

Schmidt pitches Pool plan

Proposal favours banks, forgets bondholders: lawyer

Bruce Johnstone

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REGINA -- Saskatchewan Wheat Pool CEO Mayo Schmidt will hit the road next week to pitch the Pool's restructuring proposal to bondholders and warn about the consequences of its rejection.

But a representative of a large group of bondholders says Schmidt is wasting his breath and needs to sit down with bondholders to work out an alternate proposal.

"The company is definitely at an important crossroads in its history," Schmidt told a news conference at the Pool's head office in Regina Friday.

Schmidt said the consequences of the bondholders rejecting the proposal at a Jan. 31 meeting in Regina would be incalculable -- for the Pool's stakeholders, employees and customers.

"We'd have to consider our options at that time."

One of the options could be bankruptcy protection, Schmidt admitted.

In a press release late Thursday, the Pool warned: "If the proposal is not approved at the Jan. 31 meeting, the company will be in default of its bank credit agreement and will not be entitled to further availability under its credit facilities.

"The company believes that failure to obtain approval . . . could result in materially negative consequences to the company, which may include the initiation of court-supervised proceedings."

The restructuring proposal would see the medium-term notes and portions of the existing bank debt exchanged for two new series of notes, expiring in 2008, and warrants for the Class B (non-voting) shares of the company.

The banks, which have agreed to the proposal, will extend up to \$375 million to "provide the necessary financing to fully fund the long-term business plan. This is not additional debt," Schmidt said, adding the debt has been reduced \$200 million over the last two years.

"This plan provides noteholders with interest income, which is an essential component of their investment in Saskatchewan Wheat Pool. It also provides them with an equity component," in the form of warrants which could be converted into common shares representing 25 per cent of the company's equity.

In fact, 90 per cent of the company's equity could be held by noteholders by July 31, 2008, if the company chose the conversion option, assuming regulatory approval.

Currently, no one can hold more than 10 per cent of Pool shares.

Schmidt repeated the company has not sought a "bailout" from the government, either in the form of cash, loan guarantees or equity.

He didn't rule out the possibility of accepting some form of assistance from the government, if the restructuring proposal fails.

Industry Minister Eldon Lautermilch said the Pool has not requested help from the province, but added it would "irresponsible" not to look at any future request.

"There may be some opportunities within the co-operative structure that would allow them to move forward," such as the government overseeing new investment in the Pool through new generation co-operatives, he said.

A lawyer representing an ad hoc committee of bondholders claiming to hold 42 per cent of \$300 million in medium-term notes once again rejected Schmidt's restructuring proposal out of hand.

Rob Chadwick of Goodmans LLP in Toronto said Friday the committee had "unanimously rejected" the proposal, which was sent to the bondholders Thursday.

Chadwick said the Pool's proposal was "incredibly negative" to bondholders by giving preference to the banks, giving the Pool the right to convert debt into equity and reducing the interest rate on some notes to as low as one per cent for up to five years.

He said it's unreasonable for the Pool to expect 7,000 bondholders to approve the complex restructuring proposal on two weeks' notice, he said, adding the ad hoc group will vote to adjourn the bondholders' meeting to Feb. 25.

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