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Case Name: [AM General Holdings LLC v. The Renco Group, Inc, Ilshar Capital LLC et al.](#)

Case Conclusion: July 2019

Caption: Delaware Court of Chancery, Consol. C.A. No. 7639-VCS

Keywords: Lending Terms and Conditions; Arm's Length Transaction

Industry: Investment Manager

Professionals: [William Jeffers, CFA](#), [David J. Neuzil, CFA](#), and [Elise Scoles](#)

In 2004, Renco Group Inc. ("Renco") sold a majority, controlling interest in AM General LLC ("AM General"), a manufacturing company that made military vehicles such as the Humvee, to MacAndrews & Forbes Holdings Inc. ("M&F"). To effect the transaction, Renco and M&F created AM General Holdings LLC ("Holdco") and Ilshar Capital, LLC ("Ilshar") a holding company with financial assets. As part of the acquisition agreement, M&F was to manage the operations of AM General, while Renco would manage the operations of Ilshar. The agreement concerning Ilshar provided that any loan Ilshar granted to Renco had to be on terms that were no less favorable to Ilshar than it would have been able to obtain in an arm's-length transaction.

The Griffing Group was retained by defendants' counsel to rebut accusations by M&F that Renco borrowed from Ilshar Capital between 2005 and 2018 on terms that were not consistent with an arm's-length transaction. William Jeffers, CFA, submitted an expert report and a rebuttal report and provided deposition testimony.

M&F's expert argued that the 8.25% interest rate charged on the loans in question was below a market level, and that an appropriate (higher) rate was indicated by his analysis of interest rates observed from a sample of six zero-coupon, CCC-rated loans. However, the expert's analysis suffered from numerous flaws, including that he (i) did not examine financial information of the borrowers, (ii) did not carefully analyze his sample of bonds, and (iii) excluded thousands of zero-coupon bonds from his analysis.

Mr. Jeffers rebutted these arguments, noting that Ilshar's management assessed the credit quality of the Renco loans and concluded that they were equivalent to bonds with BB and BBB ratings. The fact that the Renco loans did not require periodic interest payments was not an indication of the quality of the loans; rather, it made the loans easier to administer.

The litigation settled after the trial, and no opinion was issued by the Court.

William Jeffers, CFA was assisted by David J. Neuzil, CFA, and Elise Scoles. Defendants' counsel was led by Andrew Frackman, Edward Moss, and Moshe Mandel of O'Melveny & Myers LLP and Kevin Abrams and Peter Shindel, Jr. of Abrams and Bayliss LLP.