The Deal Pipeline

Building Materials finishes Ch. 11 construction

by John Blakeley

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Building Materials Holding Corp. has exited Chapter 11 protection under control of its senior lenders.

The prenegotiated reorganization plan of the Boise, Idaho, company took effect Monday, Jan. 4, according to papers filed with the U.S. Bankruptcy Court for the District of Delaware in Wilmington. BMHC is a provider of building materials and construction services to homebuilders.

Under the debtor's second amended plan, confirmed Dec. 17 by Chief Judge Kevin J. **Carey** of the Wilmington court, **Wells Fargo Bank NA** and other senior lenders will receive all of BMHC's new equity and $135 million in second-lien term debt in exchange for about $302 million in claims. BMHC said in its plan that it could sell up to $50 million in real estate assets to pay senior lenders. In that case, it ultimately would issue less second-lien debt as lenders are paid in full.

The new debt is subordinate to $90 million in first-lien exit financing from a group of lenders including **Wells Fargo Foothill Inc.** and **Davidson Kempner Capital Management LLC**.

At the time of BMHC's June 16 Chapter 11 filing, BMHC owed its senior lenders about $269 million on a $340 million prepetition term loan, $20 million on a $200 million revolving line of credit, $11 million in accrued interest and about $6 million on a long-term swap liability. The total does not include $113 million in open, but undrawn, letters of credit.

Since filing, BMHC has used at least $4 million from its $80 million debtor-in-possession loan from Wells Fargo to pay down a portion of its revolver.

Unsecured creditors that voted in favor of the plan will share on a pro-rata basis the proceeds from a liquidation trust. Unsecured creditors that voted against the plan will receive no recovery.

BMHC will fund the trust with $2 million in cash, down from $10 million in the original plan and $5 million in the first amended plan. BMHC scrapped a provision in its first plan that allowed unsecured creditors, if they accepted the plan, to receive 50% of excess cash flow in any fiscal year in which the Ebitda of reorganized BMHC exceeded $50 million. BMHC said in the plan that its exit financing is "significantly more expensive" than it initially contemplated, leaving the company with less cash to pay unsecured creditors.

The debtor did not estimate allowed general unsecured claims but said accepting creditors in the class would recover about 4.4% on their claims.

BMHC will pay down the Wells Fargo DIP in full with the exit loan. The debtor will also use the exit facility to fund potential near-term operating losses and provide for seasonal variances in working capital.

The exit financing includes a $50 million revolver led by Wells Fargo Foothill and a $40 million term loan from Davidson Kempner.

The three-year revolver is priced at LIBOR plus 500 basis points with a LIBOR floor of 2%. It includes a $1.5 million up-front fee.

The term loan, meanwhile, matures in one year and is priced at LIBOR plus 800 basis points in cash, with an additional 500 basis points paid in kind. The loan has a LIBOR floor of 3%. The loan carries a $1.6 million closing fee.

BMHC had originally secured a $103.5 million exit financing led by Wells Fargo and **Bayside Capital Inc.** The fully committed loan included a $50 million revolver and a $53.5 million term loan but carried a higher rate and longer maturity (on the term loan) than the final financing from Wells Fargo Foothill and Davidson Kempner.

BMHC's June 16 bankruptcy filing was the culmination of out-of-court negotiations that took more than a year. The company, which manufactures and sells residential building materials such as wall panels and floor and roof trusses under the trade names SelectBuild and BMC West, defaulted on its senior debt on Dec. 31, 2007.

After reaching several forbearance agreements with its lenders, BMHC finally hired turnaround shop **Alvarez & Marsal LLC** in May 2008 to assist in a restructuring. The company explored a sale of its assets to no avail then sharply reduced its workforce from a high of 23,000 to just 5,500 as of the bankruptcy filing.

Over that period, BMHC's sales declined sharply as the U.S. housing market collapsed. Revenue declined from about $3 billion in 2006 to $1.3 billion in 2008, court filings show.

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