



Raising Capital in the Bond Markets

February 2010

High-Yield Trends in 2009

- Resurgence of high-yield market in 2009
 - Market stronger for repeat issuers rather than companies new to the market
 - Recent hiccup in the market
- Senior Notes in place of Senior Subordinated Notes
- Secured Notes in place of Unsecured Notes
 - Secured Notes taking place of Secured Bank Deals since limited liquidity in the U.S. bank market
- Increasing prevalence of lower-coupon issuances coupled with more original issue discount (OID)
- Decline of PIK notes
- 10% annual repurchases at 103%

Secured Transactions



- It is becoming more common for companies to issue secured notes to refinance all or a portion of outstanding term loans
 - During 2009, approximately $\frac{1}{3}$ of high-yield issuances were senior secured notes, as opposed to previous years when only 5-7% of high-yield issuances were secured.
- Key business issues involve scope of collateral package
 - First lien versus second lien
 - Intecreditor arrangements and timing
 - Specific asset collateral (e.g. vessels, buildings) vs. first or second lien on all assets
 - Multiple vessel secured offerings with ability to substitute collateral
 - Ability to incur additional secured debt is the critical issue

Key Features of U.S. High Yield Bonds

- No amortization
- Non-call for half of the life of the bond makes it more expensive to refinance in the early years
 - Typically a 10 year bond would be redeemable at year 5 at a price of 100% plus half the coupon, declining to par at year 8. Some recent deals have a first call price at 100% plus 75% of the coupon.
- High yield covenants are typically incurrence-based rather than requiring maintenance of financial performance
- Change of control put at 101%; U.S. public market investment grade deals also requires this protection
- Debt incurrence test permits additional debt so long as the company complies with a 2 to 1 fixed charge coverage ratio
 - Significant additional limitations on ability to incur secured debt
- Typically \$150 million minimum size deal for best execution
 - Add-on transactions can be at much smaller principal amounts

Other Key Considerations in Recent Transactions



- Registered SEC Deals vs. 144A with registration rights vs. 144A for life
- Availability of U.S. GAAP or IFRS financial statements
 - Audited financial statement footnote related to guarantors/non-guarantors
- Retain flexibility for future joint ventures or changes in capital structure (e.g. MLP)
- Use of Unrestricted Subsidiaries (subsidiaries not subject to covenants)
- Stock collateral can result in the need for audited financial statements of subsidiaries whose book or market value exceeds 20% of the principal amount of the notes
- Relationship with rating agencies

FRIED, FRANK, HARRIS, SHRIVER & JACOBSON LLP**NEW YORK**

One New York Plaza
New York, NY 10004
Tel: +1.212.859.8000
Fax: +1.212.859.4000

WASHINGTON, DC

1001 Pennsylvania Avenue, NW
Washington, DC 20004
Tel: +1.202.639.7000
Fax: +1.202.639.7003

FRANKFURT

Taunusanlage 18
60325 Frankfurt am Main
Tel: +49.69.870030.00
Fax: +49.69.870030.555

FRIED, FRANK, HARRIS, SHRIVER & JACOBSON (LONDON) LLP**LONDON**

99 City Road
London EC1Y 1AX
Tel: +44.20.7972.9600
Fax: +44.20.7972.9602

HONG KONG

in association with Huen Wong & Co.
9th Floor, Gloucester Tower
The Landmark
15 Queen's Road Central, Hong Kong
Tel: +852.3760.3600
Fax: +852.3760.3611

SHANGHAI

40th Floor, Park Place
1601 Nanjing Road West
Shanghai 200040
Tel: +86.21.6122.5500
Fax: +86.21.6122.5588

FRIED, FRANK, HARRIS, SHRIVER & JACOBSON (EUROPE)**PARIS**

65-67, avenue des Champs Elysées
75008 Paris
Tel: +33.140.62.22.00
Fax: +33.140.62.22.29