DEBTWIRE
NORTH AMERICA

NORTH AMERICAN DISTRESSED DEBT MARKET OUTLOOK 2011

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MACQUARIE

CONTENTS

METHODOLOGY

Bingham McCutchen LLP and Macquarie Capital (USA) Inc. commissioned Debtwire to interview 100 distressed debt investors, including hedge fund managers, proprietary trading desks and other asset managers, on their expectations for the North American distressed debt market in 2011. Interviews were conducted over the telephone in November and December of 2010, and the responses were collated by Debtwire and presented to the commissioning firms in aggregate.

FOREWORD

If you are tasked with finding new and exciting distressed debt opportunities, 2011 will likely be a lesson in frustration, according to respondents of this year's Debtwire Distressed Debt Market Outlook.

Not since 2007 has such a large percentage of participants (51%) forecasted a banner year for the equity markets. The consensus was so one-sided that even contrarians have their doubts.

While the low rate liquidity fueled environment will likely continue to attract investor capital towards the primary markets, not all poll participants were ready to call 2011 the start of a new bull run for leveraged credit.

In fact, once the river of stimulus money begins to run dry towards the middle of 2011, the primary markets could experience another bout of volatility, according to a third of the participants who consider the current state of the leveraged loan and high-yield markets to be a bubble. With a secondary market already priced to perfection, fast money accounts could be prepped to hit the panic button even quicker than before.

Ongoing macroeconomic and sovereign related issues also still have a lot of room to run in 2011, and does anyone remember interest rate risk? If the economy is truly finding its footing, rates only have one way to go.

In your backyard

Real estate looks to be the standout sector in 2011 for distressed opportunities. Almost 50% of respondents selected it as the place to hunt this year, up from the 26% that found it fertile in 2010. That doesn't exactly bode well for the prospect of the housing and commercial real estate markets avoiding a double dip.

The peak of default rates in the commercial real estate sector could actually be off in the distance. Only 4% of respondents predicted problems to crest in the first half of 2011, while a whopping 51% said default rates were not likely to peak until the second half of the year, at the earliest. Approximately 19% of those polled predicted the pace of workouts could still be rising at this time next year.

Outside of real estate, the financial services, consumer retail and technology sectors are also forecasted to become increasingly attractive for distressed investors in 2011. Stubbornly high unemployment rates and continued uncertainty about how regulators will address stimulus measures should provide enough volatility to keep things interesting for distressed debt investors.

But for the most part, it is clear that a nimble and diversified investing strategy is likely to provide the best route for the 55% of respondents targeting double digit returns in 2011.

Dusting off the pages from the distressed debt playbook of years past could be one way to go. Building positions in debt ahead of necessary amendments takes some digging, but it's a safe bet that potential covenant breaches will become more prevalent in 2011 as much of the leniency granted to borrowers immediately following the credit crisis begins to roll off.

Maturity extensions are still forecasted to be the most common catalyst for amendments in 2011 by 47% of respondents, but the amount of leverage covenant breaches are also tipped to multiply. Almost 30% of respondents forecasted it as the main driver of amendments, up from 17% in 2010.

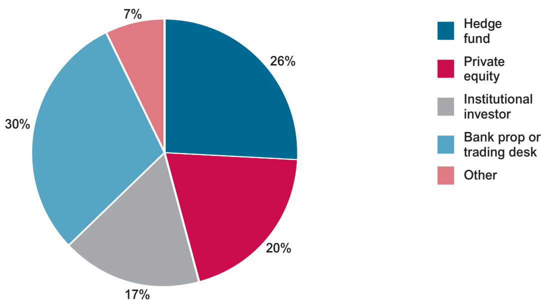
Ken Meehan
Debtwire

Michael Reilly
Bingham McCutchen LLP

David Miller
Macquarie Capital (USA) Inc.

SURVEY FINDINGS

Which of the following best describes your firm?

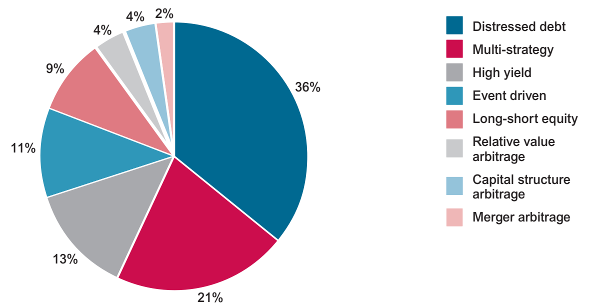


- Hedge funds regained some of their post-credit crunch footing in 2010, but a period of poor performance and investor redemptions has changed the industry landscape dramatically, as evidenced by the asset class accounting for just 26% of the study participants, down from 46% last year.
- Wall Street prop or trading desks and private equity firms have stepped in to pick up the slack with 11% and 7% year-over-year increases, respectively.

"No longer are hedge funds the only major distressed players in the market. Wall Street trading desks saw the opportunities in the market and were quick to take them. We will see what effect, if any, implementation of the Volcker Rule and regulatory reform will have on their continued ability to play in this sandbox."

Jeff Sabin, Partner, Bingham McCutchen LLP

What best describes your core investment strategy?

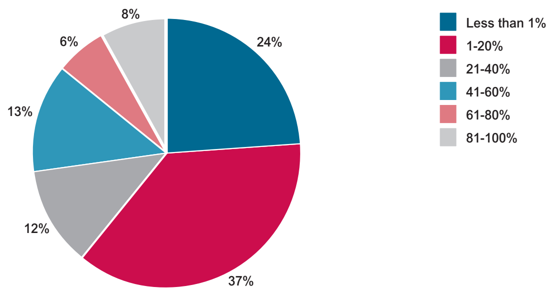


- Despite an uptick in year-end restructurings, low default rates caused a shift in investment strategy for many respondents with 36% identifying themselves as distressed debt investors, down from half of the participants in the year prior. The 2010 survey, however, did not include a multi-strategy option, which accounts for 21% of the investor classification this year.

"2009 and 2010 were years where the marketplace saw a number of funds raising money for distressed debt opportunities and the survey results for those years bore that perception out. In the 2009 survey, for example, 61% of fund managers reported that their core investment strategy was in distressed debt opportunities. However, possibly due in part to the low default rates over the last year or so, this percentage dropped considerably in the 2010 and 2011 surveys, down 25%. Where is the money going instead? This year's survey shows that funds are returning to equity investing, with a surge from the low single digits in the 2009 and 2010 surveys to over 20% in 2011."

Bill Govier, Counsel, Bingham McCutchen LLP

What percentage of your firm's overall assets is dedicated to distressed debt?

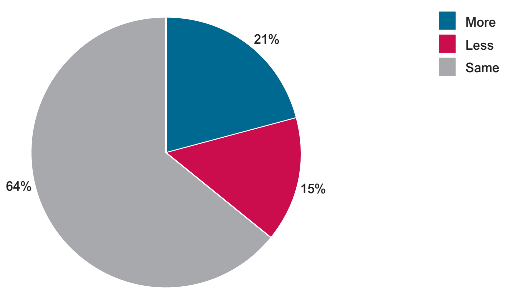


- Distressed debt handed a windfall to investors in 2009, but distressed opportunities dwindled in 2010 as at-risk borrowers were propped up by refinancings and maturity extensions. The forecast for 2011 is mixed, with distressed allocations exceeding 40% of assets under management remaining the same as last year's Outlook (27%).

"This tells us that if distressed is a large part of your portfolio, you are not likely to shy away from the distressed market this year, at least not yet. On the other hand, we will have to see if these players change course in the event there are not enough opportunities to meet this demand. For those managers whose portfolios were not predominantly distressed in the past, the forecasts do show a bit of a retreat in distressed investing."

Scott Falk, Partner, Bingham McCutchen LLP

In 2011, do you plan on allocating more, less or the same percentage of assets to distressed debt than you did in 2010?



- Sixty-four percent of respondents appear comfortable with status quo and plan to allocate roughly the same amount of investment dollars to distressed debt in 2011. Meanwhile, only 21% of participants expect to allocate more, compared with 26% of those who answered the same question in 2010. Fifteen percent plan to set aside less, up from 11% last year.

"With the Dow sitting at or near 10,000 for over a year now (and currently over 11,000), respondents are no longer as bullish on ramping up their distressed debt portfolios as they were in late 2009/early 2010. The frenetic pace of late 2009/early 2010 has subsided, and the deal flow is not expected to return in 2011. Commercial real estate is one sector that may prove to buck this trend."

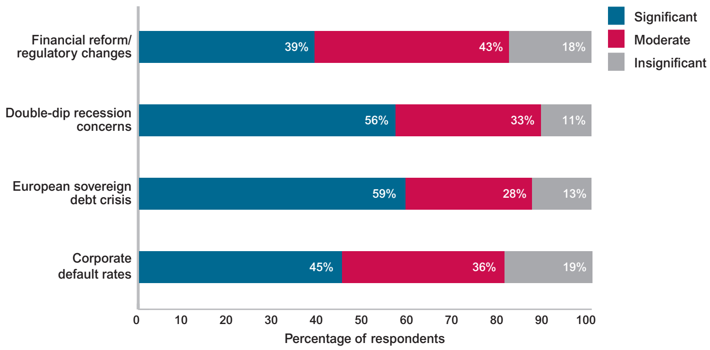
Amy Kyle, Partner, Bingham McCutchen LLP

"With average loan prices near par and spreads returning to historic norms, respondents see less of an appeal to drastically expanding their distressed debt portfolios."

Mick Solimene, Senior Managing Director, Macquarie Capital (USA) Inc.

SURVEY FINDINGS

How significant an impact will each of the following have on distressed debt investing/trading volume in 2011?



- Rescue plans to date for peripheral European nations have done little to quell contagion fears in the US credit market, as the threat of European sovereign debt crises is perceived by the greatest percentage of those surveyed (some 59%) to be a significant risk in 2011.
- The pace of economic growth shows no signs of picking up in the short-term, leading 56% of those surveyed to identify in on the prospect of a double-dip recession as a significant risk in 2011.

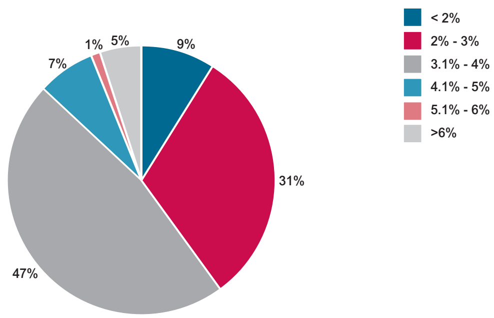
"All eyes have been on Europe during 2010 - Iceland, Greece and Ireland have been most in headlines, but Spain and even Italy and the UK, have been the object of fearsome commentary at seminars and cocktail parties. At the moment, there is not a strong consensus that Europe is close to being out of the woods, notwithstanding the concerted efforts of the IMF, the ECB and other EU authorities. Places like Ireland are seeking to impose burden sharing on investors in the Irish banks, and it is not clear that Irish or EU policy makers realize future investment flows into European financial institutions and even sovereigns hang in the balance."

Tim DeSieno, Partner, Bingham McCutchen LLP

"Despite the moderate economic recovery anticipated by most economists, investors will continue to "stress the downside" when evaluating investment opportunities. Lingering concerns about unemployment, housing and the European sovereign debt crisis will cause investors to remain cautious and focus on the ability of companies to withstand additional economic shock."

David Miller, Managing Director, Macquarie Capital (USA) Inc.

Moody's predicts the US speculative grade default rate will stand at 3.3% as of December 2010, followed by a slight decrease to 3.0% by March 2011. In what range do you expect the default rate to fall over the next year?



- Default rates are always up for much debate, and this year is no different. Nearly half of those queried believe that spec grade defaults will shake out at 3.1% to 4%, above the Moody's projection of 3% by March.
- Almost a third of respondents took the other side of the bet by forecasting a bullish 2% to 3% rate. Taking an even more contrarian view is the 6% of respondents who think defaults could swell above 5%.

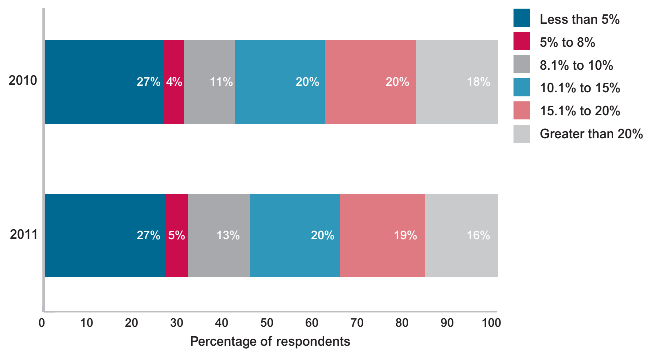
"After 2009 and 2010, what a difference a year makes. Default rates swung from all-time highs in the double-digits down to pre-recession rates and historical averages of nearly 3% by the end of 2010. While the ratings agencies see a further decrease in 2011, distressed debt fund managers are a bit more "bullish", with most seeing default rates sneak up a bit. - I'm betting on the fund managers."

Michael Reilly, Partner, Bingham McCutchen LLP

"Willingness to amend and extend has enabled many borrowers to push out maturities and avoid default in the near-term."

Ed Albert, Managing Director, Macquarie Capital (USA) Inc.

What percentage return did you target for your primary distressed fund in 2010 and 2011?



• Targeted returns for 2011 are largely in line with those of 2010. A surprising 27% of respondents forecasted a sub 5% figure last year and will do the same for 2011. In keeping with the theme of conservative ballpark figures, 16% of respondents are setting a target above 20% for 2011, down from the 34% who set that goal in 2009. This is still a very wide range of targets considering average YTD returns on Distressed Debt investments have topped 12% through November 2010, according to HedgeFund.net.

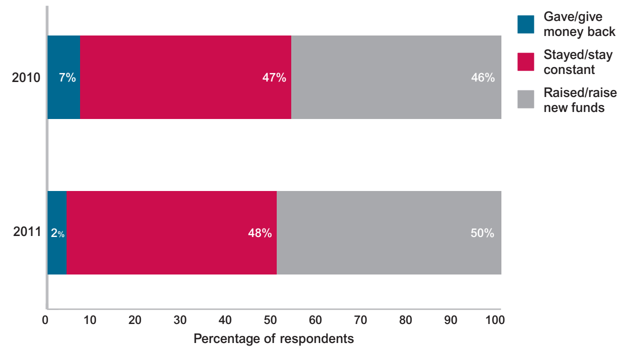
"Following up the strong finish to 2009, we saw a continuation of the trend in the first half of 2010, as many managers attempted to hit their 2008 high-water mark. With a slow second half of 2010, distressed players with money to invest may not be seeing the same opportunities to invest at acceptable prices. As a result, their outlook looks very similar to last year."

Barry Russell, Partner, Bingham McCutchen LLP

"Given the run-up in asset prices in 2010, distressed debt investors will be forced to take more aggressive risk positions to chase higher yields, creating an environment in which achieving extraordinary returns will be increasingly challenging."

David Miller, Managing Director, Macquarie Capital (USA) Inc.

In 2010 and 2011, did/do you plan to raise new funds for investment, stay constant or give money back?



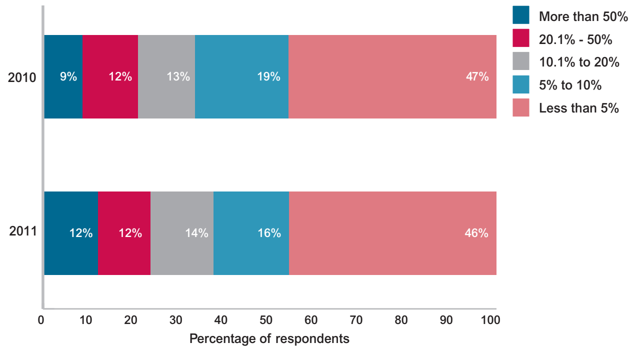
• Fundraising is another segment of the market that is expected to look pretty similar to the current picture going forward, with the exception of a 5% decrease in those respondents who predict giving money back to investors in 2011. Respondents for the most part are evenly divided between staying constant and raising new funds.

"The key to successful fundraising in 2011 will be the ability to demonstrate a strong track record and quality investments, as there are currently too many dollars chasing too few opportunities."

Martin Nachimson, Consultant, Macquarie Capital (USA) Inc.

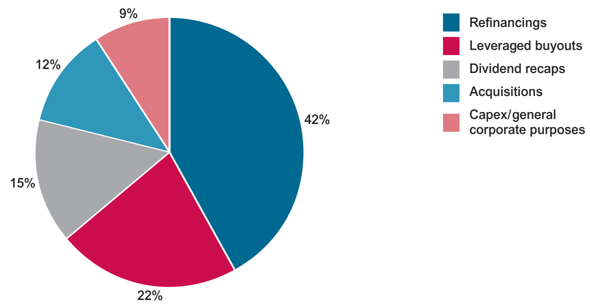
SURVEY FINDINGS

How much of your portfolio did you allocate to the primary leveraged finance markets in 2010, and do you plan to allocate in 2011?



- The inflow of cash pouring into the high-yield and leveraged loan market helped save low quality borrowers from the brink in 2010 and helped better-rated companies tackle what previously appeared to be an insurmountable maturity wall. While the pace of new issuance is not expected to slow in Q1 2011, players in the distressed market remain selective in their participation in primary deals despite some estimates that call for junk bonds to return 10% in 2011.
- Less than 10% of respondents allocated more than half of their portfolios to the primary leveraged finance market in 2010, while a slightly higher 12% predict that level for 2011. Looking at the largest portion of respondents, 47% of those queried allocated less than 5% in 2010 and 46% will do the same in 2011.

What do you expect to be the main use of proceeds from new high-yield bonds in 2011?



- Issuers in the junk bond market mostly stuck to the script in 2010, using the newly opened window of opportunity to push out record amounts of paper, mostly for the purpose of refinancing existing debt. That trend is likely to continue with 42% of respondents expecting refinancings to be the preferred source of proceeds.
- Riskier expectations rival refinancings for a combined 37% of respondents who project LBOs and dividend recaps to steal some of the spotlight.

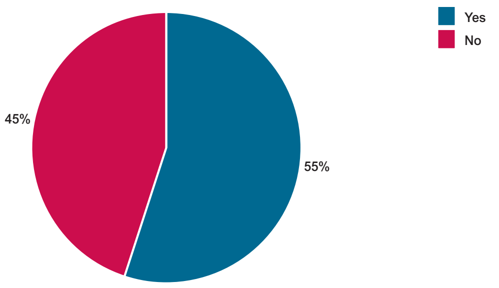
"In the past two years, lenders have pushed back the refinancing wall with "amend and extend" deals. At the end of the day, this only serves to hide problems that will rear their ugly heads later. Loan refinancing is the biggest use of high-yield financing in the market as companies use available funding to increase their operating flexibility. Even leveraged buyouts can now be completed again after a long dry spell during the credit crisis."

Hal Horwich, Partner, Bingham McCutchen LLP

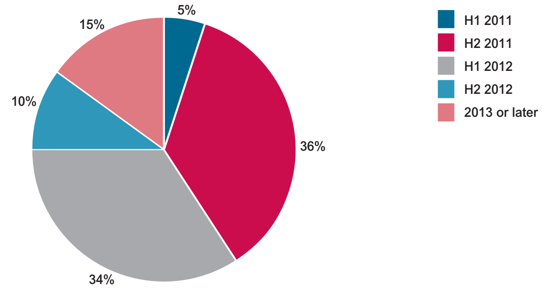
"At the moment, high-yield markets are available to a majority of decent quality credits for most corporate purposes. With the credit markets remaining loose and corporate earnings regaining positive trending, look for a slight increase in high-yield debt issuances related to LBOs."

William Malczyk, Senior Vice President, Macquarie Capital (USA) Inc.

Do you believe the leverage loan/high-yield markets are currently in a bubble?



If yes, when do you expect the bubble to burst?



- A clear majority of those surveyed have declared a bubble in the leveraged loan and high-yield markets. Nevertheless, signs of the feverish issuance pace slowing down have not yet appeared. Bank of America Merrill Lynch's Credit Strategy team, for one, is predicting as much as US$300bn in new junk paper in 2011, versus the US$285bn year-to-date tally in mid-December 2010, and the loan pipeline ended the year stuffed with more than US$20bn of institutional term debt for the taking.

"While activity in the high-yield and leveraged loan markets is certainly robust, the current ease of credit does not necessarily classify as a bubble. However, the prevalence of dividend recap loans, without corresponding improvements in underlying borrower performance, may be a signal of an overactive market."

Andrew Krop, Senior Vice President, Macquarie Capital (USA) Inc.

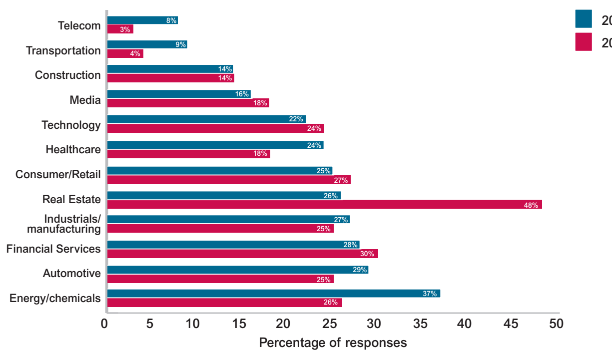
- The vast majority of respondents who consider the leveraged finance primary markets to be inflated predict a day of reckoning is unlikely to appear until late 2011 or potentially early 2012. That means the fever pitch of new deal issuance is expected to last at least another six months thanks to strong demand from investors. With aggressive use of proceeds already on the rise, 2011 might usher in the return of some of the deal structures, such as PIK toggle notes, covenant-lite deals and significantly subordinated unsecured debt that was prevalent at the top of the market in 2007.

"The recent recession caused a reduction in high-yield lending, resulting in pent up demand for high-yield paper. The excess demand will likely work itself out of the system by the end of 2011, resulting in higher interest rates and the end of inexpensive high-yield credit."

James Chiarelli, Senior Vice President, Macquarie Capital (USA) Inc.

SURVEY FINDINGS

In which three sectors did you prefer to allocate your investments in 2010, and which will you prefer in 2011?

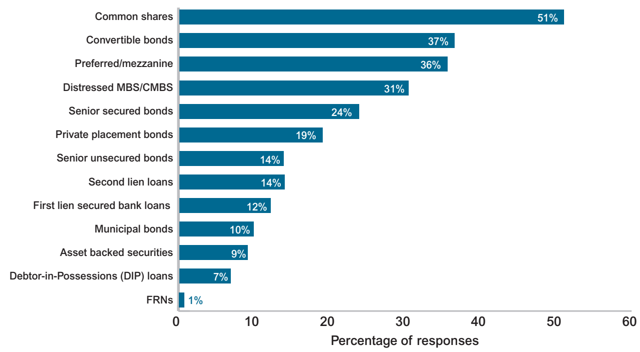


- Real estate is the clear sweet spot for distressed investors going forward, as the sector grabbed the attention of 48% of respondents looking ahead to 2011. That represents a 22% increase from where dollars were earmarked in 2010. The sector was a similar favorite in the 2010 Outlook when results showed 41% of participants picked real estate as having the most opportunities, followed by consumer products, industrials and financial services with 33% apiece.
- Another standout was the pullback in the energy sector, with 26% of respondents suggesting an allocation in 2011 versus the 37% allocation target in 2010.

"With energy prices back on the rise and the automotive sector dodging a huge bullet, distressed investors are moving away from energy and auto, and they see real estate as the next big opportunity. We have been hearing this for quite some time now, but it appears as if now is the time to cash in on some opportunities in the commercial real estate sector."

Scott Seamon, Counsel, Bingham McCutchen LLP

Which three instruments do you think will offer the MOST attractive opportunities for investors 2011?



- Heading south in the capital structure in 2011 seems to be the most sure-fire way to boost returns, according to more than half of respondents (51%). Common shares, convertible bonds and preferred mezzanine haven't ranked this highly since the 2008 Outlook survey, although subsequent events did indeed challenge that survey's predictive power.
- The amount of poll respondents who selected distressed MBS/CMBS as one of the top three attractive opportunities rose to 31% from 8% last year, potentially signaling that a bottom will be reached in property price declines during 2011.

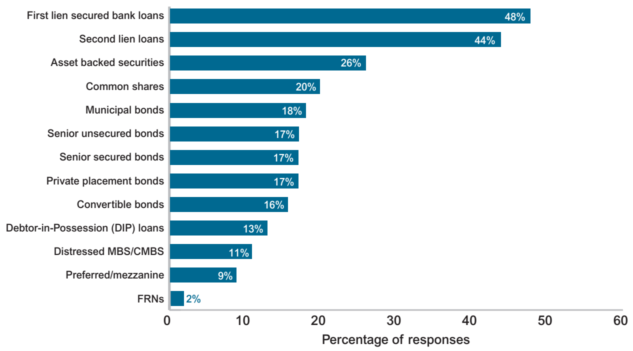
"No longer is there a need to be at the top of the capital structure. Unlike last year where first and second lien loans were the place to be, fund managers are prepared to move away from secured debt and are ready to enter on the ground floor. If fund managers put their money where their mouths are, we should expect the equity markets to be buzzing in 2011."

Ronald Silverman, Partner, Bingham McCutchen LLP

"Many investors experienced significant gains as they exploited inefficiencies in the high-yield and leveraged loan markets in 2010. As investors continue to deploy capital to these markets, returns will diminish, causing investors to move even further down the capital structure in search of outsized yields. As the risk/return ratio begins to normalize, investors whose mandates allow for equity-style investments will once again look to redirect to the equity markets for superior investment opportunities."

Raoul Nowitz, Senior Vice President, Macquarie Capital (USA) Inc.

Which three instruments do you think will offer the LEAST attractive opportunities for investors 2011?

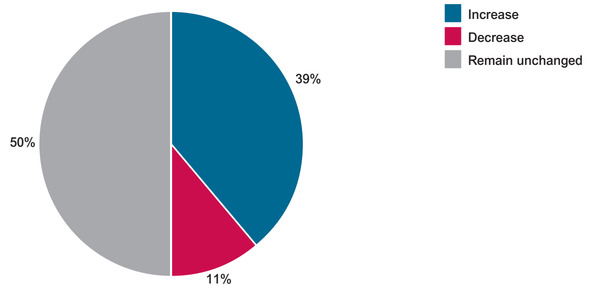


- With most of the leveraged loan market bid to perfection, it is not surprising that respondents consider first and second lien loans the least attractive investment instrument to bet on. Given the amount of refinancing activity that still needs to take place to whittle down upcoming maturity walls, the supply side of the leveraged loan market could begin to overwhelm investors next year.

"The leveraged loan and high-yield markets have drawn a lot of attention over the last year. Finding above average returns may prove difficult for investors as spreads remain tight and debt trades closer to its par value."

David MacGreevey, Senior Vice President, Macquarie Capital (USA) Inc.

Do you expect liquidity in the CDS market to increase, decrease or remain unchanged in 2011?



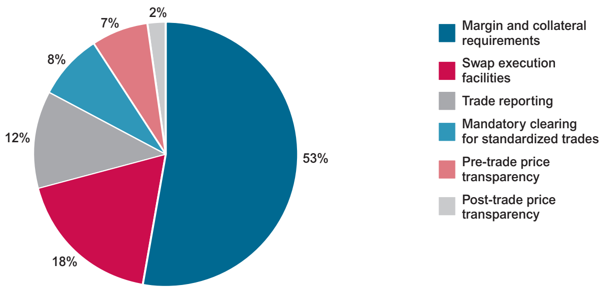
- Despite continued uncertainty about the exact shape the Dodd-Frank Act will take following the rules writing process, only 11% of respondents believe there will ultimately be a drop in liquidity for the CDS market as a result. That compares with 18% of respondents in 2009 when the Dodd-Frank Act started to work its way through Congress.

"Although the purely speculative use of CDS has likely passed, CDS still plays an important role in our financial system by allowing investors to manage default risk. The use of CDS will likely increase as these complex instruments become better understood."

Mick Solimene, Senior Managing Director, Macquarie Capital (USA) Inc.

SURVEY FINDINGS

Which of the following parts of the Dodd-Frank Act will transform the CDS market the most?

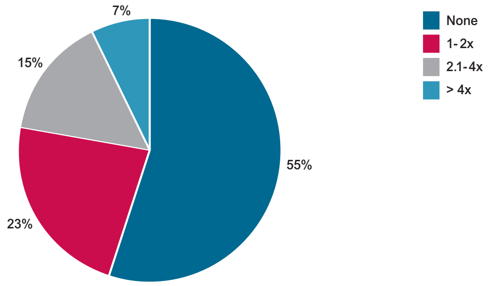


- Fifty-three percent of respondents think that the most transformative aspect of the Dodd-Frank Act will be the increase in margining and collateral that a clearing model will introduce. The over the counter market is currently governed by collateral arrangements that use cross netting across sectors, and the CDS clearing houses are not expected to give much benefit to those arrangements. The emergence of swap execution facilities—platforms that will act as an intermediary in terms of providing pre-and post-trade transparency—was the second largest change expected for the market as a result of the Dodd-Frank Act among those polled.

"Contained within the Dodd-Frank Act's 382,000 words are new capital and margin requirements for swap dealers and major swaps participants (as well as trade reporting requirements and a centralized clearing process designed to provide greater transparency). The industry is understandably nervous as it waits for the regulators to set the new requirements, and in fact, over 400 parties have already met with the CFTC to discuss these issues."

Jared Clark, Partner, Bingham McCutchen LLP

How much leverage did you use in managing your fund in 2010?



- The risk of using leverage to juice returns was clearly exposed during the financial crisis, and respondents slowly warmed up to the idea again in 2010. The percentage of those respondents who said they used no leverage in 2010 fell to 55% from the 62% who said the same for 2009. Additionally, the amount of respondents who elected to use between 2.1x to 4x of leverage in 2010 was more than double the year prior.

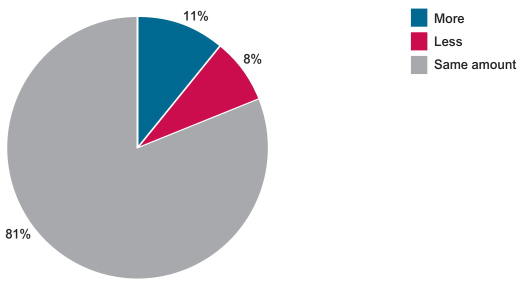
"Leverage, which was a very dirty word over the past few years, made a bit of a comeback in 2010. Managers who were eager to keep returns at the late 2009/early 2010 levels got back into the leverage game, now that there is access to it. Of course, as we saw in the financial crisis, greater leverage begets greater risk. Caveat emptor."

James Roome, Partner, Bingham McCutchen LLP

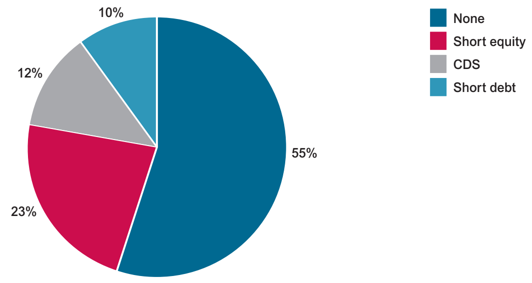
"With investors chasing returns in the face of shrinking spreads, leverage is returning for those with a demonstrable track record."

Ed Albert, Managing Director, Macquarie Capital (USA) Inc.

If you did use leverage in 2010, do you anticipate using more, less or the same amount in your portfolio in 2011?



Which one of the following hedging strategies did you use most heavily in 2010?



- The vast majority of respondents who use leverage in their portfolio investments are comfortable with current levels heading into 2011. Only 8% of those polled said they planned to use less leverage for the year going forward.

"Fund managers are not looking to increase leverage to pre-crisis levels, but do expect to maintain 2010 levels. This results from an expectation that the supply of distressed debt is not likely to increase. Once we do see an increase in supply, we would expect fund managers to lever up to take advantage of new opportunities and seek greater returns."

Andrew Gallo, Partner, Bingham McCutchen LLP

"Despite the slight increase in the use of leverage in 2010, we are not likely to see a return to the pre-crisis peak leverage multiples used by portfolio managers in the immediate future."

David Miller, Managing Director, Macquarie Capital (USA) Inc.

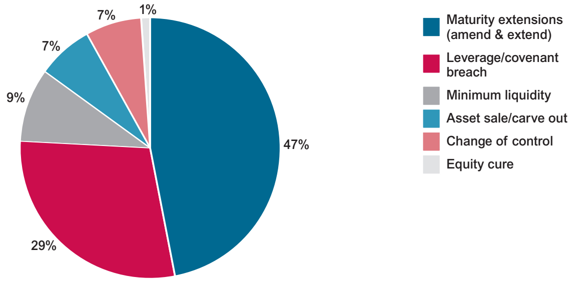
- The amount of respondents choosing not to use any sort of hedging strategy in 2010 was roughly in line with that of 2009, but the more interesting point is the significant increase of shorting equities compared to using the CDS market to hedge. Last year, 29% of respondents said they used the CDS market as their main hedging strategy, while only 11% said they shorted equities. Those totals almost completely flipped in 2010, a sign that the drop in liquidity for the high-yield portion of the CDS market made a real impact on shorts. The increased difficulty in executing trades in the CDS market and the risk of not being able to get out of a profitable trade quickly made the more liquid equities markets a better bet.

"The popularity of credit default swaps has continued to decline, as Lehman Brothers and other cases have revealed unanticipated risks in these products. While credit default swaps continue to serve useful hedging purposes, many of those managers that are hedging their positions are turning to much simpler and more liquid derivative or equity products."

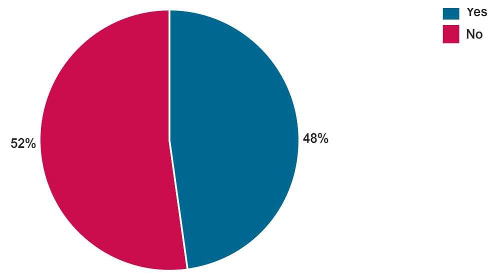
Ed Smith, Partner, Bingham McCutchen LLP

SURVEY FINDINGS

What do you think will be the most common catalyst for amendments in 2011?



Do you expect new limitations on banks' proprietary trading activities under the Volcker Rule to trigger the creation of new funds in the distressed debt market?



- If you liked all the amend-and-extend proposals during 2010, you'll probably love 2011 since almost half the respondents picked it to continue as the most common catalyst for amendments. Covenant breaches should also pick up in 2011 as 29% of respondents predicted it to be prevalent, up from the 17% who selected it during last year's poll.

"The days of kicking the can down the road are not over yet. Now that we are seeing covenants again, covenant breaches are on the rise, although in far smaller numbers than we saw in 2009 when refinancing was unavailable. Given the turnaround in the equity markets and the return of equity cures in new deals, it is surprising that fund managers are expecting equity cures to evaporate in 2011, after a 15% attribution in the 2010 survey."

Lisa Valentovish, Partner, Bingham McCutchen LLP

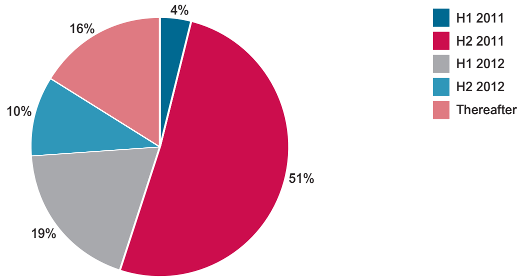
"The market is generally receptive to amendments from higher quality issuers, and the amend-to-extend trend will continue as companies push out the maturity profile of their capital structure. However, over the long-term, improved earnings and cash flow will be critical to reducing leverage so that companies can access the traditional refinancing market."

Vikram Chitkara, Senior Vice President, Macquarie Capital (USA) Inc.

"The Volcker Rule, named for former Federal Reserve Board Chairman Paul Volcker, generally prohibits banks from engaging in speculative or proprietary trading that is not at the request of their clients. Whether such activities actually played a material role in the recent financial crisis, as believed by Mr. Volcker, is yet to be resolved. In the future, it will be interesting to see how banks "redeploy" some of their high-earning prop traders in the event that legislation ultimately forces them to eliminate these profit centers. According to the survey, the Volcker Rule will have a dramatic impact- at least half of all respondents think that the Volcker Rule will result in traders leaving Wall Street to enter the distressed debt world."

Jonathan Alter, Partner, Bingham McCutchen LLP

Do you believe that commercial real estate (CRE) default rates have peaked over the last 12 months? If not, when do you think CRE default rates will crest?



- Almost two-thirds of those polled believe commercial real estate default rates have not hit their peak in 2010. In fact, half of those respondents don't forecast the peak to be reached until the second half of 2011. Another 45% believe default rates on CRE will continue to creep higher through all of next year and into 2012.

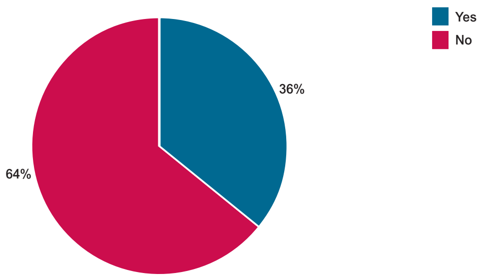
"The commercial real estate market has trailed the rest of the market, but look for it to catch up over the next twelve to eighteen months. With increased supply (over $1 trillion in loans are set to mature in the next 3 years), we expect commercial real estate to continue to dominate the headlines. While some investors would call this a crisis, some would call it an opportunity. That is essentially 'Distressed Investing 101' in a nutshell."

Steve Wilamowsky, Partner, Bingham McCutchen LLP

"Many CRE loans done during the boom years are coming due over the next few years and need to work their way through the system. The excess supply of poor quality assets will continue to depress CRE asset prices into the end of 2011."

William Malczyk, Senior Vice President, Macquarie Capital (USA) Inc.

As restructuring activity decreases, do you plan to shift your focus to investing in reorganized equities?



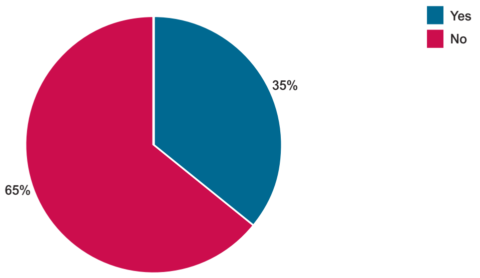
- Distressed debt investors who successfully find the fulcrum during a workout are left with the equity in reorganized companies. Managing the monetization of that equity position is one of the most important aspects of successful vulture investing. With fewer restructuring situations to go around, it makes some sense that continuing to invest in the equity of the company you are most familiar with through their workouts would be an appealing option. Not so for nearly two-thirds of respondents who plan to deploy their capital elsewhere.

"A significant factor in the evaluation of reorganized equities is the post-reorganization capital structure. In many cases, existing debt holders will roll over their positions at leverage multiples that may not be achievable in the new issue market, thereby diminishing equity values. Traditional distressed investors tend to focus on the debt securities where they best understand the risk/return profile."

Andrew Krop, Senior Vice President, Macquarie Capital (USA) Inc.

SURVEY FINDINGS

In 2010, did your fund participate as a lender in any DIP or exit financing transactions?

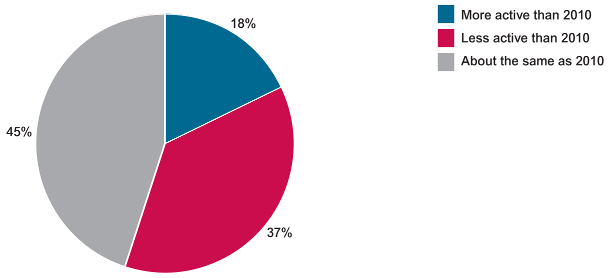


- The sheer number of DIP and exit financing packages were down across the board in 2010 after a significant pick up in 2009. Nevertheless, 35% of respondents were able to participate as a lender in the bankruptcy process financing packages. Strong equity markets made DIP investing less risky this year as rights offerings from subordinated creditors and topping bids from active strategic acquirers were much more prevalent.

"DIP lending had traditionally been the way for a prepetition secured creditor to protect its original investment as a defensive mechanism. During the credit crisis and beyond, as traditional lenders were not making loans, hedge fund investors have seen DIP lending as a way to get to the table and to control the restructuring process. This often resulted in a structured sale of the company in a very quick time period or the so-called 'loan-to-own' strategy.
In addition to this very important seat at the table, DIP Lenders also receive significant fees, a priority claim at the top of the capital structure and in reorganizing cases, it becomes hard-wired that the DIP Lender becomes the main source of financing upon emergence. All of this comes with limited downside."

Julia Frost-Davies, Partner, Bingham McCutchen LLP

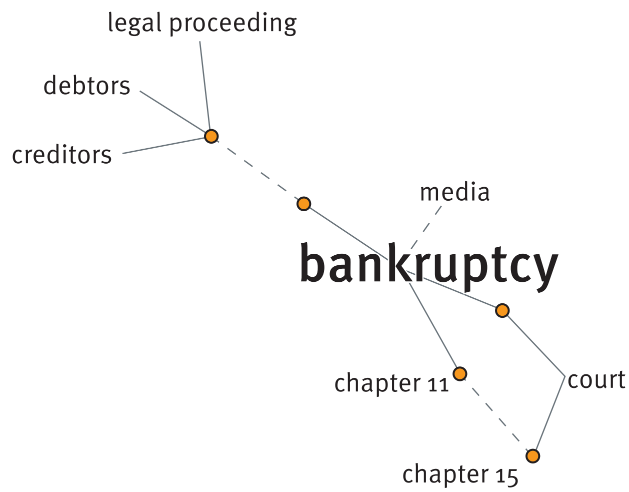
If so, how active do you expect to be as a DIP lender or exit lender in 2011?



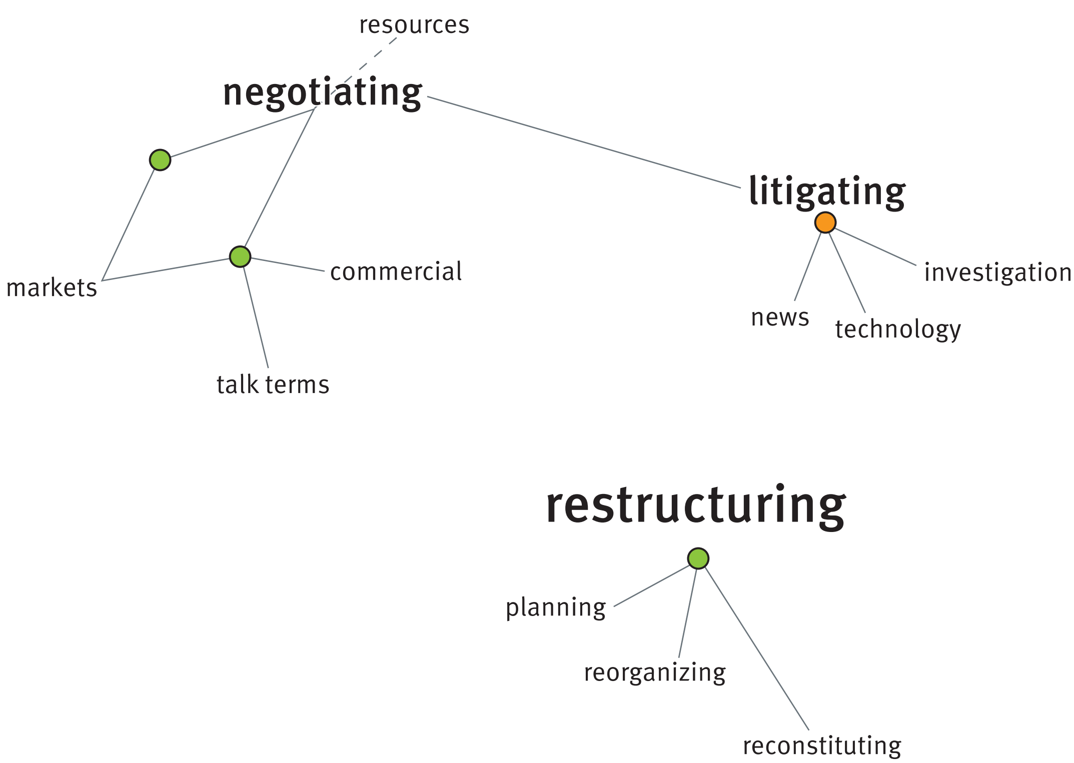
- With default rates not expected to climb substantially anytime soon, 37% of respondents who participated in DIP and exit financings during 2010 predict they will be less active in 2011. That is up from the 11% of respondents who predicted being less active in 2010.

"With bankruptcy filings anticipated to continue to decrease in 2011 and with the more traditional bank lenders once again having the capital available to provide loans at more competitive rates, it is no surprise that fund managers expect to be less active in the DIP loan market in 2011. Hedge funds and private equity funds are after larger returns than what is typically available in the DIP loan market."

Sabin Willett, Partner, Bingham McCutchen LLP



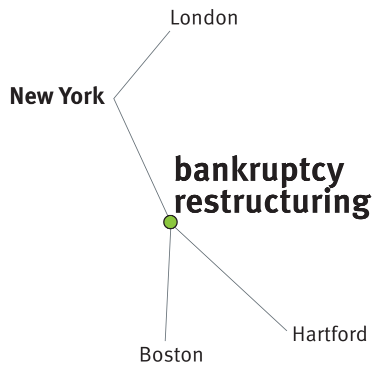
PUSHING THE ENVELOPE IN CROSS-BORDER RESTRUCTURING



BINGHAM

LEADERS STAY AHEAD OF THE CURVE.

In 2010, Bingham again helped change the way financial restructurings get done. Lawyers from multiple practice areas and locations across the U.S., Europe and Asia worked together on deals that broke new ground.



RECOVERING $1.5 BILLION IN VISTEON BANKRUPTCY

As one of the world's largest auto parts suppliers, Visteon was hit hard by the worldwide recession. When the company filed for bankruptcy protection in May 2009, Bingham represented the secured lender syndicate of more than 50 lenders under Visteon's $1.5 billion secured term loan facility. Lawyers from four Bingham offices on two continents worked to protect the lenders' collateral and recovery rights, negotiated debtor-in-possession financing by a subgroup of term loan lenders as well as two bankruptcy plans of reorganization, and ultimately achieved a settlement: Visteon would pay the entire term loan facility plus interest at the default interest rate, as well as attorney and financial adviser fees in full in cash at exit. In October 2010, lenders recovered $1.11 on the dollar — on loans that had traded as low as $0.18 in February 2009.

BIGGEST CHALLENGE? Protecting our clients' collateral and recovery rights during a complicated restructuring of Visteon's business, and negotiating with all parties to create a new and usable capital structure.

NEGOTIATING MEXICO'S FIRST PRE-PACKAGED BANKRUPTCY

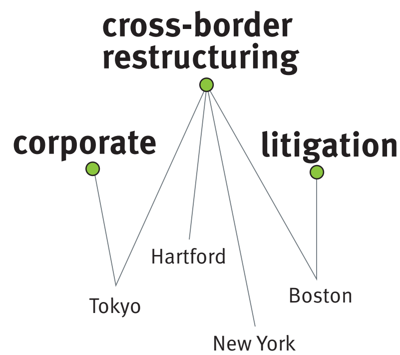
As Mexico's third-largest retail grocer and restaurant owner, Controladora Comercial Mexicana, S.A.B. de C.V. (Comerci) had a complex financing strategy. With peso-driven revenues, and debt denominated in both pesos and U.S. dollars, the company had devised a derivative strategy to hedge currency risk. When the market turned against the company in 2008, derivatives counterparties asserted more than $2 billion of off-balance-sheet claims that crippled the company's debt capacity. Representing the bondholders, we were able to reduce those claims and create a new capital structure that worked with all parties in the first pre-packaged bankruptcy filing in Mexico's history. This significantly enhanced recovery for our clients, well above the recoveries for the derivatives counterparties and other financial creditors.

BIGGEST CHALLENGE? Assessing and negotiating the validity and amount of the derivative claims, and developing a collateral and security package, including real estate assets and stock, which greatly improved the bondholders' position in the reorganized capital structure.

ADVISING JAPAN'S FIRST SECURED LENDER COMMITTEE

Spansion is one of the world's largest manufacturers of memory chips for mobile phones and other devices. When the company filed for bankruptcy protection in Delaware in early 2009, its Japanese subsidiary and manufacturing arm, Spansion Japan Limited (SJL), filed corporate reorganization proceedings in Japan. The Japanese proceeding broke new ground with the creation of that country's first secured lender committee. Bingham lawyers in Japan and the U.S. advised the committee, which was agented by GE Japan. And in a situation in which secured lenders typically recover less than 25 percent of their debt, our clients achieved a full recovery (including post-petition interest and fees) of over $400 million.

BIGGEST CHALLENGE? Leveraging administrative claim litigation in the U.S. proceeding into a comprehensive settlement with both the U.S. and Japanese debtors. This resulted in a first-of-its-kind, successful mediation of outstanding differences in connection with competing plans of reorganization proposed by the secured lender committee and SJL in the Japanese proceeding.



WIND HELLAS

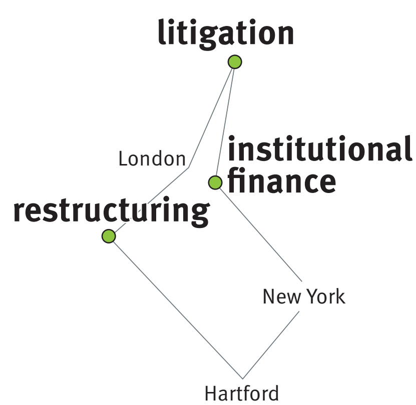
In one of the very few recent deals where subordinated creditors successfully obtained control of a major European corporation through a debt-to-equity swap, we represented noteholders in the **restructuring and sale** of one of the largest telecom operators in Greece. The transaction was implemented through a pre-packaged U.K. scheme of arrangement and administration and a U.S. Chapter 15 case. It involved Greek, Luxembourg, U.K. and U.S. laws and multiple layers of debt.

Biggest Challenge?
Working through the multiple layers of debt, together with boom-era New York and English law documentation, which made this a particularly complicated transaction, even by the standards of cross-border high-yield bond restructurings.

FIGHTING FOR ICELANDIC BANK BONDHOLDERS

In October 2008, the government of Iceland passed emergency legislation to place three major commercial banks — Glitnir, Landsbanki and Kaupthing — into receivership, following their difficulties refinancing short-term debt. The move effectively nationalized the nation's banking system, contributed to a severe recession and affected half a million depositors outside of Iceland. We represent holders of more than $24 billion in bonds, including investment funds, insurance companies, pension funds and banks. We have been actively involved in the restructuring process on the ground in Iceland on behalf of the group and are substantially involved with the informal creditors' committees of each of the banks. In addition we are working with a group of bondholders who are challenging the legislation, especially the decision to give priority creditor status to depositors.

BIGGEST CHALLENGE? Preserving the upside in the "old" and "new" banks as they attempt to restructure under Icelandic law.



LANDAMERICA

Helping to unravel a high-profile corporate collapse that came amidst allegations of a Ponzi scheme involving customer deposits totaling over $290 million, we represented the unsecured creditors of LandAmerica, once one of the largest title insurers in the U.S. Our resolutions to **key disputes between competing creditors** became the blueprint for the court-approved plan.

Biggest Challenge?
Implementing a litigation protocol that staged the litigation of five "test" cases, while staying over 100 similar matters, thus permitting early court rulings critical to the resolution of the case.

Tap into restructuring hot topics. Hear the latest views from Bingham thought leaders. bingham.com/restructuring

RECOGNITION FOR OUR GLOBAL FINANCIAL RESTRUCTURING PRACTICE...

This group has built up a strong creditor practice through its *'deep involvement'* in both new and distressed investments...Clients praise the team's related corporate and securities strengths, and appreciate its **ability to deal with *'the most heated and ugly litigation.'***

— Chambers USA

For the fourth-straight year, Bingham was selected as a **leading law firm for restructuring and insolvency** in England by PLC in its *Cross-Border Handbook: Restructuring and Insolvency 2010/11*. Bingham was the only U.S. firm to achieve this top-tier ranking.

— Practical Law Company

Bingham's global financial restructuring group has achieved the status of **one of the leading bondholder-representing firms.**

— The Legal 500

...the nation's **preeminent international bankruptcy practice**...

— The American Lawyer

'If you look at just bondholders they're a super tier one,'...clients are keen to praise the firm, in particular its ***'great technical ability and commercial application'*** and its ability to deliver *'comprehensive, careful and critical insights.'*

— IFLR 1000, United Kingdom

Bingham maintains its leading position in the restructuring area [in 2009], with *'a number of talented lawyers who are dedicated to the practice.'*...its **strength lies in handling cross-border cases**, for which it commands a stellar reputation.

— Chambers Asia

'The number one bondholder firm,' Bingham continues to be a strong force in the London restructuring market. *'Its **experience of representing noteholders and institutional investors is unparalleled.'***

— Chambers UK

...AND FOR OUR RESTRUCTURING PARTNERS

The *'incisive and solutions-oriented'* **Michael Reilly** stands out to peers as a leading lawyer in his field. *'Clients keep going back to him,'* reported sources, because he is *'smart, and excellent around the negotiating table.'*

— Chambers USA

Jeff Sabin is highly recommended as *'lethal and relentless opposition in the courtroom.'*

— Chambers USA

Amy Kyle *'is able to focus on what really matters without getting caught up in the minutiae'* and has the capacity *'to think through complex issues and come up with a practical response.'*

— Chambers USA

IFLR Expert Guides recognizes **Tim DeSieno** as a *'leading expert in the United States.'*

— Guide to the World's Leading Insolvency and Restructuring Lawyers

Clients praise **Ronald J. Silverman** as *'exceptionally knowledgeable on cross-border insolvency,'* while another says the New York lawyer is *'able to synthesize a lot of complex detailed information and to explain it to the client...he has good businessman's judgment and is a practical, calm adviser.'*

— IFLR Insolvency and Restructuring Lawyers

James Roome is *'one of the best in the business and one of the best partners in Europe,'* says a client. *'He has a strong sense of what hedge fund clients expect with recovery and he thinks outside of the linear approach.'*

— IFLR 1000

Barry Russell *'has it all—top shelf understanding of the law; deep relationships with his peers and the bank community; very responsive and hard working,'* says another client.

— IFLR 1000

Edwin Smith has a fantastic reputation and brings *'great gravitas'* to proceedings.

— Chambers USA

ABOUT BINGHAM

Bingham offers a broad range of market-leading practices focused on global financial services firms and Fortune 100 companies. We have 1,100 lawyers in 13 locations in the U.S., Europe and Asia.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LEGAL INSIGHT. BUSINESS INSTINCT.
The best lawyers know how to balance aggression with delicate handling.
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SHIFTING SANDS AND THE CREDIT MIRAGE

BY: ED ALBERT AND SETH WASCHITZ, MACQUARIE CAPITAL (USA) INC.

Introduction

The looming maturity wall of leveraged loans expected to make waves between 2012 and 2014 has been widely written about, hotly debated and at this point, is eroding rapidly.

Instead of thinking of it as an immovable wall or as a metaphorical cliff that many companies are fast approaching, it could perhaps be more accurately characterized as a shifting sand dune. Like a coastal sand dune that constantly shifts in shape and location due to the impact of ocean waves, wind, rain and human interaction, the 'dune' of maturities constantly shifts and changes shape as a result of the economic environment, credit markets and investor appetite.

This phenomenon begs the question: Will the 2012 - 2014 dune of maturities still be there when we get there, or will it slowly erode and shift further into the future?

The current dune, for the most part, was created as a result of aggressive credit expansion and LBO transactions which were enabled by a dramatic increase in CLO issuances leading up to the global financial crisis ("GFC"). Investor appetite for yield, coupled with flexible terms, substantially increased demand for debt. According to data compiled by S&P LCD, the institutional leveraged loan market expanded from $193 billion to $596 billion between 2004 and 2008.

Additionally, many middle-market companies, that normally would only have had access to the ABL and mezzanine markets, were able to get cash flow loans with the help of newly created CLOs and an easy-credit environment between 2005 and 2007.

Addressing the Dune

Post the GFC and the collapse of the new-issue CLO market, there has been an explosive rise in high-yield bond issuances primarily to refinance existing obligations, a modest return of leveraged loan activity and a significant increase in the popularity of amend-to-extend transactions. Although these developments in conjunction with slowly recovering CLO issuances are beginning to address maturities, it is likely that these sources will not be able to fully address refinancing needs over the next several years.

Increase in high-yield Issuances

Largely overshadowed during the LBO boom, the high-yield bond market saw record growth in 2009 and 2010. While high-yield bond issuance reached an annual record of $265 billion in 2010, according to S&P LCD, it is unlikely that these issuances alone can continue to bridge the gap created by the drop-off in the leveraged loan market. This is particularly evident given that a large share of the refunding needs over the next five years are for bank credit facilities, a significant portion of which are not suitable to be replaced with bonds.

A rise in interest rates would also pressure the strong technicals that have supported the demand for high-yield bonds. Investors who have moved down the credit risk spectrum chasing yield may also move back into their comfort zone at the sign of weakness in fundamentals. Additionally, rising rates will price many overleveraged issuers out of the market.

Modest Return of Leveraged Loan Issuances

The leveraged loan market was relatively anemic during 2009, but significantly re-emerged during 2010 with issuances increasing 190% according to S&P LCD. Similar to the high-yield bond market, leveraged loan issuance has predominately supported refinancing efforts, although the pipeline was also crowded with dividend recapitalization transactions during the second half of 2010, further complicating future refinancing needs. The question has yet to be answered as to whether this rebound is sustainable or merely a mirage of the return to the easy-credit, pre-GFC boom. The market for institutional loans may be less accessible given the fact that CLOs are no longer as widely available and accessible as a financing source as they were from 2002 to 2007.

During 2010, CLOs continued to be the largest participants in the institutional loan primary market. CLOs are currently estimated by Fitch to hold 50% of all outstanding leveraged loans. Moving forward, demand for leveraged loans from CLOs will continue to evaporate as the capacity of legacy CLOs is expected to begin to decrease during 2011 and 2012 as the structures end their reinvestment periods. Although CLO formation has begun to pick up, even the most aggressive forecasts point towards a total of only $25 billion of new issue CLOs in 2011 versus $80 billion at the peak, according to S&P LCD.

The shrinking of CLOs has been accompanied by a pullback of other non-traditional loan investors such as hedge funds. These funds had become involved in leveraged loans due to lower yields in other asset classes. However, it is possible that hedge funds could return, subject to competitive investment opportunities.

Large Commercial Banks have become more active in the leveraged loan market due to aggressive loan paydowns by issuers, which has lead many banks to lower their investment criteria in order to meet budgets. According to data compiled by S&P LCD, the number of pro-rata lenders participating in the primary leveraged loan market has increased over 45% from 2009. It still remains to be seen whether this phenomenon will continue with regard to the future refinancing of lower rated credits, especially given the increasingly regulated environment facing commercial banks.

Amend-to-Extend Transactions

According to Fitch, although the acceleration of amend-to-extend activity through the first nine months of 2010 ($68 billion) decreased 2010 to 2011 loan maturities, it has merely shifted those maturities two to three years, increasing maturity totals from 2012 to 2014. Most extensions of 2013 and 2014 maturities should occur in 2011 and 2012. Lenders are incentivized to arrange amend-to-extend transactions on favorable terms to avoid default or complex restructurings which could decrease their recoveries. Some recent amend-to-extend transactions have even included springing expiration provisions, which may cause the dune to shift forward.

Conclusion

Though new credit issuances continue to be strong, they are dependent on a low nominal interest rate environment and a stronger economy over the long term. The underlying fact remains that many companies are still overleveraged and that the debt market's current capacity may be insufficient to address the looming dune of maturities: a significant overhang still exists. Interest rates will also likely increase, posing a significant risk to refinancing transactions and a stagnant economic recovery will only aggravate these problems.

In order for many overleveraged middle market companies to survive going forward, comprehensive restructurings will need to take place and/or a new set of capital providers will need to emerge to bridge the gap in funding availability. Otherwise, the initial triage and quick fix remedies implemented in the past few years will prove to be nothing more than a mirage and will soon need to be replaced with more permanent solutions that promote long term balance sheet health.

Is the current wall actually being dismantled with new high-yield issuances, leveraged loans and amend-to-extend transactions, or is it really just shifting like a sand dune? Before long, many companies may discover that they cannot overcome overleveraged balance sheets by issuing new debt to replace old debt. Companies that have already pushed out their maturities, cut their capex, and implemented operational changes may soon find that if their underlying businesses do not improve, the temporary fixes will be just that - temporary.

MACQUARIE RESTRUCTURING AND SPECIAL SITUATIONS GROUP

SPECIALIZED RESTRUCTURING EXPERTISE
POWERFUL GLOBAL PLATFORM

Macquarie and restructuring

Macquarie's Restructuring and Special Situations Group combines the focus, flexibility and specialization of a client-focused restructuring business with the strength and resources of a global platform.

By drawing on Macquarie's diverse range of capabilities and clients, 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 teams are 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.

The Macquarie Group

Macquarie Group (Macquarie) is a diversified global provider of banking, financial, advisory, investment and funds management services. Macquarie acts on behalf of institutional, corporate and retail clients and counterparties around the world.

Founded in 1969 in Sydney, Australia, Macquarie now operates in more than 70 office locations in 28 countries and employs approximately 15,500 people worldwide. Macquarie's global assets under management total more than US$30 billion. Macquarie remains profitable, well-capitalized and conservatively geared, providing a solid foundation for its diverse businesses in the Americas and around the world.

Macquarie has been active in the Americas for well over a decade, establishing its first office in New York in 1994. Macquarie continues to grow its business in the region, with 29 offices across the USA, Canada and Mexico.

Macquarie's broad range of capabilities in North America includes:
- M&A Advisory
- Capital Solutions
- Restructuring and Special Situations
- Principal Investments / Funds
- Securities and Distribution.

Our Services and Capabilities

Macquarie's financial and capital advisory services are provided in the context of early interventions, informal workouts, out-of-court restructurings and formal bankruptcy proceedings. With one of the largest dedicated restructuring teams of any global advisory firm, Macquarie provides a full range of advisory services for both debtors and creditors, including:

Balance Sheet Restructurings
- Recapitalizations
- Exchange Offers
- Debt Modifications
- Forbearance Agreements
- Rights Offerings
- Chapter 11 restructurings including pre-packaged and pre-arranged restructurings
- Out-of-court restructurings

Special Situations Capital Raising
- Debtor-in-Possession Financing
- Exit Financing
- Rescue Financing
- Refinancing
- Private Financings

Distressed M&A
- 363 Sales
- Complex Divestitures
- Stalking Horse Transactions
- Credit Bid Acquisitions

Strategic Alternatives Assessment
- Transaction Optimality Determination
- Business Plan Assessment
- Liquidity Forecasting
- Managerial Metrics

www.macquarie.com/us/restructuring

MACQUARIE RESTRUCTURING AND SPECIAL SITUATIONS GROUP

SPECIALIZED RESTRUCTURING EXPERTISE
POWERFUL GLOBAL PLATFORM

Selected recent transactions

MESA AIR GROUP
The undersigned is acting as exclusive financial advisor to the Official Committee of Unsecured Creditors of Mesa Air Group, Inc.
$1 BILLION
Macquarie Capital (USA) Inc.
Financial Advisor
MACQUARIE
Ongoing

C&D TECHNOLOGIES
The undersigned acted as exclusive financial advisor and sole dealer manager to C&D Technologies, Inc. in an exchange of Convertible Notes
$124 MILLION
Macquarie Capital (USA) Inc.
Financial Advisor
MACQUARIE
December 2010

tensar
The undersigned acted as exclusive financial advisor to Tensar Corporation in an amendment of its Credit Facilities and a recapitalization of the Company's balance sheet
Macquarie Capital (USA) Inc.
Financial Advisor
MACQUARIE
December 2010

MOTOR COACH INDUSTRIES
The undersigned acted as financial advisor to the 1st lien lender of Motor Coach Industries, Inc.
Macquarie Capital (USA) Inc.
Financial Advisor
MACQUARIE
December 2010

GGP
The undersigned acted as a senior co-manager to General Growth Properties, Inc. for a Common Equity follow-on as part of the Company's reorganization
$2.28 BILLION
Macquarie Capital (USA) Inc.
Financial Advisor
MACQUARIE
November 2010

Inland Real Estate Corporation
The undersigned acted as sole dealer manager to Inland Real Estate Corp. in an exchange of its 4.625% Convertible Notes due 2026
Macquarie Capital (USA) Inc.
Financial Advisor
MACQUARIE
August 2010

VAREL
The undersigned acted as financial advisor to the 1st lien lender group
Macquarie Capital (USA) Inc.
Financial Advisor
MACQUARIE
May 2010

C&D TECHNOLOGIES
The undersigned acted as exclusive financial advisor and placement agent for a 2nd Lien Term Loan to C&D Technologies Inc.
$20 MILLION
Macquarie Capital (USA) Inc.
Financial Advisor
MACQUARIE
April 2010

prince **GE**
The undersigned acted as financial advisor to GE Capital as Agent of the 1st lien lender group to execute a forbearance and amendment with Prince Sports, Inc.
Macquarie Capital (USA) Inc.
Financial Advisor
MACQUARIE
February 2010

www.macquarie.com/us/restructuring

Still think good things come to those who wait?

MACQUARIE

Macquarie: Helping our restructuring clients seize the day for over 30 years

Through booms and busts, Macquarie has been helping clients reach their goals for over 30 years. But as market conditions tentatively improve, taking action today is critical to ensuring success and stability in the face of the uncertainty of 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.

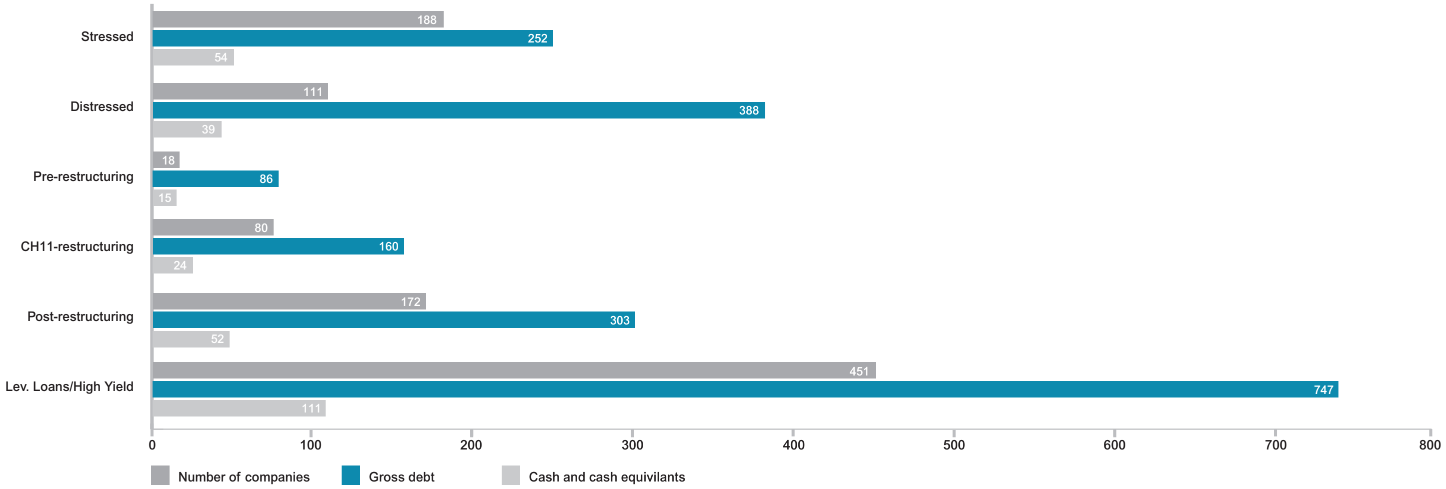
From balance sheet restructurings and recapitalizations to distressed M&A, capital raising transactions and innovative strategic solutions, Macquarie can help. With dedicated industry groups providing deep sector expertise, and more than 70 offices across 28 countries, Macquarie has the resources, specialist expertise and global reach to help your business meet today's challenges head on.

www.macquarie.com/us/restructuring

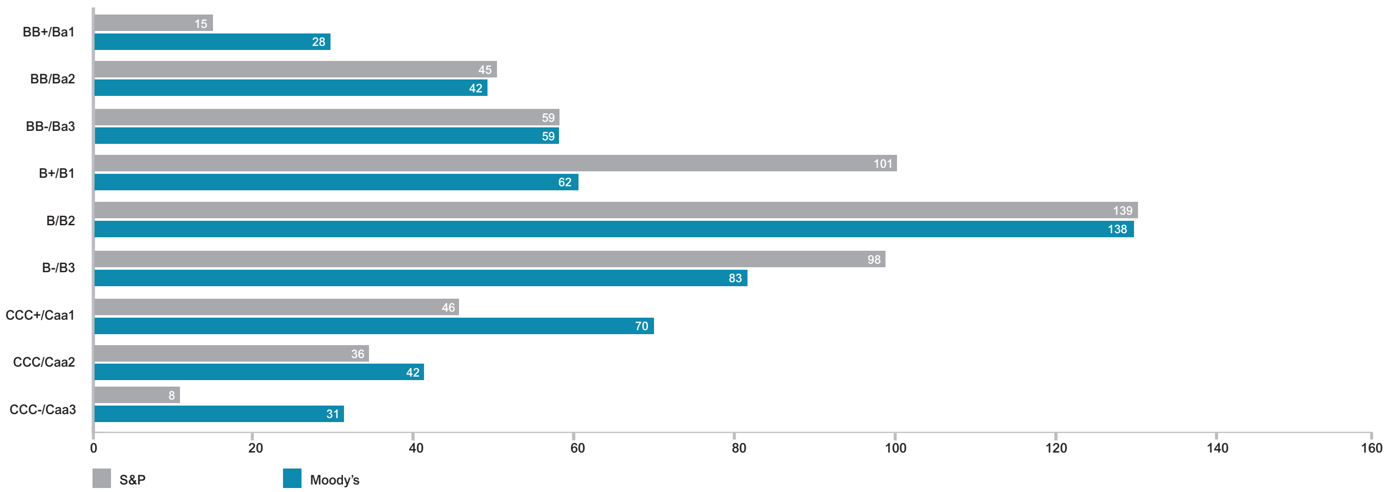
FORWARD thinking

DEBTWIRE DATA

Debtwire North America Universe by Number of Companies, Gross Debt and Cash & Equivalents

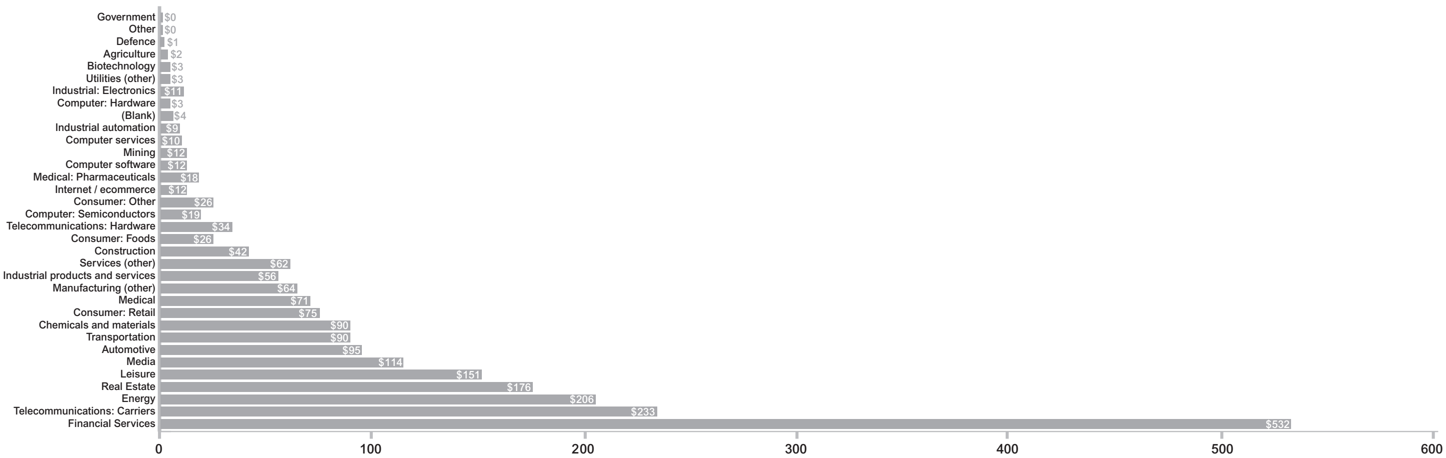


S&P & Moody's Rating Distribution

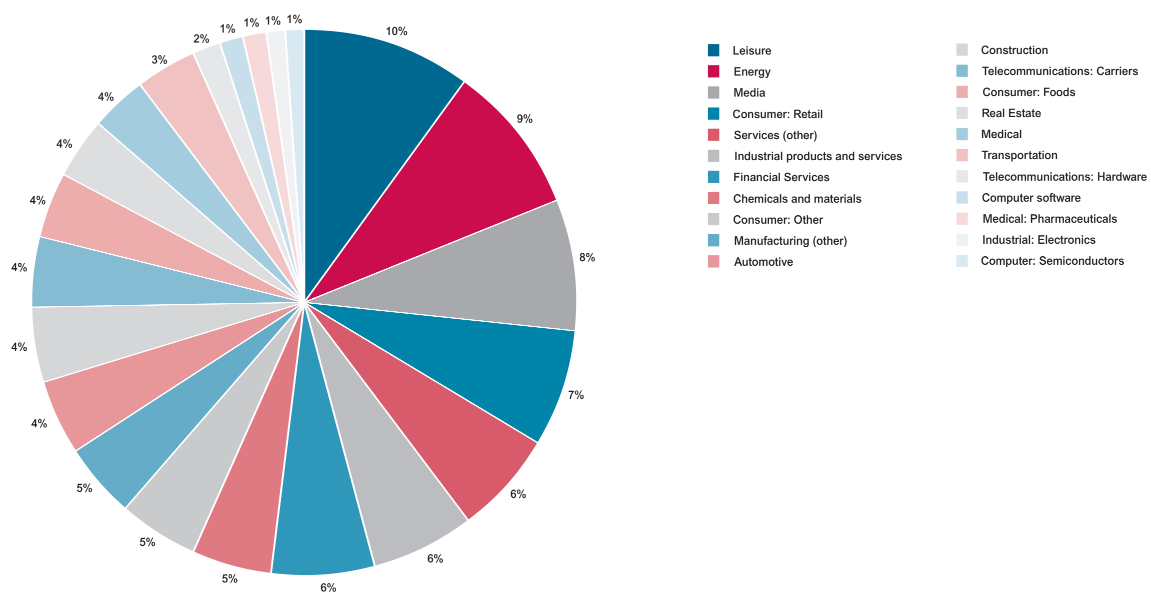


Source: www.debtwire.com

Debtwire North America Industries Measured by Total Debt (in USD bn)



Debtwire North America Industry Coverage by Number of Companies



Source: www.debtwire.com

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