

# MOODY'S

## INVESTORS SERVICE

### SPECIAL COMMENT

[Rate this Research](#)


#### Analyst Contacts:

NEW YORK	+1.212.553.1653
Alexander Dill	+1.312.706.9965
Vice President - Head of Covenant Research	
alexander.dill@moody's.com	
Evan M. Friedman	+1.212.553.1338
Vice President - Senior Covenant Officer	
evan.friedman@moody's.com	
Mark Scioscia	+1.212.553.2876
Associate Analyst	
mark.scioscia@moody's.com	
Danny Gao	+1.212.553.7982
Associate Analyst	
danny.gao@moody's.com	
Glenn Eckert	+1.212.553.1618
Associate Managing Director	
glenn.eckert@moody's.com	
Tom Marshella	+1.212.553.4668
Managing Director -	
US and Americas Corporate Finance	
tom.marshella@moody's.com	

#### Bond Covenant Quality Index In Brief

This report features our proprietary Covenant Quality Index for high-yield bonds. The index rises toward 1.0 when covenant quality improves and falls toward 5.0 when it worsens. The index is a three-month rolling average of Covenant Quality (CQ) scores that we assign to North American issuers' bonds rated speculative-grade at issuance and covered in our Covenant Quality Snapshots. CQ scores are indicators of the quality of a bond's covenant package based on a weighted average of scores that assess the level of protection in six risk categories.

Additional charts and tables including three-month rolling averages of scores for each risk category, sector scores and scores from the inception of the index are included in this report.

To learn more about the Covenant Quality Index, see our [FAQ](#). For details on our CQ scores, see our [Scoring Criteria](#) and [FAQ](#) on scoring.

## North American Covenant Quality Index

# Bond Covenant Quality Continues Steady Erosion

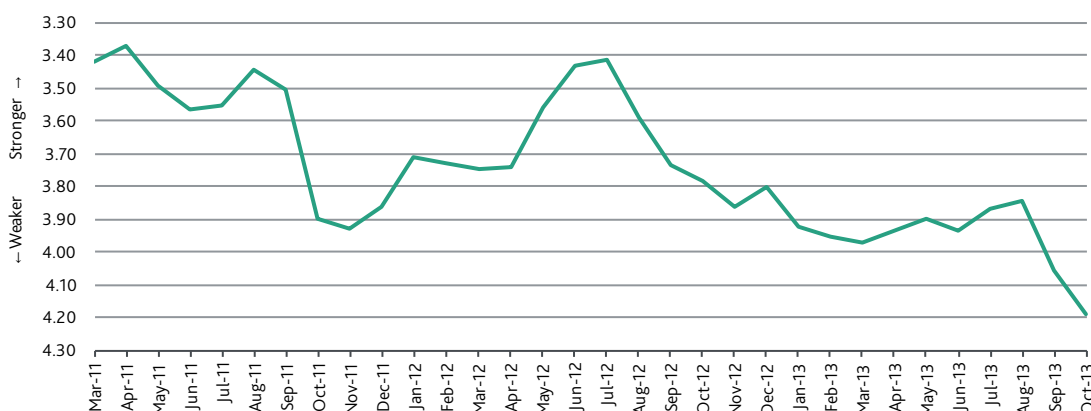
Protections worsen despite sharp decline in issuance

- » **Covenant quality hits still another record low.** North American high-yield bond covenant quality eroded further in October from a record low in September. The average covenant quality (CQ) score weakened to 4.26 from 4.23 (a higher score denotes worse covenant quality on our scale from 1.0-5.0; see scoring key, page 2). This decline in covenant quality coincided with a sharp decline in US high-yield bond issuance from a record high in September. Issuance fell 44% in October from the prior month, according to Dealogic. However, this pullback in market demand amid a 16-day partial shutdown of the US government still did not compel companies to offer investors better covenant terms (See complete list of October's bonds and CQ scores, page 11).
- » **Covenant Quality Index (CQI) sets second consecutive record low.** With the decline in covenant quality in October, our three-month rolling average CQI set another record low at 4.19, weaker than the previous record of 4.05 set in September. The index – a three-month rolling average weighted by each month's total number of bond issues – set its record high of 3.37 in April 2011 (Exhibit 1).
- » **Worsening covenants and a higher percentage of Ba bonds helped drive the weaker quality in October.** Bonds rated Ba weakened to 4.58 from 4.52 in September, weaker than the historical average of 4.29. They accounted for 41% of issuance, up from 35% in September and well above the historical average of 28%. Bonds rated single B at issuance – the sweet spot in the high-yield market – had an average CQ score of 4.12 in October, nearly matching the average score of 4.13 in September and well above the historical average of 3.61. Single B bonds made up only 38% of total high-yield issuance for the month, well below the historical average of 50%. Bonds rated Caa/Ca strengthened slightly to 3.90 from 3.98, but remain significantly weaker than the historical average of 3.42. They accounted for 22% of October's issuance, matching the historical average.
- » **The strongest and weakest.** The full high-yield package from [Chinos Intermediate Holdings A, Inc.](#) (B2 negative), parent of retailer [J. Crew Group Inc.](#), was the weakest bond in October, with a CQ score of 4.86. [Crestwood Midstream Partners LP](#) (Ba3 stable) had a 4.74 score and [Penn National Gaming Inc.](#) (Ba1 stable) a 4.72 score. The most protective full high-yield package came from [Michael Baker International, LLC](#) (B2 stable), which, at 2.03, was much stronger than September's most protective score of 3.04. It was followed by [Pittsburgh Glass Works, LLC](#) (B3 stable) at 2.76, and [Exopack Holdings S.A.](#) (B3 stable), at 3.23.

EXHIBIT 1

**Moody's Covenant Quality Index**

Three-month rolling average hits a second consecutive record low in October

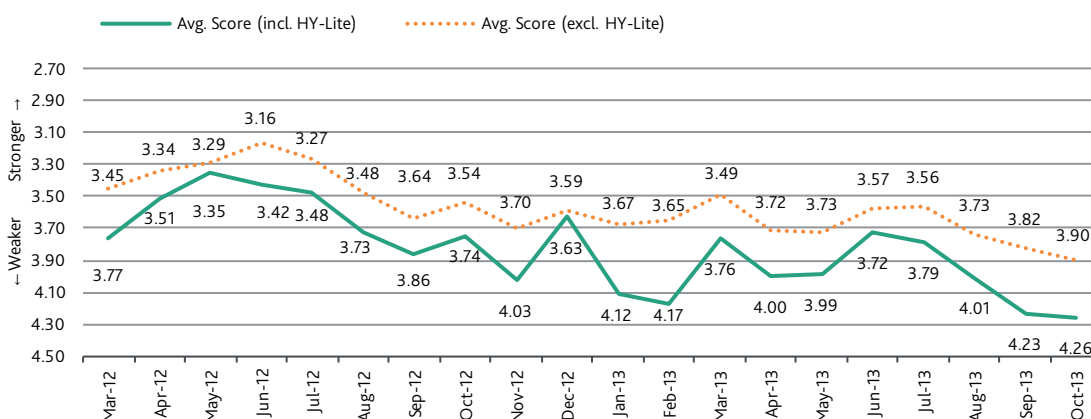


Source: Moody's High-Yield Covenant Database. Note: CQI includes all high-yield bonds, including high-yield lite. High-yield-lite bonds lack a debt incurrence and/or a restricted payments covenant and automatically receive the weakest possible CQ score of 5.0.

EXHIBIT 2

**Monthly Average CQ Scores**

All Bonds and Bonds Excluding High-Yield Lite



Source: Moody's High-Yield Covenant Database

CQ Scoring Key														
← Stronger					Weaker →									
CQ1		CQ2		CQ3		CQ4		CQ5						
Strong		Good		Moderate		Weak		Weakest						
		Upper 1.8 to 2.0		Lower 2.4 to 2.6		Upper 2.6 to 2.8		Lower 3.2 to 3.4		Upper 3.4 to 3.6		Lower 4.0 to 4.2		
1.0		1.8		2.6		3.4		4.2		5.0				

TABLE 1

**Average CQ Scores by Category**

(See Full Table on Page 8)

Average CQ Score (# bonds)	Q4 2012	Q1 2013	Q2 2013	Last 3 Months	Historical Avg (Jan. '11 to date)
Ba rating	4.10	4.45	4.31	4.47	4.29
B rating	3.69	3.70	3.81	4.11	3.61
Caa/Ca rating	3.81	3.55	3.78	3.85	3.42
Sponsored	3.78	3.60	3.65	3.84	3.58
Full HY covenant package	3.60	3.57	3.69	3.83	3.48
Secured	3.26	3.00	3.25	3.90	3.12

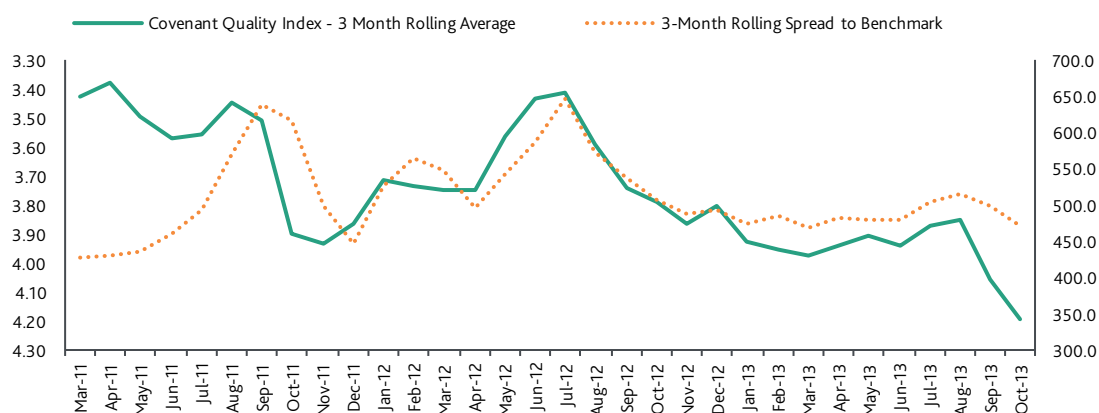
Source: Moody's High-Yield Covenant Database

» **Spread to benchmark narrows as covenant protection declines.** On a three-month rolling average basis, the spread to benchmark for new bond issuance narrowed slightly in October while covenant quality ticked still lower. This might be explained by a higher-than-average percentage of higher-rated Ba bonds among October's issuance. Ba rated bonds command a narrower risk premium than lower-rated bonds and usually have weaker covenants, which the data show worsened still further in October. With covenant quality remaining weak overall, the recent spread narrowing suggests that investors are not being fully compensated for the lack of protections in the indentures.

EXHIBIT 3

**Average Benchmark Spread Versus CQI<sup>1</sup>**

(Three-Month Rolling Average)



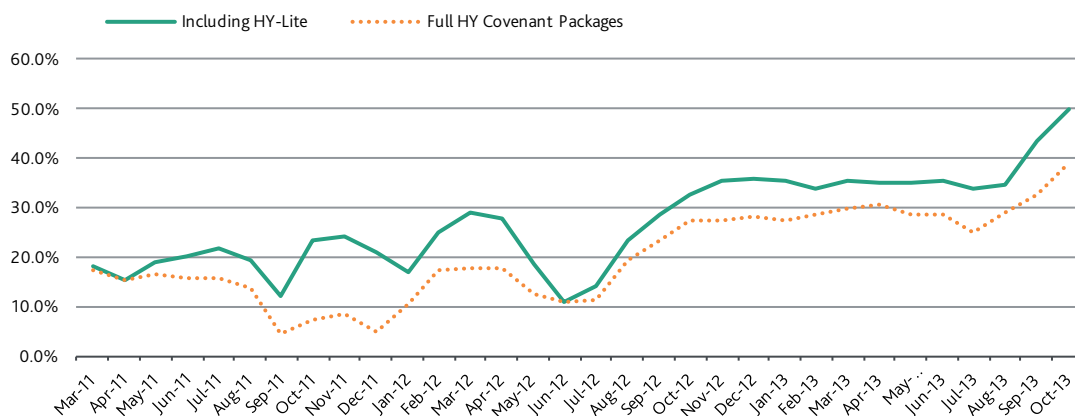
Sources: Datascope; Dealogic; Moody's High-Yield Covenant Database

<sup>1</sup> Spread to benchmarks provided by Dealogic and Datascope. Approximately 75% of issuances in Moody's High-Yield Covenant Database are covered.

- » **Percentage of low-rated bonds with weak covenants hits a record.** The percentage of new bond issues rated B1 and below that also ranked in our lower-tier weak (3.8-4.2; CQ4↓) or weakest (4.2-5.0; CQ5) categories of covenant quality rose on a three-month rolling average basis to a record 50% in October. This shows that investors are still willing to assume risk for yield, even as potentially higher interest rates challenge some lower-rated companies. The previous record was 43.5% in September, and the historical average is 27.7% (Exhibit 4).

EXHIBIT 4

**Percentage of Bonds Rated B1 and Below with a CQ4 ↓ or CQ5 Score**  
(Three-Month Rolling Average)



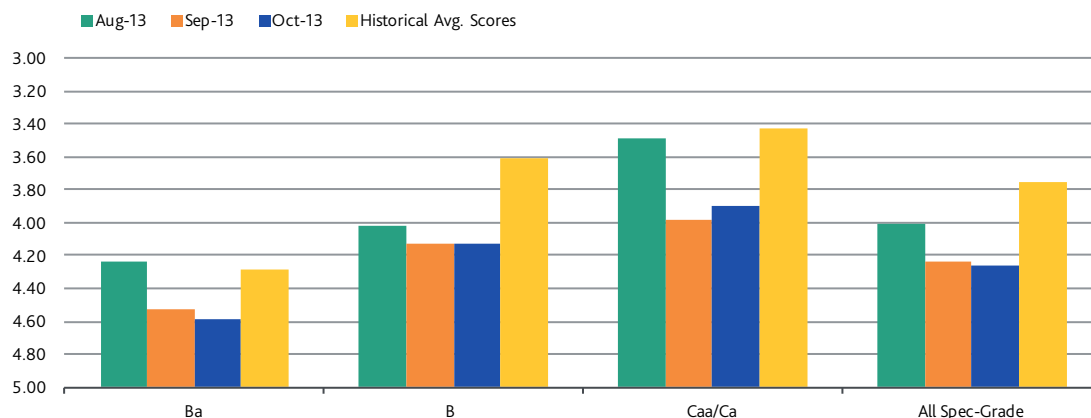
Source: Moody's High-Yield Covenant Database

- » **Covenant quality by rating category followed the historical pattern in October.** Covenant quality normally strengthens lower in the rating scale as investors demand more protection to lend to riskier credits. This expected correlation held in October after having also followed the expected correlation in August and September (Exhibit 5). In October, Caa/Ca rated bonds had an average CQ score of 3.90, somewhat better than the 4.12 average score for higher rated single B bonds. Ba bonds also followed the expected correlation with an average CQ score of 4.58, much weaker than the average scores of the lower rating categories.

EXHIBIT 5

**Average CQ Scores by Rating Category**

Historical correlation of CQ scores and ratings holds in October



Source: Moody's High-Yield Covenant Database

- » **One of two PIKs contributed to worsening covenant quality in October.** The 4.86 CQ score for Chinos Intermediate Holdings' PIK notes contributed to poor covenant quality in October. But PIK notes from [The Neiman Marcus Group Ltd. Inc.](#), at 3.88, offered comparatively good protection by PIK standards. Due to their subordinated status, among other features, PIK bonds often have among the lowest CQ scores of full high-yield packages.
- » **High-yield-lite covenant packages continue to weaken overall covenant quality.** High-yield-lite bonds represented 32.4% of October issuance, below the record 41.7% set in September 2011. These bonds lack a debt incurrence and/or a restricted payments covenant and automatically receive the weakest possible CQ score of 5.0. The cumulative historical percentage of high-yield-lite packages reached a record high 18.3% (January 2011 through October 2013).
- » **High-yield-lite issuance spanned multiple sectors in October.** Aside from multi-tranche high-yield-lite offerings by [Kinder Morgan Inc.](#) (Ba2 stable) and [Leucadia National Corporation](#) (Ba1 stable), no two of the twelve high-yield-lite issuances were from the same sector in October and 10 sectors were represented.
- » **Caa rated bonds with weak covenants.** Of the eight Caa rated bonds in October (two of which were PIKs), only the bond from Chinos Intermediate Holdings, at 4.86, ranked in the weakest category of covenant quality (4.2-5.0). Six ranked in our weak category (3.4-4.2): [Dole Food Company, Inc.](#) (B3 stable), 3.57 (senior secured notes); [Gray Television, Inc.](#) (B3 positive), 3.79 (senior notes); [Blackboard Inc.](#) (B2 stable), 3.85 (senior notes); Neiman Marcus Group, 3.88 (senior cash pay notes); Neiman Marcus Group, 3.88 (senior PIK toggle notes); and [Rhodes Merger Sub, Inc.](#) (Caa1 stable), 4.12 (senior notes). One ranked moderate (2.6-3.4) in covenant quality: Exopack Holdings, 3.23 (senior notes).
- » **Market composition of October's bonds:**
  - Full high-yield bond packages comprised 68% of all high-yield bonds in October, compared with 65% in September, 78% in August, and 82% on a cumulative basis since January 2011.
  - Bonds rated Ba, B and Caa/Ca comprised 41%, 38% and 22%, respectively, of total issuance in October. Historical percentages are 28%, 50% and 22%, respectively.
  - Sponsored bonds comprised 35% of all bonds issued in October compared with the historical average of 32%.
  - Senior secured bonds comprised 16% of all bonds issued in October, below the historical average of 20%.

## Covenant Quality Component Scores (Three Month Rolling Averages)

### Full Package Bonds Only

EXHIBIT 6

#### Cash Leakage

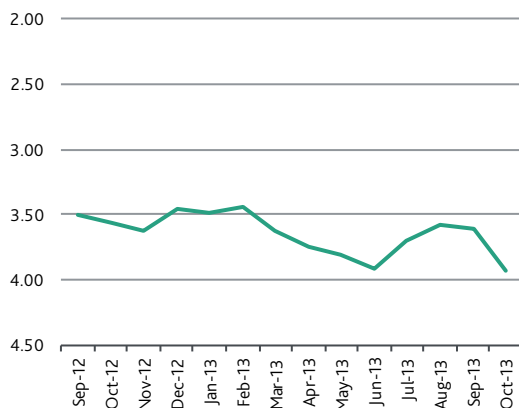


EXHIBIT 7

#### Risky Investments

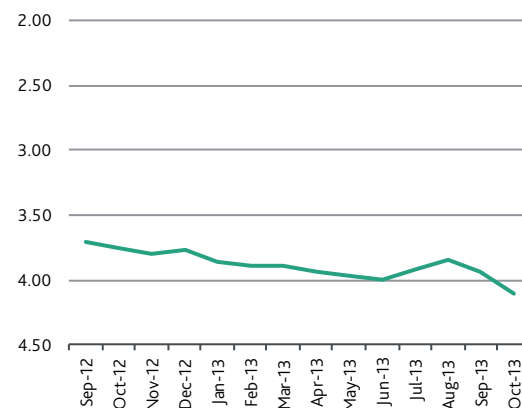


EXHIBIT 8

#### Leveraging

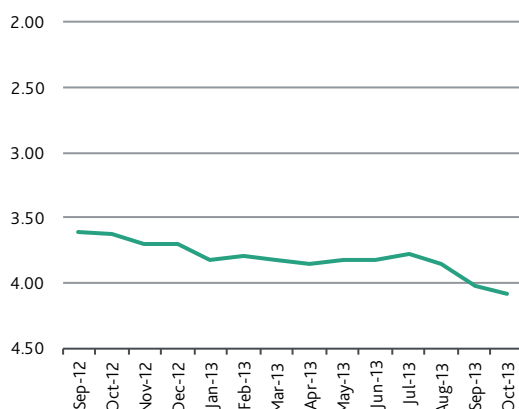


EXHIBIT 9

#### Liens Subordination

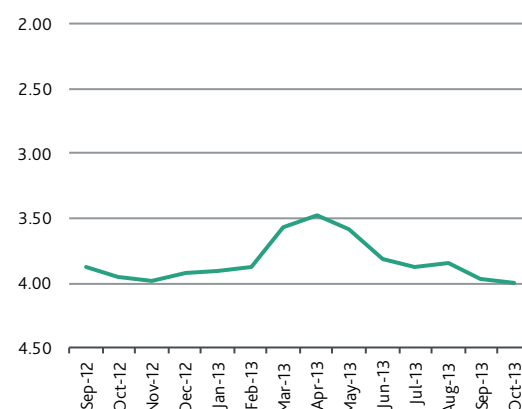


EXHIBIT 10

#### Structural Subordination

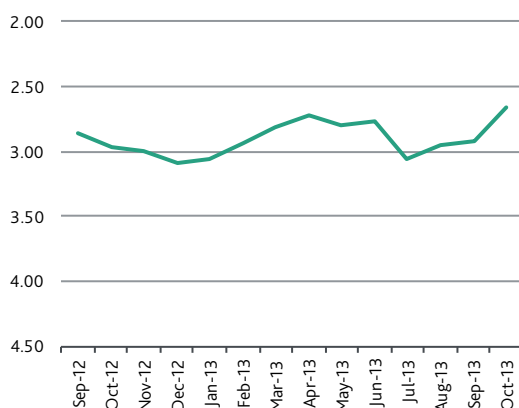
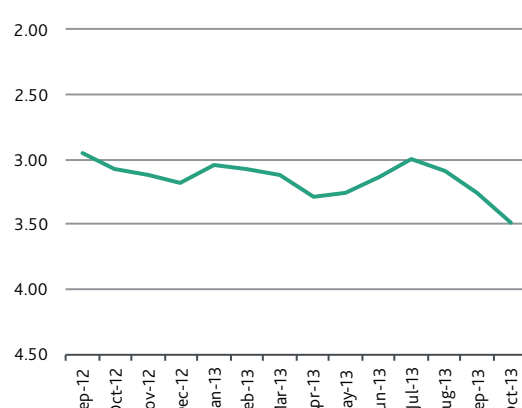


EXHIBIT 11

#### Change of Control



## EXHIBIT 12

## Quarterly &amp; Three-Month Rolling Average CQ Scores and Individual Risk Scores

Date	Cash Leakage	Risky Invest.	Leveraging	Liens Sub.	Structural Sub.	Change of Control	Full HY Pkg - CQ Score	Full HY Pkg Issues	All Bonds - CQ Score	Total Issues	% B1 and below (CQ4↓ and CQ5)
Q1 2011	3.16	3.58	3.37	3.70	2.78	2.85	3.30	102	3.42	110	18.2%
Q2 2011	3.35	3.62	3.47	3.61	2.68	3.06	3.36	77	3.57	88	20.0%
Q3 2011	2.97	3.32	3.12	3.47	2.72	2.91	3.12	27	3.51	34	12.0%
Q4 2011	3.16	3.52	3.43	3.84	2.54	3.13	3.34	26	3.86	38	20.8%
Q1 2012	3.39	3.75	3.54	3.59	2.78	2.89	3.40	76	3.75	97	28.8%
Q2 2012	3.24	3.85	3.52	3.44	2.23	3.07	3.28	64	3.43	70	10.7%
Oct-12	3.56	3.75	3.63	3.94	2.97	3.08	3.56	119	3.79	141	32.7%
Nov-12	3.62	3.80	3.70	3.98	3.00	3.11	3.62	115	3.86	140	35.5%
Dec-12	3.46	3.77	3.70	3.91	3.09	3.18	3.60	99	3.80	116	35.9%
Jan-13	3.49	3.85	3.82	3.91	3.05	3.04	3.65	75	3.92	94	35.5%
Feb-13	3.44	3.88	3.80	3.88	2.94	3.08	3.63	64	3.95	84	34.0%
Mar-13	3.62	3.90	3.82	3.57	2.82	3.12	3.57	70	3.97	97	35.6%
Apr-13	3.74	3.94	3.85	3.48	2.71	3.29	3.59	73	3.94	97	34.9%
May-13	3.81	3.96	3.82	3.58	2.80	3.26	3.63	88	3.90	110	35.1%
Jun-13	3.92	3.99	3.82	3.81	2.77	3.13	3.69	69	3.93	85	35.5%
Jul-13	3.69	3.92	3.77	3.87	3.06	3.00	3.64	69	3.87	83	33.8%
Aug-13	3.58	3.84	3.85	3.84	2.95	3.09	3.62	56	3.85	67	34.7%
Sep-13	3.61	3.93	4.02	3.97	2.92	3.25	3.71	67	4.05	91	43.5%
Oct-13	3.93	4.11	4.08	3.99	2.66	3.48	3.83	71	4.19	103	50.0%

## EXHIBIT 13

## Monthly (Individual) Average CQ Scores and Individual Risk Scores

Date	Cash Leakage	Risky Invest.	Leveraging	Liens Sub.	Structural Sub.	Change of Control	Full HY Pkg - CQ Score	Full HY Pkg Issues	All Bonds - CQ Score	Total Issues	% B1 and below (CQ4↓ and CQ5)
Oct-12	3.41	3.69	3.58	3.99	2.98	3.28	3.54	42	3.74	49	28.9%
Nov-12	3.87	3.87	3.86	3.89	3.13	2.95	3.70	27	4.03	36	28.6%
Dec-12	3.16	3.79	3.72	3.84	3.19	3.24	3.59	30	3.63	31	26.1%
Jan-13	3.49	3.93	3.92	4.08	2.71	2.85	3.67	18	4.12	27	27.3%
Feb-13	3.93	4.01	3.80	3.74	2.71	3.03	3.65	16	4.17	26	33.3%
Mar-13	3.54	3.83	3.78	3.24	2.92	3.29	3.49	36	3.76	44	28.6%
Apr-13	3.93	4.07	4.00	3.69	2.37	3.49	3.72	21	4.00	27	31.3%
May-13	4.03	4.05	3.74	3.90	2.95	3.06	3.73	31	3.99	39	26.9%
Jun-13	3.71	3.77	3.74	3.79	2.94	2.84	3.57	17	3.72	19	28.6%
Jul-13	3.19	3.86	3.85	3.89	3.32	3.03	3.56	21	3.79	25	20.0%
Aug-13	3.93	3.88	3.96	3.85	2.54	3.39	3.73	18	4.01	23	45.5%
Sep-13	3.73	4.02	4.18	4.11	2.87	3.33	3.82	28	4.23	43	38.1%
Oct-13	4.15	4.36	4.06	3.96	2.52	3.72	3.90	25	4.26	37	36.8%
Historical	3.41	3.69	3.58	3.99	2.98	3.28	3.54	42	3.74	49	28.9%

EXHIBIT 14

**Market Composition: Quarterly, Monthly (Individual, Not 3-Mo. Rolling) & Historical Average CQ Scores\***

Average CQ score (% market)	Q4 '12	Q1 '13	Q2 '13	Last 3 Months	Aug-13	Sep-13	Oct-13	Historical (Jan '11-Oct'13)
Ba (at issuance)	4.1 (21%)	4.45 (39%)	4.31 (27%)	4.47 (40%)	4.24 (48%)	4.52 (35%)	4.58 (41%)	4.29 (28%)
B (at issuance)	3.69 (55%)	3.7 (44%)	3.81 (46%)	4.11 (38%)	4.01 (30%)	4.13 (42%)	4.12 (38%)	3.61 (50%)
Caa/Ca (at issuance)	3.81 (24%)	3.55 (16%)	3.78 (27%)	3.85 (22%)	3.49 (22%)	3.98 (23%)	3.9 (22%)	3.42 (22%)
Sponsored	3.78 (42%)	3.6 (28%)	3.65 (31%)	3.84 (30%)	3.93 (22%)	3.87 (30%)	3.77 (35%)	3.58 (32%)
Full HY covenant package	3.6 (85%)	3.57 (72%)	3.69 (81%)	3.83 (69%)	3.73 (78%)	3.82 (65%)	3.9 (68%)	3.48 (82%)
Senior Secured	3.26 (20%)	3 (14%)	3.25 (20%)	3.9 (19%)	4.18 (4%)	4.08 (30%)	3.46 (16%)	3.12 (20%)
Senior Unsecured	3.93 (78%)	4.14 (82%)	4.11 (75%)	4.26 (81%)	4 (96%)	4.3 (70%)	4.42 (84%)	3.92 (77%)
Senior Subordinated	4.19 (3%)	3.85 (3%)	4.03 (5%)	0 (0%)	0 (0%)	0 (0%)	0 (0%)	4.03 (3%)
United States	3.86 (92%)	4 (97%)	3.97 (93%)	4.18 (94%)	4.03 (96%)	4.17 (91%)	4.28 (97%)	3.79 (94%)
Canada	4.1 (21%)	4.45 (39%)	4.31 (27%)	4.47 (40%)	4.24 (48%)	4.52 (35%)	4.58 (41%)	4.29 (28%)

\* Includes both high-yield lite and full covenant packages except for "Full HY packages."

## Sector Composition (January 2011 – October 2013)

Sector (Subsectors with > 7 bonds included in italics)	Total issuances	Number High-Yield Lite	Percent HY-Lite	Overall CQ Score	Overall CQ Score (excluding HY-Lite)	Average Score: Restricted Payments	Average Score: Investments in Risky Assets	Average Score: Debt	Average Score: Liens	Average Score: Structural Subordination	Average Score: Change of Control	Avg RP Carve-outs as % of Total Assets	Average Investment Carve-outs as % of Total Assets	Average Debt Carve- outs as % of Total Assets	Trend in Overall CQ Score: LTM ended 10/31/12***	Trend in Overall CQ Score (excl HY-Lite): LTM ended 10/31/12***
<b>Aerospace/Defense</b>	13	0	0.0%	3.34	3.34	3.49	3.48	3.77	3.52	2.35	2.34	11.3%	6.8%	27.8%		
<b>Automotive</b>	34	12	35.3%	4.09	3.59	3.66	4.08	3.91	3.51	3.00	2.81	9.8%	11.0%	33.5%		
<i>Auto Supplier</i>	28	7	25.0%	3.94	3.59	3.59	4.08	3.95	3.50	3.08	2.87	8.9%	10.8%	34.1%		
<b>Chemicals</b>	29	7	24.1%	4.16	3.90	4.04	4.18	4.16	3.59	3.47	3.62	16.4%	11.9%	33.9%	Steady	Stronger
<i>Commodity Chemical</i>	11	2	18.2%	3.85	3.60	3.83	4.11	3.83	3.02	3.04	3.64	12.8%	11.8%	26.6%		
<i>Specialty Chemical</i>	17	5	29.4%	4.35	4.08	4.13	4.18	4.35	3.90	3.95	3.62	19.4%	11.2%	38.3%		
<b>Construction &amp; Homebuilding</b>	39	19	48.7%	4.08	3.21	2.72	3.81	3.63	3.75	2.25	2.75	7.5%	9.0%	25.2%	Steady	Weaker
<i>Homebuilding</i>	30	17	56.7%	4.10	2.92	2.38	3.74	3.30	3.34	2.05	2.60	4.7%	6.9%	20.8%	Weaker	Weaker
<b>Consumer Products</b>	38	7	18.4%	3.67	3.37	3.38	3.31	3.55	3.58	2.61	3.28	11.9%	9.5%	30.4%	Steady	Steady
<i>Consumer Durables</i>	10	2	20.0%	3.76	3.45	3.84	3.58	3.55	3.59	2.13	3.24	14.9%	10.4%	27.3%		
<i>Packaged Goods</i>	12	0	0.0%	3.68	3.68	3.45	3.51	3.99	4.12	2.78	3.63	12.6%	6.6%	26.7%	Weaker	Weaker
<b>Healthcare</b>	50	16	32.0%	3.87	3.34	3.15	3.72	3.40	3.74	2.81	2.99	7.1%	7.0%	21.4%	Weaker	Weaker
<i>For-Profit Hospital</i>	25	14	56.0%	4.28	3.37	3.25	3.69	3.65	3.60	2.68	2.91	7.8%	6.9%	24.6%	Weaker	
<i>Medical Products &amp; Devices</i>	13	2	15.4%	3.92	3.72	3.60	4.19	3.53	4.38	3.27	3.17	6.4%	6.9%	26.1%		
<b>Leisure, Lodging &amp; Entertainment</b>	49	6	12.2%	3.49	3.27	3.20	3.49	3.40	3.50	2.45	2.78	14.6%	7.2%	27.3%	Weaker	Weaker
<i>Gaming</i>	29	4	13.8%	3.15	2.85	2.81	3.14	3.09	2.93	2.05	2.72	10.5%	6.8%	26.2%	Weaker	Weaker
<b>Manufacturing</b>	40	9	22.5%	3.82	3.48	3.42	3.62	3.66	3.72	2.85	3.13	11.2%	9.1%	33.1%	Stronger	Weaker
<i>Finished Products</i>	19	4	21.1%	3.73	3.39	3.44	3.45	3.58	3.72	2.48	2.97	14.6%	9.6%	39.2%	Stronger	
<i>Component</i>	10	0	0.0%	3.54	3.54	3.28	3.64	3.76	3.74	3.10	3.54	8.8%	7.6%	29.6%	Stronger	
<i>Heavy Manufacturing</i>	11	5	45.5%	4.23	3.59	3.62	4.02	3.68	3.73	3.37	2.88	6.9%	10.4%	23.7%		
<b>Media &amp; Publishing</b>	89	14	15.7%	3.73	3.49	3.74	4.05	3.21	3.70	2.66	3.34	6.6%	9.0%	19.9%	Weaker	Steady
<i>Cable Television</i>	28	0	0.0%	3.86	3.86	3.75	4.45	3.41	4.57	3.07	3.83	3.5%	10.8%	17.6%	Steady	Steady
<i>Newspapers</i>	12	4	33.3%	3.48	2.72	2.66	3.72	2.91	2.22	2.09	3.07	5.6%	6.7%	21.1%		
<i>Media Services</i>	37	8	21.6%	3.72	3.37	3.91	3.86	3.00	3.49	2.36	3.16	9.0%	8.3%	20.1%	Weaker	Weaker
<b>Metals &amp; Mining</b>	48	9	18.8%	3.69	3.39	3.29	3.61	3.88	3.60	2.46	2.72	10.2%	11.9%	28.0%	Weaker	Weaker
<i>Coal</i>	16	2	12.5%	3.90	3.75	3.89	3.75	4.05	3.75	3.24	3.11	11.3%	19.7%	33.4%		
<i>Steel</i>	17	7	41.2%	4.19	3.62	3.66	3.69	3.92	4.07	2.34	3.10	11.2%	12.0%	40.1%	Steady	
<i>Metal Mining</i>	15	0	0.0%	2.91	2.91	2.48	3.44	3.68	3.15	1.82	2.11	8.4%	4.6%	14.8%		
<b>Oil &amp; Gas</b>	212	17	8.0%	3.64	3.53	3.58	3.89	3.73	3.94	2.32	2.93	4.8%	5.1%	24.8%	Weaker	Weaker
<i>Independent Exploration &amp; Production</i>	119	11	9.2%	3.57	3.43	3.21	4.25	3.65	4.01	1.92	2.93	4.8%	4.4%	23.2%	Weaker	Weaker
<i>Independent Refining &amp; Marketing</i>	11	0	0.0%	3.26	3.26	3.82	3.50	3.55	2.70	2.12	3.17	8.5%	4.5%	18.9%		
<i>Midstream</i>	48	6	12.5%	4.30	4.20	4.85	3.73	4.06	4.86	3.14	3.12	2.0%	5.8%	30.4%	Weaker	Steady
<i>Oil Services</i>	34	0	0.0%	3.09	3.09	3.08	3.04	3.60	2.98	2.64	2.62	7.3%	6.9%	25.1%	Weaker	Weaker
<b>Paper, Packaging &amp; Forest</b>	36	11	30.6%	3.92	3.45	3.51	3.67	3.75	3.36	2.88	3.00	10.5%	7.9%	24.2%	Steady	Steady

## Sector Composition (January 2011 – October 2013)

Sector (Subsectors with > 7 bonds included in italics)	Total issuances	Number High-Yield Lite	Percent HY-Lite	Overall CQ Score	Overall CQ Score (excluding HY-Lite)	Average Score: Restricted Payments	Average Score: Investments in Risky Assets	Average Score: Debt	Average Score: Liens	Average Score: Structural Subordination	Average Score: Change of Control	Avg RP Carve-outs as % of Total Assets	Average Investment Carve-outs as % of Total Assets	Average Debt Carve- outs as % of Total Assets	Trend in Overall CQ Score: LTM ended 10/31/12***	Trend in Overall CQ Score (excl HY-Lite): LTM ended 10/31/12***
<b>Products</b>																
<i>Plastic</i>	15	7	46.7%	4.29	3.67	4.06	3.50	3.73	3.39	3.56	3.47	10.6%	7.9%	21.4%		
<i>Wood Products</i>	21	4	19.0%	3.66	3.34	3.25	3.75	3.76	3.35	2.56	2.78	10.5%	7.9%	25.5%		
<b>Pharmaceuticals</b>	10	0	0.0%	3.67	3.67	3.83	3.70	3.77	4.20	3.40	2.23	8.3%	9.5%	23.3%		
<i>Pharmaceuticals</i>	10	0	0.0%	3.67	3.67	3.83	3.70	3.77	4.20	3.40	2.23	8.3%	9.5%	23.3%		
<b>Retail &amp; Business Products</b>	52	6	11.5%	3.71	3.55	3.43	3.53	3.77	3.66	3.12	3.45	7.4%	7.2%	28.2%	Stronger	Steady
<i>Wholesale Distribution</i>	37	4	10.8%	3.61	3.44	3.33	3.40	3.72	3.38	3.06	3.52	6.9%	7.8%	27.2%	Stronger	Stronger
<b>Services</b>	91	8	8.8%	3.66	3.53	3.34	3.67	3.65	3.81	3.32	3.19	7.1%	7.9%	26.8%	Weaker	Weaker
<i>Equipment &amp; Auto Rental</i>	18	0	0.0%	3.66	3.66	3.42	3.44	3.93	3.97	3.66	3.23	6.1%	8.1%	39.2%	Steady	Steady
<i>Transaction Processors</i>	64	5	7.8%	3.57	3.45	3.30	3.72	3.55	3.70	3.15	3.14	7.4%	7.9%	23.6%	Steady	Weaker
<b>Technology</b>	50	8	16.0%	3.74	3.50	3.24	3.62	3.69	3.76	3.10	3.37	8.4%	11.3%	30.0%	Weaker	Weaker
<i>Technology Software</i>	9	0	0.0%	3.45	3.45	3.12	3.79	3.29	3.99	2.75	3.96	5.4%	6.1%	15.7%	Weaker	Weaker
<i>Technology Equipment</i>	30	4	13.3%	3.72	3.52	3.08	3.58	3.81	3.99	3.15	3.31	8.5%	11.8%	36.5%	Weaker	Weaker
<b>Telecommunications</b>	58	12	20.7%	3.74	3.41	3.66	3.92	3.17	3.42	2.99	3.08	4.4%	9.5%	24.4%		
<i>Wireline</i>	24	4	16.7%	3.56	3.27	3.88	3.58	2.83	3.25	3.02	2.32	4.4%	5.9%	21.2%	Weaker	Weaker
<i>Satellite Services</i>	11	0	0.0%	3.30	3.30	2.96	4.14	3.06	3.03	3.28	4.45	4.1%	10.4%	12.3%		
<b>Utilities</b>	15	8	53.3%	4.32	3.55	2.62	4.21	3.91	3.50	4.57	3.30	3.3%	8.1%	22.1%		
<i>Wholesale Power</i>	15	8	53.3%	4.32	3.55	2.62	4.21	3.91	3.50	4.57	3.30	3.3%	8.1%	22.1%		
<b>Grand Total</b>	980	179	18.3%	3.76	3.48	3.45	3.77	3.63	3.73	2.77	3.06	7.8%	8.1%	26.3%	Weaker	Weaker

\* Chart excludes subsectors with less than seven bonds in the database

\*\* Permitted investment carve-outs for oil & gas E&P issuances are often understated because the covenant package includes an uncapped carve-out for permitted business investment carve-outs. Such a carve-out isn't typically found in other sectors.

\*\*\* LTM trend only included if there were more than five bond issuances in each period.

## Appendix

Company	Description of Notes	Rating at issuance	RP Score	PI Score	Debt Score	Lien Score	Structure Score	CoC Score	CQ Score	Benchmark Spreads*
Michael Baker International, LLC	\$350m 8.250% Senior Secured Notes due 2018	B2	1.00	1.85	3.35	1.75	1.15	2.95	2.03	
Pittsburgh Glass Works, LLC	\$360m 8.000% Senior Secured Notes due 2018	B3	1.70	3.10	3.80	2.40	2.40	3.50	2.76	672.0
Exopack Holdings S.A.	\$325m 7.875% Senior Notes due 2019	Caa2	2.50	3.00	4.10	3.25	2.00	4.30	3.23	631.0
Stackpole International Powder Metal, ULC	\$360m 7.750% Senior Secured Notes due 2021	B2	4.80	4.00	3.85	1.00	2.50	4.55	3.47	544.0
Dole Food Company, Inc.	\$300m 7.250% Senior Secured Notes due 2019	Caa1	2.40	3.00	4.05	5.00	3.50	3.10	3.57	580.0
Gray Television, Inc.	\$375m 7.500% Senior Notes due 2020	Caa1	4.50	4.00	3.10	5.00	2.15	2.70	3.79	
Level 3 Financing, Inc.	\$640m 6.125% Senior Notes due 2021	B3	5.00	4.15	2.60	4.15	5.00	1.75	3.82	392.0
Antero Resources Finance Corporation	\$1000m 5.375% Senior Notes due 2021	B1	2.50	5.00	4.45	5.00	1.50	4.50	3.84	319.0
Blackboard Inc.	\$365m 7.750% Senior Notes due 2019	Caa1	4.25	4.30	3.60	4.00	2.00	4.55	3.85	613.0
Neiman Marcus Group Ltd. Inc.(The)	\$960m 8.000% Senior Cash Pay Notes due 2021	Caa2	4.10	4.35	3.45	5.00	1.75	3.85	3.88	565.0
Neiman Marcus Group Ltd. Inc.(The)	\$600m 8.750% / 9.500% Senior PIK Toggle Notes due 2021	Caa2	4.10	4.35	3.45	5.00	1.75	3.85	3.88	640.0
T-Mobile USA, Inc.	\$1250m 6.731% Senior Notes due 2022	Ba3	4.50	5.00	4.20	3.75	1.10	3.70	3.91	444.0
T-Mobile USA, Inc.	\$1250m 6.633% Senior Notes due 2021	Ba3	4.50	5.00	4.20	3.75	1.10	3.70	3.91	447.0
T-Mobile USA, Inc.	\$1250m 6.542% Senior Notes due 2020	Ba3	4.50	5.00	4.20	3.75	1.10	3.70	3.91	460.0
T-Mobile USA, Inc.	\$1250m 6.464% Senior Notes due 2019	Ba3	4.50	5.00	4.20	3.75	1.10	3.70	3.91	441.0
T-Mobile USA, Inc.	\$600m 6.836% Senior Notes due 2023	Ba3	4.50	5.00	4.20	3.75	1.10	3.70	3.91	450.0
Freescale Semiconductor, Inc.	\$960m 6.000% Senior Secured Notes due 2022	B1	5.00	5.00	4.25	1.25	4.65	3.85	4.21	363.0
Rhodes Merger Sub, Inc.	\$250m 9.000% Senior notes due 2021	Caa3	5.00	4.30	3.95	4.00	2.00	4.55	4.12	
Alliant Techsystems Inc.	\$300m 5.250% Senior Notes due 2021	Ba3	5.00	4.25	4.50	4.40	2.65	2.30	4.18	312.0
Ferrellgas, L.P. / Ferrellgas Finance Corp.	\$325m 6.750% Senior Notes due 2022	B2	5.00	5.00	4.50	4.15	5.00	2.30	4.44	446.0
TMS International Corp.	\$275m 7.625% Senior Notes due 2021	B3	4.60	4.95	4.50	5.00	2.50	4.30	4.45	535.0
NGL Energy Partners LP	\$450m 6.875% Senior Notes due 2021	B2	4.75	4.65	5.00	5.00	2.25	4.00	4.53	449.0
Penn National Gaming	\$300m 5.875% Senior Notes due 2021	B1	5.00	4.75	4.50	5.00	5.00	3.70	4.72	359.0
Crestwood Midstream Partners LP	\$600m 6.125% Senior Notes due 2022	B1	5.00	5.00	4.95	5.00	2.75	4.80	4.74	387.5
Chinos Intermediate Holdings A, Inc.	\$500m 7.750% / 8.500% Senior PIK Toggle Notes due 2019	Caa1	5.00	5.00	4.45	5.00	5.00	5.00	4.86	628.0
CNH Capital LLC	\$500m 3.250% Senior Notes due 2017	Ba1							5.00	264.9
L Brands, Inc.	\$500m 5.625% Senior Notes due 2023	Ba1							5.00	293.0
Calpine Corporation	\$750m 6.000% Senior Secured Notes due 2022	B1							5.00	386.0

Company	Description of Notes	Rating at issuance	RP Score	PI Score	Debt Score	Lien Score	Structure Score	CoC Score	CQ Score	Benchmark Spreads*
Audatex North America, Inc.	\$340m 6.125% Senior Notes due 2023	Ba2							5.00	352.0
USG Corporation	\$350m 5.875% Senior Notes due 2021	B2							5.00	370.0
Kinder Morgan Inc.	\$750m 5.000% Senior Notes due 2021	Ba2							5.00	306.1
Kinder Morgan Inc.	\$750m 5.625% Senior Notes due 2023	Ba2							5.00	307.3
Seagate HDD Cayman	\$800m 3.750% Senior Notes due 2018	Ba1							5.00	243.0
Leucadia National Corporation	\$750m 5.500% Senior Notes due 2023	Ba2							5.00	295.0
KB Home	\$450m 7.000% Senior Notes due 2021	B2							5.00	460.0
Wynn Macau, Limited	\$600m 5.250% Senior Notes due 2021	Ba2							5.00	288.0
Leucadia National Corporation	\$250m 6.625% Senior Notes due 2043	Ba2							5.00	300.0

\* Spread to benchmarks provided by Dealogic and Datascope. Approximately 75% of issuances in Moody's High-Yield Covenant Database are covered.

## Moody's Related Website

- » [Covenant Database](#)

## Moody's Related Research

### Special Comments:

- » [High-Yield Bond Covenants: Covenant Quality Scoring Criteria, May 2012 \(141518\)](#)
- » [Frequently Asked Questions: Moody's Covenant Quality Scoring, May 2012 \(142044\)](#)
- » [North American Covenant Quality Index: Bond Covenant Quality Declines in July, August 2013 \(157404\)](#)
- » [Most North American Corporate Sectors See High-Yield Bond Covenants Weaken, July 2013 \(156122\)](#)
- » [North American Base and Precious Metals Covenants Give Investors Strong Protection, June 2013 \(155478\)](#)
- » [US Retailers' PE-Backed Bond Covenants Are Much Weaker Than Non-PE Backed Issues, June 2013 \(154860\)](#)
- » [North American Auto Suppliers' Bond Covenants Offer Weak Protection, May 2013 \(153991\)](#)
- » [12 Most-Active Private Equity Sponsors Provide Weak Covenant Packages, April 2013 \(152178\)](#)
- » [Protections for North American Chemical Bonds Rank Among Weakest Measured, March 2013 \(151663\)](#)
- » [High-Yield Cable Investors Let Issuers Increase Leverage, March 2013 \(151016\)](#)
- » [North American Broadcast, Media Services Offer Weak Restricted Payments Protection, February 2013 \(149228\)](#)
- » [North American Consumer Products Bonds Offer Below-Average Protection, January 2013 \(148834\)](#)
- » [North American Healthcare Bucks the Trend: Covenants are Weaker at Lower Rating Levels, November 2012 \(147728\)](#)
- » [US Gaming Bond Covenants Offer Most Investor Protection, October 2012 \(145605\)](#)
- » [Midstream MLP Covenants Offer Least Investor Protection; E&Ps Near US Average, October 2012 \(146695\)](#)
- » [North American Telecom Bonds Offer Above-Average Protections, September 2012 \(145475\)](#)
- » [Canadian High-Yield Bonds Offer More Investor Protection Than US Bonds, September 2012 \(145342\)](#)

To access any of these reports, click on the entry above. Note that these references are current as of the date of publication of this report and that more recent reports may be available. All research may not be available to all clients.

Rate this Research



Report Number: 160245

Author  
Alexander Dill

Production Associate  
Amanda Kissoon

© 2013 Moody's Investors Service, Inc. and/or its licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

**CREDIT RATINGS ISSUED BY MOODY'S INVESTORS SERVICE, INC. ("MIS") AND ITS AFFILIATES ARE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND CREDIT RATINGS AND RESEARCH PUBLICATIONS PUBLISHED BY MOODY'S ("MOODY'S PUBLICATIONS") MAY INCLUDE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES. MOODY'S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL, FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS AND MOODY'S OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. CREDIT RATINGS AND MOODY'S PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. NEITHER CREDIT RATINGS NOR MOODY'S PUBLICATIONS COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS AND PUBLISHES MOODY'S PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.**

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process. Under no circumstances shall MOODY'S have any liability to any person or entity for (a) any loss or damage in whole or in part caused by, resulting from, or relating to, any error (negligent or otherwise) or other circumstance or contingency within or outside the control of MOODY'S or any of its directors, officers, employees or agents in connection with the procurement, collection, compilation, analysis, interpretation, communication, publication or delivery of any such information, or (b) any direct, indirect, special, consequential, compensatory or incidental damages whatsoever (including without limitation, lost profits), even if MOODY'S is advised in advance of the possibility of such damages, resulting from the use of or inability to use, any such information. The ratings, financial reporting analysis, projections, and other observations, if any, constituting part of the information contained herein are, and must be construed solely as, statements of opinion and not statements of fact or recommendations to purchase, sell or hold any securities. Each user of the information contained herein must make its own study and evaluation of each security it may consider purchasing, holding or selling.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

MIS, a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MIS have, prior to assignment of any rating, agreed to pay to MIS for appraisal and rating services rendered by it fees ranging from \$1,500 to approximately \$2,500,000. MCO and MIS also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at [www.moody.com](http://www.moody.com) under the heading "Shareholder Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

For Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657 AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail clients. It would be dangerous for retail clients to make any investment decision based on MOODY'S credit rating. If in doubt you should contact your financial or other professional adviser.