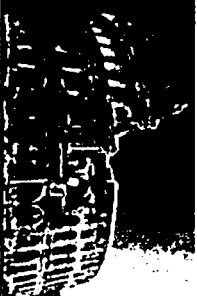




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ACFA Bankruptcy Panel Cooperstown, New York

“You Say You Want A Revolution?”

Presented by:

James S. Feltman

June 1, 2007



Capital Structure in Typical Restructuring 1950's to ± 2000

POSITION	WHO	TRADITIONAL ROLES
Senior Secureds		
Bonds		
Trade Vendors		
Equity Holders		



Capital Structure in Typical Restructuring 1950's to ± 2000

POSITION	TRADITIONAL ROLES
Money Center Banks; Commercial Lenders	First lien rights, cash collateral provider, control position for 'core' assets
Institutional / Pension Funds	Default rights, got what first lien didn't get, 'new owners' in restructured company
Suppliers	Support the company, get 'BKC' dividend (cents on the dollar), want to keep customer after restructuring
John Q Public & Institutional Funds	Out of the money, no control, lowest recovery value



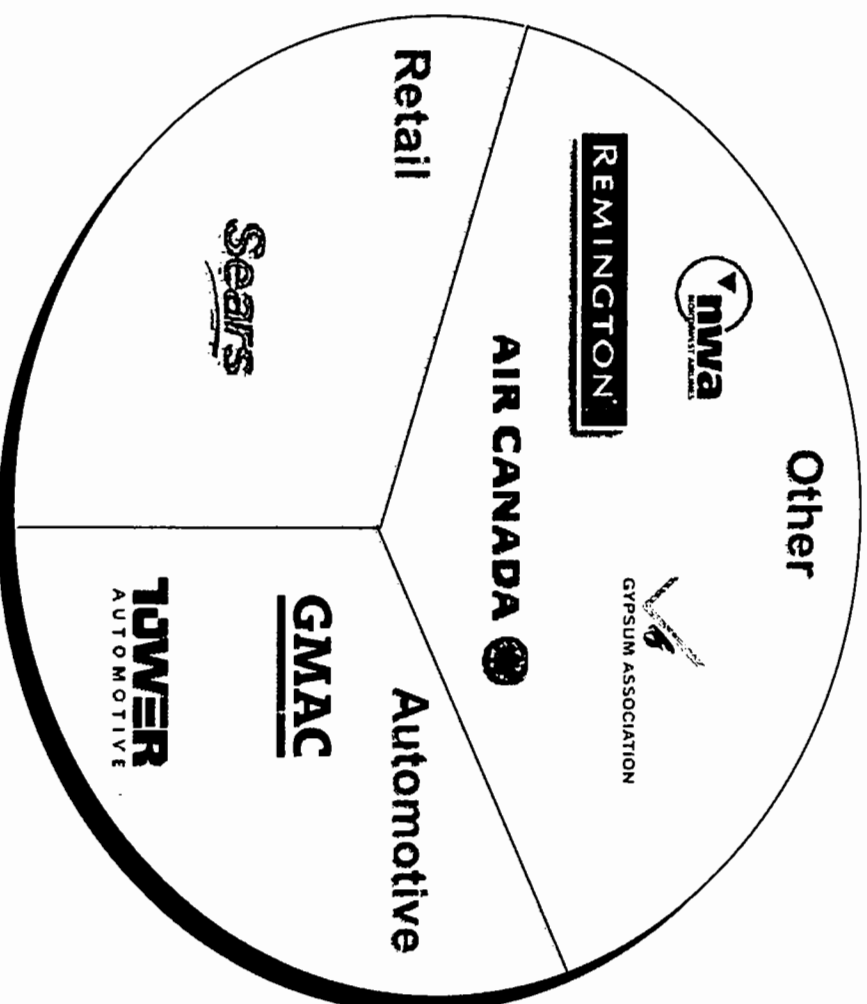
Are You Familiar with these Names?

- Goldman Sachs
- Blackstone
- Cerberus
- Fortress Investments
- DE Shaw
- Texas Pacific Group
- Bain Capital
- Silver Point
- Oaktree
- Harbinger
- Tricinda
- Greenwich Capital
- ESL Capital
- Apollo Management



Are You Familiar with these Companies?

- Sears
- K-Mart
- GMAC
- Northwest Airlines
- Delphi
- Air Canada
- Tower Automotive
- US Gypsum





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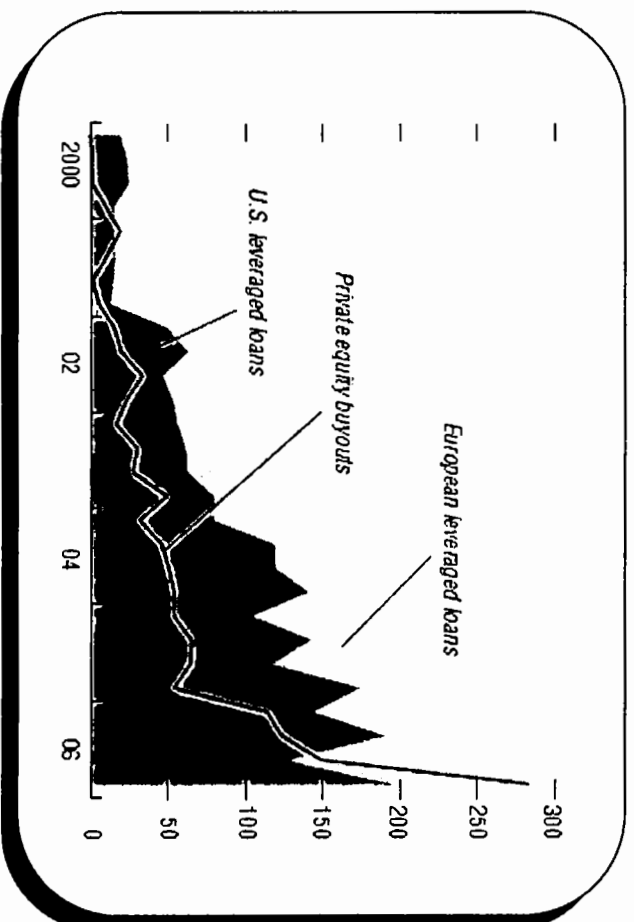
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Today's Capital Markets – What's Changing?

- More M&A deals, and higher multiples, funded by debt
- Hedge funds and private equity funds have/are raising hundreds of \$Bn and increasing velocity of capital flows
- More bond raises for greater values
- Low default rates and number of defaults



Private Equity Buyouts and Leveraged Loan Issuance (in billions of U.S. dollars)



Source: IMF.org

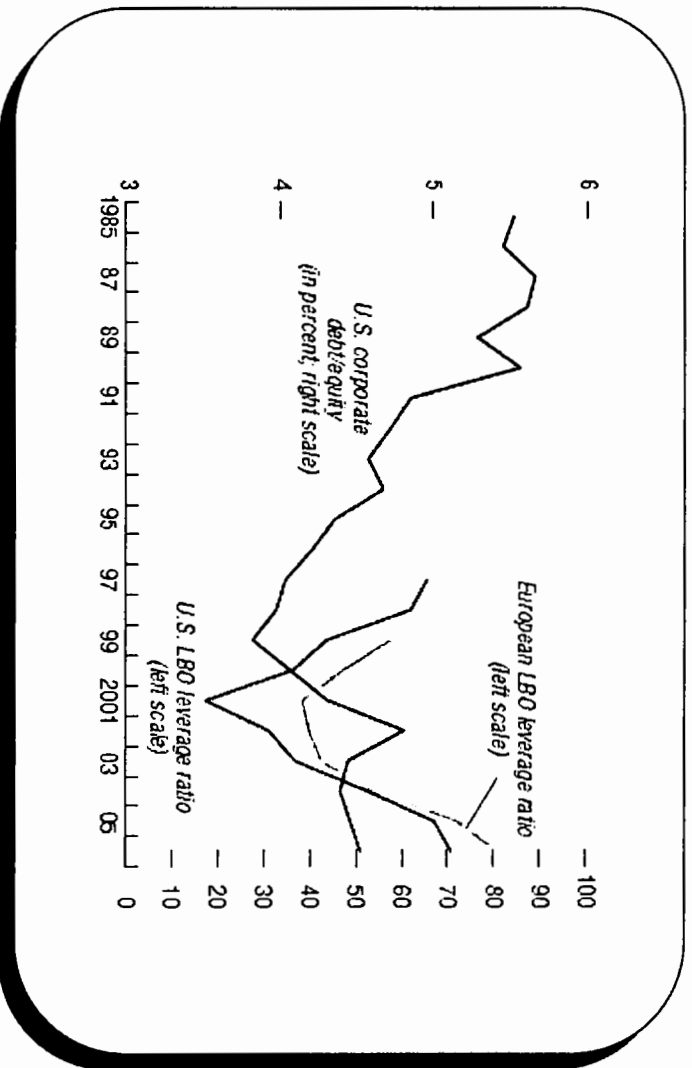


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U.S. Corporate and Buyout Leverage



Source: IMF.org
Note: LBO = leveraged buyout. Leverage ratio is calculated as debt divided by earnings before interest, taxes, depreciation, and amortization.



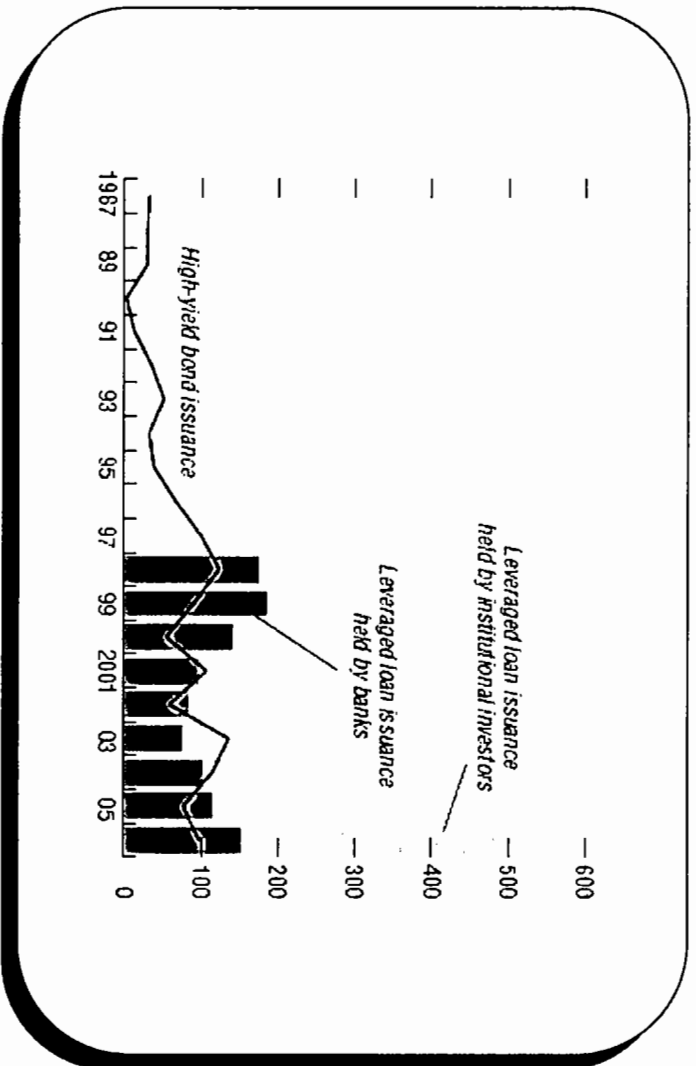


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U.S. Corporate Bond and Loan Issuance (in billions of U.S. dollars)



Source: IMF.org

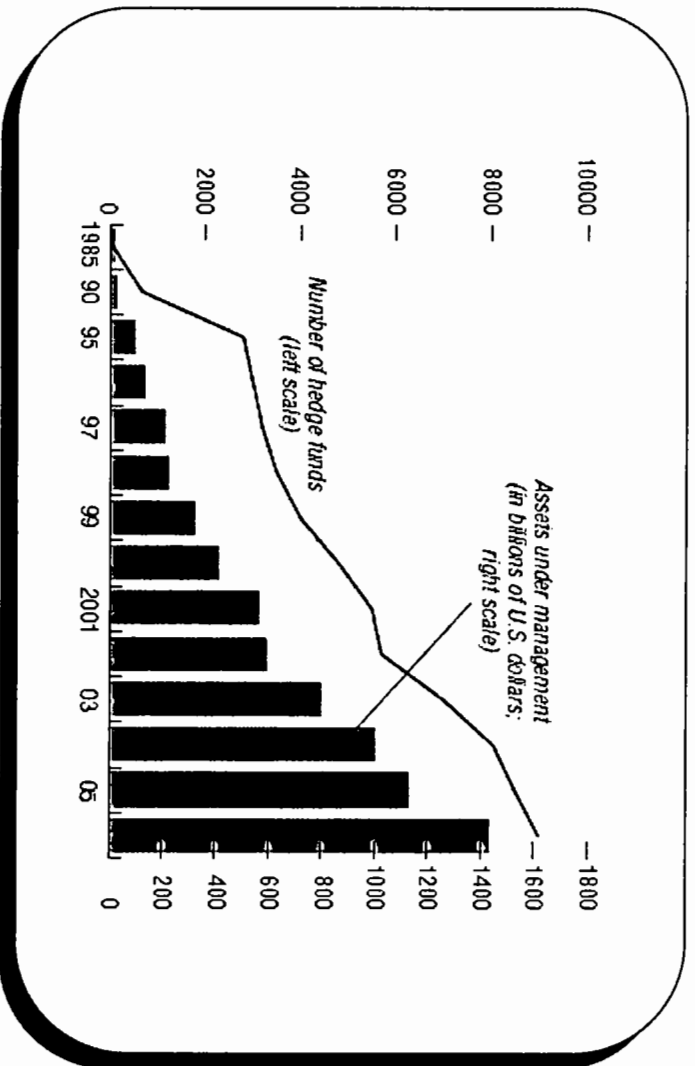


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Global Hedge Funds



Source: IMF.org



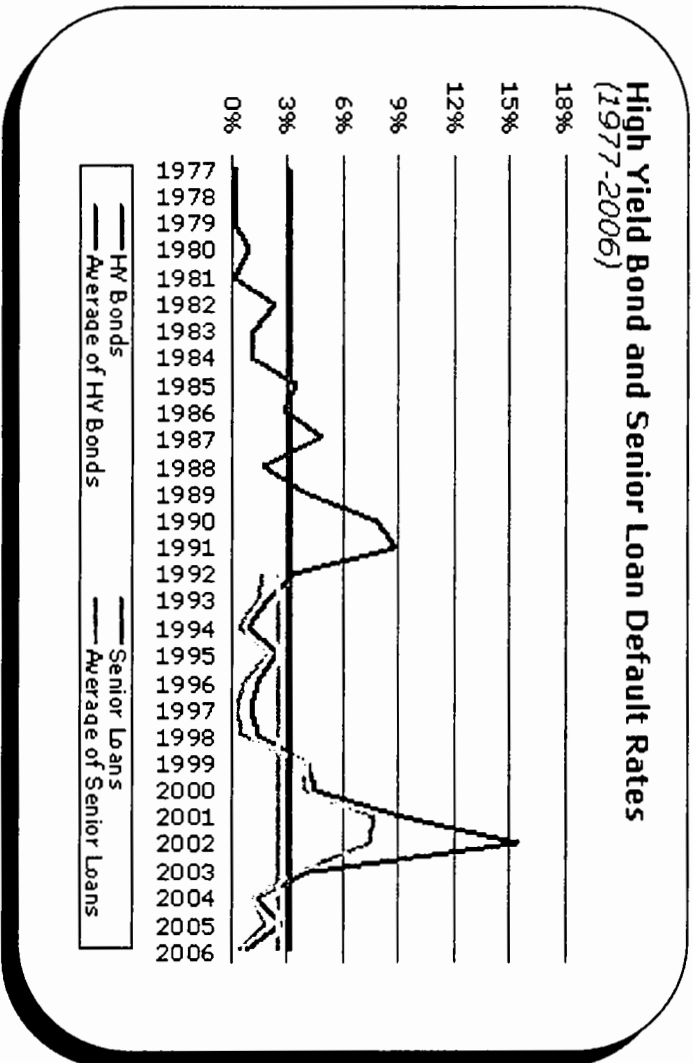


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Average of High Yield and Senior Loans



Source: *Four Corners Capital Management website*



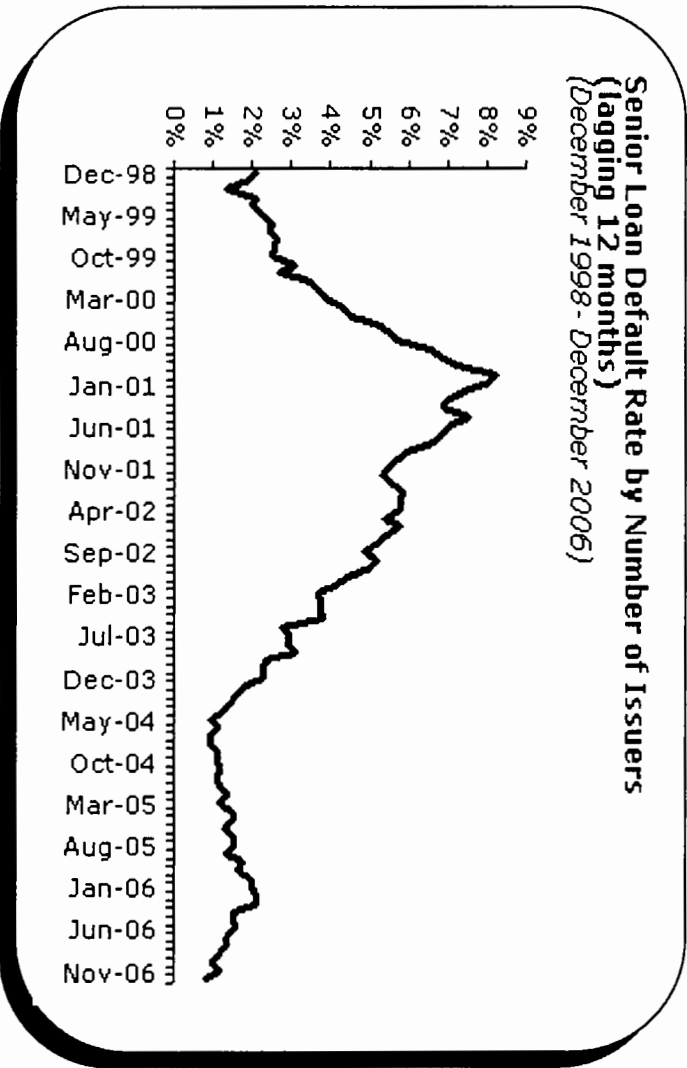


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Lagging Twelve Months Default Rate



Source: Four Corners Capital Management website



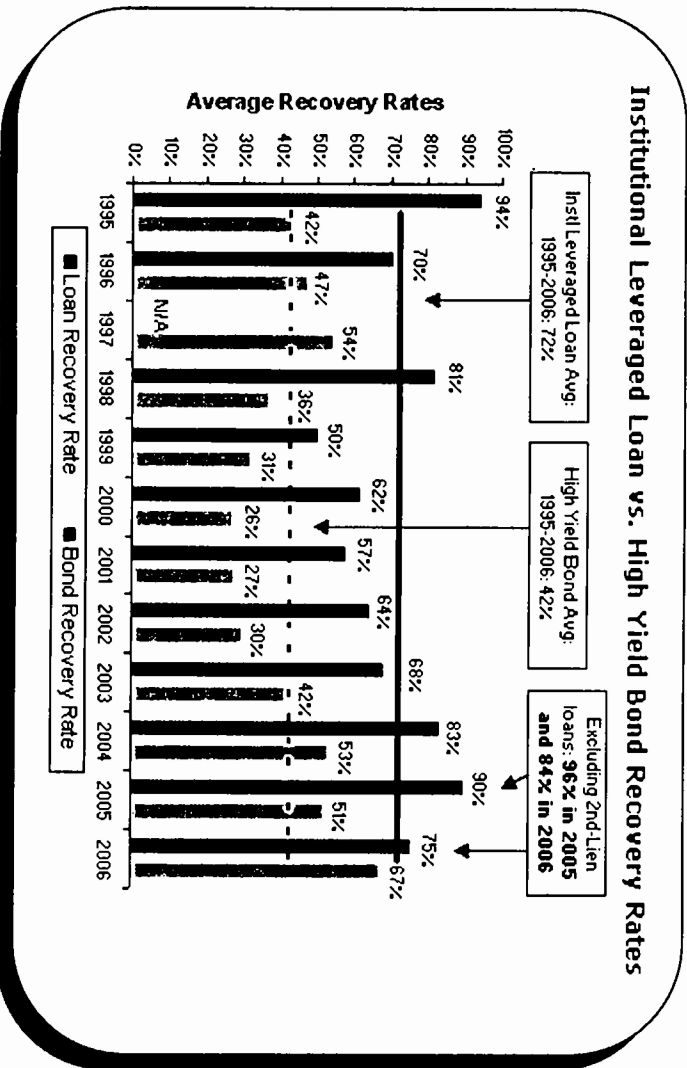


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Loan Recovery Rate vs. Bond Recovery Rate



Source: Four Corners Capital Management website



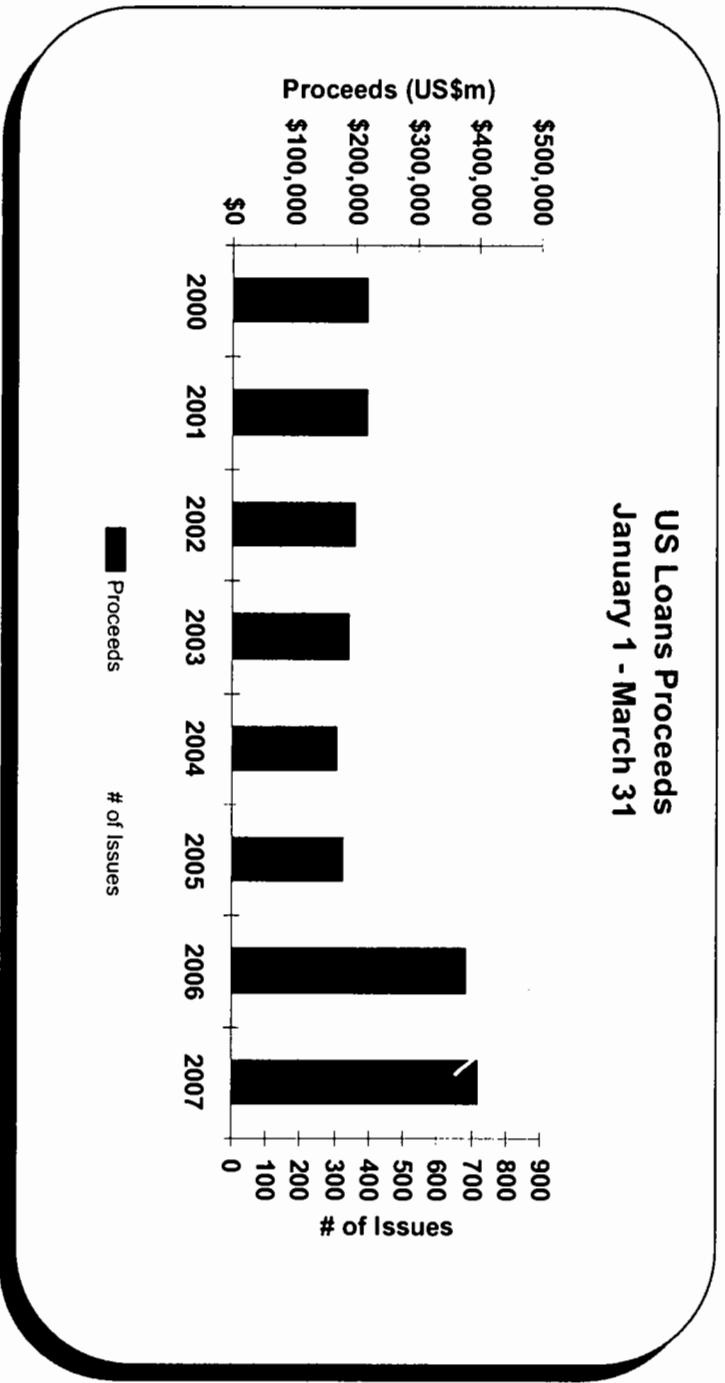


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Loans Proceeds

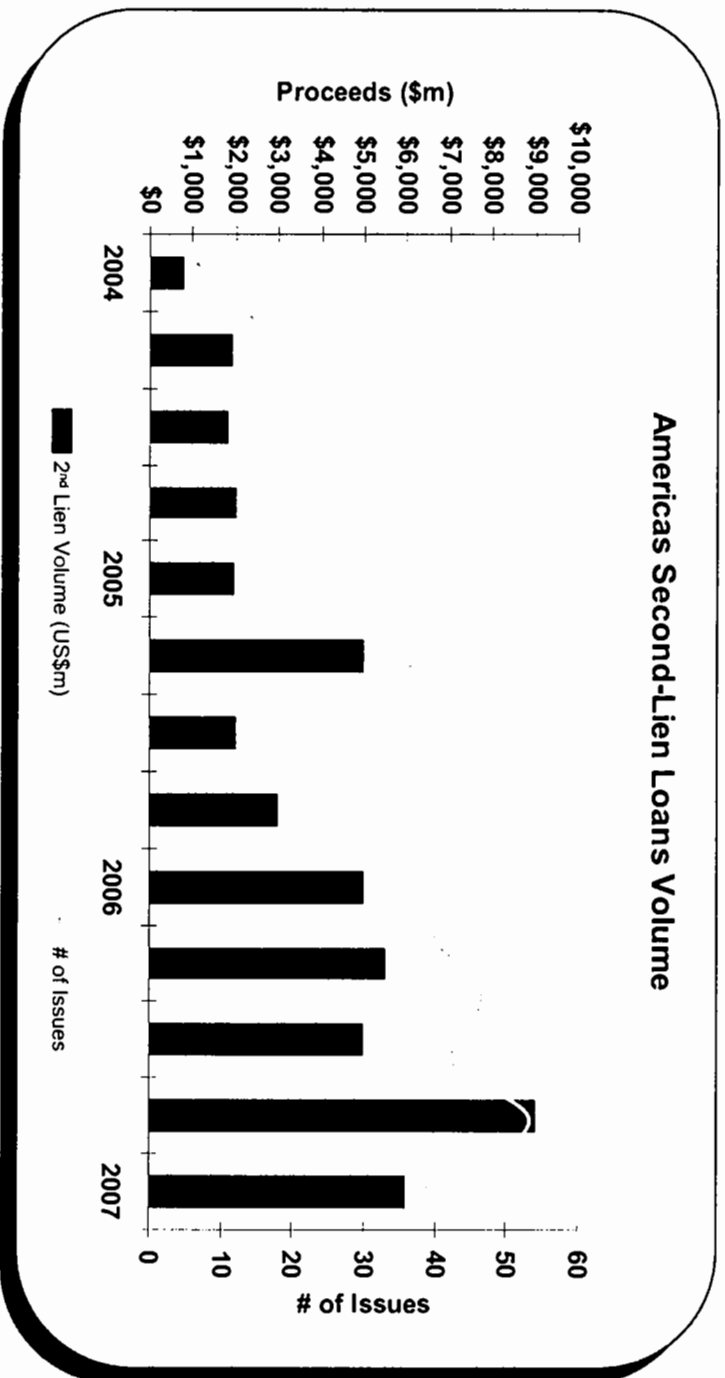


Source: *Four Corners Capital Management website*





Second-Lien Loans



Source: *Four Corners Capital Management website*

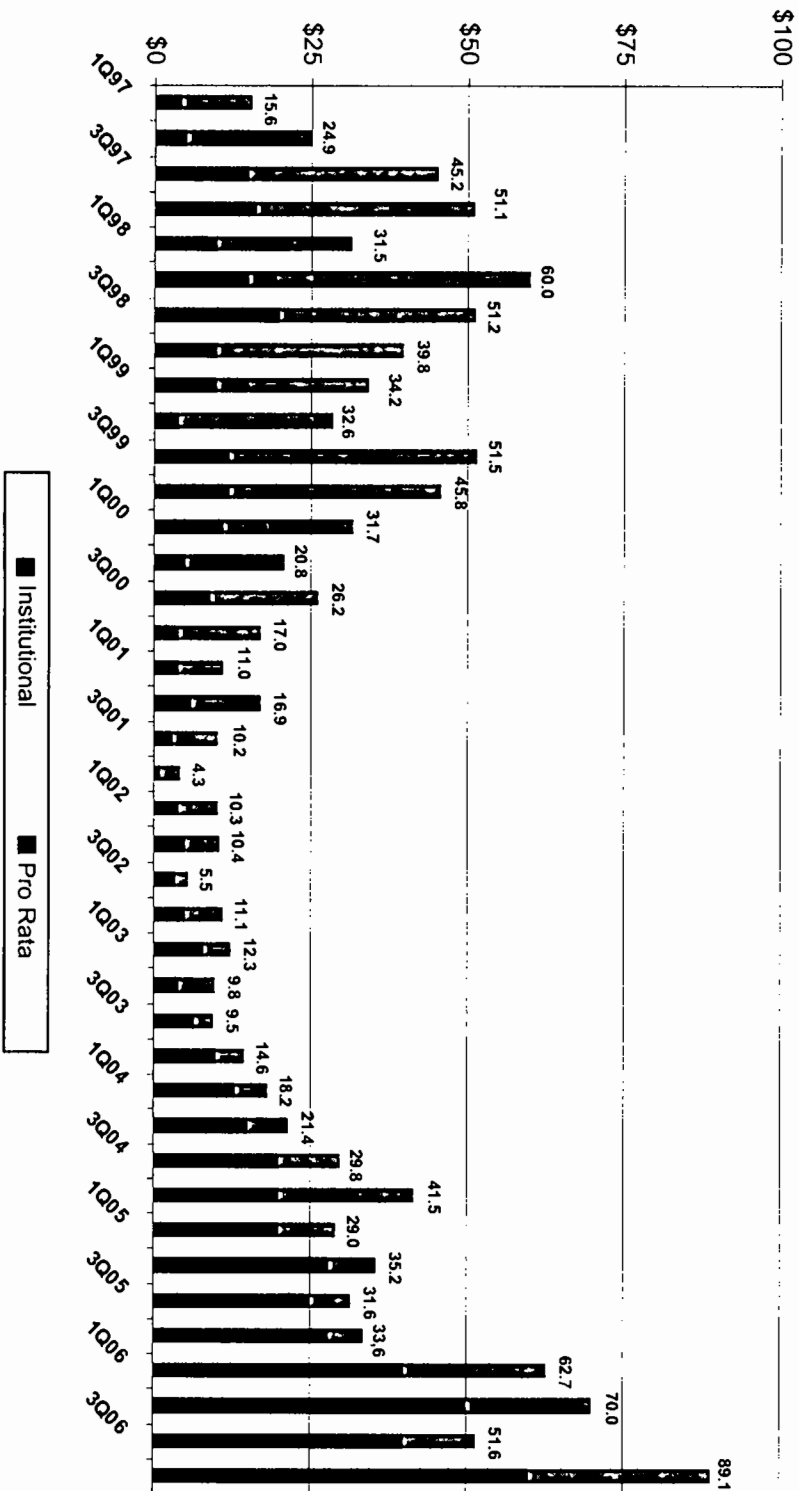


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M&A Leveraged Loan Volume 1Q97 – 4Q06



Source: Standard & Poor's LCD M&A Stats



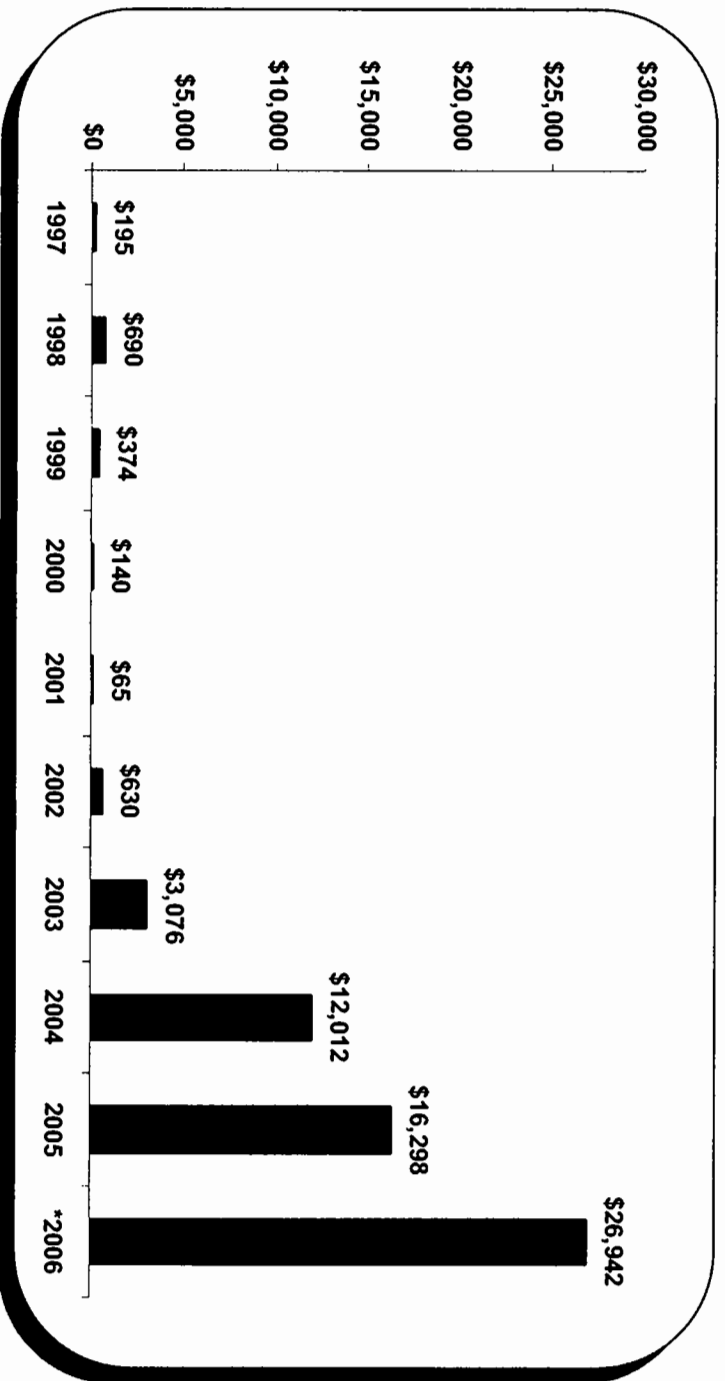


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Second Lien Issuances



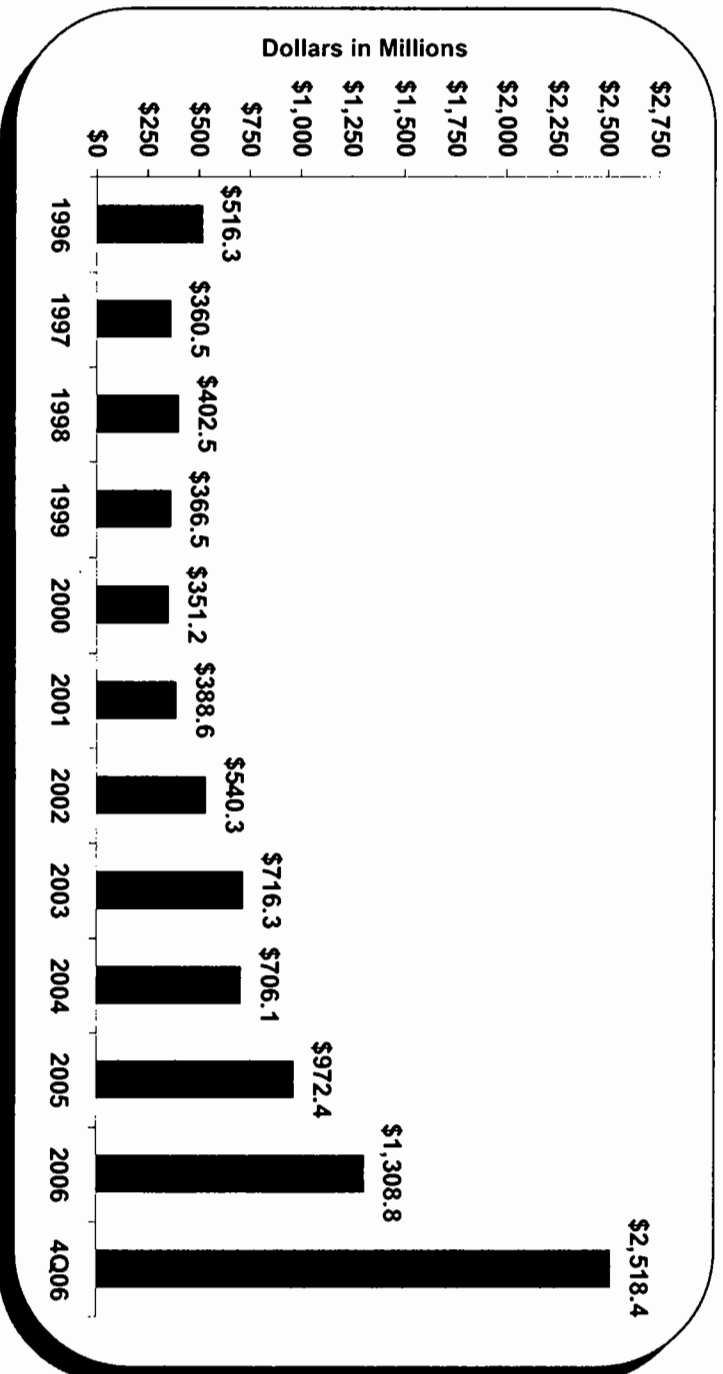
*Annualized based on 1Q06 data.

Source: Standard & Poor's/Leveraged Commentary & Data





Average Leveraged Buyout Size by Total Sources 1996 – 4Q06



Source: Standard & Poor's LCD M&A Stats



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...and the result for Traditional Capital Structure in Typical Restructuring – then

POSITION	WHO	TRADITIONAL ROLES
Senior Secureds		First lien rights, cash collateral provider, control position for 'core' assets
Bonds		Default rights, got what first lien didn't get, 'new owners' in restructured company
Trade Vendors		Support the company, get 'BKC' dividend (cents on the dollar), want to keep customer after restructuring
Equity Holders		Out of the money, no control, lowest recovery value



Capital Structure in Typical Restructuring 1950's to ± 2000 – and now

POSITION	WHO	TRADITIONAL ROLES
Senior Secureds	Private Equity / Hedge Funds	"Loan to Own", at first sign of default use pre-pack or forced sale to insider in \$363 transaction
Bonds	Private Equity / Hedge Funds	Activists, trigger defaults accelerate debt, change management
Trade Vendors	Private Equity / Hedge Funds	Sell claims, stay out of fight, cede role to activists
Equity Holders	Private Equity / Hedge Funds	Activist role, force change in Board of Directors, corporate strategy, look for additional value in spin-offs; "greenmail"



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Market Place Outcomes:

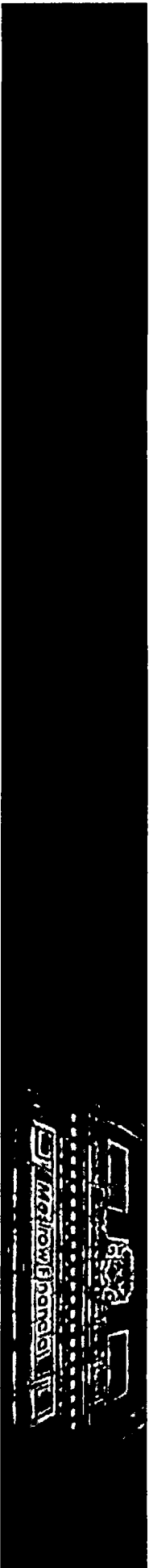
- Forced acquisitions
- Pressure on unions in labor negotiations
- Leveraged balance sheets
- “In control positions” in Chapter 11’s and out-of-court workouts



Implications for Professionals:

- 50+ year paradigm for capital markers/restructuring undergoing dramatic changes
- Private equity/hedge funds replacing traditional 'referral sources' – (banks/institutional lenders)
- Multiple players in multiple roles with active marketplace for exchange of credit

“You Say You Want A Revolution?”



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