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# Restructuring and Bankruptcy Q&A with Crystal Financial

**What are the implications to the U.S. credit markets of the events playing out in Europe?**
Europe's sovereign debt crisis is the most significant issue facing the global economy, and its resolution will require collaborative coordination between multiple countries with different, often antagonistic political systems, cultures and world views. We're already seeing that European lenders are having trouble accessing U.S. dollars and are pulling back from the U.S. loan market. It is also unclear the extent of European counter-party exposure is held by the large, domestic bank institutions. Although their direct exposure to sovereign debt is limited, their loans to European banks that have several hundreds of billion dollars out to Greece, Spain, Italy, Ireland and others make them an indirect lender to these distressed nations. In the fourth quarter of 2011, the GDP declined in European countries. A European recession would further exacerbate our trade deficit problems, constrain our economic recovery and dampen U.S. credit markets.

**What are the current trends in the high-yield market?**
The public high-yield market has basically shut down for companies in bankruptcies or distress. Banks have been retrenching for years and are unwilling to lend to distressed companies except on a highly secured current asset formulaic basis, which excludes term loans against other asset categories such as real estate, intellectual property and equipment. Companies needing this type of financing tend to access the private high-yield market where we participate.

We believe that providing debt capital in either FILO or second lien structures provides an attractive alternative for borrowers. For example, we provided a last out tranche of debt in the Borders bankruptcy DIP filing and also financed Versa's acquisition of Bell & Howell in a 363 bankruptcy sale with a second lien term loan.

**Is liquidity and access to capital different for those companies with debt needs greater than $100 million than for those with less than $100 million?**
Middle-market companies for the most part face more challenges in raising capital than larger companies and have fewer financing options. Larger companies with more than $100 million in debt generally have easier access to more forms of capital, including hedge funds, CLOs, loan and HY mutual funds. On the other hand, transactions of more than $100 million can require multiple lenders, and single-lender deals are much easier to get done.

**How have structures changed vis-à-vis pricing, covenants, collateral and terms? More debt comes due in 2013 and 2014 than at any other time in history of credit markets—should we be concerned about this refinancing cliff? What should companies be doing proactively now in anticipation of this?**
Through August 2011, the leveraged loan market grew increasingly aggressive, with terms and structures—but not pricing—reminiscent of 2007. The debt issues in the U.S. and Europe decelerated this trend, and the fourth quarter had fewer deals and better pricing. It appears we've come through a mini-cycle and are now in a stabilized market for pricing and covenants, except in commercial banking, where the larger players are trying to steal market share from each other.

For 2012, there will be a fairly decent level of LBO activity because many funds have significant amounts of equity. However, any tendency toward over-aggressiveness will be tempered by unresolved debt issues, both here and in Europe, the uncertainty of the upcoming presidential election and changing bank regulations.

The senior asset-based market is still highly competitive for companies with strong credit and/or outstanding current asset collateral. For the tougher deals, it's less aggressive and likely to remain stable. It's possible, however, that banks will begin moving beyond current asset coverage as they need to shift their portfolio from non-earning commercial real estate into secured loans.

The refinancing cliff is not nearly as steep as it used to be. Those companies that have not yet refinanced their maturities probably were unable to do so and will be facing some sort of restructuring, either in or out of court. To prepare for this, they need to be able to tell their story to lenders to explain downturns and proactively mitigate some of the risks. Sophisticated lenders such as Crystal can help them quantify and understand their collateral "buckets" and what leverage is available from a cash flow perspective.

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**About Crystal Financial**
*Crystal Financial is an independent commercial finance company that provides senior and junior secured revolvers and term loans for both asset-based and cash flow financings ($10 million to $150 million) to middle-market companies. Its team of experienced, responsive professionals have underwritten, closed and managed more than $20 billion in secured debt commitments across a wide range of industries. For more information, please visit www.crystalfinco.com.*