 restructurings could run into difficulties servicing their debt if the general economic environment fails to recover as forecast during 2012-2013.

3. Equity and new money

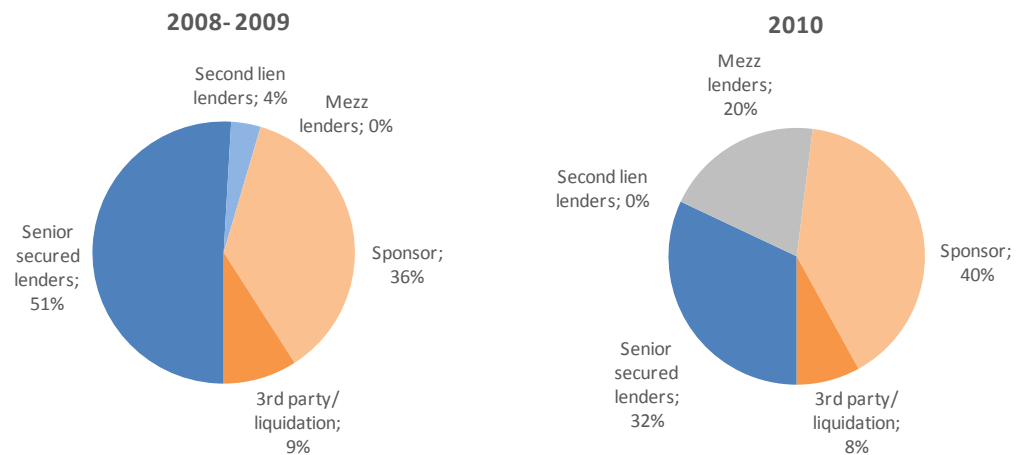
Ownership has shifted from senior to mezzanine in 2010

In 2008- 2009, first lien lenders ended up as majority shareholders in 51% of restructurings, but in 2010 mezz lenders took over the equity layer almost as frequently.

During 2008-09, senior secured lenders dominated shareholder structures of restructured companies, becoming majority equity holders in more than 50% of deals. New money was particularly valuable in 2008-2009 after the financial markets froze and liquidity virtually dried up. As a result, new money providers (senior lenders and sponsors) could expect a high equity cheque in exchange for their commitments. Incumbent sponsors managed to retain more than 50% stakes in 36% of the cases (20 restructurings), while second lien lenders took control in two deals (Burton’s Food and Treofan). Mezzanine lenders were usually wiped out (31 out of 55 restructurings), occasionally receiving a token or minority equity stake.

In 2010, however, mezzanine lenders received higher equity cheques, ending up with half the equity in 20% of restructurings and between 10%-50% equity in 25% of cases. Mezzanine debt was fully written down in 14 of the 25 cases.

Majority equity holders post restructuring



Higher EV multiples, a more accessible capital market and seniors’ reluctance to suffer write-downs all helped mezzanine lenders claim equity holdings.

While second lien recoveries also increased in 2010, lenders usually opted to maintain part or all of their debt and did not receive significant equity. In cases where mezzanine holders became the majority equity holders, second lien lenders typically swapped their debt into new PIK loans of equal or close to equal magnitude.

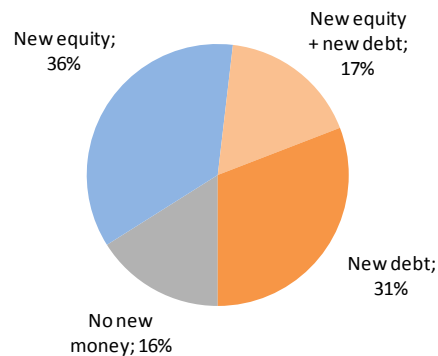
The primary driver behind the improved recoveries were (1) higher valuations based on better EBITDA projections, (2) more accessible capital markets to meet new money needs and (3) senior lenders’ reluctance to swallow further write-downs.

New equity and new debt played equal parts

Sponsors and lenders stumped up equal measures of new money on a volume basis, but new debt accounted for the biggest source of fresh liquidity.

Injecting new liquidity into distressed businesses is always a crucial discussion point in restructurings. Overall, 68 of the 81 restructured companies received either new equity or access to new debt facilities. New money injections were provided in equal measure by lenders and incumbent sponsors on a volume basis, but the largest source of new liquidity came from new debt raised by the companies.

New money provided in restructurings



Lenders provided around EUR 7.8bn of new debt at completion, while equity injections from sponsors and new investors amounted to roughly EUR 2.9bn. LyondellBasell's USD 6.05bn (EUR 4.5bn) new financing at completion of its Chapter 11 process accounted for the lion's share of new debt.

On average, new money provided to companies was equivalent to 1.6x EBITDA or 15% of pre-restructured debt. Measured with equal weighting for companies, this included an average equity injection of 0.9x EBITDA and new debt facilities of 0.7x EBITDA, or 8% and 7% of total debt respectively. While four new liquidity transactions in 2008 were done solely via equity injections, the value of new debt exceeded equity injections in 2010.

New debt came in at super senior level in 67% of cases, with the second most frequent seniority being the junior tranche (16%).

The new debt came at super senior level in 67% of cases, with the second most frequent seniority for new money being the junior tranche in 16% of cases.

Breakdown and value of new liquidity

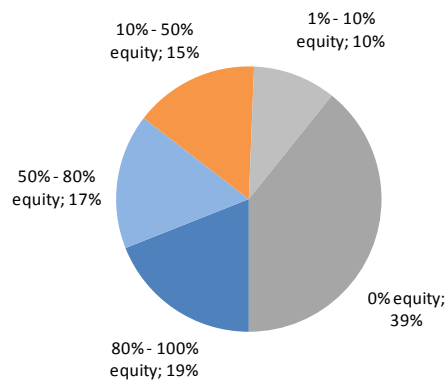
Year	# of companies receiving new money	Avg. total new liquidity/ total debt	Avg. total new liquidity/ EBITDA	Avg. new equity/ total debt	Avg. new equity/ EBITDA	Avg. new debt/ total debt	Avg. new debt/ EBITDA
2008	4/ 7	26%	3.1x	25%	3.0x	1%	0.1x
2009	40/ 48	15%	1.5x	8%	0.9x	7%	0.6x
2010	24/ 26	12%	1.4x	5%	0.5x	7%	0.9x
2008-10 average	68/ 81	15%	1.6x	8%	0.9x	7%	0.7x
2008-10 median	-	9%	1.0x	6%	0.5x	3%	0.3x

Sponsors walked away in half of LBO restructurings

Sponsors' holdings were largely wiped out in almost half of LBO restructurings, with sponsors ending up with 0%, out-of-the-money equity warrants or with token equity holdings in a few cases.

Incumbent equity sponsors' holdings were virtually wiped out in almost half of the restructurings, with sponsors ending up with either 0%, out-of-the-money equity warrants or token equity holdings in a few cases. Sponsors retained their majority shareholding in 36% of cases, while minority shareholdings were a relatively rare outcome in just 15% of restructurings.

Post restructuring shareholding of sponsors

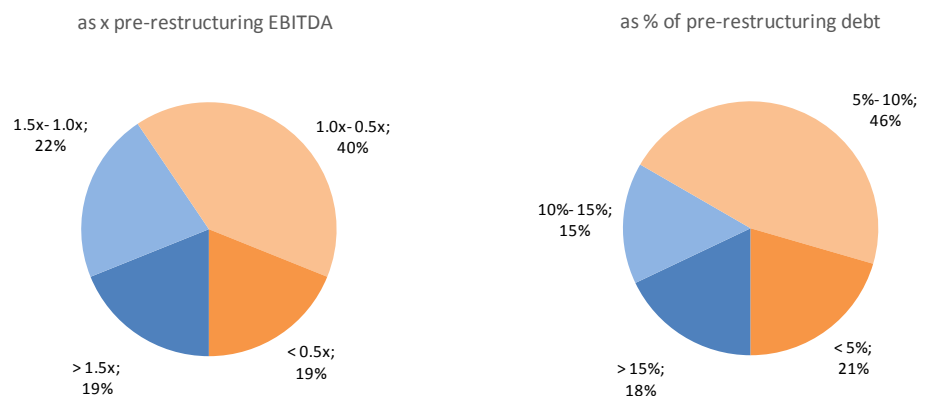


In exchange for post-restructuring equity holdings, sponsors were required to inject new equity averaging around 1.2x EBITDA (median: 0.9x EBITDA), or around 12% of the company's pre-restructured debt (median: 9% total debt).

Private equity groups typically injected new money at the equity level (33 restructurings), however we recorded four cases where it came in at a junior debt level (JOA, SSP, JOST and Hilding Anders), and two cases where the sponsor provided liquidity at a super senior level (SR Technics and Vita Group).

Equity injections by incumbent sponsors

Sponsors were required to inject new equity averaging around 1.2x EBITDA or around 12% of total debt.



4. Recoveries

Average senior recovery at 65%-70%

Senior secured loans continued to suffer considerably less downside than junior tranches.

Senior secured recoveries decreased to an average recovery ratio of 65%-70%, sharply down from historical levels in excess of 90%. However, senior secured loans still came off significantly better than junior tranches.

While junior recoveries were significantly skewed towards 0%, their averages came in slightly above the 0%-10% median range.

Average recovery 2008- 2010

Based on:	SENIOR	2nd LIEN	MEZZANINE
Avg. recovery on all restructurings:	72%	30%	16%
Median recovery:	70-80%	0-10%	0-10%
Weighted average recovery:	65%	20%	14%
Recovery excluding DfD restructurings (only DfE; DfC and Liquidations)	69%	22%	8%
Out of Court agreements only (incl. court approved schemes)	71%	23%	8%
Court Driven procedures (3 restr.)	37%	0%	0%
Average Recovery:	65%- 70%	20%- 30%	5%- 15%

Visiocorp and Bavaria Yachtbau resulted in lowest senior recoveries, with seniors receiving just 10%-20% of their par debt post-restructuring.

Visiocorp and the Bavaria Yachtbau restructurings resulted in the lowest senior recoveries, with seniors left with just 10%-20% of their par debt post restructuring. While Visiocorp lenders received cash proceeds after the asset disposal to Motherson Sumi, Bavaria lenders wrote-off more than 90% of their debt and invested EUR 50m of new money in exchange for 95% of the group's equity.

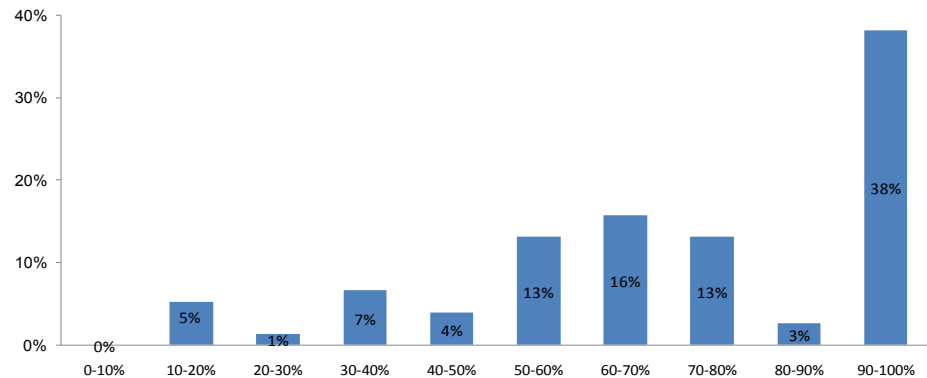
The three court-driven, non pre-pack restructurings that we recorded during the last three years (TMD Friction, LyondellBasell and Edscha) resulted in an average 37% senior recovery, almost half of the value of the company as calculated for the out-of-court agreements (including pre-pack enforcements).

** Recoveries were calculated with par-assumption on rolled up debt facilities. Post-restructuring equity value was estimated on EV/ EBITDA or on new equity assumption basis. Enterprise multiples were estimated from industry averages using discount factors for post-restructuring distress and illiquidity. Recoveries may be upward biased due to the automatic par assumption on possible unsustainable post-restructuring debt profiles.*

Distribution of recoveries in 2008-10

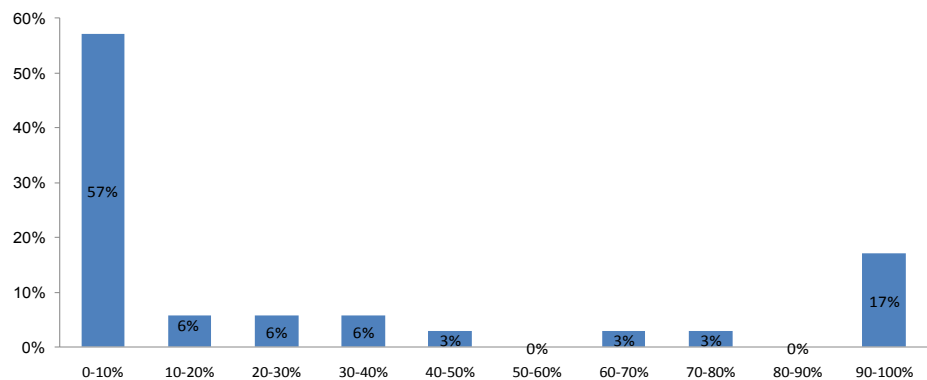
Senior recovery distribution

42% of restructurings resulted in seniors making 50%-80% recoveries, while in 38% of the cases, seniors recovered 90%-100% of the value of their debt.



The distribution of senior recoveries peaks in two places, with 42% of restructurings resulting in seniors recovering 50%-80% of the value of their debt (coinciding with the 60%-70% geometric average of recoveries) and 38% of cases falling into the 90%-100% senior recovery range.

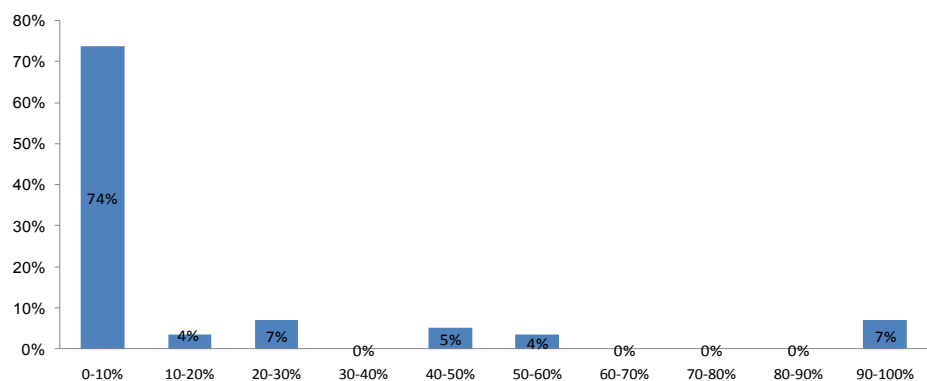
Second lien recovery distribution



Second lien lenders and mezz lenders had negligible recoveries at 57% and 74% respectively.

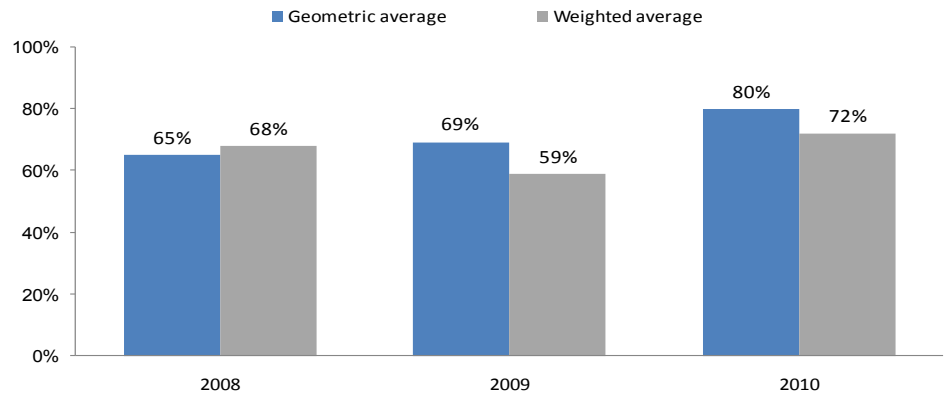
Junior recoveries had a skewed distribution with 0%- 10% recoveries in the majority of the LBO restructurings. Second lien lenders and mezz lenders had negligible recoveries at 57% and 74% respectively.

Mezzanine recovery distribution



Recoveries improved in 2010

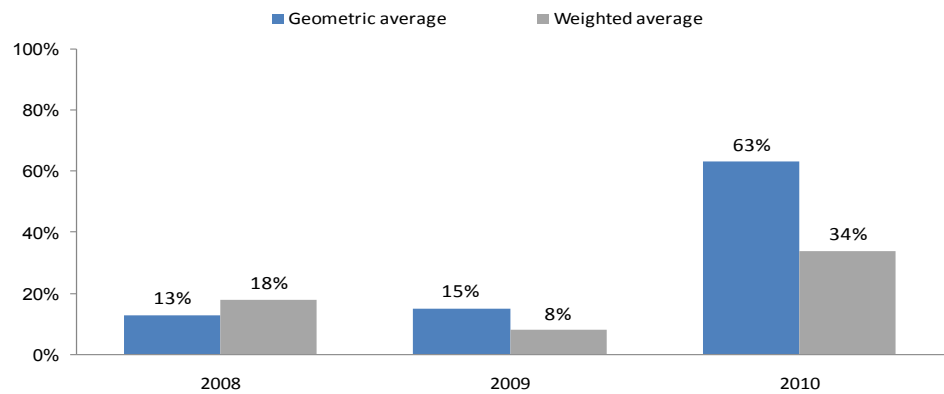
Senior lender recoveries



Senior recoveries averaged 80% in 2010, compared to 65%-70% over the last three years.

Senior recoveries averaged 80% in 2010, compared to a 65%-70% average over the last three years.

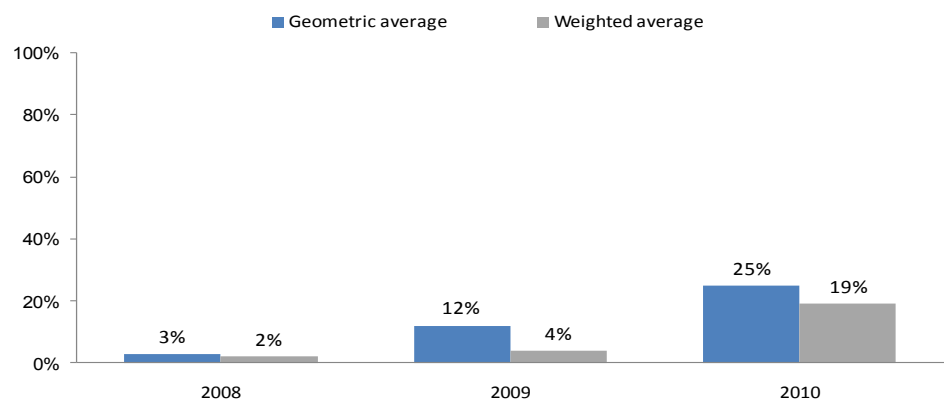
Second lien lender recoveries



Junior recoveries increased significantly in 2010, mainly due to “flip-to PIK” restructurings.

Junior recoveries increased significantly in 2010, mainly due to “flip-to PIK” restructurings. In 2010, three out of 12 second lien deals ended up with post-restructuring PIK debt and five with new cash pay second lien. At the mezzanine level, four out of 15 restructurings had a full or partial “flip to PIK” exchange.

Mezzanine lender recoveries



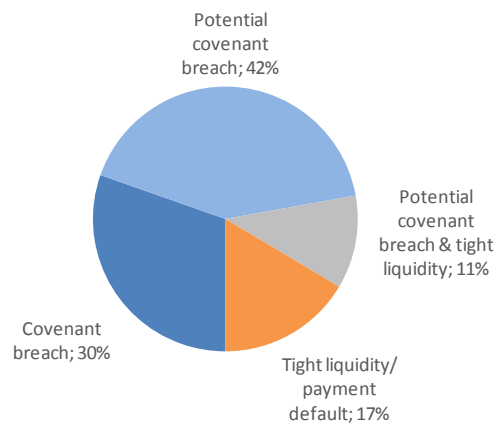
5. Triggers and timelines

Covenant breaches triggered restructuring negotiations

In 83% of restructuring cases, an actual or potential covenant breach triggered the initiation of talks.

The sharp slump in EBITDA during the downturn led to rapidly decreasing covenant headroom in our pool of companies. Restructuring talks began mostly after companies breached their covenants (in most cases the leverage test) or were forced to request a standstill ahead of a potential covenant breach. Tight liquidity or payment default was the initial trigger in just 28% of the cases.

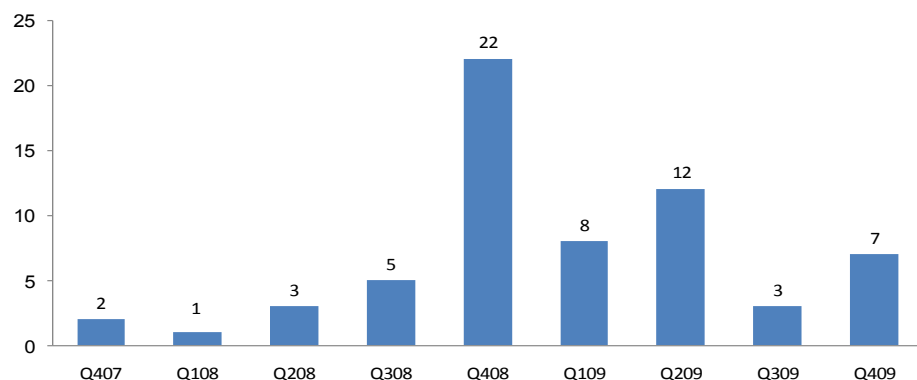
Restructuring triggers



Despite EBITDA hitting lows towards the end of 2009, the majority of companies were already forced into negotiations in early 2009.

Actual and potential covenant breaches clearly peaked after FY08, with 32 companies either breaching December 2008 covenants or requesting a standstill period ahead of the test. While LTM EBITDA of the companies subsequently going through a restructuring decreased by an average 18% in 2008 and generally troughed at the end of 2009 (after a further YoY decrease of 46%), the majority of companies were already forced into negotiations in early 2009.

Breaches and potential breaches that lead to restructurings



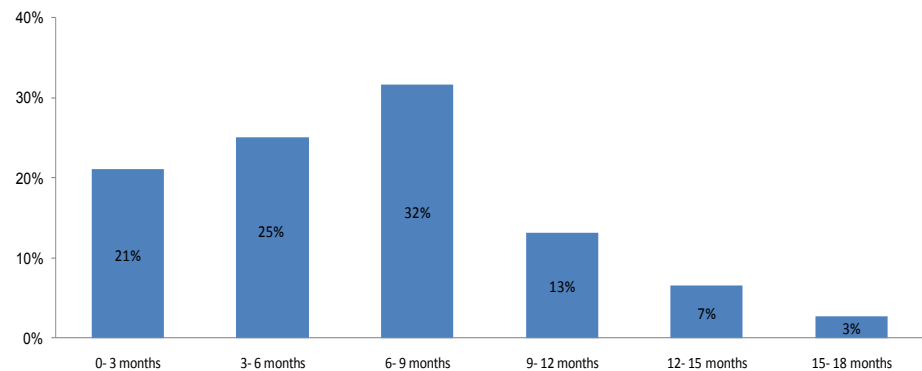
Most restructuring talks lasted between six to nine months

We found more than half of the shorter ‘less than three months’ restructurings occurred in early 2009, when cash burn was highest.

Restructurings typically took six to nine months from the trigger event (breach of covenant, standstill request or payment default) to signing off agreements or bankruptcy filing.

More than half of the short (less than three month-long) restructurings took place in early 2009. This was when cash burn was at its highest and new liquidity had to be provided quickly, usually by existing sponsors, in order to maintain operations. LyondellBasell and Edscha’s bankruptcy filings in January and February 2009, came within three months after their trigger events.

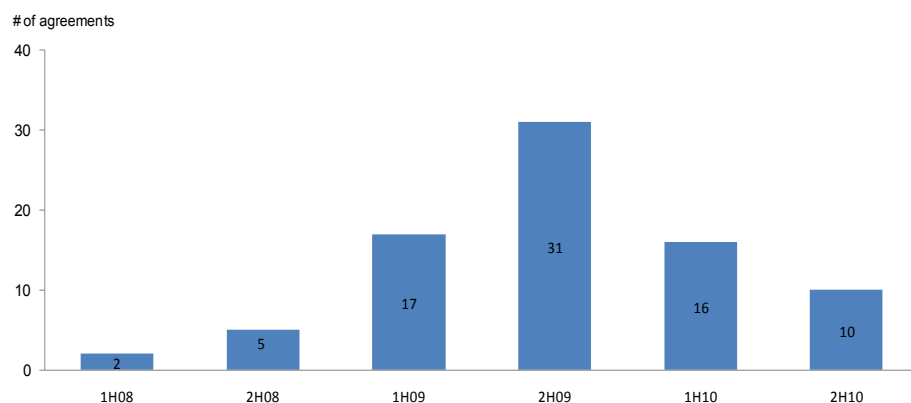
Timeline of restructuring agreement from trigger event



Tele Columbus (formerly Orion Cable) had the longest restructuring Debtwire recorded during 2008-2010.

The longest restructuring that Debtwire recorded during the period was Tele Columbus’ (formerly Orion Cable) deal with its lenders. Its UK-based scheme of arrangement started in November 2010, almost a year and a half after negotiations began with a standstill request following a breach of the 2Q09 covenant test (June 2009). High profile restructurings that lasted over a year include JOST Werke, PrimaCom and HC Starck. All three restructurings were initiated around their Q209 covenant test and only finalised in 2H10.

Restructuring deals agreed in 2008-2010



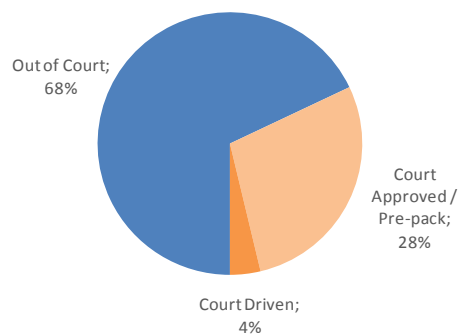
Out-of-court agreements dominated the scene

Only three restructurings were court driven without a pre-packaged agreement in place before filing.

A total of 68% of restructurings were agreed out of court during 2008-2010. Only three in-court restructurings were 'classic insolvencies' without a pre-filing lender agreement, namely TMD Friction and Edscha in Germany and LyondellBasell under US Chapter 11.

Out of the 24 pre-pack court approved restructurings, 13 (53%) were approved by a UK scheme of arrangement process, five under French law and two under Dutch law, while a further two took place in US jurisdictions. Court approved pre-pack arrangements featured in 42% of the 26 UK restructurings, while in two cases (PrimaCom and European Directories) a non-UK based company filed for a scheme of arrangement under UK law.

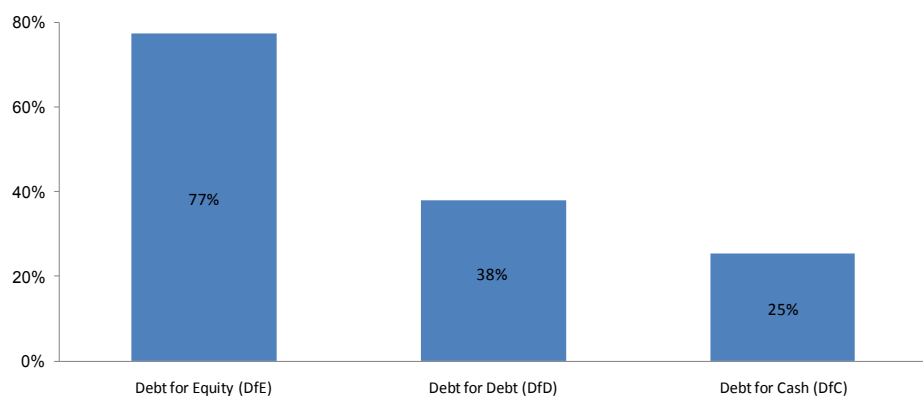
Restructuring types



77% of the restructurings included some form of debt-for-equity component.

A large majority (77% or 30 deals) of the restructurings included some form of debt-for-equity element. In eight (10% of all restructurings) of these deals all or some cash interest on the debt was converted to PIK. One quarter of the restructurings included an immediate cash recovery for certain groups of lenders.

Restructuring elements as % of total deals

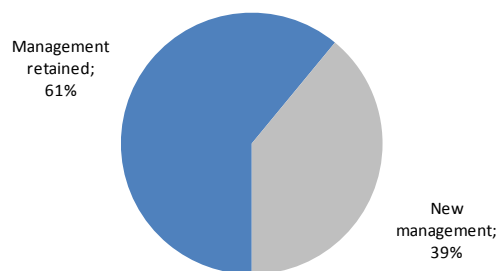


New covenants, new management and maturities

In 61% of cases, existing management remained in place after a restructuring.

Existing management was retained by companies in more than half of the restructuring cases during the three year period. Overall, there were significant changes in management during, or soon after the restructuring in 39% of the cases. 2008 restructurings involved a higher management change ratio, as underperformance was often blamed on mismanagement rather than the external impact of the economic downturn.

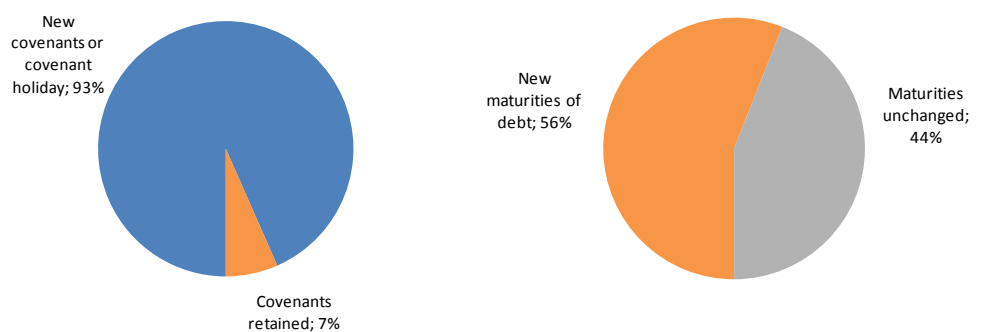
Management retention post restructuring



It was almost always necessary to grant new covenants or covenant holidays.

In almost all cases, new debt packages involved new sets of covenants or companies were granted a covenant holiday after the restructuring. Covenant holidays were typically set for a period between 18- 36 months. (eg: Bodybell, Ferretti, SEA, Levantina, Dometic).

New covenants and maturities of existing debt, post restructuring



Maturities on the remaining debt were changed in around half of the cases. While they were extended most of the time, maturity shortening was implemented in a handful of examples (eg: Schoeller Arca).

6. Landmark restructurings

LyondellBasell Industries NV

Country:	Netherlands	
Restructuring filing:	Jan 2009	
Pre-restructuring debt:	USD 23,969m	10.4x EBITDA
Post-restructuring debt:	USD 7,167m	3.1x EBITDA
Type of restructuring:	Court Driven (US Chapter 11); Debt for Equity	
Terms:	<ul style="list-style-type: none"> • Administrative, priority claims and the new money (DIP) financing received full payment. • DIP roll-up lenders were issued new notes with the equivalent principal amount of their claims. • Senior secured holders (c. USD 22bn debt) received 91% of the Class A shares of the new holding company in exchange for their claims. • Unsecured lenders (c. USD 1bn debt) obtained pro-rata cash distribution and (< 10%) Class A shares. • Subordinated, securities and equity claims holders did not receive any interest or property under the Plan of Reorganisation • As part of the exit financing, the company raised USD 3.25bn of first priority debt and USD 2.8bn through a rights offering • 49 out of 90 legal entities under the North America organisational structure were transferred to a new owner - Millennium Custodial trust. 	

Lyondellbasell was one of the largest Chapter 11 cases in history and the largest US chemical restructuring since Texaco's bankruptcy in 1987.

When the Netherlands-incorporated chemical company filed its US operations and one of its European holding companies (Basell Germany Holdings GmbH) for US Chapter 11 protection, the company was the third largest chemical maker in the world, and its bankruptcy was one of the largest Chapter 11 cases in history, as well as the largest US chemicals restructuring since the Texaco bankruptcy in 1987.

On 6 January 2009, LyondellBasell AF's US operations, including Lyondell Chemical Company and one of its European holding companies, Basell Germany Holdings GmbH, filed for US Chapter 11 protection in order to restructure the company's debt. LyondellBasell AF (the parent company) and its general partner were voluntarily added to the Chapter 11 reorganization filing on 24 April 2009, and on 8 May the company added 13 non-operating entities to the reorganization filing for administrative purposes. LyondellBasell listed a dramatic softening in demand for products and unprecedented volatility in raw material costs as the main reasons for filing.

In March 2010, the company issued USD 3.25bn of first lien debt, including multi-currency senior secured notes split between USD 2.25bn and EUR 375m tranches and a USD 500m exit term loan, priced at L+ 400bps, to repay and replace existing debt, including debtor-in-possession facilities and an existing European securitization facility.

LyondellBasell's post restructuring market cap was around USD 12.5bn in April 2010 (EV of USD 18.5bn). As of February 2011, its market cap increased to USD 21.5bn, indicating an enterprise value of USD 23.4bn.

IMO Car Wash

Country:	United Kingdom	
Restructuring agreement/ filing:	Jul 2009	
Pre-restructuring debt:	GBP 390m	11.1x EBITDA
Post-restructuring debt:	GBP 140m	4.0x EBITDA
Type of restructuring:	Court Approved (Scheme of Arrangement); Debt for Equity	
Terms:	<ul style="list-style-type: none"> • GBP 310m senior debt was exchanged for GBP 140m new senior debt paying L+ 750bps and a GBP 45m L+ 50bps junior tranche carrying equity warrants. • GBP 85m mezzanine debt was wiped out from the structure. • Post-restructuring equity held by senior lenders (85%) with management and mezz lenders receiving 10% and 5%, respectively. 	

The IMO Car Wash restructuring was the first case to feature a failed court challenge from junior lenders on valuation grounds.

The IMO Car Wash restructuring was the first case to feature a failed court challenge from junior lenders to the company's scheme of arrangement on valuation grounds.

Mezzanine lenders argued that IMO's financial performance was improving and that it did not face any liquidity issues. Senior valuations consequently put the intrinsic value of the company in the range of GBP 220m-GBP 275m, while liquidation values came in around GBP 150m-GBP 200m.

The income approach resulted in a valuation of GBP 220m-GBP 275m on 9 March. The market approach came up with a GBP 220m-GBP 250m valuation that was revised upwards to GBP 235m-GBP 265m on 3 June. The LBO analysis gave a valuation range of GBP 227m-GBP 256m. Concurrently, Rothschild ran a third party sale process which resulted in just one indicative offer that implied an enterprise value of GBP 150m-GBP 188m on a cash and debt free basis. A third exercise led by King Sturge valuing a number of the group's sites, came up with GBP 164m for a swift sale and GBP 208m on a full-market basis.

In contrast, mezzanine lenders' Monte Carlo analysis put the mean and median value at GBP 385m and GBP 398m, respectively. Legal representatives for the mezzanine creditors argued that since the group was cash flow positive and its financial performance improving, there was no need for the full-blown financial restructuring.

The court ruling on 11 August 2009 approved the senior proposal on the grounds that IMO's value broke in the senior debt and therefore excluded junior lenders from the claims of interest.

After generating just GBP 35m EBITDA in 2008, IMO was expected to hit GBP 50m in 2010.

Monier Group GmbH

Country:	Germany	
Restructuring agreement/ filing:	Jul 2009	
Pre-restructuring debt:	EUR 2,025m	22.5x EBITDA
Post-restructuring debt:	EUR 1,052m	11.7x EBITDA
Type of restructuring:	Out of Court; Debt for Equity	
Terms:	<ul style="list-style-type: none"> • c. EUR 1.7bn senior debt reduced to EUR 650 senior debt (25bps cash margin) plus EUR 300m HoldCo PIK, with total cash interest expense reduced by c. 80%. • Senior lenders will provide EUR 150m new super senior loan (700bps cash/ 500bps PIK). • EUR 355m junior debt was wiped out in exchange of out-of-money equity warrants. • Post-restructuring equity held by senior lenders (90%) and management (10%). 	

Monier was the first jumbo LBO where creditors wrested control from the sponsor.

Monier Group (formerly Lafarge Roofing) was the first major LBO where creditors took control from the sponsor. Earlier LBO restructurings around the EUR 1bn debt level, such as Crest Nicholson and Ferretti, had also featured debt for equity swaps.

Restructuring talks commenced after Monier narrowly passed its 3Q08 covenants and lenders anticipated a breach at the December 2008 test. First and second lien formed committees by January 2009 and consequently appointed financial and legal advisers. In April, Monier cut its FY09 EBITDA forecast by EUR 25m to EUR 110m on the back of further deterioration in its financial performance, which provided a catalyst to restructuring negotiations.

Monier's sponsor PAI Partners proposed slashing debt to EUR 600m, injecting EUR 150m of new equity and maintaining 73% of its shareholding. Unwilling to accept a debt write-off without receiving 100% of the equity, senior lenders rejected the proposal. In May PAI approached lenders with a revised proposal offering 43% of the equity to first lien lenders in exchange for co-investing EUR 35m new equity in the business.

In June 2009, Monier lowered its FY09 EBITDA expectations again, forecasting EUR 90m- EUR 100m (down from EUR 187m in FY08). In July, a senior-led plan under which EUR 1.7bn of senior debt would be cut to EUR 650m in return for 90% of the equity (with the remaining 10% going to management) secured majority approval (more than 75% first lien and 2/3 second lien), gaining momentum over both sponsor and second-lien proposals. The final terms of the restructuring were signed off in October 2009 with over 99% approval.

Monier outperformed its FY10 EBITDA forecast in its first full year as a restructured company, generating EUR 130m of EBITDA, 9% over the EUR 119m forecast. This places its net cash pay and total net leverage at 3.2x and 5.7x, respectively. The company generated EUR 1.280bn in sales, just shy of EUR 1.3bn budgeted.

Schoeller Arca Systems

Country:	Netherlands	
Restructuring agreement/ filing:	Sep 2009	
Pre-restructuring debt:	EUR 310m	10.3x EBITDA
Post-restructuring debt:	EUR 130m	4.4x EBITDA
Type of restructuring:	Court Approved (Dutch pre-pack); Debt for Equity	
Terms:	<ul style="list-style-type: none"> • EUR 130m senior debt remained in place with one year shorter maturities. • EUR 180m mezzanine debt was exchanged for EUR 13.5m cash. • Sponsor One Equity injected EUR 50m new money in exchange of 100% equity. • Restructuring was done through a sale process to new entity Rema, fully owned by incumbent sponsor. 	

A few weeks after IMO's scheme of arrangement, Schoeller Arca initiated a cramdown restructuring under Dutch law.

Schoeller Arca set the first Dutch-law precedent of a pre-packaged sale enforcement. Following a 3Q08 covenant breach, the company and its senior lenders negotiated a pre-pack restructuring agreement in which the company would be sold to a newly created entity owned by the existing PE sponsor.

In order to implement the restructuring, senior and junior ranked share pledges had to be released under an enforcement process.

Junior lenders challenged the court ruling on a valuation basis, claiming their own proposal was superior, providing higher recoveries to the pledgees. Since the mezzanine proposal (lead by former equity owner Stirling Square Capital) was conditional and did not have the support of the senior lenders, the court eventually sanctioned the pre-pack sale.

In Schoeller Arca's case, the court did not examine the reasons why senior lenders rejected the mezzanine proposal, or whether the new plan would have granted higher recoveries. The mezzanine proposal was considered an "unrealistic alternative for the company," given the limited timeframe to make a counter-offer and the lack of first lien support.

In September 2009, the court approved the private sale process of SAS to the NewCo, disregarding junior lenders' concerns over the valuation.

In September 2010, S&P downgraded Schoeller Arca to 'CCC' (from 'CCC+' post restructuring) on the back of thin liquidity (EUR 6.7m cash balance) and lower first half EBITDA and sales.

Almatis GmbH

Country:	Germany	
Restructuring agreement/ filing:	Apr 2010	
Pre-restructuring debt:	USD 1,014m	12.2x EBITDA
Post-restructuring debt:	USD 565m	6.8x EBITDA
Type of restructuring:	Court Approved (US Chapter 11); Debt for Equity	
Terms:	<ul style="list-style-type: none"> • USD 660m senior lenders were repaid in full; new USD 565m senior exit-financing. • Second lien lenders exchanged their USD 75m debt to a new EUR 52m HoldCo PIK carrying out-of-the-money equity warrants for a right to maximum 12.5% equity • USD 279m mezzanine debt was exchanged for 40% equity in the restructured entity • In exchange for a new USD 100m equity investment, sponsor DIC retained 60% equity. 	

The Almatis case was the first restructuring in which a 2007 vintage LBO implemented a senior refinancing in parallel to its reorganisation process.

Almatis was the first European restructuring to use the US Chapter 11 process to implement a pre-pack restructuring plan agreed by the seniors and the company.

Almatis' management signed a plan support agreement with the Oaktree-led senior lender group in early March 2010. Incumbent sponsor DIC fought a desperate fight to stop a pre-pack Chapter 11 filing by offering to refinance the first lien, but management questioned the deliverability of the plan and eventually decided to file on 30 April. An independent valuation assigned a mid-point value of USD 540m.

Under the Oaktree-led plan, the USD 1bn of debt would have been slashed to USD 422m to reduce gross leverage to 5.1x from 11.8x, with an option for seniors to roll into a junior PIK facility and further reduce cash-pay leverage to 3.4x.

DIC filed a new plan support agreement in July 2010 after winning more than two thirds of approval of the second lien and the two mezzanine classes. The plan was approved in August and confirmed by the court in September 2010.

The Almatis restructuring was the first case in which a 2007 vintage LBO implemented a senior refinancing in parallel to its reorganisation process.

Gala Coral Group

Country:	United Kingdom	
Restructuring filing:	Jun 2010	
Pre-restructuring debt:	GBP 2,860m	9.2x EBITDA
Post-restructuring debt:	GBP 2,150m	6.9x EBITDA
Type of restructuring:	Out of Court; Debt for Equity	
Terms:	<ul style="list-style-type: none"> • Seniors remained in the structure in full with margins increased by 125bps across the board plus a one-off 100bps fee. • GBP 558m mezzanine debt is converted into 100% equity. • GBP 200m cash has been injected by the mezzanine holders to repay a portion of term loan A and capex facility. • Post-restructuring mezzanine lenders will take ownership of the group, whilst existing PE sponsors Cinven, Candover and Permira will exit receiving GBP 10m cash. • Net debt reduced by over GBP 700m to c.GBP 1.9bn, of which GBP 1.5bn is senior secured. 	

Gala Coral's restructuring was one of the first major LBO deals in which mezzanine lenders took control of the group

Gala Coral's restructuring was one of the first major LBO deals in which mezzanine lenders took control of the group, following initial breaches on the senior facilities. The restructuring was in stark contrast to IMO Car Wash, where mezzanine lenders were left with nothing. In Gala Coral's case, higher valuations, the early organisation by mezz lenders and their commitment (a GBP 200m cash injection that went to pay down senior debt) meant that their proposal was both credible and favourable to the seniors.

In August 2009, Gala Coral issued a revised FY09 budget guiding pre-exceptional FY09 EBITDA at GBP 358m, down 3.6% from its original forecast of GBP 371.4m. The UK-gaming company subsequently revised its FY09 budget down, projecting GBP 335m of EBITDA. Talks with mezzanine lenders began in late August 2009 in anticipation of likely covenant breaches ahead of December 2009 covenant tests.

After waiving a covenant breach in December 2009, senior lenders agreed to reset covenants in early April. For the new debt structure, covenant headroom was set at 15%-20% based on a revised three-year business plan, increasing from 15% in year one to 17.5% in year two and 20% in year three.

While senior debt was partly repaid and the rest left in the capital structure, mezzanine lenders exchanged their claims into 100% of the equity, leaving sponsors with only a GBP 10m cash payment. In June 2010, mezzanine lenders unanimously approved the restructuring plan, enabling the group to avoid a costly court-based scheme of arrangement.

Gala Coral recently refinanced its GBP 1.56bn of OpCo debt with GBP 925m of bank facilities and GBP 625m of bonds.

PrimaCom AG

Country:	Germany	
Restructuring filing:	Jun 2010	
Pre-restructuring debt:	EUR 350m	7.8x EBITDA
Post-restructuring debt:	EUR 270m	6.0x EBITDA
Type of restructuring:	Court Driven (insolvency under German law); Debt for Equity	
Terms:	<ul style="list-style-type: none"> • EUR 195m senior debt kept whole at the same margins. • EUR 155m mezzanine debt was exchanged into EUR 45m new PIK mezz plus equity. • Lenders to inject EUR 30m in the form of a PIK facility, yielding 15% in return for increased equity control. • Cash pay debt decreased from EUR 350m to EUR 195m. • If the company remains over-levered and certain conditions are not met, part of mezzanine debt to be converted into equity in 2011. 	

PrimaCom was the first major restructuring in Germany implemented via local share pledge enforcement.

PrimaCom was the first major restructuring in Germany implemented via a local share pledge enforcement.

On 11 June 2010, a subset of the sponsors led by Aletheia CP and JPMorgan Asset Management presented a restructuring plan, which lenders subsequently rejected (13 June). Following a breakdown in negotiations with shareholders, PrimaCom lenders enforced on a EUR 29.2m debt claim on the term loan A, based on a number of historical technical breaches.

The enforcement was the first step for lenders in their attempt to take control of the German cable group. As a second step, lenders took control of the equity on 5 July by participating in a public share auction.

A key concern during the implementation was sufficiently ring-fencing the OpCo PrimaCom Management GmbH to avoid it falling into bankruptcy alongside the HoldCo PrimaCom AG. As a result the previous cash-pooling mechanism had to be cancelled and seniors reopened their previously closed EUR 15m RCF to provide additional liquidity.

PrimaCom management guided to flat EBITDA of EUR 43m for FY11 at the beginning of the year.

European Directories SA

Country:	Netherlands	
Restructuring filing:	Oct 2010	
Pre-restructuring debt:	EUR 1,600m	10.6x EBITDA
Post-restructuring debt:	EUR 875m	5.8x EBITDA
Type of restructuring:	Court Approved (UK scheme of arrangement); Debt for Equity	
Terms:	<ul style="list-style-type: none"> • EUR 1.24bn senior loan exchanged into EUR 800m new senior debt plus EUR 500m 0.25% hybrid loan and 100% equity. Around EUR 300m upcoming amortisation switched to bullet. • EUR 110m second lien and EUR 250m mezzanine debt wiped out from the structure. • Lenders provide a new EUR 75m super senior loan 	

In European Directories' case, second lien lenders were out of the money, and commercial reality dictated that the consent of junior lenders was not necessary for the intercreditor transfer and release of guarantees.

European Directories' scheme of arrangement was a landmark court case in which some second lien lenders challenged the mechanism under which their guarantees were released. The junior lenders' legal challenge was successful, but later overturned by the UK supreme Court on appeal.

Under the company's restructuring plan, European Directories TopCo's (DH6) centre of main economic interest (COMI) was moved to England. DH6 was then placed into administration under UK law with the intention of selling its shares in European Directories MidCo DH7 to a new HoldCo vehicle owned by existing senior lenders.

The court case revolved around the ability of the security trustee to transfer and release guarantees granted by obligors of DH7 subsidiaries. Clause 15 of the intercreditor agreement contains the release mechanism. However, a glitch in the wording raised the question of whether a release of the obligor or holding company from all liabilities meant the liabilities of DH7 alone or DH7 and its subsidiaries.

The Court of Appeal unanimously overturned the narrow reading of the clause that had favoured junior lenders, on the grounds that where a clause is capable of two meanings and neither meaning flouts common sense, the more commercial construction should be adopted. In European Directories' case, second lien lenders were out of the money, and commercial reality behind the hierarchy of lenders suggested that the consent of junior lenders was not necessary for the intercreditor transfer and release of guarantees.

In FY10 European Directories beat its EUR 171m EBITDA target by EUR 8m. It expects FY EBITDA to drop to EUR 131m in 2011, but to recover to EUR 151m in 2012 and EUR 169m in 2013.

Tele Columbus (formerly Orion Cable)

Country:	Germany	
Restructuring filing:	Nov 2010	
Pre-restructuring debt:	EUR 961m	9.2x EBITDA
Post-restructuring debt:	EUR 575m	6.9x EBITDA
Type of restructuring:	Court Approved (UK scheme of arrangement); Debt for Equity	
Terms:	<ul style="list-style-type: none"> • EUR 530m senior debt kept whole, paying E+ 325bps cash or 500bps PIK with a pay-if-you-can provision • EUR 75m second lien debt was exchanged for EUR 30m new 2nd lien debt (500bps PIK) • EUR 270m mezzanine debt was exchanged for EUR 28m new mezz tranche (500bps PIK) • EUR 15m swap facility will remain whole and pari passu with the new EUR 35m super senior debt paying E+ 500bps • Tele Columbus' equity was acquired by existing lenders at completion of the restructuring from independent intermediary holding company Nikolaus & Co. 	

The UK judge decided that a COMI shift to the UK was not necessary in order to proceed with the UK scheme - deeming that there was 'sufficient connection' for the case to be heard in the English courts.

At Tele Columbus' restructuring, UK judges had to decide whether they had the right to exercise jurisdiction over the German cable operator. Previously, some companies with no UK operations shifted their COMI (centre of main economic interest) to the UK in order to carry out a scheme of arrangement.

Examples of such COMI shifts to the UK include La Seda de Barcelona, Wind Hellas and European Directories.

In the December 2010 sanctioning, the evidence provided by the company satisfied the judge that the court has jurisdiction. The UK judge decided that a COMI shift to the UK was not necessary in order to proceed with the UK scheme - deeming that because the loan documentation is governed by English law there was 'sufficient connection' for the case to be heard in the English courts.

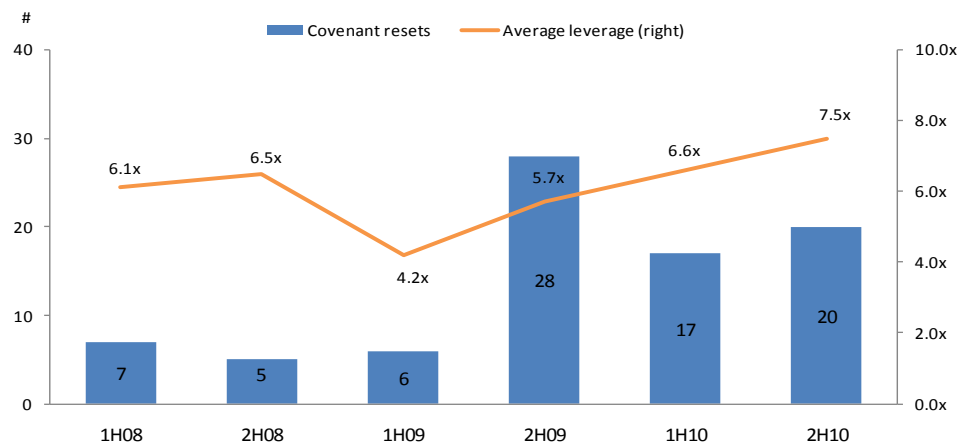
The restructuring reduced net leverage by approximately 2.5x to 6.6x, while annual interest expenses decreased to around EUR 30m. The group generated about EUR 90m EBITDA in 2010, and expects to reach around EUR 115m- EUR 130m in 2013.

7. Covenant resets 2008-2010

Covenant reset deals remained at a similar level in 2010 to 2009. However, the average leverage of companies increased significantly.

In contrast with restructurings, covenant amendments in 2010 remained at a similar level to 2009. While the bleak economic outlook in early 2009 made it virtually impossible to avoid more comprehensive restructurings, we recorded 28 covenant amendments in the second half of the year. Average leverage ratios of the companies increased from 4.2x in 1H09 to 5.7x in 2H09, which reflects improved sentiment among investors over the long-term sustainability of capital structures. In 2010, the high number of covenant deals were mainly the result of (1) companies not being able to keep up with their original covenant ratchet schedule and (2) distressed companies where lenders attempted to avoid debt write-offs. The latter type of distressed deal resulted in the average leverage ratio rising to 7.5x EBITDA.

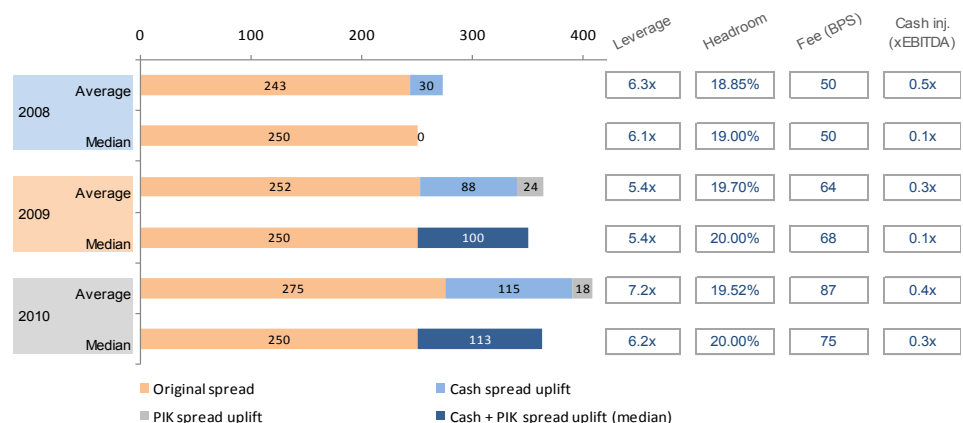
Covenant resets and leverage (2008- 2010)



2010 saw 'amend and extend' deals, which continued through 2011.

The typical period for which covenants were reset varied significantly. Shorter term resets provided companies with up to four quarters of elevated headroom, while longer term resets loosened covenants for two to three years (until 2011-2012), or up to the maturity of the debt. A few 'amend and extend' deals took place in 2010, in which lenders typically agreed to extend debt maturities by two or three years in addition to the covenant reset. The trend to amend and extend continued in 2011 (JOA, Intercos, Flint Fraikin, Pages Jaunes).

Average terms of covenant reset (2008- 2010)

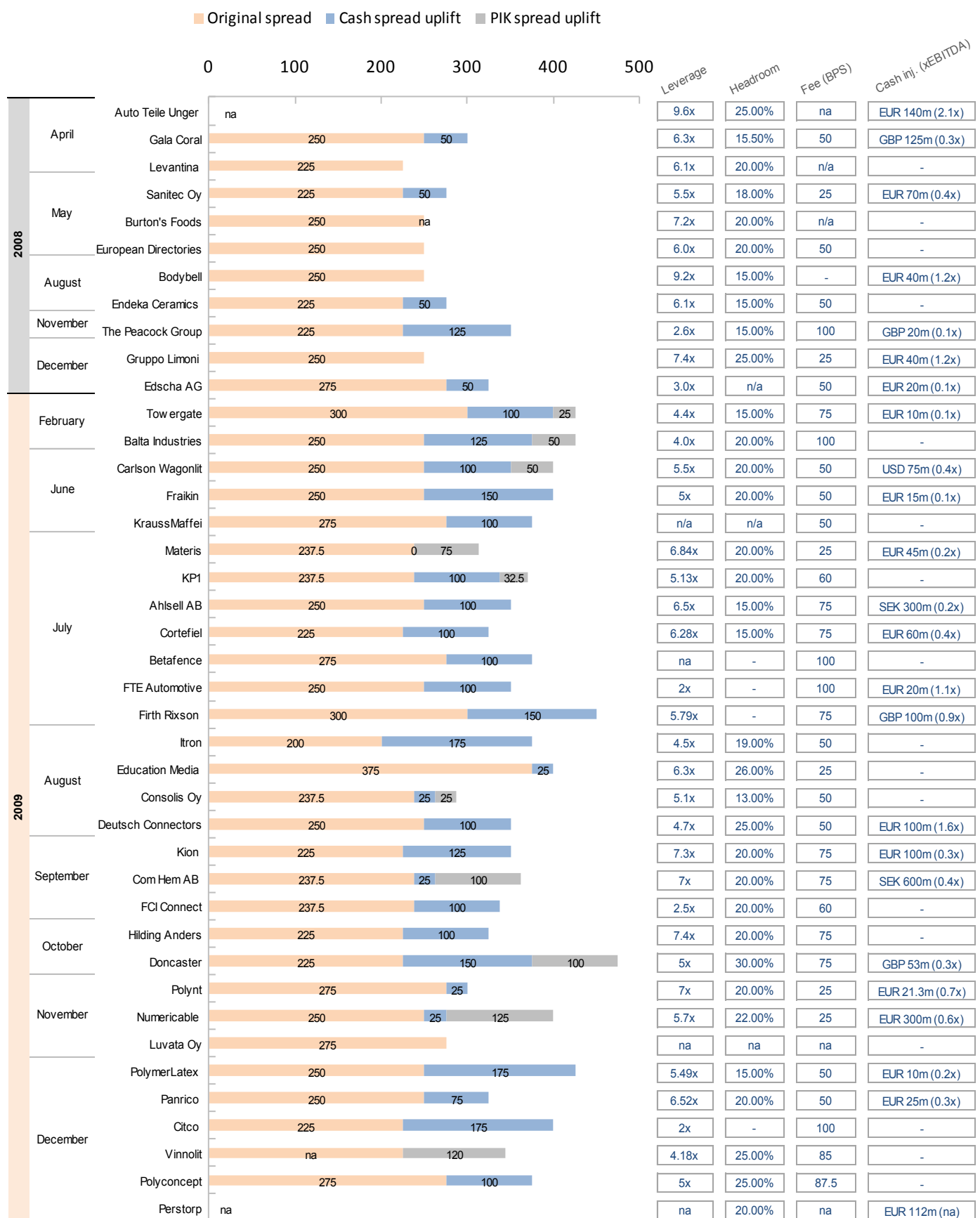


8. Appendices

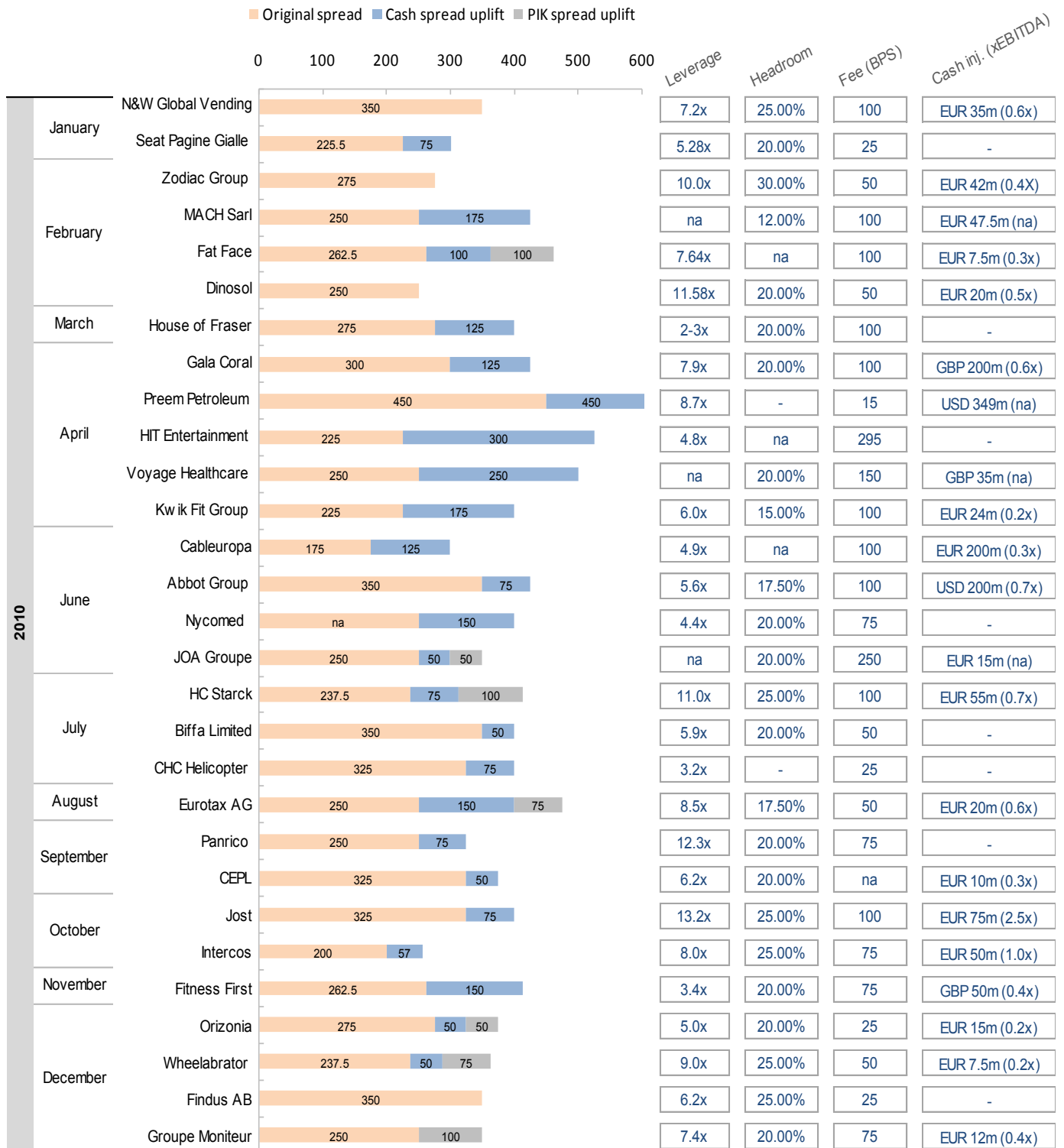
8.1 Covenant amendments

Initial spread, margin uplift, fees, covenants and headroom

8.1 Covenant amendments 2008-2009



8.1 Covenant amendments 2010



About Debtwire

www.debtwire.com

Debtwire publishes real-time news and data for financial professionals in fixed income markets across the world. Debtwire is part of the Mergermarket Group, a division of the Financial Times Group, publisher of the Financial Times newspaper and FT.com. The FT Group is a division of Pearson plc, the international media group.

Debtwire Europe's market-leading distressed debt and corporate restructuring coverage is second-to-none. The credit team produces actionable intelligence for market participants, tracking credits in stressed, distressed and restructuring territory. Coverage highlights issuer underperformance and the earliest signs of stress, while also tracking credits through the debt restructuring process. The comprehensive analysis at Debtwire includes all aspects of the distressed debt and corporate restructuring market, including M&A activity, covenant breaches, advisory mandates, refinancings and restructurings.

Our research team carries out detailed credit analysis on high-yield and public leveraged loan companies, including quarterly snapshots on financial results and detailed research reports on fundamental credit strength. Our analysis details sources of stress, liquidity position, rating outlook and capital structure valuation, identifying covenants, assessing corporate structures and analysing instrument seniority. The service also includes analysis of timetables on expected and live restructuring workouts, M&A activity and adviser profiles.

To complement Debtwire's proprietary intelligence, the service aggregates 150 foreign language press sources 24 hours a day across Europe, ensuring clients are fully informed of the key news of the day from a wide-reaching range of available sources.

The team comprises individuals with backgrounds in credit and industrial analysis, corporate finance, trading, derivatives and financial journalism. The team is located across eight financial centres and draws on extensive language skills and sector knowledge.

Debtwire services a customer base of CLO, high yield and hedge fund managers, bank portfolio and leveraged finance desks, the private equity community, proprietary trading desks, law and financial advisory firms. The service is delivered real-time via internet access with personalisation options to suit your individual coverage profile and investment strategy.

Disclaimer

We have obtained the information provided on this report in good faith from sources which we consider to be reliable, but we do not independently verify the information. The information is not intended to provide tax, legal or investment advice. You should seek independent tax, legal and/or investment advice before acting on information obtained from this report. We shall not be liable for any mistakes, errors, inaccuracies or omissions in, or incompleteness of, any information contained in this report. All such liability is excluded to the fullest extent permitted by law.

We make no representations or warranties in regard to the contents of and materials provided on this report and exclude all representations, conditions, and warranties, express or implied arising by operation of law or otherwise, to the fullest extent permitted by law.

We shall not be liable in contract, tort (including negligence) or otherwise for any indirect, special, incidental or consequential losses or damages, or loss of profits, business revenue, goodwill or anticipated savings arising from use of this report or the information and materials contained in it. We shall not be liable under any circumstances for any trading, investment, or other losses which may be incurred as a result of use of or reliance on information provided in this report. All such liability is excluded to the fullest extent permitted by law. Nothing in this statement shall limit or exclude our liability for death or personal injury caused by our negligence.

The information contained in this report is not intended for distribution to, or use by, any person or entity in any jurisdiction or country where such distribution or use would be contrary to law or regulation or which would subject us to any additional registration requirement within such jurisdiction or country.

Written:

Attila Takacs
Head of Research Europe
attila.takacs@debtwire.com
+44 20 7059 6167

Data Research:

Attila Takacs
Head of Research Europe

Thomas Alline
Debtwire Analyst

