"Walker, John L"<jwalker@stblaw.com> 06/21/2006 10:53 AM

Dear All,

This morning I read the attached pages from this week's Credit
Investment
News. The following headlines and statements, each with respect to a syndicated loan transaction, caught my attention:

Merrill, CS Launch Complex Rexnord Deal / Lehman Brothers and Bear
Stearns
are non-lead arranger book runners.

UBS, GE Market ILC Recap

Goldman Sachs Spins Select Funding

Two-Part Smurfit Loan Launche[d by JPMorgan, Lehman Brothers]

Citigroup Venture Capital turned to UBS and Merrill Lynch to provide financing to back its purchase of Western Dental Services.

You may not be surprised that my thoughts turned to the following statements in the Antitrust Division's comment letter on the Board's proposed interpretation of section 106:

"The Division is also concerned that, as interpreted by the [proposed interpretation], section 106 prohibits a bank from meeting competition from non-bank providers of the same service or product. Section 106 has the potential to put banks at a disadvantage when competing with non-banks, because the section's restrictions apply only to banks and not to the other institutions with which the banks may be competing. Any restrictions on banks that are not also imposed on non-banks can inhibit competition in areas where the two intersect."

"We see no evidence that . . . syndicated loan borrowers need additional assistance beyond the antitrust laws to protect themselves from anti-competitive tying. Such firms are much less likely to be victims of anti-competitive ties than small business customers or individual consumers, and were not the customers that were intended to be protected by section 106."

Viewing section 106 from the perspective of both competitors and
customers,
in my humble opinion the time has come to interpret section 106 in a
manner
that is pro-competitive.

Best regards.

John

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Visteon's Term Loan Drops Under Par

Visteon Corp.'s new $800 million term loan fell under par when it broke in the secondary market. An overabundance of auto credits and poor collateral were blamed for the drop.

See story, page 4

Kind Of Covenant-Lite

MERRILL, CS LAUNCH COMPLEX REXNORD DEAL

Investors are wrestling with the structure of the $705 million deal for **Rexnord Corp.**, a covenant-lite deal that might not be as lite as its title suggests. A $580 million term loan has no covenants; a $125 million revolver has one — a senior secured leverage ratio. But the term loan and revolver are pari passu with a cross default relationship. So if the revolver defaults, the term loan will also default.

"The revolver has covenants and you are pari passu with it," said one investor who does not plan on committing to the deal. "If the revolver defaults, then the term loan defaults, so even though you don't have covenants, you kind of do." During a conference call for the deal, one investor asked—with an incredulous tone—for the banks to again explain how the deal has no covenants.

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Whoa-chovia

WACHOVIA, JPM EXPECTED TO LAND ORIENTAL TRADING LEADS

Wachovia Securities and **JPMorgan** are expected to be named as the lead banks on a credit backing **The Carlyle Group**'s purchase of **Oriental Trading Co.** from **Brentwood Associates**. Wachovia's place as one of the top banks caught the attention of market players, who noted it was an aggressive play by a bank that typically has not been on the left for large cap sponsor deals. The deal structure has not been disclosed, but with an estimated purchase price of $1 billion, the first and second-lien tranches are expected to add up to a number in that neighborhood. A banker at Wachovia referred a call to a spokeswoman, who did not return calls. Calls to a spokeswoman at JPMorgan were not returned.

Credit Suisse and BNP Paribas are the leads on Oriental Trading's existing debt, but they

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OWENS CORNING BONDS TUMBLE ON CONCERNS OF HOUSING DOWNTURN

Owens Corning bonds tumbled 15 points last week on concerns of a downturn in the housing market. The company's 7 1/2% '18 bonds fell to 83, before rebounding three-and-a-half points to 85 1/2. The bonds were trading as high as 108 June 7. Owens Corning bonds have fallen about 35 points over the past two weeks, according to a trader. Its bank debt fared better, however, trading steadily in the 156-157 context.

The downturn in the equity markets and concerns the **Federal Reserve** will continue to raise interest rates are hurting the bonds. Under the company's plan of reorganization, bondholders will receive cash and equity when it emerges from bankruptcy later this year. In general, investors are concerned that homebuilder stocks will not perform well, said a trader. Owens Corning makes homebuilding products, such as insulation and roofs. An Owens

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Primary Market

UBS, GE Market ILC Recap

UBS and GE Capital Markets have launched syndication of a $300 million facility to back the recapitalization of ILC Industries by majority shareholder Behrman Capital. The company plans to amend and restate existing facilities and issue $100 million of junior debt to redeem an existing second-lien term loan and mezzanine notes. It will also pay a dividend to existing shareholders. The new facility consists of a six-year, $30 million revolver and a six-and-a-half year, $270 million first-lien term loan. Pricing is being talked at LIBOR plus 2 1/2%.

UBS and GE last led a deal for the company in April 2005, when it launched a $302.5 million credit to pay a $156 million dividend to Behrman and refinance existing debt. Due to oversubscription the facility was reworked and closed as a six-year, $30 million revolver and a six-and-a-half year, $195 million first-lien term loan. Pricing on the revolver and first lien was flexed down to LIBOR plus 2 1/2% with a pricing grid that steps pricing down to LIBOR plus 2 1/4% when leverage is 4.75 times or below. Pricing on the second lien was taken down to LIBOR plus 5 3/4% from LIBOR plus 6 1/2% (CIN, 8/26). A Behrman official referred calls to an outside public relations group, which declined comment.

ILC supplies defense electronics, advanced microelectronic components and engineered materials to the defense, homeland security, commercial aerospace and industrial markets.

Goldman Sachs Spins Select Funding

Goldman Sachs last week launched syndication of $300 million of funding for Select Personnel Services' acquisition of RemedyTemp. The credit consists of a five-year, $85 million revolver and a six-year, $215 million first-lien term loan "B." Pricing is LIBOR plus 3% on both tranches. The Bank of the West is the co-syndication agent.

Select Personnel Services agreed to acquire RemedyTemp, an Aliso Viejo, Calif.-based staffing company, for about $169 million on May 11. The acquisition will be financed by the term loan, about $24 million of borrowings under the revolver and about $27.9 million of unrestricted cash on hand, according to Moody's Investors Service. The ratings agency assigned a B2 rating to the revolver and term loan of Koosharem, the holding company that owns Select. There is about 3.5 times leverage, including all synergies.

According to a filing with the Securities and Exchange Commission, in early 2005, D. Stephen Sorensen, president and ceo of Select, approached Greg Palmer, president and ceo of Remedy, to discuss their businesses and possible advantages of a combination. The two men met and spoke during September and on Oct. 11 an offer of between $13.20 to $14.30 a share was made. Over the next few months the parties continued to talk and in early March, after a revised financial forecast for Remedy, an offer of $16.33 was put on the table. On March 24, the offer was upped to $17 a share and an exclusivity agreement was signed April 10.

Goldman also acted as financial advisor to Select and Skadden, Arps, Slate, Meagher & Flom acted as its legal counsel. Robert W. Baird & Co. served as Remedy's financial advisor and O'Melveny & Meyers as its legal counsel for the acquisition. A Select spokeswoman declined comment. Monty Houdeshell, senior v.p. and chief adminsitration officer at Remedy, referred questions to the SEC filing.

Select also recently acquired a handful of other companies. It took over Staffing Services of Michigan and Progressive Personnel Services, also based in Michigan, in May. It acquired Inland Empire's Privilege Staffing, based in Southern California, in September (CIN, 5/19).

Two-Part Smurfit Loan Launches

The two-part financing for Smurfit-Stone Container Corp. hit the market last week. The first phase of financing backs the approximately $1.04 billion leveraged buyout of the company's consumer packaging division by Bluegrass Container Co., as the deal is being called, an affiliate of Texas Pacific Group. The second piece backs a follow-on acquisition of another top-10 company in the consumer packaging space. The funds for the second phase are available until Oct. 31, but it is anticipated it will be used well before that deadline. TPG is chipping in $295 million of equity, according to ratings agencies. A TPG spokesman declined comment.

The initial financing consists of a $100 million revolver; a seven-year, $585 million first-lien term loan and a seven-and-a-half-year $310 million second-lien term loan. Pricing is LIBOR plus 2% on the first lien and revolver, and LIBOR plus 4 1/2% on the second lien. There is no call protection, but there is a 50 basis points undrawn fee for the period between step one and step two on all three tranches. JPMorgan and Lehman Brothers lead the deal. Officials at the banks either did not return calls or declined to comment.

The second set of financing is for an additional $50 million on the revolver, for $150 million total; another $175 million on the first lien for a total of $760 million; and another $95 million on the second lien for a total of $405 million.

Moody's Investors Service assigned a Ba3 rating to the first

OWENS CORNING

(continued from page 1)

Corning spokesman said the company does not speculate on the reasons why its bonds trade at particular levels.

The bonds of several other homebuilders, such as **Standard Pacific**, **Hovnanian Homes** and **Beazer Homes USA**, also fell. The bonds of some homebuilders rebounded mid-week after **Citigroup** published a positive research note on the sector, predicting a rebound in homebuilders' stocks by year end. Standard Pacific's 6 1/4% '14 notes were down to 87 from 88 3/4, then rebounded to 91. Beazer Homes' 6.5% '13 bonds fell to 90 1/8 from 92 before rebounding to 93 1/2. Hovnanian Homes 6 1/2% '14 bonds were down two points to 88 1/2.

In a research report, **KDP Advisors** said the weakness in homebuilders' bonds was precipitated by two large U.S. homebuilders, **Pulte Homes** and Standard Pacific, reporting a decline in orders in April and May. Pulte Homes' orders were down 29% below the comparable two-month period in 2005. "Buyer demand through April and May has been below expectations and below prior year levels," says **Richard Dugas**, president and ceo, in a release. "Current demand varies by market, but overall it continues to transition after an extended period of stronger sales." Standard Pacific said new home orders for the first two months of 2006 were down 41% from the same period a year earlier. It says in a release, that this was driven mostly by an increase in its cancellation rate and continuing softening demand in its larger markets. Hovnanian also reported an 18.5% decline in February to April orders compared to the same period last year.

According to KDP, the impact of speculators trying to unload their investments is more severe than most have anticipated. Speculators buy new homes with the intention of flipping them for a profit. As a result, potential home buyers are growing more cautious and have increased cancellations. "Although our projections for several homebuilders already reflect our expectations of a slowdown in the housing market, we may need to revise our forecasts lower if the lag in orders from oversupply does not correct itself within the next few months," says the KDP report. *—Kim Moore*

WACHOVIA, JPM

(continued from page 1)

are not expected to be included in the lead arranger tier. CS had been backing a couple of other bidders and when Carlyle shopped around it got what one market player described as tighter terms than other banks were offering. A CS banker declined comment and a call to a BNP banker was not returned by press time.

Wachovia had hired a team from **Bank of America** back in October 2004, led by **Elton Vogel**, to bulk up its business with financial sponsors (LMW, 10/4/2004). The source speculated that Wachovia's offer was a way to make a footprint with the sponsor world.

A Carlyle spokesman said **Sandra Horbach**, Carlyle managing director and head of the consumer and retail team, has had her eyes on Oriental Trading for several years. When Carlyle heard it was on the block, she jumped. JPMorgan conducted the sale process, though the spokesman did not know if the bank contacted Carlyle or the other way around. Horbach was traveling and could not be reached.

According to **Markit**, Oriental Trading's second lien and term loan "B" have been trading steadily since a slight drop June 9. The $122 million second lien has been trading at 100.75 -101.50 and its $297 million term loan "B" is trading at 100.188 – 100.813. The term loan "B" dropped from 100.25 and the second lien dropped from 100.875.

Standard & Poor's said it placed Oriental Trading's B+ corporate credit rating on CreditWatch with negative implications. In a release, S&P says that although terms of the transaction have not been disclosed, it is anticipated the transaction will lead to a weaker financial profile because of additional debt on the company's capital structure.

In February 2005 Brentwood turned to CS and BNP to lead a $100 million dividend that was reworked after investors squawked at a deal that took out call protection and paid out at a higher level (2/18/05). Brentwood will retain a minority stake in the company. **William Barnum**, a co-founder of Brentwood Associates and director of Oriental Trading, did not return calls, nor did a spokeswoman for Oriental Trading.

—K.H.

MERRILL, CS

(continued from page 1)

The market has seen a number of covenant-lite deals this year. But Rexnord, which was described as "covenant extremely-lite," is different from its counterparts because typically both the revolver and term loan would have some type of financial covenant, whether it is a leverage ratio or a coverage ratio.

Merrill Lynch and **Credit Suisse** last Tuesday launched syndication of the deal, which backs Rexnord's $1.825 billion acquisition by **Apollo Management** from **The Carlyle Group**. Pricing is LIBOR plus 2% on both tranches. The term loan is covenant-lite because it has a relatively low level of secured leverage, one banker said. There is also $420 million of senior unsecured bonds due 2014 and $420 million of senior subordinated bonds due in 2016. **Lehman Brothers** and **Bear Stearns** are non-lead arranger book runners. Calls to officials at Merrill Lynch, Credit Suisse and Apollo were not returned.

The proposed ratio for the covenant is four times leverage, although final documentation has not been submitted. Leverage on the senior secured is about 2.8 times. Overall leverage, if you count $10 million of add-backs the company had, will be 7.1 times, 6.7 times adjusted for synergies, according to **Moody's Investors Service**. **Jim Reilly**, v.p. and senior analyst at Moody's, said, "My understanding is that it is pari passu and it's a cross default situation between the two agreements. If there is a default on the revolver, it would automatically pull in the term loan." He explained, however, that the ratings agency has not seen final documentation on how it would work, but this is what it expects. "This is even an exception to new deals. I have not seen one with this type of structure," he added. The two tranches are pari passu on rights of payment and collateral.

"Senior lenders are not looking at total leverage," the investor said who anticipated there might be some push to get it restructured. "They are just looking at [senior secured] leverage and not thinking about the rest."

Moody's assigned a B1 to the bank facilities, a B3 to the senior unsecured bonds and a Caa1 to the senior subordinated bonds. **Standard & Poor's** assigned a B+ to the bank debt and CCC+ to the notes. Based in Milwaukee, Wis., Rexnord manufactures motion technology products focused on power transmission products for the industrial and aerospace markets. Calls to **Thomas Jansen**, executive v.p., finance and cfo, were not returned.

A Carlyle spokesman said the firm had considered an auction process while at the same time filing an S1. He said it decided a complete exit, rather than a partial exit through an IPO over time, was the best step and called the sale an "extraordinary success." RE Rexnord, Merrill Lynch and Credit Suisse ran the auction.

—*Kristen Haunss*

LIBOR Plus

- **Dave Petrucco** left **Royal Bank of Scotland** to join the **Blackstone Group** as a managing director in its corporate debt group. At RBS he was the head of loan syndicate/capital markets for North America. According a firm release, he will aid Blackstone's interaction with underwriters looking to arrange debt for middle-market companies.

- **Citigroup Venture Capital** turned to **UBS** and **Merrill Lynch** to provide financing to back its purchase of **Western Dental Services**. Launched last Thursday, the reworked credit consists of a $25 million revolver and a $250 million covenant-lite term loan. Pricing on the revolver is being talked at LIBOR plus 2 3/4%, while pricing on the term loan is being talked at LIBOR plus 6%. Call protection on the term loan is 102, 101.

- The **Loan Syndications and Trading Association** added **Ellen Hefferan**, formerly president of **ClearPar**, to its staff. Hefferan will work with the LSTA's CUSIP committee and be responsible for the implementation of CUSIPs in the market. She will report to **Elliot Ganz**, general counsel.

Loose Change

Beer sales are reportedly up as soccer fans watch their home teams compete in the World Cup. But others have not benefited as much from the world's most famous sporting competition. Any DIP lenders looking to lend a helping hand should look no further than **Nici**, the company producing the mascot for this year's games. The Bavarian toymaker has reportedly gone bankrupt after failing to sell enough of the mascot, a soccer-uniform wearing lion (a shirt, but no bottom), nicknamed "Goleo." They obviously didn't score.

Quote Of The Week

"We like to have a level of comfort with our banks that we know their recommendations are sound." — **Mike Sawyer**, *manager of corporate finance at* **Cleco Corp.**, *on why it chose* **BNY Capital Markets** *as a co-lead arranger on its credit facility* *(see story, page 7)*.

One Year Ago In The Credit Markets

Delphi Corp.'s $1 billion term loan broke and traded as high as 102 3/4-103 1/8. The tranche was syndicated by **JPMorgan** and **Citigroup**. [The term loan was trading between 103 1/4-104 on Thursday, according to **Markit**. Its $250 million debtor in possession term loan was sitting at 101-101 3/4.]