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## In For the Longer Haul

# LENDERS TURNING TO EQUITY, BOARD CONTROL



**Howard Brod Brownstein**, principal at crisis managers **NachmanHaysBrownstein**, was recently selected as a director on a new board at troubled Special Metals Corp. by Credit

Lyonnais, head of the secured creditors group which took equity for their debt in the Huntington, W.Va., based nickel alloy steel mill. Special Metals filed for Chapter 11 bankruptcy protection 19 months ago, from which it is emerging this month. The move by Credit Lyonnais exemplifies a growing inclination by big creditor banks to hang in and recoup losses rather than throw in the towel at a discount.

The same situation is occurring at Alpharetta, Ga.-based Magnatrx, with **Brownstein** being named to the board by secured lenders led by big Canadian bank CIBC. CIBC's director Ron Spitzer was traveling and unavailable for comment. John Charles van Essche, vp at Credit Lyonnais, did not return calls for comment. "It's never a bank's first choice," said Sandy Mayerson, head of the bankruptcy group at New York-based law firm Holland & Knight, explaining that banks are in

the business of getting their money back with interest, not in making equity investments. "But the economy has been bad for a very long time and banks are being forced to take equity positions—it's a function of the economy [though] not a change in philosophy," she warned. Reggie Dawson, director of workouts for Wachovia, believes this is happening because of the growth in the last few years of banks lending to companies based on the overall enterprise value—or what a company is worth above and beyond its assets. He says media companies and newspapers are good examples of businesses that have value but few assets, but notes this is not limited to those industries. "When these companies hit hard times, you are trying to recover without hard assets. So typically the senior lender takes a majority of the equity—90% or more—and replaces the board and the management as well, said Dawson. "There are sectors where banks have no interest in hanging in—until recently telecom was one of them," said Marc Puntus, principal at restructuring boutique Miller Buckfire Lewis & Ying. Puntus admits he's seen the trend emerging lately but "does it make sense in every case? No," he warned.

—Jessica Sommar