

Blue Wolf, Atlas Rebuff Market Trends With Dividend Deal

By Shasha Dai

Despite the tight credit environment, pulp and paper company Finch Paper Holdings LLC has managed to pay a dividend to its equity sponsors a little over a year after its original buyout.

The Glen Falls, N.Y.-based company recently took out a \$63 million senior loan to replace all its existing debt, which consists of senior and mezzanine tranches. It also paid a \$2 million dividend to Blue Wolf Capital Management LLC and Atlas Holdings LLC, said people familiar with the deal.

PNC Financial Services Group Inc. served as lead underwriter of the issuance, with participation from RBS Citizens NA and Wells Fargo & Co., among others.

The deal closed amid continued difficulty in the leveraged loan markets. About \$124 billion in loans have been issued so far this year, down 70% from \$409 billion for the first eight months of 2007, according to Standard & Poor's Leveraged Commentary & Data.

Loans issued for the purpose of paying dividends have seen an even bigger drop, plummeting 94% over the year-ago period to \$2.9 billion. That's the biggest year-over-year decline since S&P LCD started tracking these numbers in 1997.

Finch Paper's ability to close the deal can be largely attributed to factors specific to the company and its markets, the people said. While the paper industry is notoriously volatile, Finch Paper has weathered the economic downturn relatively well thanks to its niche market position. It sells pulp and paper to commercial and specialty printers

that produce companies' annual reports and high-end books, and also specializes in orders requiring quick turnaround.

The original buyout, which closed in June 2007, was deemed risky by lenders in part because of the deal's complicated structure. Finch Paper, then known as Finch Pruyn & Co., owned some 161,000 acres of forest in New York's Adirondack Mountains and a hydroelectricity facility – assets that have little connection with Finch Paper's core business.

Finch Paper decided to sell the land in conjunction with the buyout and later sold the hydroelectricity facility as well. But with so many parts in motion at the time of the buyout, many senior lenders shunned the deal, ceding it to such mezzanine lenders as John Hancock Life Insurance Co.

As Finch Paper continued to perform and unload non-core assets, Blue Wolf and Atlas Holdings deemed the timing was right to dispose of its more expensive mezzanine debt and lower its total borrowing costs. To advise them on the debt-raising, they hired SPP Capital Partners LLC, which reached out to the new lenders.

Other buyout firms have taken advantage of improvement in their portfolio companies' performance and periodic thaws in the credit freeze to refinance the companies' debt. Thomas H. Lee Partners, for instance, recently helped a home building company it owns replace its senior debt despite difficulty faced by the overall housing industry.

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