Paul | Weiss

Distressed Debt Glossary

Term	Definition
Liability Management Transaction (LMT)	▪ One or more strategic transactions undertaken by a company to manage its existing debt obligations, with the goal of optimizing the company's balance sheet. An LMT can take a number of forms including: – Amend and extend transactions – Debt repurchase/buy-back transactions – Debt exchange offers – Rollup transactions – Uptier transactions – Drop-down transactions – Double DIP transactions
Borrower	Direct recipient of loan proceeds under a credit agreement
Issuer	Direct recipient of notes proceeds under an indenture
Guarantor	Agrees to repay the debt in the event the borrower or issuer fail to do so
Secured Party	Lends funds to a borrower in exchange for a security interest in a property or asset
Loan Party	Any entity that is party to the loan agreement and is subject to the repayment or collateral obligations thereunder (which includes the borrower and any guarantors)
Non-Loan Party	Any entity that is involved in the transaction, but is not bound by the terms of the loan agreement (which may include unrestricted subsidiaries, non-guarantor equity holders, and other third-parties not affiliated with the borrower or obligor, among others)
Guarantee	An undertaking by a party (i.e., the guarantor) to assume the debt obligation of a borrower if the borrower defaults on such obligation
Affirmative Covenants	▪ Obligations in a loan agreement that require the borrower, guarantors and/or restricted subsidiaries to perform specific actions or fulfill certain conditions – Common examples include providing regular financial reporting, paying taxes and using loan proceeds for specified purposes, among others
Negative Covenants	▪ Clauses in a loan agreement that limit or prohibit a borrower from engaging in certain actions – Common examples include preventing the borrower from taking on additional debt without the lenders' consent, limiting asset sales, and limiting the borrower's ability to pay dividends to shareholders
Financial Covenants	▪ A clause in a loan agreement that imposes certain financial conditions on a borrower that are designed to protect lenders' interests by ensuring the borrower maintains a certain level of financial health – Common examples include requiring the borrower to main certain debt-to-equity ratios or interest coverage ratios, among others

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Restricted Subsidiary	A direct or indirect subsidiary of a parent company that is subject to specific covenants and restrictions imposed under a loan agreement/indenture
Unrestricted Subsidiary	A direct or indirect subsidiary that is **<u>NOT</u>** subject to the specific covenants and restrictions imposed under a loan agreement or indenture
Required Lenders	A specific number or proportion of lenders within a loan agreement that must consent to certain actions or decisions for them to be valid; as noted below, certain rights and obligations, often referred to as "Sacred Rights" require approval by all affected lenders
Sacred Rights	Certain key rights or provisions in a loan document that are considered so fundamental to the interests of lenders that can only be amended, waived or modified by obtaining the consent from each lender affected thereby ▪ Common examples of sacred rights include: – Priority of payment – Timing of payment of interest and repayment at the maturity date – Pro rata sharing in proceeds of collateral – Protection against the release of guarantees or all or substantially all of collateral – Amendments to key covenants – Subordination – Post-default distributive waterfall
Amend & Extend Transaction	▪ A type of liability management transaction whereby the terms of an existing loan document are amended to extend the maturity date, often in exchange for certain favorable concessions or amendments to the original terms of the loan documents – Amend & Extend Transactions often occur when a borrower/issuer is facing an upcoming maturity, and does not expect to be able to refinance or retire such debt; lenders may extend the maturity date to provide the borrower/issuer with additional time to do so
Debt Repurchase/Buy-Back Transaction	▪ A type of liability management transaction whereby a company repurchases its debt – Companies often pursue such transactions (i) when their debt is trading at a significant discount to par, (ii) to reduce interest expense, or (iii) meet certain leverage requirements or other financial covenants – Debt documents may specify the procedures for debt repurchases and whether such offers must be provided to all lenders under the applicable facility
Debt Exchange Offer	▪ Similar to a Debt Repurchase, a Debt Exchange is a type of liability management transaction whereby a company offers to exchange outstanding debt for new debt – The new debt may, among other things, carry different terms, offer a different collateral package or revise certain covenants.
Uptier Transaction	▪ A type of liability management transaction whereby a subset of creditors amend the terms of existing debt documents to issue new senior priming debt ▪ In a typical uptier transaction, a group of "participating lenders" and/or the company's private equity sponsor will provide the company with a new-money liquidity infusion – The opportunity to participate may not be offered to all lenders, increasing the value to the participating lenders

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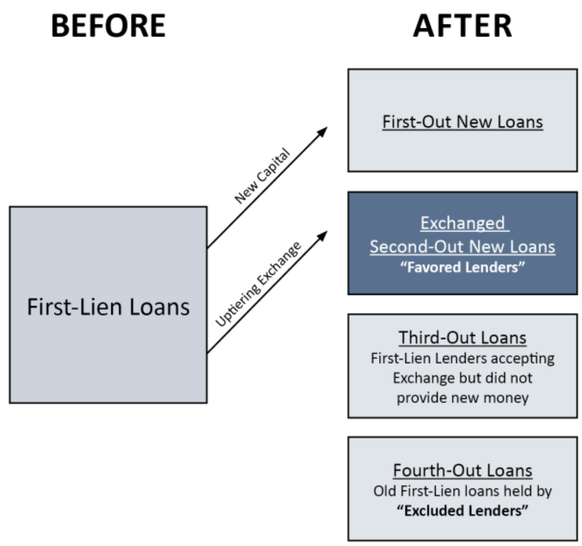
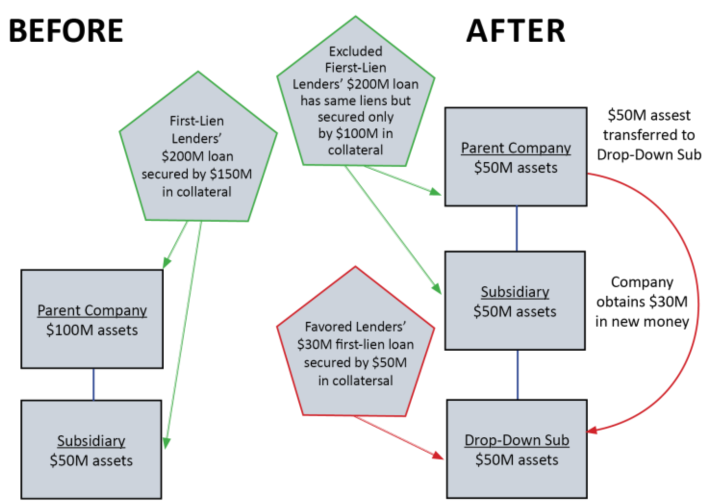
	– The "non-participating" or "excluded" lenders are then left with a less attractive debt instrument that is junior to the newly issued/exchanged debt 
Drop-Down Transaction	▪ A type of liability management transaction whereby the company transfers assets away from the credit group to an unrestricted subsidiary or a non-guarantor restricted subsidiary and then issues new debt secured by those assets from a group of "participating" lenders, a third-party and/or the company's private equity sponsor – Moving assets can often be achieved by utilizing existing terms in a company's credit documents and may not always need explicit consent from a majority of lenders – "Favored lenders" benefit from first liens on unencumbered assets and structural seniority at new subsidiary 

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Double-Dip Transaction	▪ A type of liability management transaction whereby new-money lenders provide additional debt financing that is secured by two independent claims against the borrower's organizational and capital structure ▪ A Double-Dip Transaction is typically effectuated in three key steps: – **<u>Step 1</u>**: The company identifies or creates an empty shell subsidiary that does not guarantee any of its existing debt (i.e., an unrestricted subsidiary); the participating lender(s) then advance funds (in the form of loans or notes) to the shell company subsidiary, as borrower/issuer – **<u>Step 2</u>**: The new debt is guaranteed by one or more restricted group members under the company's existing debt; this guarantee gives rise to the first "dip" against the company's existing credit support – **<u>Step 3</u>**: The proceeds of the new debt are immediately used to fund an intercompany loan to the subsidiary borrower's parent, leaving the subsidiary borrower with no assets other than an intercompany receivable; the intercompany receivable is pledged to the double-dip creditor as security for the new debt, giving rise to the second "dip"