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METHODOLOGY

Bingham McCutchen LLP and Macquarie Capital commissioned Debtwire to interview 100 distressed debt investors, including hedge fund managers, sell-side trading desks and other asset managers on their expectations for the North American distressed debt market in 2013. Interviews were conducted over the telephone in November and December of 2012. Responses were collated by Debtwire and presented to the commissioning firms in aggregate.
Yes, there has been a daily barrage of headlines going over the fiscal cliff and the debt ceiling. And yes, that all underscores an instability threatening to corrode market conditions this year. But as we leave 2012 behind, investors are not only accustomed to operating in a low default rate environment, they expect this to be the status quo for the foreseeable future, according to our 2013 outlook survey.

For distressed-focused funds and those styled to take on event-driven, high risk/high reward positions, the lack of opportunity over the recent past presents a crossroads upon which money managers have been forced to reassess strategy and expectation. On the one hand, analysts can easily argue that the high-octane primary market of 2012 is a house of cards that teeters on the brink of a market correction. After all, instances of sluggish corporate earnings and negative macro data points are plentiful. US unemployment sits at 7.5% and Europe’s GDP contracted 0.5% last year.

But on the bull side, improving home prices, stock market growth and tightening high-yield spreads point to a resilient leverage finance industry further distancing itself from the 2009-2010 restructuring bonanza. In our 2013 survey, these conflicting perceptions are elemental. Several responses represent flip-flops from what were consensus answers in 2012.

Case in point, respondents citing distressed investing as a core strategy tumbled to 15% this year from 27% in 2012 and 36% in 2011. However, our results also showed that more capital has actually been devoted to distressed investing. A majority 62% of participants said they have allocated between 21%-60% of assets under management to the distressed playing field, up big from just 30% of participants who fell in the 21%-60% AUM camp last year.

By the same contradictory token, while 100% of respondents said they expect the default rate to linger below 4% in 2013 – 46% say it will decrease to under 3% – expectations for distressed returns in 2013 are elevated. Participants targeting a return from their distressed fund north of 15.1% is up for 2013 at 36%, compared to the 25% of respondents who aimed higher than 15.1% returns in 2012.

In many respects, a fragmented view of the distressed market in 2013 is expected given the recent underperformance of hedge funds and the scant opportunity that 2012 had in store. While few workout situations came along, market consensus in a number of high-profile restructurings wrongly supported trading levels that overshot recoveries. For example, in the restructuring of coated paper producer NewPage, eager vultures were buying and selling the first and second lien bonds at 90 and 60 at the outset of Chapter 11 proceedings. At emergence, the first liens only recovered 56.6% of their principal claim, and the seconds got back just 6%. In the bankruptcy of ATP Oil & Gas, the second liens changed hands at 32 at the time of the Chapter 11 filing in August, but at year-end the notes were quoted around 10 as debtors’ liquidity problems persisted.

Although these situations seem to support assumptions that the need to chase returns may have led to rosy valuation work on the part of yield-starved funds, we saw many situations in 2012 where conservative valuations were tossed aside in favor of fast primary money. For investors on the long side of formerly beaten-down situations such as Cenveo, Momentive Performance Materials and Allen Systems where restructuring appeared a certainty, along came new refinancing deals to incite rallies.

In terms of what will drive decision-making in 2013, our outlook again reflects a flip-flopping constituency. Although the 59% majority says recent bailout measures in Europe have not gone far enough to alleviate the risk of a global economic meltdown, survey results also show that investors are de-emphasizing Europe as they plan for 2013. Respondents flagged the continent as ranking third on their decision-making influences this year. Europe came in behind the top two priorities of regulatory reform and the US economy.

Indeed, a willingness to change course is the kind of intellectual honesty that can be advantageous to investors when executed on time. So we wonder if, 12 months from now, these unanimous expectations for a benign year in distressed are so ingrained they prove detrimental in the event of a market shift.
Both hedge funds and sell-side trading desks have had difficult years plagued by regulatory drama and difficult operating conditions. During the first half of 2012, 424 hedge funds were liquidated, a 14% year-over-year spike, according to Hedge Fund Research. For the year, the industry returned around 6.2%, grossly lagging the S&P 500’s 15.89% return and the 15.58% return from the BofA Merrill Lynch High-Yield Master II Index, raising the question: how can professional investors be so unspectacular in a growth environment? Meanwhile, bank sell-side operations continued to get smaller this year under the fallout from the Volcker rule. The prohibition of prop trading has cut into revenue, prompting banks such as Credit Suisse and Deutsche Bank to scale back operations. UBS is getting out of the fixed-income game altogether. While assets under management have grown for the largest of hedge fund managers, 2012 saw some of the weaker performing funds shut down. While dominating the survey in past years, no longer are the hedgies the only player in the distressed market.

Mark Deveno, Partner, Bingham McCutchen LLP

Perhaps due to the strong year in stocks, more respondents this year listed long-short equity as their core strategy, coming in at 16%, more than doubling the 7% of respondents in last year’s outlook. Conversely, for the third year in a row, the number of investors citing distressed investing as a core strategy tumbled. Just 15% of our survey pool listed distressed as a core strategy, down from 27% last year and 36% in 2011. The days of the pure distressed player appear to be over, declining from a high of 50% of the respondents for the 2010 survey to a low of 15% for the 2013 survey. Today’s investors are not afraid to mix things up, choosing not to focus on one particular strategy in a given year, but going after results on numerous fronts.

Bill Govier, Of Counsel, Bingham McCutchen LLP

The term “Total Return” truly defines today’s investment climate. Fed intervention requires asset managers to maintain flexible mandates and the ability to shift between asset classes to find above-average returns and/or yields.

Mick Solimene, Senior Managing Director, Macquarie Capital
What percentage of your firm’s overall assets is dedicated to distressed debt?

![Pie chart showing distribution of distressed debt allocations]

Coming in as the most popular answer, 44% of participants said they’ve allocated a 21%-40% chunk of assets to distressed debt. The high-end 41%-61% option roped in 18% of respondents.

This is notable considering that in the 2012 Outlook the most popular faction was a 54% block of respondents who put less than 20% of assets into distressed investing. For comparison, this year only 36% said they allocated less than 20% of assets to the distressed playing field. Moreover, only 30% of respondents in last year’s survey said they put between 21%-60% of assets into distressed, whereas this year a robust 62% of respondents fell in the 21%-60% camp.

To speculate, this rise in distressed allocation could be the result of yield desperation, because, while only 15% of respondents listed distressed as a core strategy in the previous slide, heavily discounted and at-risk debt was virtually the only place to shoot for a robust return in fixed-income this year. Backing this up, for the first nine months of 2012, composite spreads in high-yield debt tightened 92bps to 617bps. By the start of January 2013, high-yield secondary spreads were at 516bps, the lowest since June 2011 and down from around 800bps a year ago, according to the Merrill Lynch Master Index.

Our respondents expect to remain entrenched in distressed investing for 2013 with 44% expecting to dedicate the same, and 42% planning to increase their allocation to the asset class. Only a 14% chunk plans to decrease its percentage of overall assets in distressed debt.

While the survey results show that investors increased their distressed allocations in 2012 (and expect to either ramp up or stay the same in 2013), it will be interesting to see where the extra inventory will come from, especially with the very low default rates we have seen over the past few years.

Scott Falk, Partner, Bingham McCutchen LLP

Investors have little opportunity in today’s low-rate environment to find yield, pushing investors down the capital stack. Distressed investing remains en vogue out of necessity rather than opportunity, however it seems all forecasters expect a calm year which rarely happens when forecast as such.

Martin Nachimson, Managing Director, Macquarie Capital
SURVEY FINDINGS

In what range do you expect the default rate to be over the next year?

- Less than 2%: 54%
- 2.1% to 3%: 46%
- 3.1% to 4%: 10%
- 4.1% to 5%: 22%
- 5.1% to 6%: 30%
- Greater than 6%: 12%

In 2012, there were 17 bankruptcy filings by companies carrying at least US$150m in debt. Where will that figure trend in 2013?

- Increase: 40%
- Decrease: 30%
- Remain the same: 30%

The lack of respondent expectation for volatility next year is remarkable when considering that in the 2012 Outlook 16% said the default rate in the coming year would shoot north of 4.1%. As you can see, that 16% slug has completely evaporated this year. A closer look at our respondents’ feedback shows the split here favors the status quo for 2013, with 54% pinning the rate at 3.1%-4%. Still, in light of the primary market strength, a very respectable 46% of participants are steadfast that defaults will continue to decrease next year.

With the Fed keeping interest rates at historical lows, it is no surprise that default rates are expected to remain low in 2013. With the ability to borrow or refinance cheaply, the low default rates should continue to hold steady in 2013.

Michael Reilly, Partner, Bingham McCutchen LLP

By targeting a 6.5% unemployment rate before scaling back QE, the Fed is helping to ensure the capital markets are open to even some of the more challenging credits, keeping default rates relatively low.

Vikram Chitkara, Senior Vice President, Macquarie Capital

The number of bankruptcy filings by companies carrying at least US$150m in debt trended down in 2012 to 17 from 27 in 2011. Interestingly, 2012 marked the second year in the row the number of filings surged in the fourth quarter, with eight taking place in 4Q12. Back in 4Q11, there were 10 bankruptcies that took place just within the November to December two-month period. The downturn of Chapter 11 cases in 2012 proved last year’s survey pool wrong. Last year’s outlook had only 17% predicting less than 20 bankruptcies in 2013.

As we look to 2013, we still have a large chunk of participants at 48% who expect there will be an uptick in filings. Meanwhile, the 52% majority projects the pace will either decline (22%) or stay flat (30%).

After a dearth of large corporate filings in 2011 and 2012, there is nowhere to go but up. While “amend and extend” continues to be the norm, there will always be a few large corporate filings each year to keep the distressed world (and their professionals) buzzing. Particular industries to watch in 2013 are real estate, financial services, retail and energy.

Scott Seamon, Counsel, Bingham McCutchen LLP
Respondents expect real estate to surge ahead of financial services in terms of distressed capital allocation in 2013. While only 45% of respondents expected real estate to be among their top three sectors by dollar volume of investment last year, the space surged in terms of attractiveness with 61% flagging the space as a target for investment.

Financial services is still expected to be attractive for distressed investment this year, jumping to 56% from 54%. Last year’s exuberance for distressed investing in financial services was well founded in light of the MF Global, ResCap, PMI and Peregrine bankruptcies providing liquid trading opportunities.

Somewhat surprisingly, the energy/chemicals sector, which has been fraught with volatility this year due mainly to low natural gas prices, ranked low on these results. By the same token, healthcare, which is expected to enter a new era of regulatory changes, also came in low, with only 14% listing the sector as their preferred sector for distressed investing in 2013, down from 20% in 2012.

An interesting interplay is developing between the distressed real estate market and the financial services industry. The banks holding enormous amounts of loans backed by distressed residential and commercial properties are loathe to be sellers at discounted prices that will require recognition of losses and the raising of additional capital. Concurrently, as families and businesses unable to obtain credit (as lending standards constrict) are willing to become renters, and as the banks become more realistic about market pricing often after a foreclosure or a negotiation with the owner, distressed real estate investors may consider purchasing and improving real estate to then be rented, generating reasonable returns.

Jeff Sabin, Partner, Bingham McCutchen LLP

After four years of declines, the real estate market finally started showing signs of life in 2012. Many are expecting the market to continue to recover in 2013 and will allocate capital accordingly.

Jared Doskow, Vice President, Macquarie Capital
Amid a constant barrage of headlines stoking fears about Europe’s economy, US government gridlock and regulatory reforms, it’s still the domestic economy that’s dictating the minds of most respondents. That is even more the case this year, with 75% of participants listing US economic outlook as their primary motivator.

For comparison, last year the European crisis was most widely cited by respondents as bearing the biggest influence on their decision-making, whereas this year only 25% flagged Europe as being the main driver in their decision-making as we move into 2013.

In broad terms, the investing environment ultimately depends on economic growth. The US economy remained resilient in 2012 despite a number of headwinds, including the European debt crisis, the US election, the fiscal cliff, etc. If 2013 follows suit, no single event, other than perhaps unexpected Fed actions, will derail the economy.

Seth Waschitz, Senior Associate, Macquarie Capital

To judge by the headlines, the intensity of the European crisis has abated since the summer of 2012, resulting in a reduced level of concern about Europe among North American investors. Although it remains to be seen whether the world is as disconnected as this trend tends to indicate, European leaders certainly seem to have quelled the fears of Eurozone break-up for the moment.

James Roome, Partner, Bingham McCutchen LLP
While the previous graph showed a declining number of respondents have the fate of Europe weighing heaviest on their minds, the majority is still convinced the continent is in great danger.

The Herculean efforts by global monetary agencies and European governments have so far done little to quell fears of a European economic collapse and global contagion. Countries such as Greece, Spain and Portugal continue to debate austerity measures over the protests of voters.

In a string of stop-gap measures, Greece executed a bond buyback plan in December that cut its overall debt by 9.5% of GDP, falling short of the country’s 11% of GDP goal.

Have recent bailout measures taken to curb the European debt crisis gone far enough to alleviate the risk of a global economic meltdown?

- Yes: 41%
- No: 59%

The European Union continues to illustrate the impossibility of managing monetary policy without fiscal authority. Absent some type of Federal fiscal power and a true European-wide bank supervisor, all “fixes” will be seen as a stop gap. The political will to solve the crisis appears to exist among EU members, but the dilemma remains; can cultures and societies with thousands of years of sometimes uncomfortable history bind themselves together in the necessary form.

David Miller, Managing Director, Macquarie Capital

Even as Europe has moved away from investors’ central focus, smart money knows that Europe - like many parts of the world - has done little to address its most core issue: the deep interconnectedness between its system of sovereign finance and its financial institutions’ balance sheets. Though this connection creates the greatest risk for an out-of-control spiral in Europe and beyond, European leaders have not addressed it all, other than by expanding and deepening the connection.

Tim DeSieno, Partner, Bingham McCutchen LLP
In light of hedge fund performance taking a beating this year, the pressure will be on in 2013, and most survey participants say they are aiming high. Return expectations on the distressed side are amplified for 2013, as our results show a shift with the majority 10.1%-15% return target group still holding the top spot but losing popularity, coming in at 45% in 2013 from 48% in 2012. Meanwhile, the amount of participants targeting a return north of 15.1% is up for 2013 at 36% from 25% in 2012.

Jared Clark, Partner, Bingham McCutchen LLP

While 2012 may have been underwhelming for a lot of distressed investors, it’s hard to imagine returns in 2013 outpacing 2012. Although, asset managers moving into riskier credits may be rewarded with outsized returns if default rates stay at historic lows.

Mick Solimene, Senior Managing Director, Macquarie Capital

Boy have times changed. In the pre-recession days when this survey started, almost one-third of all investors were targeting returns of over 20% annually. Today, that number is down to only 7%. The vast majority of investors are targeting more manageable 8%-15% returns, perhaps attempting to temper expectations a bit.

Jared Clark, Partner, Bingham McCutchen LLP
Private equity fundraising took a backseat this year, with only 20% of respondents from the asset class having raised new money, the smallest of its peers. It wasn’t for lack of trying that has limited PE fundraising. Data provider Preqin lists 1,918 private equity funds that are currently in market, up from 1,892 funds in June.

Similar to their PE brethren, hedge funds are planning to hit the road with hat in hand in 2013, hoping to make up for what transpired in 2012. Net flows to the US hedge fund industry came in at US$19bn in 2012, around a 50% drop from 2011, according to Eurekahedge. This year, 45% of hedge fund outlook respondents plan to raise money, up from the 36% of respondents who raised new funds in 2012.

The struggling economy, fiscal cliff, and uncertainties in the future of tax policies, all collectively led to a lackluster year for private equity raising. Additionally, many firms are straddled with considerable overhang (having more capital on hand than they could reasonably invest), taking the focus away from adding more.

Julia Frost-Davies, Partner, Bingham McCutchen LLP
The strength of the primary market in 2012 was backed fairly equally across the board by all four groups.

And while only the institutional investor group seems committed to ramping up participation in 2013, none of the groups have plans to substantially pull back, supporting the notion that the appetite for new issuance is a long way from abating.

The latter part of 2012 gave life to certain trends that indicate we’re living in an overheated credit bubble. For instance, Debtwire data shows that deals allowing for PIK coupons amounted to US$5.2bn in 2H12, more than double the US$2.3bn seen in all of 2010 and 2011 combined. Covenant-lite loan issuance in 2H12 totaled US$64.9bn, up from US$24.1bn in 1H12 and US$15bn in 2H11.

With the expectation of continued economic growth and the Fed effectively dictating easy money in the US, it is not unreasonable to expect investors will allocate a greater portion of their assets to the primary markets.

Vikram Chitkara, Senior Vice President, Macquarie Capital
Despite the ever-present risk of a European economic collapse, respondents overwhelmingly anticipate the abundance of liquid distressed investment opportunities to come from North America. Meanwhile, Latin America took the second spot as restructurings of sovereign debt backing both Belize and Argentina heated up.

Confidence is returning to distressed investors in the Americas. The issues in Belize and Argentina may be just a prelude to a larger movement. Deep stresses have appeared and played out in large economies like Brazil and Mexico. We also see a renewed focus on potential US situations fueled by some of the recent larger Chapter 11 filings.

Lisa Valentovish, Partner, Bingham McCutchen LLP

North America, specifically the US, has debtor-friendly courts with established precedents that investors understand. While Europe's economy may lag North America's, it probably will not lead to an uptick of attention from investors.

Jared Doskow, Vice President, Macquarie Capital

Through September 2012, the energy sector accounted for 16% of all in-court restructurings, according to Debtwire. When do you expect natural gas prices to recover to pre-2006 levels?

Despite most respondents planning to shun the energy sector next year, a majority thinks the sector will continue to present opportunities revolving around depressed natural gas prices.

In 2012, the historically low natural gas prices took a competitive toll on borrowers such as coal-based utility AES Eastern, Edison Misson and coal producer Patriot Coal, all of whom sought Chapter 11 protection.

The betting money seems to be that energy pricing is probably staying low for another 18 months to three years. Once supply and demand factors start working their magic, we should see a steady rise in pricing. Until then, we should anticipate a hearty restructuring market in the energy sector.

Jonathan Alter, Partner, Bingham McCutchen LLP

Unlike other energy sources, the demand side of the equation for natural gas has a lot of inherent friction. Unfortunately, conversion of infrastructure to utilize cheap natural gas will continue to take time and demand looks like it will lag supply for years.

David Miller, Managing Director, Macquarie Capital
SURVEY FINDINGS

Which three instruments do you think will offer the most and least attractive opportunities for investors in 2013?

How much leverage did you use in managing your fund in 2012?

The percentage of respondents employing the use of leverage increased significantly during 2012 to 89%, up from less than half of survey participants in the previous two Outlook surveys. However, on the high end, those using more than 4x leverage in their portfolios remained de minimis, at 1% during 2012 compared to 3% during 2011. The biggest year-over-year jump is in those investors leveraging up 2.1x-4x, which increased to 47% in 2012 from 14% in 2011.

Access to cheap capital has almost every asset manager employing some level of leverage within fund guidelines. Bust cycles remind us that leverage has both positive and negative characteristics, but record low interest rates can be intoxicating. Fund raising has yielded lower amounts of capital over the past few years so some managers have had to utilize leverage out of necessity.

Mick Solimene, Senior Managing Director, Macquarie Capital

Asset-backed securities and convertible bonds will provide lucrative opportunities for distressed investors this year, according to 59% and 51% of survey respondents, respectively. Senior secured bonds are also likely to keep investors busy, receiving a 43% vote this year compared to just 24% in the 2012 Outlook.

This falls in line with the senior secured bond class having increased as a total of distressed debt to 40%, up from just 8.7% only three years ago, according to Standard & Poor’s research.

Meanwhile, second lien loans are perceived as the least opportunistic debt instrument this year by 41% of respondents. That’s in stark contrast from the survey results a year ago when second liens were the No. 3 most attractive asset.

In an environment where low interest and tepid default-rates are the norm, structured product and convertible notes are off the beaten path securities where investors feel they can take advantage of inefficiencies. Glaringly, credit default swaps are only attractive to distressed investors when default rates are on the rise.

Seth Waschitz, Senior Associate, Macquarie Capital
The amount of leverage employed by distressed investors is set to increase slightly in 2013, if survey responses are any indication. Of the 89% of respondents that used leverage in 2012, a full 87% expect to use the same or more leverage over the next year. Only 13% of those who juiced returns via leverage in 2012 will back off from the strategy in 2013, suggesting that risk appetite is for the most part on the increase.

As the secondary claims trading market moves more toward the mainstream, only 3% of respondents expect online auctions to have the greatest impact on the market this year. Rather, more purchase events received 33% of the vote while LSTA standard documentation came in second at 26%.

In August, Debtwire reported the LSTA is exploring ways to standardize documentation of claims trading, eliminating pitfalls that make current market practices clunky and expensive. However, critics of standardization note that a uniform documentation system could move more risk to the buy-side because the LSTA would attempt to frame transfer documents in a way that evenly divides risk between both the original buyer and hedge funds that typically play the role of secondary buyer. The current system, which allows for many of the trade terms to be negotiated on an individual basis, allows hedge funds the leeway to insert buyer-friendly language into the trading documents.

Claims trading continues to grow in popularity, but its resulting change of control implications limit the universe of opportunities. LSTA standard documentation may add liquidity to the market but may also negatively impact market clearing prices if transactions cannot be customized.

Martin Nachimson, Managing Director, Macquarie Capital
With further implementation, which of the following parts of the Dodd-Frank Act have transformed and will transform the CDS market the most?

- Mandatory clearing for standardized trades: 27%
- Trade reporting: 22%
- Swap execution facilities: 19%
- Margin and collateral requirements: 18%
- Pre-trade price transparency: 13%
- Post-trade price transparency: 1%

The fact that respondents viewed the impact of the Dodd-Frank Act so proportionally over various categories appears to suggest that the market has responded to the transformations required under the Act; numerous firms have spent considerable resources to clear eligible CDS contracts through central counterparties, to trade CDS on swap execution facilities and to implement technology to satisfy compulsory reporting requirements. The Act has had a wide impact.

Ed Smith, Partner, Bingham McCutchen LLP

With the passage of Dodd Frank, the SEC hoped to make the process of trading CDS instruments more transparent and less systemically-dangerous. In order to avoid AIG-like concentrations of risk, moving CDS contracts to clearinghouses is the most important element of reform as it takes care of margin posting and transparency problems.

Jared Doskow, Vice President, Macquarie Capital
Investor appetite for municipal debt among our respondents was low in 2012, with 46% of survey participants allocating less than 3% of assets under management to the debt issued by state and local governments and other authorities.

A 30% chunk of respondents allocated between 3%-6%, while only 24% of those surveyed committed more than 6% of assets to the US$3.7 trillion municipal debt market.

Investors surveyed have expressed concerns about municipal debt. Beyond market issues, tax uncertainty, the collapse of some old financial guarantors (most notably the rehabilitations of Ambac and FGIC) and the rise of new financial guarantors (such as Build America); fundamental factors, such as aging infrastructures, reductions of tax bases from unemployment, foreclosures, underfunded pensions and retiree benefits, decreased federal aid, state budget crises, high costs and other recessionary pressures all placed extraordinary burdens on public finance borrowers. While hardly epidemic, we saw an increased resort to Chapter 9 to address complicated problems.

Bill Goddard, Partner, Bingham McCutchen LLP

From 1986-2011, there were 263 Chapter 9 bankruptcies filed nationwide, resulting in average of 11 filings per year. In 2011, there were 13 filed. Through the first nine months in 2012, there were nine filings, according to Debtwire data.

Given the rise in restructuring activities and the stress being endured across local, state and federal budgets, the municipal asset class has been garnering more headlines of late. But for 2013, we don’t see the needle moving much with regard to survey participants’ focus on municipal investing.

On the muni front, investors seem to be picking their counterparties a lot more carefully and increasingly doing their own research rather than relying on the rating agencies or financial guarantors. Quality municipal offerings have been fully subscribed and in some cases over-subscribed. The distressed community has started to look at the dicier credits including those in proceedings, but that should come as no surprise.

Hal Horwich, Partner, Bingham McCutchen LLP
This year’s outlook unveiled lowered expectations for strategics to be on the prowl for M&A. While in the 2012 survey a robust 60% of participants expected exits to come from strategic buyouts, the category garnered just a 47% response this year. Instead, the M&A world this year is expected to be driven by private equity, as more participants this year said they expect private equity buyouts to fuel their exits, coming in at 57%, up from 53% in the 2012 outlook.

On the flip side, balance sheet refinancing is not expected to be as popular of an exit tool this year. In comparison to the 2012 outlook report in which refinancing garnered the top spot at 60%, just 48% of survey participants selected the category this year.

Deal fatigue can be a powerful motivator, especially as valuation levels move sideways for a prolonged period. Change of control transactions that bring in fresh capital and know-how may be favored.

Vikram Chitkara, Senior Vice President, Macquarie Capital

While the mainstream narrative has long been that Wall Street favors republicans and detests President Barack Obama, our survey shows that is not the case.

The cost of the presidential election exceeded US$2bn in 2012. Of the participants polled, 26% made financial contributions for President Obama’s campaign, while 8% aided republican nominee Romney. A 66% majority monetarily helped neither in their quest for the White House.

The fact that 66% of respondents did not contribute to the most expensive political race in history suggests significant apathy, or perhaps cynicism, among investors. They may be resigned to continued global economic weakness regardless of who is sitting in the Oval Office, although the survey also shows a decided lean toward President Obama, at least among the politically committed.

Ron Silverman, Partner, Bingham McCutchen LLP
Which political outcome would have been more beneficial to the US economy as a whole and US distressed debt investors?

With interest rates continuing to be very low, issuers have been able to refinance and amend-and-extend quite cheaply. Do you anticipate this trend to continue?

The re-election of President Obama will benefit the US economy, according to 57% of the survey respondents. Meanwhile, 10% of those polled hold the belief a newly elected administration would have been more beneficial.

With regards to having an impact on US distressed investors specifically, 23% believe the re-election of the incumbent is a positive, while 9% responded that an election of Governor Romney would have been more beneficial and an overwhelming 68% majority say neither outcome would make a difference.

In examining the administration’s impact on the distressed investing world, the meaning of “beneficial” is up to interpretation. Certainly Obama’s healthcare reform package will reshape the trajectory of levered borrowers in that sector, just as the ultimate outcome of the fiscal cliff will impact companies exposed to the defense industry.

It’s fascinating to see how little traction Mitt Romney made with distressed investors, considering that Romney’s greatest career accomplishments were achieved in the distressed investment arena. To me, that tells you all you need to know about why the election came out the way it did.

Capital structure refinancings and amend-and-extend transactions were aplenty in 2012, allowing many borrowers to push out near-term debt obligations without much hassle. In the coming year, a 66% majority of respondents project the window will remain open for corporate issuers to continue to extend their maturity walls.

The responses to this question moderate to some degree the view, expressed in other questions, that distressed investors will have greater opportunities than in recent years. This split in opinion is consistent with our conversations with clients, which would indicate we are in a part of the cycle that is difficult to predict.

It is unclear whether the new changes to the CODI rule will dampen the significant momentum amend-to-extends have generated over the past few years, but in the longer term, the rule change should make the practice more expensive for creditors and debtors in the aggregate.

Steve Wilamowsky, Partner, Bingham McCutchen LLP

Amy Kyle, Partner, Bingham McCutchen LLP

Mick Solimene, Senior Managing Director, Macquarie Capital
SURVEY FINDINGS

If yes, when do you estimate the maturity dates will be extended to?

What best describes the impact of CLO issuance in 2012, which hit US$55bn in 2012?

Even with debt issuers expected to successfully execute refinancing and amend-and-extend deals amid robust market conditions, a majority of participants anticipate maturity walls will not be pushed out much further.

Of those polled, 43% of respondents expect debt due dates will be pushed back to the first half of 2016, while an equal 21% each project maturities will be extended either in the first half of 2015 or the latter half of 2015.

A slim 3% of participants forecast the debt walls will be delayed to 2017 and beyond, while 12% indicate expectations that maturities will be pushed back to the second half of 2016.

In 2012, US$263.3bn of new leveraged loans allocated and US$300.8bn in high-yield debt priced. For comparison, in 2011 there was US$192.9bn in high-yield issuance and US$220bn in leveraged loans, according to Debtwire data.

In light of the easy flow of credit to levered borrowers, 41% of respondents believe the uptick in funding from newly created CLOs played a positive role in shaping the primary market in 2012. Just 6% say that the US$55bn of 2012 CLO issuance – up from US$12.7bn in 2011 – had a negative impact on the primary. A 53% majority believe that the rise of CLO issuance in 2012 influenced the primary in neither a positive or negative fashion.

Two to three year extensions are what almost everybody expects will be possible in these deals, as credit providers remain uncertain about longer-term horizons.

Sabin Willett, Partner, Bingham McCutchen LLP

The CLO revival in 2012 has probably not had enough time to affect credit markets. As the newly minted funds age and capital is deployed from the vehicles, the liquidity should run its course. The opacity and complexity of traditional financial institutions has made CLOs more attractive to asset managers because of their function as synthetic banks with traditional equity returns and leverage profiles.

David Miller, Managing Director, Macquarie Capital
First lien loan spread pricing on new issuance averaged 427bps in 4Q12, tight to the 485bps spread averaged in 2Q12, according to Debtwire data. Likewise, the average spread across all primary loans in 4Q12 was 464bps, tight to the 522bps average spread in 2Q12. By the start of January 2013, the JP Morgan Leverage Loan index of secondary trading carried a spread of 536bps.

Reinforcing the bullish credit bubble sentiment, survey participants expect much of the same in 2013, with a 56% majority forecasting loan spreads will stay constant in the coming year. Meanwhile, 27% of those polled anticipate spreads will tighten and just 17% project loan prices will increase.
There has been an influx of investments from overseas and an emergence of cross-border dynamics, muddying the restructuring process. From your perspective, what are some of the main challenges working through the conflicts of interest and what has upset the course of future workouts?

JEFF SABIN The essence of the answer to your question is that the group of regulators which fits under the acronym CFIUS has to approve various investments that could affect national security and other issues.

One of the most current examples, which we are not involved in but we’re knowledgeable of since we pitched to represent the committee, is A123 Systems. In concise form, it’s support from the federal government and from various states for the development of two different lines of business.

The case has now gotten to the point where, in the normalcy of 363 bidding, a Chinese entity won the bid and is now stuck in the world of CFIUS and stuck in the world of competing interests where lobbyists are lobbying to and fro to see if they can get approval. I think you’re going to see more of it in the future.

RON SILVERMAN The government is an important and powerful player. Where I have seen people be most successful in undertaking transactions that have raised issues with respect to government approval or concern, is by being proactive and trying to create a compromise that lets the government protect the interest that it cares about, which often isn’t the monetary interest. It’s protecting U.S. interests and safety, environmental, technology and security concerns.

In the Evergreen case, we were able to work out an agreed structure and a compromise with the government, so that with respect to certain patents that the government had a concern about, there were some restrictions placed on those patents as to the purchase and the use, and some issues about whether or not rights remained with the government were reserved, and an agreement was made to permit resolution of those issues later. As a result, the sale transaction was consensually consummated.

JEFF SABIN Another thing to remember is that you don’t know what the timing is when you have to do that. So it could affect valuations. That’s because, in large part, negotiations are holder private, and so it’s very tough if you are sitting at your desk trying to handicap as a trader, to know what’s really going on and what compromises may or may not be otherwise acceptable to government regulators.

CFIUS’ volume of work has gone up a lot over the past year, just in the number of things they’re looking at. Speaking about the Evergreen deal you worked on, do you think the same compromise today would be tougher? Has the government gotten tighter about these things?

RON SILVERMAN I think that there’s more of a focus today depending on the type of technology, what it can be used for, the scope, how big it is, etc. I think to the extent that technology lends itself to military applications versus other applications, that would raise the concern level. It’s not just that there’s a foreign buyer involved. You have to look carefully at what type of transaction and what type of technology you’re talking about.
Shifting to the buy side, when there's these cross-border issues, obviously, the possibility that the government may be taking a hard line on overseas bids can play into their minds, but also you were seeing strange bedfellows with European and U.S. funds or Asian funds and U.S. funds. Can you speak about TBS, where you were advising the agent to the pre-petition bank, but there were also a number of other smaller committees that also owned bank debt and had their own thing going on?

**AMY KYLE** There were actually five silos of different creditor groups. The international aspects of that and the motivations of the different groups were quite different in that case. It really was a big challenge in terms of trying to work out a restructuring, because the different lenders each had different collateral pools, different perceptions of value, and different perceptions as to what was an appropriate way to work through this problem.

Our group that was led by Bank of America and the DVB-led group joined forces to essentially allow the company to do the pre-packaged Chapter 11. Ultimately, one of the other large groups that was led by RBS decided that they were better off taking their collateral and going. So that's what they did. So we organized around the remaining portion of the company.

People may look at that case and say: “Well, you know, they had a pre-pack and they got out within a matter of weeks.” How long were the negotiations beforehand that were behind the curtain?

**JEFF SABIN** They were long. Long means, at some levels, as much as a year. Now let me try to put it in context. What we had, pre-bankruptcy, was an Irish public company with five different silos of secured creditors with their own groups of ships.

Some of them were cross-guaranteed and the jurisdictions that were relevant to not just the secured debt, but to unsecured creditors and/or vendors who might have had special rights in other jurisdictions embraced much of the globe.

But in order to do the plan, not only did we need some kind of sanctuary if there were going to be recalcitrants here, especially since there were public shareholders, and we chose—fortunately because we had legal venue in New York—we chose to file in New York, but we also had corresponding proceedings in Ireland and Bermuda to complete the restructuring.

We also had to understand under relevant laws outside the U.S. how to treat various other creditors. And that's where it becomes really interesting in a case that touches around the globe. What is your main proceeding? What is the effect on creditors throughout the globe in terms of the business as you've sought to reorganize it?

**AMY KYLE** One of the significant issues in terms of the technical aspects of how we accomplished the reorganization was the recognition that we couldn't cram shareholders in the Irish company, as you could in Chapter 11, without consent. Irish law doesn't allow it.

And so we did need to look at the lower levels of the complex corporate structure as a mechanism to allow us to accomplish the debt restructuring and, in effect, accomplish a plan that provided an equity recovery for creditors.

**JEFF SABIN** So we effected the plan a level down on the corporate structure and liquidated the parent. It was a creative solution by all, but that's how we came about it.

With the shipping industry, where restructuring vultures have been waiting, how concerned would you be that one of the parties would just sell out in a block trade to perhaps an activist hedge fund or somebody new to the situation?

**JEFF SABIN** The answer is that it's a big concern and, in reality, we had some of that in TBS, and we had to do exactly what you just hypothesized.

**AMY KYLE** One of the keys to accomplishing the successful pre-pack in this case was really involving those disparate constituents within the bank group. We had the agent representation, but the bank group started to look different over the course of time.

And having distressed buyers coming in who were willing to participate actively in the process, and not say, “Oh, I don't want to be restricted,” was very helpful, because it allowed us to have that dialogue about what we needed to accomplish to satisfy the different interests.

If this had played out in court, it would have filed before you had finished your negotiations for the eventual plan. Could what you had negotiated been negotiated during a Chapter 11 process?

**JEFF SABIN** You would have had a fair amount of litigation over the use of cash collateral and the new money that was being put in. The ability to prime the secured creditors without consent would have been a very difficult hurdle. We fortunately had packaged so much of this so that the relative secured creditor rights were all in play, and that made it much easier.

**AMY KYLE** That's absolutely right. I think the complexity of this case and of many shipping cases, because of this fairly typical structure where they finance in these silos associated with particular ships, means that the cash flows of the company are coming from the collateral of various creditor groups, and there is no way to bind them all together if they don't want to be bound.
Let's talk about getting funds from different parts of the world to come together. Are there any certain characteristics or agendas that you would assign to a typical U.S. investor in distress versus what you've experienced in Europe or any other country?

JEFF SABIN Increasingly we see funds that may have started in the U.S. open up offices around the world and, in fact, as the amount of product here continues to be relatively low, or in some people's minds very low, senior people from funds here are now physically based in London or Frankfurt.

There are a fair number of funds that we represent that play in the space in Asia and make their homes in Singapore or Hong Kong. Since we have offices, significant offices and significant practices, in this space in London, Frankfurt, Beijing, Hong Kong and Tokyo, we see an awful lot of it, and there is an increasing globalization, if that's the right word, of an attitude and credit.

So U.S. investors' comfort with the restructuring process in overseas credits and in foreign jurisdictions has increased over the past, would you say, three years? Is that fair?

JEFF SABIN I would say the globalization certainly has become much more evident in the last three years. I would say that in the last six months, the increasing number of U.S.-based funds sending people out, particularly perceiving that there's more opportunity in the EU, is very evident.

Another issue is dealing with pensions in a company that is global, that might file.

JEFF SABIN The laws of PBGC. The PB has clearly stated in its laws and its statutes under ERISA that every entity that is owned 80 percent or more within a consolidated group, if those entities are U.S. entities, is jointly and severally liable for the claim.

RON SILVERMAN We're probably one of the leading authorities in this area. We had a large case called Sea Containers, which was an international conglomerate doing many things, including shipping container boxes, those sort of big railroad trailer cars that you see on trains and stacked up on ships. And so we had a worldwide operation, and in that case and in the Nortel case and also coming up in Kodak, you're going to see issues on pensions.

The first one is that since you've got operations and equities in different countries, you've got different pension schemes. You have different pensions, government pension regulators and authorities.

Do pension claims have priority? Do they claim a first call on assets? Are they just a general unsecured creditor or is it a mix of the two? In addition, do pension claims reach affiliates either automatically by statute or by affirmative determination of the pension authority? That can vary by jurisdiction.

We are now seeing different claims by different pension agencies against different affiliates. Another issue is valuing the amount of the pension claim. When a company is operating when they are still a going concern, in the U.S. you are allowed to value your pension claim if there's an underfunding amount using a discount rate relatively favorable to the company.

The theory is, the company will continue operating for years and years. They'll invest in stocks, they'll invest in bonds. They'll make a good investment rate of return on the asset protection plan. You can assume that those assets will grow, and they'll be enough to pay off the liabilities when the pension obligations have to be met.

The non-bankruptcy laws in many countries, including in the U.S., don't allow you to use such a favorable interest rate when the music stops. That's also the case in the U.K. Now you can't assume, "Hey, I'm going to be investing in stocks for such a long period of time." You're really going to be investing in bonds or buying annuities at a much lower rate of return. The underfunding delta grows exponentially.

If the companies enter into Chapter 11, people can litigate over the right interest rate that you should assume; perhaps the underfunding of the pension plan can grow by orders of magnitude. Then you end up in a litigation about, well, what really is the right rate here? <
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INTRODUCTION
Yet another year goes by and again we have witnessed the unorthodox coupling of slow economic growth and soft restructuring markets. Though restructuring saw a small uptick in activity last year, the default rate continues to hover near historical lows, currently at 1.3%1. Opportunities are still at a significant low, and it is unclear in which direction the future will trend; as of December, the number of companies on Moody’s B3 Negative and Lower Corporate Ratings List fell to 152, reaching its lowest level in 2012.

Comparing the debt markets of today to 2005-2007, and the pronounced default wave that followed during 2008-2010, provides insight on potential implications for activity in the restructuring market in the near-to-medium-term. Given current fundamentals, the next default wave appears likely to begin after 2013 and will be more modest than what was experienced in 2008-2010, taking into consideration several key differentiating factors: the amplified impact of the global financial crisis on the prior default wave, more robust capitalization of new LBO targets and improved ability for current and prospective issuers to “kick the can.”

IMPLICATIONS OF THE GLOBAL FINANCIAL CRISIS
Though the underlying purpose of this discussion is not to focus on the impact of the global financial crisis on prior restructuring opportunities, it would be naïve to believe that comparing debt markets in isolation between the mid-2000’s and the last two years could lead to the most comprehensive interpolation for future default trends; the global financial crisis was a significant, if not the most important, factor contributing to the most recent wave of defaults.

LEVERAGE STRUCTURES OF NEW ISSUANCES – THE NEW NORMAL?
When comparing lenders’ and issuers’ appetites for leverage during the mid-2000’s to market conditions today, current trends insinuate 2013 to be the peak for the current leveraged finance cycle. For example, the average debt multiples for large corporate LBO loans (Figure 1) were 5.3x and 5.4x in 2005 and 2006 respectively, and then increased to 6.2x in 2007; comparative leverage for similar transactions in 2011 and 2012 was 5.2x and 5.3x respectively. More interestingly, isolating 3Q2012 and 4Q2012 leverage multiples of 6.0x and 5.5x respectively from the rest of 2012 points to the possibility that some catalyst has already sparked the leveraged finance markets, and new LBO transactions in 2013 could possibly approach or surpass leverage levels witnessed for deals at the prior peak in 2007.

However, despite similarities between the two periods on a Debt-to-EBITDA multiple basis, further examining the higher proportion of equity contributions in LBO transactions reveals how banks and lenders actually have less appetite for risk in today’s markets. Average equity contributions for LBO transactions (Figure 2) were 29.8% and 31.1% for 2005 and 2006 respectively, but are currently at meaningfully higher proportions of 38.0% and 37.7% for 2011 and 2012.

If this new standard of larger proportional equity contributions continues to be accepted by issuers and lenders as the “norm” in the near-to-medium-
term, average debt multiples for large corporate LBO transactions should not precipitously decline until sometime after 2013 as they did between 2007 and 2008. Furthermore, because LBO targets have greater underlying equity support today than during the mid-2000’s, these companies should have a greater ability to refinance outstanding debt, avoiding a rapid shift in market sentiment because they are forced to pursue other options, such as amendments or, in some cases, bankruptcy.

ABILITY TO “KICK THE CAN”

Further exacerbating the subdued tone of current restructuring markets, today’s conditions provide greater capability for issuers to refinance relative to the existing conditions in the prior “hot” debt market cycle and its ensuing default wave. There are several key distinctions today that bolster this case: new issuance currently has a larger proportion of high-yield bonds, more leveraged loans are now covenant-lite in nature, the interest rate environment is generally lower due to action by the Federal Reserve and the maturity wall has “spread out,” making debt burdens more manageable. Although debt multiples have yet to reach 2007 levels, leveraged finance issuance volume (Figure 3) has already significantly surpassed the former record level of $679bn in 2007 by 19% in 2012. However, the composition of new issuance between today and the mid-2000’s is very distinct. In 2007, out of the $679bn of total US leveraged finance volume, $535bn (78.8%) were loans and $144bn (21.2%) were high-yield bonds. In contrast, in 2012 total volume was $811bn with $465bn (57.3%) in loans and $346bn (42.7%) in high-yield bonds. Despite the potential belief that higher absolute levels of issuance would lead to higher levels of bankruptcy by loan default volume, high-yield bonds in general have a greater capability to refinance due to incurrence covenants compared to leveraged loans that have maintenance covenants.

Figure 3: Total US Leveraged Finance Volume ($bn)

Moreover, closely examining leveraged loans and high-yield bonds in isolation further indicates greater refinancing ability today compared to the mid-2000’s for both debt securities. With leveraged loans, the proportion of covenant-lite loans out of the total loans outstanding in the S&P/LSTA Index (Figure 4) has consistently increased since 2005. By nature, covenant-lite loans are easier to refinance because they increase the flexibility permitted to issuers and reduce the negotiating power of lenders.

Figure 4: Covenant-Lite Loan Share of Total S&P/LSTA Index Outstandings

With high-yield bonds, the interest rate environment is lower today than in the mid-2000’s (Figure 5): for most of 2012 the yields of new-issue senior unsecured bonds have been in the high 6% to mid 7% range while comparable yields in 2006 were in the 8% to low 9% range. Current investor appetite for returns has pushed high-yield rates so low that distressed companies have had less difficulty refinancing and have not been forced to pursue other alternatives, such as covenant relief or amend & extend transactions.

Figure 5: Yields of New-Issue Senior Unsecured Bonds – Rolling 30-day Average

All outliers, regardless of industry are excluded. Omitted data is due to limited number of transactions in given time period

Source: LCD High-Yield Weekly Review
THE NEXT CATALYST FOR RESTRUCTURINGs?
According to LCD, loan portfolio managers do not expect default rates to return to moderate levels until reaching 3.1% in 2014 (Figure 7), and they attribute several drivers for this medium-term trend: the recent increase in leverage for new deals (Figure 1), the spike in the amount of loans maturing from 2013 to 2014 (Figure 6) and the eroding new-issuance quality, such that the share of new-issue volume to issuers rated B+/B1 by Standard & Poor’s and Moody’s reached the second-highest level on record during the second half of 2012, at 63.9%, versus 64.6% in 20072.

Nevertheless, because markets are fickle, it is also worth considering potential “black swan” events that could affect the timing and magnitude of the next default wave. The most important of these conditions to further consider is the potential impact of Federal Budget concerns, which could cause the Federal Reserve to reverse its policy of holding interest rates at such low levels through 2015. This type of action would force interest rates on high-yield bonds to increase, reducing the distance of the next wave. In addition, events that could pull the United States back into recession, such as a breakup of the Eurozone or a spike in oil prices among other unforeseen events, could also indirectly lead to a more prompt default wave. However, these events are less likely to affect near-to-medium-term restructuring opportunities relative to the current state of the leveraged finance markets, and we believe the next default wave will most likely begin after 2013 (at the earliest) and be of a smaller magnitude than what was experienced in prior cycles.

#### Figure 7: Default Rate (Forecasts for 2013 and 2014)

Survey sent to portfolio managers by LCD during the first half of December 2012. Portfolio managers were asked to exclude TXU from their projections

Source: 12/20/2012, LCD Default Forecast

In addition to the absolute levels of interest rates, the direction of rate movement is in stark contrast today compared to the mid-2000’s. Yields of new-issue senior unsecured bonds rose during 2006 and 2007, while conversely declined since the second half of 2011. With the current low interest rate policy implemented by the Federal Reserve, investors will continue to hunt for higher returns causing yields to remain subdued. Because there is a correlation between default rates and high-yield spreads, the fact that interest rates are expected to stay low provides further evidence that the next default wave may likely not be for several years into the future. In fact, high-yield spreads were a leading indicator for the 2008-2010 default cycle, so there is a significant likelihood that defaults will not increase until high-yield spreads begin to rise.

Furthermore, comparison of the maturity wall from the mid-2000’s and today (Figure 6) displays a glaring discrepancy amongst their compositions. The current debt cycle does not have such massive levels of new issuance in a given narrow time frame all maturing in the same year. For example, at year end 2006 there was a mere $14bn of loans due in 2014, but at year end 2007 this value spiked to $205bn (a $191bn increase). The current maturity wall’s “spread out” structure between near-term and more distant maturities indicates that leveraged finance over the last few years has been more focused on refinancing and addressing near-term maturities from vintage 2007 LBO transactions than on new LBOs or larger new issuances. Observing that at year end 2012 there was only $88bn in loans maturing in 2019 leads to the notion that a new wave of leverage financing volume seems to have only just begun and should likely accelerate in 2013 and beyond.

#### Figure 6: Maturity Wall Comparison between Debt Cycles: S&P/LSTA Leveraged Loan Index

Data excludes defaulted facilities and is based on par amount outstanding

Source: LCD S&P/LSTA Leveraged Loan Index Maturity Breakdown

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CONCLUSION – IMPACT FOR FUTURE RESTRUCTURING OPPORTUNITIES

As discussed, the next default wave will most likely be less potent than seen in 2008-2010 due to the effects of the global financial crisis, the leverage structuring of new issuances and the strengthened ability for issuers to refinance. Likewise, the larger proportion of equity contributions in large corporate LBOs and the strength of the refinancing environment in today’s leveraged finance markets also suggest that the next default wave is likely still several years into the future. LCD currently predicts a 2.04% default rate for 2013, and more interestingly, has consistently lowered its 2013 default rate projections during the course of the last 12 months: estimates were 2.6%, 2.8% and 2.9% in September 2012, June 2012 and December 2011 respectively. As the leveraged finance market continues to demonstrate greater resilience in “kicking the can,” such as TXU’s recently announced three-year maturity extension to its $645mm revolving credit facility, the likely near-term default rate continues to decline, and the next default wave will recede further into the distance.

3Q12 and 4Q12 LCD Quarterly Review
**Macquarie and Restructuring**

Macquarie’s Restructuring and Special Situations Group combines the focus, flexibility and specialization of a boutique restructuring business with the strength and resources of a global platform.

By drawing on Macquarie’s diverse range of capabilities, we are able to deliver broader and more innovative solution sets to our clients, with a uniquely integrated combination of special situations expertise, funds and advisory businesses.

Macquarie’s proven capital raising capabilities and strong global institutional relationships provide our clients with solutions across the capital structure, including listed and unlisted equity, debt, and hybrids and convertible bonds.

Our restructuring advisory team is aligned with global industry groups, providing deep sector expertise combined with active asset management experience.

Macquarie works with a diverse range of clients and stakeholders including:
- Public and private companies
- Secured and unsecured creditors
- Official and ad-hoc committees
- Boards of Directors
- Bondholders
- Purchasers of distressed assets
- Private equity sponsors
- Hedge funds

**Our Services and Capabilities**

Macquarie’s restructuring and special situations services are provided in the context of early interventions, informal workouts, out-of-court restructurings and formal bankruptcy proceedings. Macquarie provides a full range of advisory services for both debtors and creditors, including:

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<th>Balance Sheet Restructurings</th>
<th>Special Situations Capital</th>
<th>M&amp;A</th>
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<td>- Chapter 9 &amp; 11 Restructurings including Pre-packaged and Pre-arranged Restructurings</td>
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macquarie.com/us/restructuring
### Selected recent Macquarie Capital transactions

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<tr>
<th>Date</th>
<th>Transaction</th>
<th>Financial Advisor/Role</th>
</tr>
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<tr>
<td>November 2012</td>
<td>Ongoing Mixed-Use Real Estate Development Project</td>
<td>Financial Advisor</td>
</tr>
<tr>
<td>November 2012</td>
<td>Selected recent Macquarie Capital transactions</td>
<td>Financial Advisor</td>
</tr>
<tr>
<td>December 2012</td>
<td>Acquisition of Advantage Rent-A-Car from Hertz</td>
<td>Financial Advisor/Equity Provider</td>
</tr>
<tr>
<td>January 2013</td>
<td>Acquisition of Swank Audio Visual Revolving Credit Facility</td>
<td>Financial Advisor/Joint Bookrunner/Joint Lead Arranger/Principal</td>
</tr>
<tr>
<td>August 2012</td>
<td>Modification and Extension of Existing Mortgage Loan</td>
<td>Financial Advisor</td>
</tr>
<tr>
<td>August 2012</td>
<td>Acted as financial advisor to the Senior Lenders of a Confidential Education Services Company</td>
<td>Financial Advisor</td>
</tr>
</tbody>
</table>
Still think “wait and see” is the best approach?

Macquarie: Helping our restructuring clients for more than 30 years

Through booms and busts, Macquarie has been helping clients reach their goals for more than 30 years. With market conditions steadily improving, taking action today is critical to ensuring success and stability tomorrow. That’s why Macquarie’s Restructuring and Special Situations Group goes beyond the traditional restructuring model to offer our clients a broad and flexible array of products and solutions.

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macquarie.com/us/restructuring
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