BEAR STEARNS

Leveraged Finance Handbook

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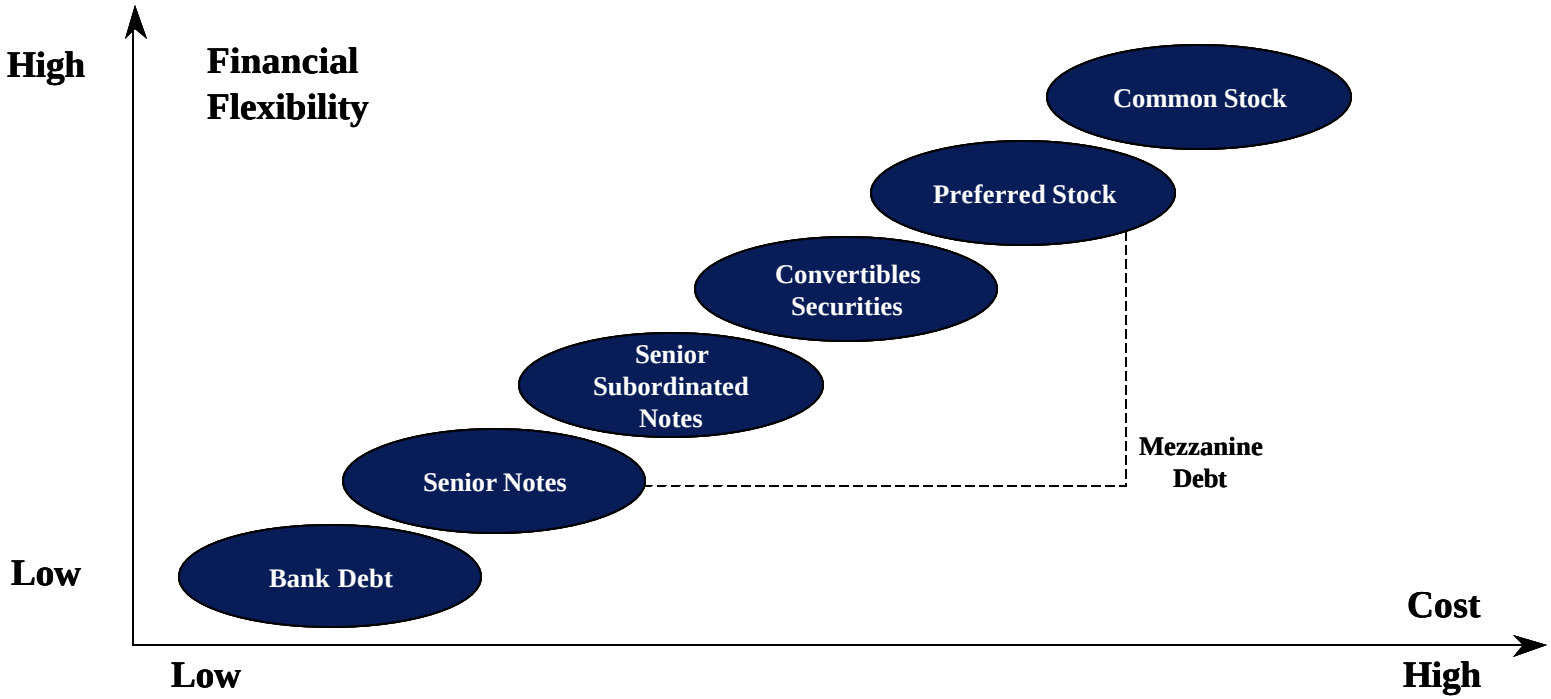
Section 1

Introduction

Introduction

A Company has two primary options for financing its operations and strategic objectives: (i) internally generated cash flow and (ii) external capital provided by third party investors. The following diagram outlines the general external sources of capital available:



In this manual, we will focus on the external sources of debt capital available to non-investment grade companies ("Leveraged Finance").

The Decision to Use Debt in the Capital Structure

When a Company makes a decision about the type and amount of debt it wants to include in its capital structure, it must evaluate the impact of that decision on the following objective:

- Achieving the highest return on equity for existing shareholders.
- Maintaining sufficient financial and corporate flexibility.
- Minimizing dilution to existing shareholders and achieving optimal all-in cost of capital.
- Accessing markets in a timely fashion in order to meet funding requirements.
- Maintaining a sound capital structure to ensure future access to capital.

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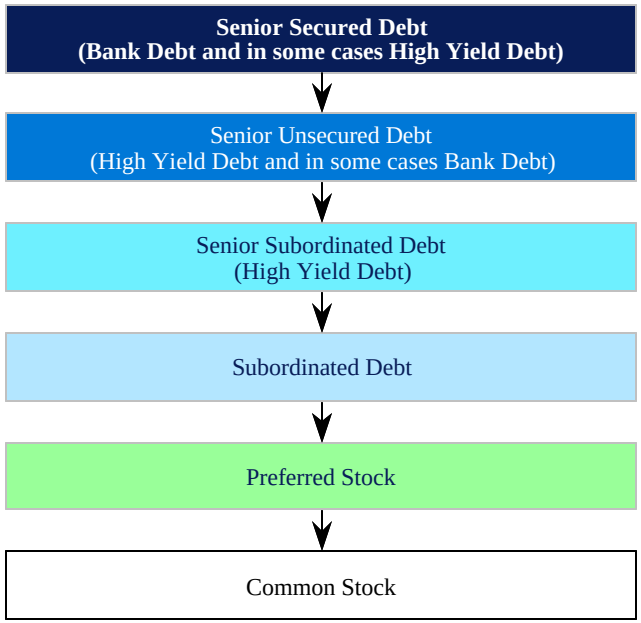
Section 2

Structural Classifications of Debt

Structural Classifications of Debt—Overview

The chart below delineates the general ranking of various financial instruments relative to each other.



Structural Classifications of Debt

The credit quality of a debt instrument is determined by the "obligor"—the party obligated to repay the debt instrument—the financial strength of such legal entity, and the structure and terms of the instrument, itself.

■ Obligor

- To assess the credit quality of a debt instrument, one must first understand which entity is legally obligated to make payments pursuant to the instrument.
- Only legal entities (generally corporations, partnerships, or individuals) can be obligors under a debt instrument.
- Sometimes legal entities are referred to as "persons".
- "Divisions" of a company are not legal entities and consequently cannot be obligors.
- Sometimes there may be more than one obligor with respect to a debt instrument.
  - Two legal entities might be joint and several obligors of the same debt instrument. In this case, each is obligated for the full amount of the debt obligation as if the other were not an obligor.
  - Two legal entities might only be several obligors. In this case, the liability of each legal entity might be limited to a portion of the total obligation.
  - One legal entity might be the "direct borrower" or "primary obligor" under the debt instrument while another legal entity might be the guarantor of the obligation of the primary obligor. In this case, the guarantor might be referred to as the "secondary obligor". Note that only a legal entity may be a guarantor.
- One must read each debt instrument very carefully to ensure that we know specifically which legal entity is obligated to service it.

Structural Classifications of Debt

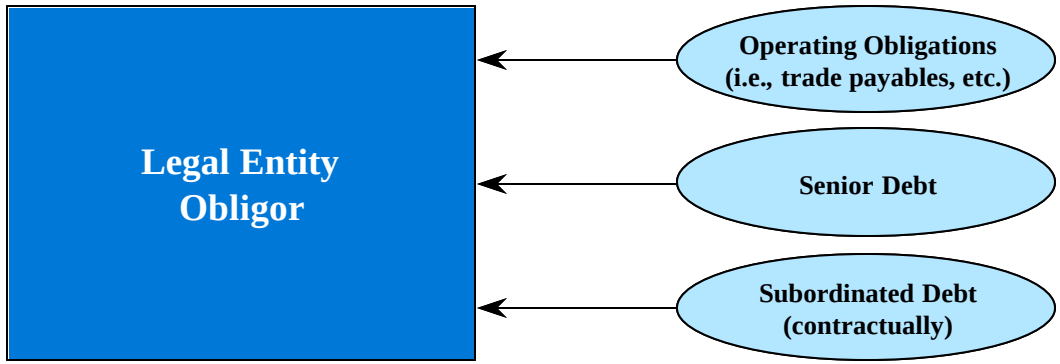
The credit quality of a given debt instrument (obligation) of a specific legal entity is greatly affected by the "seniority" of the obligation.

- **Seniority.**
  - "Seniority" refers to the precedence or preference in position of the claim of an obligor's creditor relative to another claim or claims.
  - Other things being equal, a senior claim is entitled to payment before a junior claim in the event that the obligor is unable to repay all of its obligations.
    - An obligor that becomes financially distressed might not be able to meet all of its debt obligations, and as a result might seek protection from creditors pursuant to Chapter 11 of the US Bankruptcy Code.
    - In that event, the Bankruptcy Court would generally recognize the senior creditor's right to have its claim satisfied before the claim of a "junior" creditor can be satisfied.
  - A debt instrument that is not senior is referred as "subordinated" (i.e., junior relative to the senior debt instrument.)
  - Seniority may result from a "contractual" agreement or from certain "structural" considerations.

Structural Classifications of Debt

- **Contractual Seniority.**
  - The legal contract that sets forth the terms of the debt instrument specifically designates the obligation as a senior obligation.
  - The name of such legal contract is a function of the nature of the debt obligation. For example, bank loans have "credit agreements" and public bonds have "indentures" in which the seniority of the instrument is established.
  - Debt instruments that are contractually subordinated to senior debt instruments are made so pursuant to "subordination provisions" included in their related credit agreements or indentures.
  - Note that senior obligations generally rank pari passu (i.e., have the same ranking as) with other "general unsecured" (see discussion of security below) obligations of a legal entity. For example, a senior obligation for borrowed money, other things being equal, generally ranks pari passu with trade payables of the same legal obligor.
  - Debt that is contractually subordinated is generally only subordinated to specific types of obligations of the same legal entity. For example, contractually subordinated debt is generally only subordinated to "debt for borrowed money" of the same obligor. Consequently, it generally ranks pari passu with trade payables of the same legal entity.
  - Contractual subordination provisions must be read very carefully to ascertain the specific implications for the credit quality of each debt obligation.

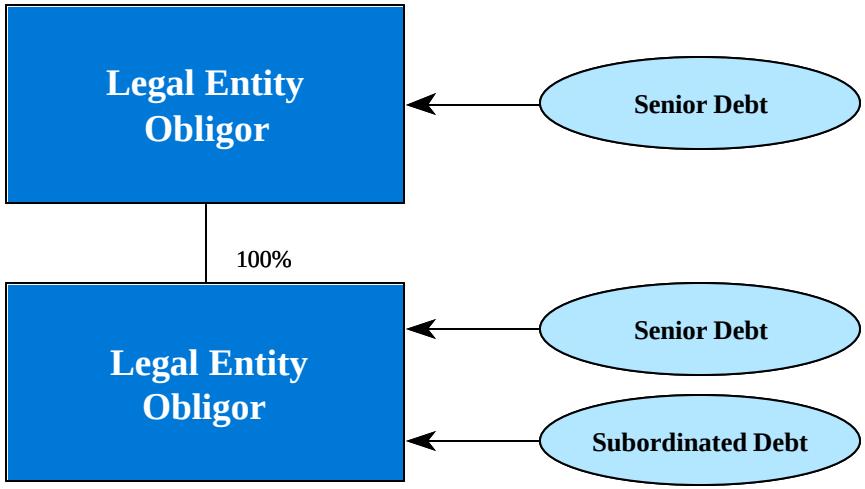
Contractual Subordination



Structural Classifications of Debt

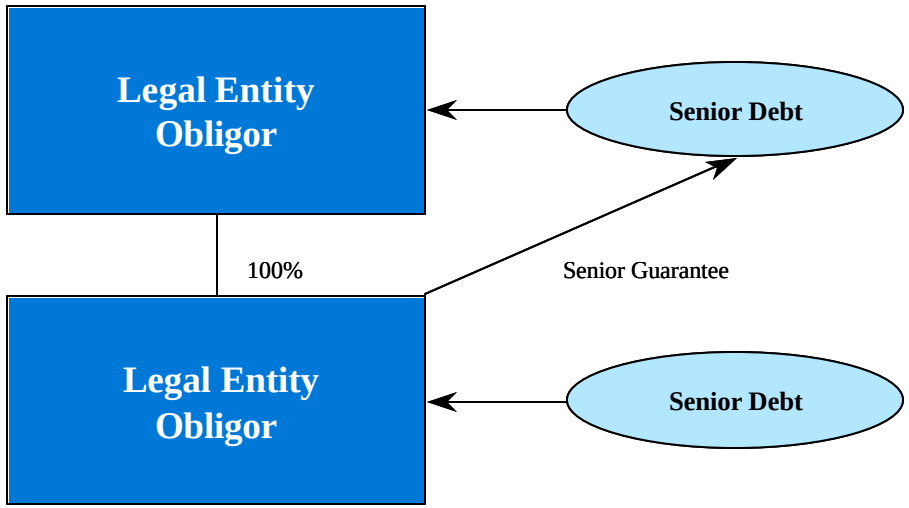
- **Structural Seniority.**
  - The structural seniority of a debt obligation of one legal entity relative to another debt obligation of a different legal entity is established by virtue of the relationship between the different obligors, themselves, rather than as a result of the legal contracts underlying the debt instruments.
  - For example, generally, a debt obligation at a holding company is structurally subordinated to a debt obligation of a subsidiary of the holding company unless it is either guaranteed by the subsidiary or there is another obligation owed by the subsidiary to the holding company.
  - Note that senior debt at a holding company may in fact be structurally subordinated (or junior) to both senior and subordinated debt at a subsidiary of the holding company.

Structural Subordination



Structural Classifications of Debt

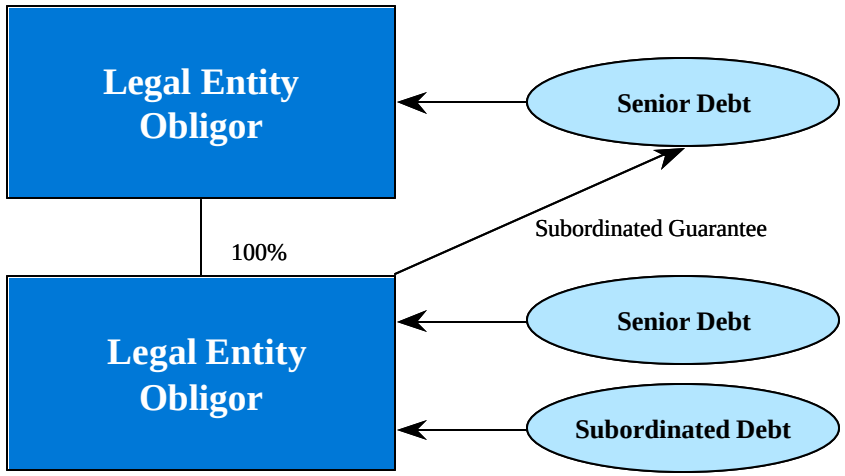
Structural Subordination with a Senior Upstream Guarantee



- An upstream senior guarantee by a subsidiary of the holding company may "defeat" the structural subordination of the holding company senior debt, thereby making the instruments pari passu to each other.
- The seniority of an upstream guarantee will affect whether or not the structural subordination of senior debt at the holding company is in fact defeated.

Structural Classifications of Debt

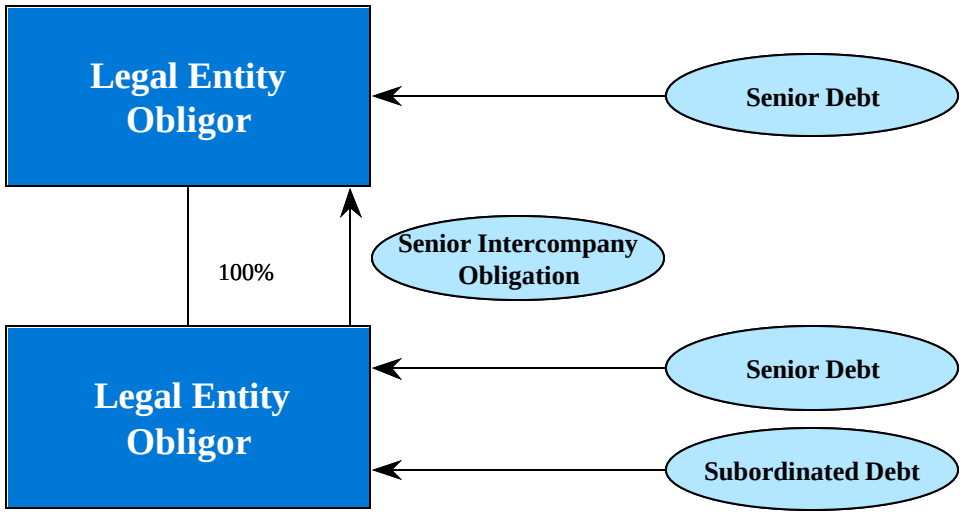
Structural Subordination with a Subordinated Upstream Guarantee



– An upstream guarantee from a subsidiary of a holding company that is subordinated to the senior debt of the subsidiary will not defeat the structural subordination of the senior holding company debt relative to the senior debt of the subsidiary, but it will defeat the structural subordination of the senior holding company debt to the subordinated debt of the subsidiary. The senior debt of the holding company would, in effect, rank pari passu with the subordinated debt of the subsidiary with respect to assets at the subsidiary.

Structural Classifications of Debt

Structural Subordination with a Senior Intercompany Obligation



- Intercompany obligations between a holding company and its subsidiary may also defeat the structural subordination of senior debt at the holding company relative to senior debt at the subsidiary.
- A senior intercompany obligation from the subsidiary to the holding company would rank equally with other senior obligations of the subsidiary and would effectively "dilute" the senior status of the senior subsidiary obligations relative to the senior, and otherwise structurally subordinated, obligations of the holding company.

Structural Classifications of Debt

The credit quality of a debt instrument is also affected by whether it is "secured" or "unsecured".

- A debt obligation is secured when a "security interest" is granted by the obligor in favor of the debt holder.
  - A security interest is an interest in property or assets of the obligor that provides that such property may be sold upon a default of the obligor (i.e., non payment of principal or interest or violation of other covenants of the instrument) in order to satisfy the associated obligation that is secured by such property.
  - A security interest may be granted with respect to real property (generally through a mortgage) or personal property or fixtures (generally through a security agreement).
  - The underlying property that secures the obligations may be referred to as "security" or "collateral".
  - The security interest may be referred to as a pledge of, or lien on or charge on the assets.
- In practice, a security interest that secures the debt obligation of a large corporation generally does not enable the beneficiary of the security interest to actually immediately seize the collateral and sell it to satisfy the underlying debt obligation in the event the company defaults under the debt obligation.
  - Rather, a company faced with a default that is not likely to be waived by its creditors will file for protection from creditors, generally under Chapter 11 of the Bankruptcy Code.
  - The borrower may be allowed to continue to operate as a "going concern" under Chapter 11 protection. Seizure of the borrower's assets by the secured creditors is generally stayed, at least as long as certain tests can be met, while the company seeks to reorganize its business and financial obligations.

Structural Classifications of Debt

- Nonetheless, a secured creditor is entitled to preferential rights in Chapter 11.
  - The obligor is only allowed to continue to use the secured property in its business operations if after the filing for protection under Chapter 11 (the "postpetition") it can demonstrate that the beneficiary of the security interest is adequately protected; (i.e., that the value of the collateral will not be impaired by continued use). If this cannot be demonstrated, the Bankruptcy may require additional collateral to be granted in favor of the beneficiary or allow the collateral to be sold.
  - Generally, a secured claim may only be satisfied with cash, whereas unsecured claims may be satisfied in Chapter 11 with other non-cash forms of consideration, such as common stock of the reorganized company.
  - A secured creditor that is oversecured (i.e., the value of the collateral securing its claim is greater than the claim) is entitled to either accrue or perhaps even be paid postpetition interest on a current basis. Unsecured creditors generally are not entitled to postpetition interest, even on an accrued basis.
  - Perhaps most importantly, no new lender is allowed to make a secured loan that is senior to the secured lender in Chapter 11 unless the "prepetition" secured lender is so oversecured that it would not be impaired by virtue of the new loan. Unsecured lenders, on the other hand, may be "primed" by a new lien imposed by a new lender that advances new funds postpetition to finance the company while it is in Chapter 11.

- Borrowers generally find the implications of granting security interests restrictive; however, security interests are usually granted when:
  - Such interests are required by potential creditors in order to extend financing; or
  - The Company is willing to limit its financial flexibility in order to lower the cost of borrowing.

Structural Classifications of Debt

The credit quality of a secured obligation is affected by the nature of the underlying collateral.

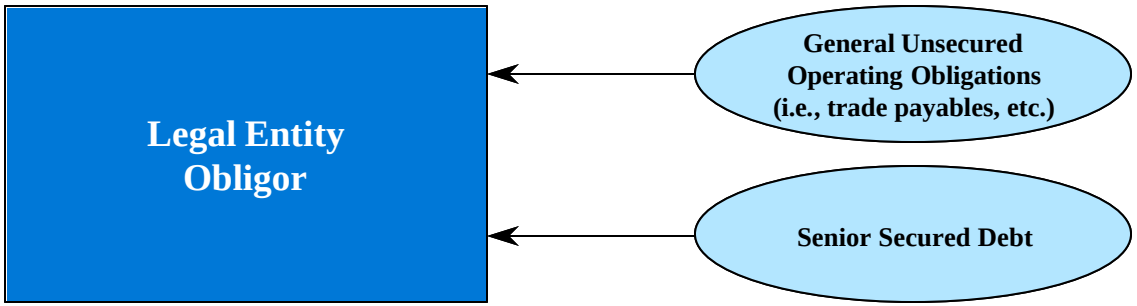
- An obligation is only secured by specifically pledged assets.
- Collateral may be composed of "operating" assets (i.e., receivables, inventory, property, plant and equipment, intellectual property, etc.) or securities such as the common stock of a company or its subsidiary(ies).
  - Knowing which specific assets are pledged and which are not is key to understanding how well secured a debt obligation is.
- A secured obligation is secured only to the extent of the value of the underlying collateral.
  - If the value of the collateral is less than the amount of the associated debt obligation, such secured debt is said to be "undersecured" and only possesses the benefits of secured debt to the extent it is secured.

Structural Classifications of Debt

Important distinctions exist between the concepts of seniority and security.

- A secured interest ranks ahead of all other senior unsecured obligations of the same legal entity.
  - A senior secured obligation of a legal entity is "senior" not only to other senior unsecured obligations for borrowed money of that legal entity, but is also ahead of other senior unsecured operating obligations of that entity such as unsecured trade payables.

Senior Secured Debt versus General Unsecured Obligations

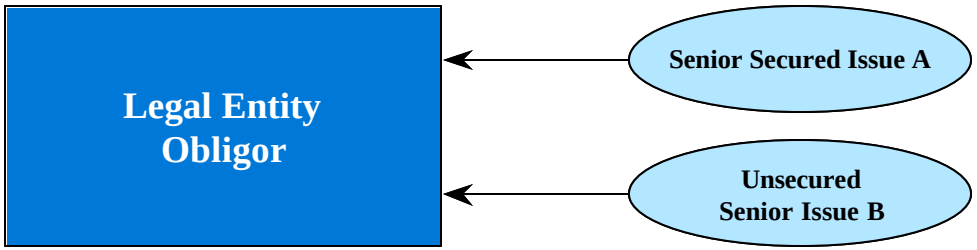


- Some security interests rank ahead of others; (i.e., some are more senior than others.)
  - A first lien has the most senior security interest.
  - A second lien is also secured, but has a more junior interest than a first lien.
  - The relationship between first and second liens is established by contract.

Structural Classifications of Debt

- A security interest may make one class of senior debt of a legal entity "more senior" than another class of senior debt by the same legal entity.
  - For example, a legal entity may have two issues of senior debt, Issue A and Issue B.
  - If Issue A is secured by all of the legal entity's assets and Issue B is unsecured, Issue A is "senior" to Issue B.

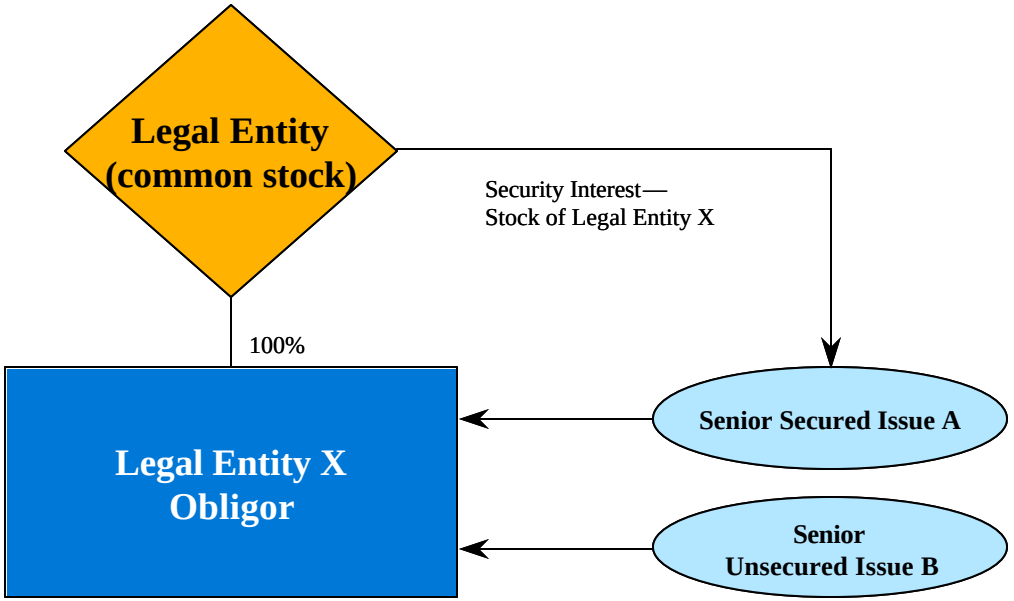
Senior Secured Debt versus Senior Obligations for Borrowed Money



Structural Classifications of Debt

- The nature of the security interest and the structure of the legal entity that is the obligor must be clearly understood before determining that the security interest renders one issue of senior debt "senior" to another issue of senior debt.
  - Another example, A Legal Entity "X" may have two issues of debt, Issue A and Issue B.
  - If Issue A is secured by the stock of Legal Entity X and Issue B is unsecured, Issue A and Issue B are still structurally pari passu relative to the assets of Legal Entity X. Issue A is not senior to Issue B.

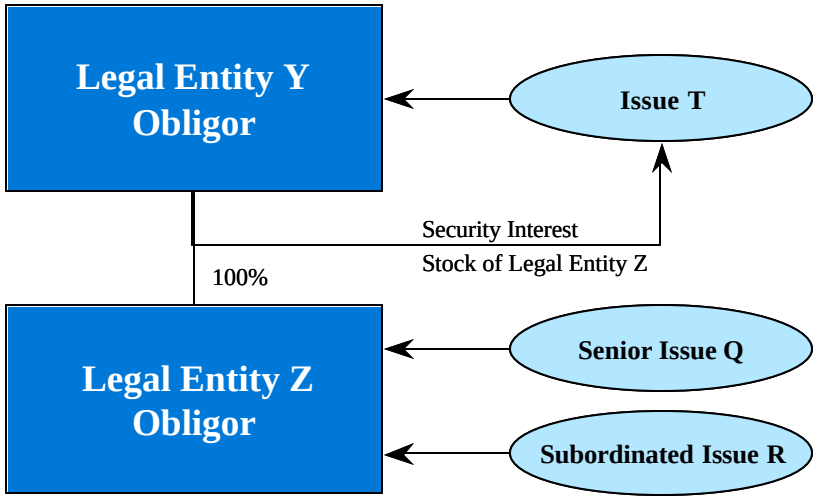
Senior Secured Debt versus Unsecured Debt



Structural Classifications of Debt

Senior Secured Debt versus Subordinated Debt

- Another example, A Legal Entity "Y" may have one issue of debt, Issue T, and a Legal Entity "Z" may have two issues of debt, Issue Q and Issue R.
- Issue T may be senior secured debt of Legal Entity Y, secured by the stock of Legal Entity Z.
- Issue Q may be senior debt and Issue R may be subordinated debt, each of Legal Entity Z.
- Other things being equal, subordinated Issue R is still senior to senior secured Issue T.



Structural Classification of Debt—Seniority

Rights of Absolute Priority

- The following table shows the general order of priority claims of an obligor's liabilities and equity.

Ranking of all Corporate Obligations by Security and Seniority

Payment Priority	Ranking of Corporate Obligations	
Highest	Taxes Owed	
↓	Senior Secured Debt	
↓	Senior Unsecured Debt	
↓	Senior Subordinated Debt(1)	Trade Payables and Other Unsecured Claims
↓	Subordinated Debt(1)	
↓	Preferred Stock	
Lowest	Common Stock	

(1) Senior subordinated and subordinated debt is generally subordinated only to senior debt, not to trade payables and other unsecured claims.

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Section 3

Debt Financing Alternatives

Debt Financing Alternatives

A Company's debt and debt-like financing options can be divided into five broad categories.

- Bank Debt.
- Public Debt (Investment Grade or High Yield Bonds).
- Mezzanine Debt.
- Convertible Securities (Preferred Stock or Bonds).
- PIK Preferred Stock.

Debt Financing Alternatives—Overview

The following table sets forth the principal characteristics of the different financing options.

($ in millions)

	Bank Debt	High Yield Bonds	Mezzanine Debt	Convertible Securities	PIK Preferred Stock
Typical Size Range:	Varies	$150.0–$500.0	$20.0–$150.0	Varies	$20.0–$150.0
Pricing:	Floating at LIBOR or a Base Rate + an applicable margin, cash interest.	Fixed rate (priced off relevant Treasury), cash or non-cash coupon plus warrants.	Varies. Floating rate or fixed rate, cash or non-cash coupon plus warrants.	Fixed rate (priced off relevant Treasury), cash or non-cash coupon plus conversion rights into common equity.	Fixed rate (priced off relevant Treasury), non-cash coupon plus warrants.
Ranking/ Claim on Assets:	Senior Secured or Senior Unsecured.	Senior Secured, Senior Unsecured, Senior Subordinated or Subordinated.	Senior Unsecured, Senior Subordinated or Subordinated.	Typically Subordinated.	Deeply Subordinated. Residual interest after all other creditors.
Amortization/ Repayment Requirements:	Interim payments generally required.	None, except at maturity.	None, except at maturity.	None, except at maturity.	None, except at maturity.
Financial Covenants:	Maintenance.	Incurrence.	Varies. Generally, incurrence.	Incurrence.	Incurrence.
Ratings Agency Requirements:	Increasingly required on leveraged transactions.	Usually required.	Optional.	Usually required.	Usually required.
Equity Dilution:	None.	Potentially, depending upon warrant provisions.	Potentially, depending upon warrant provisions.	Potentially, depending upon conversion rights.	Potentially, depending upon warrant provisions.
Collateral:	Assets and/or stock of subsidiaries.	Generally, none.	Generally, none.	None.	None.
Access to Capital Markets:	Minimal public market awareness.	Creates awareness in public capital markets and a benchmark to facilitate subsequent capital raising.	No public market awareness.	Creates awareness in public capital markets and a benchmark to facilitate subsequent capital raising.	Creates awareness in public capital markets and a benchmark to facilitate subsequent capital raising.
Prepayment Flexibility:	Generally prepayable at any time.	Non-call period generally 4 to 5 years and then subject to a prepayment/call premium.	Varies. Typically includes a non-call period or prepayment penalty.	Non-call period generally 4 to 5 years and then subject to a prepayment/call premium.	Non-call period generally 4 to 5 years and then subject to a prepayment/call premium.
Maturity:	5–9 years.	7–10 years.	6–10 years.	7–10 years.	10–12 years.
Accounting Treatment:	Straight cash interest.	Straight cash interest or accretion.	Straight cash interest and/or payment-in-kind.	Straight cash interest.	Straight cash interest and/or payment-in-kind.
Tax Treatment:	Tax deductible interest.	Tax deductible cash and non-cash interest.	Tax deductible cash and non-cash interest.	Tax deductible cash and non-cash interest.	Non-tax deductible dividends.
Public Disclosure:	No disclosure required if private company.	Disclosure required.	No disclosure required if private company.	No disclosure required if private company.	Disclosure required.
Principal Investors:	Commercial Banks, Institutional Funds	CBOs, Mutual Funds, Prime Rate Funds, Hedge Funds	Mezzanine Funds	Equity and Convertible Mutual Funds	CBOs, Mutual Funds, Prime Rate Funds, Hedge Funds

Debt Financing Alternatives—Advantages and Disadvantages

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Section 3-A

Committed Bank Debt

Committed Bank Debt—Overview

There are three principal tranches included in bank financings. The following table describes the characteristics of each tranche.

	"Pro Rata" Tranches		"Institutional" Tranches
	Revolver	**Term Loan A**	**Term Loans B, C, etc.**
Funded/Unfunded:	Funded or Unfunded.	Funded (occasionally deferred).	Funded (occasionally deferred).
Representative Applications:	Acquisition financing, refinances indebtedness, fees and expenses, future acquisitions, capital expenditures, and general corporate purposes.	Acquisition financing, refinancing indebtedness, fees and expenses.	Acquisition financing, refinancing indebtedness, fees and expenses.
Pricing:	LIBOR + applicable margin on funded amount. Commitment fee on undrawn amount.	LIBOR + applicable margin.	LIBOR + applicable margin, at a premium to the pro rata tranches (approx. 50 to 75 bps).
Maturity:	5 to 7 years.	5 to 7 years.	6 to 9 years.
Availability:	Can be borrowed and repaid at any time prior to maturity.	Generally in a single draw at closing. May include a delayed-draw feature.	Generally in a single draw at closing. May include a delayed-draw feature.
Required Amortization/ Repayment:	Bullet at maturity or reducing commitment schedule. Outstandings may convert to a term loan at a specific future date.	Generally, increasing amortization payment requirements in concert with free cash flow growth.	1% per annum, with balance due in final year prior to maturity.
Prepayments:	■ Mandatory prepayments from net proceeds of debt, equity and asset sales as well as excess cash flow recapture may apply.	■ Mandatory prepayments from net proceeds of debt, equity and asset sales as well as excess cash flow recapture may apply.	■ Mandatory prepayments from net proceeds of debt, equity and asset sales as well as excess cash flow recapture may apply. Can refuse in certain cases if Term Loan A is outstanding. ■ Call premium may be required based on market conditions.
Security:	Determined by issuer's credit ratings. ■ BB+/Ba1: generally secured by the stock of domestic material subsidiaries and a percentage of the stock of material foreign subsidiaries (usually 65%). ■ BB/Ba2 or below: secured by all assets, by the stock of domestic material subsidiaries and a percentage of the stock of material foreign subsidiaries (usually 65%).	Determined by issuer's credit ratings. ■ BB+/Ba1: generally secured by the stock of domestic material subsidiaries and a percentage of the stock of material foreign subsidiaries (usually 65%). ■ BB/Ba2 or below: secured by all assets, by the stock of domestic material subsidiaries and a percentage of the stock of material foreign subsidiaries (usually 65%).	Determined by issuer's credit ratings. ■ BB+/Ba1: generally secured by the stock of domestic material subsidiaries and a percentage of the stock of material foreign subsidiaries (usually 65%). ■ BB/Ba2 or below: secured by all assets, by the stock of domestic material subsidiaries and a percentage of the stock of material foreign subsidiaries (usually 65%).
Pricing Grid:	Always.	Always.	Based on market conditions.
Covenants:	Maintenance covenants.	Maintenance covenants.	Maintenance covenants.
Registration:	None.	None.	None.
Principal Investors:	Commercial banks, investment banks.	Commercial banks, investment banks.	CBOs, CLOs, prime rate funds, insurance companies, commercial banks, investment banks.

Committed Bank Debt—Advantages and Disadvantages

The selection of specific tranches of bank debt by a Company is dependent on the trade-off between financial flexibility and the related borrowing cost.

	Revolver	Term Loan A	Institutional Term Loans
Advantages:	■ Provided by "relationship" oriented commercial banks. ■ Lowest financing cost as compared to institutional tranches. ■ Funds may be borrowed, repaid and reborrowed up until maturity. ■ Undrawn portion provides liquidity. ■ Amortization generally not required, but availability may be reduced or outstandings may convert into an amortizing term loan.	■ Provided by "relationship" oriented commercial banks. ■ Lowest financing cost as compared to institutional tranches. ■ No commitment fee (unless initial drawdown is deferred).	■ Extended maturity allows for longer term capital. ■ No commitment fee (unless initial drawdown is deferred). ■ Minimal amortization requirements prior to maturity. ■ Access to an additional institutional investor base.
Disadvantages:	■ Shorter maturity as compared to institutional tranches. ■ Commitment fee is payable on the undrawn portion. ■ Limited investor base of commercial and investment banks.	■ Typically, available in a single borrowing at closing. ■ Shorter maturity as compared to institutional tranches. ■ Significant amortization requirements prior to maturity. ■ Limited investor base of commercial and investment banks.	■ Highest financing cost compared to pro rata tranches. ■ Typically, available in a single borrowing at closing. ■ Investors focus on the investment as an asset without regard to relationships/ considerations.

Committed Bank Debt—Methods of Committing Capital

There are four methods for arrangers/underwriters to commit capital in the syndicated loan market.

Best Efforts/Arranged	Partially Underwritten	Fully Underwritten	Bought Deal
■ Commit to hold level, a level that the Arranger seeks to hold on a permanent basis, (a portion of the total amount of facilities sought by the Company).	■ A single underwriter or multiple underwriters commit to levels higher than their estimated hold levels, which collectively aggregate to the full amount of funds required.	■ Commit to full amount of funds required.	■ Funds guaranteed to be delivered at a price and structure.
■ Arrange balance of deal using Arranger's "commercially reasonable best efforts".	■ Objective is to raise adequate dollars to reduce each underwriter to its pre-specified estimated hold level before reducing exposure of the next level syndicate participants.	■ In all underwritten deals, commitment amount is higher than estimated hold level.	■ Timing of Funds—"Potentially" Pre-syndication.
■ If syndication is not successful, the Arranger's commitment is limited to the hold level. Company bears risk that funds raised are below targeted amounts.	■ If syndication is not successful, the Arranger's exposure can be up to the commitment level.	■ Objective to raise adequate dollars to reduce each underwriters exposure to its pre-specified hold level before reducing exposure of the next level of syndicate participants.	
■ Timing of Funds—Post-Syndication.	■ If the allocation is greater than the hold level, underwriters attempt to sell such excess amount in the secondary market.	■ If syndication is not successful, the Arranger's exposure "potentially" will be up to full amount of transaction.	
	■ Risk is not dissimilar from full underwriting ("first dollars easiest to sell") in achieving hold positions.	■ Introduce market flexibility language.(1)	
	■ Timing of Funds—Post-Syndication.	■ Timing of Funds—Post-Syndication.	

(1) Provision in the commitment letter that permits underwriters to modify certain terms of committed bank debt (i.e., initial pricing) in response to changes in the syndicated loan market/investor receptivity to facilitate the syndication process.

Timeline of a Transaction—Committed Bank Debt

Over the course of a financing, there are two primary concurrent processes: the "internal process" through which Bear Stearns approves its involvement in the financing and the "origination/execution process" through which the deal team secures the mandate from the client and prepares/positions the financing to be marketed to investors. The timeline below sets forth the principal activities involved in the two processes:

Week	Internal Process	Origination/Execution Process
NA	■ Develop capital structure alternatives and recommendation. ■ Prepare pitchbook materials to present to client.	■ Presentation to client.
1	■ Due diligence—prepare principal activities memo.	
2	■ Receive approval from PAC and Executive Committee. ■ Secure mandate—develop term sheet and execute engagement letter.	■ Develop marketing strategy and prescreen potential lenders.
3–4	■ Begin documentation process with legal counsel.	■ Prepare Offering Memorandum. ■ Prepare Bank Meeting Presentation. ■ Finalize Potential Investor invitation list.
5	■ Finalize loan documentation with company. ■ Prepare sales force materials.	■ Distribute Offering Memorandum. ■ Host investor meeting with company management. ■ Assist investors in credit approval process.
6–7	■ Compile materials related to the financing in a due diligence file. ■ Complete bring-down due diligence.	■ Accept commitments from lenders and make final allocations. ■ Negotiate documentation with lenders on behalf of the Company. ■ Close and fund the facility(ies).

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Section 3-B

High Yield Debt

High Yield Bonds—Overview

There are four main options available with respect to high yield bonds. The following table describes the structure of each:

($ in millions)

	Straight Cash Pay Note	Discount (Zero Coupon) Note	Reserve Note	Redeemable Exchangeable PIK Preferred Stock
Description:	■ Most common high yield debt instrument issued. ■ Issuer receives gross proceeds equal to the face value of the bond, assuming the bond is priced at par. ■ Cash coupon payments are required, commencing six months after issuance through maturity.	■ Issuer receives gross proceeds equal to a percentage of the par value of the instrument. ■ Instrument accretes to par value over a five year period through additions of unpaid interest expense.	■ Issuer escrows a certain amount of the gross proceeds; invested in US Treasury securities to match interest payments (up to 6 payments during the first 3 years). ■ The bulk of the proceeds, representing the non-escrowed amount, can be used immediately by the Company.	■ Dividends are paid for a set period of time (sometimes until maturity), with additional preferred stock (Payment-in-Kind). ■ May be mandatorily redeemable at maturity or exchangeable into debt, each at the company's option, before maturity.
Principal Amount:	$150 +	$150 +	$100 +	$75 +
Gross Proceeds:	$150 +	$75 +	$75 +	$75 +
Maturity:	7–10 years.	7–10 years.	7–10 years.	10–12 years.
Coupon/Dividend:	Paid semi-annually.	Paid semi-annually.	Paid semi-annually.	Paid quarterly.
Form of Interest	Cash.	Additional bonds for a set period of time, then cash.	Cash.	Additional preferred stock for a period of time, then cash.
Amortization	None.	Accretion.	None.	Payment-in-Kind.
Issue Price:	100%	50%	100%	100%
Interest/Dividend Deferral Period:	None.	3–5 years.	2–3 years.	Up to 5 years.
Ranking:	Senior, Senior Subordinated or Subordinated.	Senior, Senior Subordinated or Subordinated.	Senior, Senior Subordinated or Subordinated.	Subordinated.
Optional Redemption:	5 year non-call, redeemable thereafter at premiums declining ratably to par at year 8.	5 year non-call, redeemable thereafter at premiums declining ratably to par at maturity.	5 year non-call, redeemable thereafter at premiums declining ratably to par at maturity.	5 year non-call, redeemable thereafter at premiums declining ratably to par at maturity.
Change of Control:	Upon change in control investor put option at 101%.	Upon change in control investor put option at 101%.	Upon change in control investor put option at 101%.	Upon change in control investor put option at 101%.
Security:	Occasionally.	Rarely.	Rarely.	None.
Covenants:	Negative, Affirmative and Financial.	Negative, Affirmative and Financial.	Negative, Affirmative and Financial.	Negative, Affirmative and Financial.
Registration:	Public or 144A.	Public or 144A.	Public or 144A.	Public or 144A.
Typical Investors:	More risk averse; conservative high yield investors.	Less risk averse investors than cash pay investors; investors that require a higher return.	Less risk averse investors than cash pay investors, investors that require a higher return.	Least risk averse high yield investors; investors that require highest return.

High Yield Bonds—Advantages and Disadvantages

The following table highlights the advantages and disadvantages of the four primary structural alternatives.

	Straight Cash Pay Note	Discount (Zero Coupon) Note	Reserve Note	PIK Preferred Stock
Advantages:	■ Larger investor audience due to cash interest payment. ■ Lower coupon. ■ Tax deductible interest payments. ■ Rating benefit compared to other types of high yield debt.	■ No cash interest payment for the first 3 to 5 years. ■ Tax deductible interest payments. ■ Ideal for early stage companies with negative free cash flow in initial years.	■ Interest payments for the first 2 to 3 years are guaranteed to be made from an escrowed portfolio of US Government securities. ■ Tax deductible interest payments. ■ Often issued at an effective rate which is lower than a Discount (zero coupon) Note or PIK Preferred Stock. ■ Larger investor audience compared to other deferred pay securities . ■ Increases likelihood of strong aftermarket trading performance.	■ PIK option if unable to pay cash dividend payment. ■ Exchangeable feature permits issuer to benefit from interest tax shield if issuer decides to exchange PIK Preferred into debt. ■ No equity dilution if issued without warrants.
Disadvantages:	■ Immediately requires cash interest payments.	■ Investor audience is reduced due to lack of cash interest payments in the first 3–5 years. ■ Higher coupon than straight cash pay note. ■ Given cash interest deferral period, significantly higher face value to repay at maturity compared to cash pay note.	■ More expensive than straight cash pay note. ■ Negative carry on pre-funded interest payment amount.	■ Investor audience is reduced due to potential lack of cash dividend payments. ■ Most expensive form of fixed income security, given risk to investors associated with deep subordination. ■ Dividend payments are not tax deductible.

High Yield Debt—Methods of Committing Capital

Best Efforts/Arranged	Back Stopped	Bought Deal
■ A single underwriter or multiple underwriters attempt to arrange the financing by receiving commitments from investors in the amount sought by the issuer. ■ Underwriter(s) do not commit capital to take a position in the issue, but would likely make a market in the security subsequent to successful placement. ■ Company bears risk that funds raised are below targeted amount or not available at all. ■ Underwriter(s) do not guarantee the execution of the financing (i.e., amount, pricing, or terms of covenants). ■ Offering is contingent on garnering a minimum amount of orders within the issuer's pricing target.	■ A single or multiple underwriters guarantee(s) that an issue can be placed with investors at a yield equal to or less than a negotiated maximum level "back stopped rate". ■ Underwriter(s) bears the risk that the pricing of the issue exceeds the "back stopped rate," effectively placing a ceiling on the Company's borrowing cost. ■ Underwriter(s) incur a loss if the yield required by investors exceeds the back stopped rate, but do not benefit if the yield is below the back stopped rate. ■ Underwriter(s) guarantee the execution of the financing and the yield, but usually not the terms of the covenants.	■ A single or multiple underwriters agree(s) to all of the terms of a bond issue (i.e., coupon, amount, and all other terms, including covenants,) and commit to the full amount of funds required. ■ Underwriter(s) bear(s) market risk—incur(s) losses if bonds are sold at a higher yield than agreed upon—receive(s) gains if bonds are sold at a lower yield than agreed upon.

Timeline of a Transaction—High Yield Offering

The following shows a sample timeline demonstrating what general internal and external activities are involved in an offering of high yield bonds.

Week	Internal Process	Origination/Execution Process
NA	■ Develop capital structure and financing recommendation. ■ Prepare pitchbook materials to present to client.	■ Presentation to client.
1–2	■ Due diligence. ■ Prepare Principal Activities Committee memo and obtain internal approvals.(1) ■ Execute engagement letter. ■ Begin drafting description of notes with legal counsel.	■ Organizational meeting. ■ Drafting of Offering Memorandum.
3–4	■ Prepare purchase agreement with legal counsel.	■ Prepare rating agency presentation. ■ Prepare roadshow presentation. ■ Meet with rating agencies. ■ Continue drafting Offering Memorandum.
5–6	■ Prepare materials for the salesforce. ■ Educate salesforce regarding the financings.	■ Continue drafting Offering Memorandum. ■ Finalize roadshow presentation. ■ Receive ratings from agencies.
7	■ Prepare Commitment Committee Memo and receive internal approval.	■ Finalize and print Offering Memorandum. ■ Commence roadshow.
8–9	■ Complete bring-down due diligence.	■ Continue roadshow. ■ Pricing.
10	■ Compile materials related to the financing in a due diligence file.	■ Closing and funding.

(1) Required if the firm is committing capital towards the financing (i.e., back-stopped, bought deal or bridge loan).

Bridge Loans—Methods of Committing Capital

Bridge loans represent a method of committing capital (generally debt that is senior unsecured or senior subordinated) prior to the placement of a security with investors or some other event in which a company would receive cash proceeds.

- What is a bridge loan?
  - An unfunded (funded) term loan (typically subordinated) that is intended to be an interim source of financing, "promptly" refinanced with a security that is "permanent" capital.
  - Represents a binding obligation (commitment) to provide financing at a future date, subject to certain conditions.
  - Refinanced either prior to or post funding through the placement of debt and/or equity securities as well as other events (i.e., asset sales).
- When is a bridge loan required?
  - Situations in which the assurance of financing is required or helpful.
    - To support bids on competitive auctions/sales of a company or its division(s) and assets.
    - "Cost of Admission" for highly competitive mandates (i.e., alternative to a back-stopped high yield offering).
- What are potential uses of bridge loans?
  - Acquisition/Recapitalization financing.
    - Until permanent debt can be issued.
    - Until asset sale can be completed (with public debt offering as a back-up alternative).
    - Until equity offering can be completed (with public debt offering as a back-up alternative).
  - Growth capital.
    - Until permanent debt and/or equity can be issued.
  - Refinancing.
    - Until capital markets transaction can be completed.

BEAR STEARNS

Section 3-C

Other Debt Instruments

Mezzanine Debt—Overview

What is Mezzanine Debt?

- Mezzanine Debt is a hybrid instrument that has debt-like characteristics, but permits the mezzanine debt holders to participate in the returns otherwise available to common stockholders.
- Mezzanine Debt is generally issued in the private market and is not subject to the public securities laws and regulations that govern registration, public disclosure, distribution and financial reporting.
- Generally ranks junior in the capital structure below the Company's bank debt and typically has contractual subordination provisions similar to subordinated high yield bonds.
- Terms are negotiated among the issuer, the purchasers and/or the underwriter and are customized based on the particular characteristics of the situation.
- Interest is generally payable in cash at negotiated rates (may be either fixed and variable). Rates are affected by market conditions. The cash payment rate is usually equivalent to high yield bonds (approximately 12%–13%). However, investors are provided with a combination of payment-in-kind interest and equity warrants in the Company such that their all-in return is targeted between the range of 18%–22%.
- Although maturities are negotiated, they are generally in a range of 7–10 years; in any event they are generally longer than a Company's bank debt or existing public debt.
- Can be completed faster than a 144A offering since small groups of investors are approached directly by the potential issuer and there are no public disclosure requirements.

Convertible Debt—Overview

What is Convertible Debt?

- Convertible Debt is another hybrid instrument that has debt-like characteristics but permits investors to convert their debt investment into common shares of the Company's stock in the future at a preset conversion price.
- Convertible Debt is convertible into common stock at a conversion price that is usually approximately 20%–25% above the at issue trading price.
- Due to the high potential returns afforded by the conversion option, the instrument has a relatively low coupon interest rate (i.e., approximately 4%–6%).
- Typically, Convertible Debt is deeply subordinated in the capital structure below bank debt and senior and senior subordinated high yield bonds.
- Interest is generally structured to be payable in cash semi-annually at fixed rates.

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Section 4

Covenants

Covenants

What are covenants?

- Covenants are agreements in bank credit agreements and bond indentures made by borrowers/issuers that are designed to assure debtholders that the creditworthiness of the borrower(s)/issuer(s) will remain satisfactory.

- Every covenant package must be tailored to reflect the specific needs of the borrower/issuer and the specific risks perceived by the debtholders.

Types of Covenants

There are three types of covenants in credit agreements and bond indentures: affirmative, negative and financial.

- **Affirmative Covenants:** These covenants require that the obligor of the debt must do certain specific things. Examples of affirmative covenants are (i) financial reporting requirements; (ii) maintenance of corporate existence; (iii) payment of taxes; (iv) maintenance of properties and insurance; and (v) compliance with laws.

- **Negative Covenants:** These covenants require that the obligor of the debt must refrain from doing certain specific things. Examples of negative covenants are (i) limitations on indebtedness; (ii) restrictions on liens; (iii) payment restrictions affecting the borrower and its subsidiaries; and (iv) restrictions on the sale of assets.

- **Financial Covenants:** There are two types of financial covenants: maintenance and incurrence. Maintenance financial covenants are included in credit agreements and incurrence financial covenants are included in indentures. Examples of financial covenants are (i) maximum senior and total leverage; (ii) minimum interest coverage; (iii) minimum fixed charge coverage; and (iv) minimum net worth.

  - Maintenance Financial Covenants.
    - Borrowers must remain in compliance with these types of covenants throughout the term of a credit agreement.
    - These covenants are generally tested on a quarterly basis.
    - Failure to comply with these covenants represents an event of default and a waiver/amendment to the credit agreement is required from the debtholders.

  - Incurrence Financial Covenants.
    - Issuers may not perform certain activities, such as incurring additional debt or making acquisitions, unless these covenants are met.
    - The issuer is not in default if it is not complying with the tests included in its incurrence covenants (assuming it is not engaging in the prohibited activity, such as incurring additional debt); rather, such covenants only limit its prospective actions.

Affirmative Covenants

The following list describes some of the most common affirmative covenants contained in credit agreements and bond indentures:

Financial Reporting Requirements:	■ In a credit agreement, debtholders want to ensure that the borrower provides periodic financial reports, including (in some cases) certain non-public information. In an indenture, debtholders want to ensure that the issuer files the required disclosure documents regularly with the SEC. Much of the time debtholders rely on the company's public reporting for updates on its operating performance and financial position.
Maintenance of Corporate Existence:	■ Debtholders want to ensure that if a company becomes involved in acquisition transactions, it remains the surviving entity and that it complies with all laws and filing requirements.
Payment of Taxes:	■ Debtholders want to ensure that a company pays all of its obligations to various taxing authorities as required on a timely basis.
Maintenance of Properties and Insurance:	■ Debtholders want to ensure that a company satisfactorily maintains its assets in good working condition to support ongoing business operations. In addition, issuers are required to maintain customary insurance policies to protect against damage to their assets and operations in certain events.
Compliance with Laws:	■ Debtholders want to ensure that a company remains in compliance with the laws within the jurisdictions in which it operates.

Negative Covenants

The following list describes some of the most common negative covenants that are contained in credit agreements and bond indentures:

Additional Indebtedness:	■ Debtholders want to restrict the company's ability to incur additional debt, for example. • Other senior debt (secured or unsecured). • Other subordinated debt. • Debt acquired with acquisitions. • Guarantees of the debt of other companies or unrestricted subsidiaries (i.e., non-guarantor subsidiaries). • Assumed debt of a subsidiary that becomes a party to the indenture or credit agreement. • Capital lease obligations. • Vendor debt.
Restricted Payments:	■ Debtholders want to restrict a company's ability to do the following. • Make investments in other companies. • Pay dividends or make other cash distributions. • Redeem junior securities. • Eliminate an existing subsidiary from being a party to the indenture or credit agreement.
Change of Control:	■ A change of control typically occurs when a majority of a company's voting stock is purchased by another entity or when a majority of a company's board is replaced. ■ This covenant protects debtholders from a potential deterioration in creditworthiness that may arise as a result of a change in control. ■ In a credit agreement, a change of control is an event of default that allows the debtholders to demand immediate repayment of all outstanding loans. ■ Typically, a bond indenture requires a company to make an offer to repurchase the notes (at a predetermined price, usually 101%) in connection with a change of control.
Asset Sale Proceeds:	■ When assets above a specific threshold are sold, the debtholders want the Company to use the proceeds either to reinvest in its business or to repay debt. They do not want the company to apply the money to uses that may weaken the creditworthiness of the obligor, like paying a dividend to shareholders or giving an excessive bonus to the CEO.

Negative Covenants (cont.)

Acquisitions:	■ Intended to control the magnitude of future acquisition activity since acquisitions may result in a deterioration in creditworthiness and may increase the risks associated with integrating acquired operations. ■ Debt instruments often place limitations on: (i) the size of permitted acquisitions; (ii) the amount of an acquisition that can be financed by debt; (iii) the amount of the target's debt that can be assumed; and (iv) the pro forma financial profile of the consolidated company.
Additional Liens:	■ A lien is a first claim on an asset that affords substantial rights to the lien holder in a bankruptcy. These rights include assurances that a company cannot permit other creditors to have a direct lien on pledged assets ahead of the first lien holder, and that the lien holder has a priority claim on the proceeds from the sale of the secured assets ahead of all other creditors. ■ A "negative pledge" or other limitation on additional liens prevents the company from granting liens on its assets to other creditors, thereby ensuring that the value of the assets to existing debtholders is not impaired by virtue of a lien benefiting others. A negative pledge is generally required by both secured and unsecured debtholders.
Sale/Leasebacks:	■ In a sale/leaseback transaction a company sells an asset, like a factory, to a finance company and then simultaneously leases it back under an off balance sheet long-term operating lease. ■ Intended to limit off balance sheet obligations and to protect the collateral value of physical assets owned by the company.
Transactions with Affiliates:	■ Debtholders want to restrict the company's ability to enter into transactions with affiliates, that may not be fair to the company or its various stakeholders; for example. • Loans and other payments to officers, directors, etc. • Contracts with companies owned or controlled by officers, directors, etc. ■ Transactions above a specific value typically require Board approval and/or a Fairness Opinion.
Lines of Business:	■ Debtholders provide capital in part because they believe management has expertise in running the company in a specific business, like building materials. They do not want that management team expanding into a totally unrelated line of business, like the production of Hollywood action movies. ■ Intended to restrict a company's business activities to its existing areas of expertise.

Financial Covenants

The following list describes some of the most common financial covenants that are contained in credit agreements and indentures:

Maintenance Financial Covenants:	■ Total Debt/EBITDA. ■ Senior Debt/EBITDA. ■ Interest Coverage Ratio.(1) ■ Fixed Charge Coverage Ratio.(2) ■ Total Debt/Total Capitalization. ■ Limitation on Capital Expenditures.
Incurrence Financial Covenants:	■ Total Debt/EBITDA. ■ Fixed Charge Coverage Ratio.(3) ■ Net Worth.

(1) Generally defined as EBITDA divided by interest expense.
(2) Definitions vary depending on the specifics of the bank financing. Generally defined as EBITDA minus capital expenditures, divided by interest expense.
(3) Generally defined as EBITDA divided by the sum of interest expense plus preferred dividends.

Restricted and Unrestricted Subsidiaries

In drafting a credit agreement or indenture, the borrower/issuer and the debtholders can negotiate what subsidiaries of the company will be bound by the bank credit agreement or bond indenture.

- Generally, the restrictions in debt instruments (i.e., covenants) apply only to subsidiaries of a company that are designated as "Restricted Subsidiaries".
  - At the time that a Company issues debt, it lets the debtholders know which of its subsidiaries will be subject to the credit agreement or indenture ("Restricted Subsidiaries"), and which of its subsidiaries will not. Essentially, the company is designating the parts of the company that will be responsible for fulfilling the obligations under the Credit Agreement or Indenture.
  - All other subsidiaries are designated as "Unrestricted Subsidiaries". Unrestricted Subsidiaries may do anything they wish, regardless of any restrictions placed on the company by the credit agreement or indenture, because those restrictions only apply to Restricted Subsidiaries, and the debtholders have effectively been put on notice to assume that the Unrestricted Subsidiaries will not be available to help repay the debt.
- After the debt is issued, the Company may, if it wishes, change the designation of a subsidiary from Restricted to Unrestricted or vice versa. However, upon changing the designation of any subsidiary, all the covenants must continue to be satisfied.
- Making a Restricted Subsidiary into an Unrestricted Subsidiary.
  - This involves taking a subsidiary that has been subject to all of the restrictions in the credit agreement or indenture, and making it not subject to those restrictions anymore.
  - To debtholders, this generally represents an extraction of value from the original borrower.
  - When the company chooses to do this, the value of the subsidiary is treated as a Restricted Payment at the time the subsidiary is redesignated as an Unrestricted Subsidiary. The limitation on making restricted payments must be satisfied before the redesignation can be done. The borrower must demonstrate compliance with the financial covenants in the credit agreement and indenture.

Restricted and Unrestricted Subsidiaries (cont.)

- Making an Unrestricted Subsidiary into a Restricted Subsidiary.
  - This involves taking a subsidiary that has not been subject to any of the restrictions in the credit agreement or indenture, and making it subject to those restrictions.
  - From the debtholders' perspective, this is generally positive, because it generally involves transferring positive net value to a place that directly supports the credit and that is subject to the restrictions that are designed to protect such value for the benefit of the debtholders. Obviously, if such subsidiary had negative net value, by virtue of its debt or other obligations relative to its asset value, this would be adverse to bondholders.
  - When the redesignation of a Restricted Subsidiary takes place, any debt of the subsidiary to be assumed must pass the limitations on additional indebtedness, and the obligor must demonstrate compliance with the financial covenants in the credit agreement and/or indenture.

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Section 5

Covenant Study

Covenant Study

What is a covenant study?

A covenant study examines the credit agreements and indentures of comparable companies to compare affirmative, negative, and financial covenants.

- Since covenants vary greatly from transaction to transaction, and since they can be quite complex, careful review of the specific credit agreement and indenture(s) (together with any amendments or waivers to these agreements) may be necessary to accurately understand them. Special attention must be paid to the definitions in each document. Moreover, similar covenants in different credit agreements and indentures may be actually quite different, so careful separate review of each is important.

When will I use a covenant study?

- To establish parameters regarding the typical types and levels of covenants for a particular type of debt instrument, a specific industry, or a given level of creditworthiness.
- To facilitate negotiations with a client regarding affirmative, negative and financial covenants in a proposed Credit Agreement or Indenture.

Where can I get the information to complete a covenant study?

Summary terms and covenants of a bank deal.	■ Credit agreements (check exhibits to public filings on Disclosure, Edgar and FactSet), Loan Connector, Deal Scan, Leveraged Loan Sales Group.
Summary terms and covenants of a bond deal.	■ BSC Rel. Val., BSC High Yield Database, Prospectus, Exchange Offer (Disclosure, Edgar, FactSet, 3rd Floor High Yield Library, HY Capital Markets).

Covenant Survey of Comparable Issuers—Example

Insert Landscape Tabloids 100090 (doc # 217383), page 42

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Section 6

Special Calculations for Each Debt Instrument

Revolver—Calculation

The calculations of revolver balance and annual interest expense are outlined below:

($ in millions)

	Fiscal Year Ended December 31,						
	Projected						
	2000	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**
Excess Cash/(Cash Deficit) before Revolver	($100.0)	($90.0)	$75.0	$175.0	$255.0	$460.0	$665.0
Revolver Balance							
Beginning Balance	$0.0	$100.0	$190.0	$115.0	$0.0	$0.0	$0.0
Drawdown/(Repayment)	100.0	90.0	(75.0)	(115.0)	0.0	0.0	0.0
Ending Balance	$100.0	$190.0	$115.0	$0.0	$0.0	$0.0	$0.0
Interest Expense @ 8.00%[(1)]	$4.0	$7.6	$12.2	$4.6	$0.0	$0.0	$0.0

(1) Calculated based on average annual outstanding balances.

Term Loan A—Interest Expense and Amortization Calculations

The calculations of annual interest expense and amortization requirements on a Term Loan A are outlined below:

Amortization = Original Amount x Predetermined Percentage[(1)]

Term Loan A Amortization

($ in millions)

	Fiscal Year Ended December 31, Projected				
	2000	**2001**	**2002**	**2003**	**2004**
Original Amount of $80.0 million/ Beginning Balance in future years	$80.0	$72.0	$60.0	$44.0	$24.0
% Amortization	10%	15%	20%	25%	30%
Amortization	(8.0)	(12.0)	(16.0)	(20.0)	(24.0)
Ending Balance	$72.0	$60.0	$44.0	$24.0	$0.0

Interest Expense = Average Annual Balance x Interest Rate

Term Loan A—Interest Expense

($ in millions)

	Fiscal Year Ended December 31, Projected				
	2000	**2001**	**2002**	**2003**	**2004**
Original Amount of $80.0 million/ Beginning Balance in future years	$80.0	$72.0	$60.0	$44.0	$24.0
Ending Balance	72.0	60.0	44.0	24.0	0.0
Cash Interest Expense (at 8.0%)[(2)]	$6.1	$5.3	$4.2	$2.7	$1.0

(1) Amortizations schedules are established as a percentage of the original amount of a term loan. The amortization schedule is determined based on the company's projected free cash flow during the life of the term loan.

(2) Calculated based on average annual outstanding balances.

Term Loan B—Interest Expense and Amortization Calculations

The calculations of annual interest expense and amortization on a Term Loan B are outlined below:

Amortization = 1% Per Annum of Original Amount With a Bullet in the Final Year

Term Loan B Amortization

($ in millions)

	Fiscal Year Ended December 31, Projected						
	2000	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**
Original Amount of $80.0 million/							
Beginning Balance in future years	$80.0	$79.2	$78.4	$77.6	$76.8	$76.0	$75.2
% Amortized	1%	1%	1%	1%	1%	1%	94%
Amortization	(0.8)	(0.8)	(0.8)	(0.8)	(0.8)	(0.8)	(75.2)
Ending Balance	$79.2	$78.4	$77.6	$76.8	$76.0	$75.2	$0.0

Interest Expense = Average Annual Balance x Interest Rate

Term Loan B—Interest Expense

($ in millions)

	Fiscal Year Ended December 31, Projected						
	2000	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**
Original Amount of $80.0 million/							
Beginning Balance in future years	$80.0	$79.2	$78.4	$77.6	$76.8	$76.0	$75.2
Ending Balance	79.2	78.4	77.6	76.8	76.0	75.2	0.0
Cash Interest Expense (at 8.5%)	$6.8	$6.7	$6.6	$6.6	$6.5	$6.4	$3.2

(1) Calculated based on average annual outstanding balances.

Straight Cash Pay Note—Interest Expense Calculation

The calculation of annual interest expense on a cash pay note is outlined below:

($ in millions)

Beginning Principal Amount of Each Period x Coupon Rate

Principal:	$100.0 million
Coupon:	10.0%
Maturity:	2010

	Fiscal Year Ended December 31, Projected						
	2000	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**
Beginning Balance of Each Period	$100.0	$100.0	$100.0	$100.0	$100.0	$100.0	$100.0
Amortization	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Ending Balance	$100.0	$100.0	$100.0	$100.0	$100.0	$100.0	$100.0
Cash Interest Expense	$10.0	$10.0	$10.0	$10.0	$10.0	$10.0	$10.0
Non-Cash Interest Expense	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Interest Expense	$10.0	$10.0	$10.0	$10.0	$10.0	$10.0	$10.0

Discount Note—Interest Expense Calculation

The calculation of annual interest expense on a discount note that has semi-annual interest payments is outlined below:

($ in millions)

Cash Deferral Period:	**Beginning of Each Period Accreted Principal Amount**	**X**	**[[1 + (Coupon/2)]^2-1]**

Cash Payment Period:	**Beginning of Each Period Accreted Principal Amount**	**X**	**Coupon**

Principal:	$100.0 million
Coupon:	10.0%
Maturity:	2010
Discount Period	5 years

	Fiscal Year Ended December 31,						
				Projected			
	2000	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**
Beginning Balance	$100.0	$110.3	$121.6	$134.0	$147.7	$162.9	$162.9
Accretion (Non-Cash)	10.3	11.3	12.5	13.7	15.1	0.0	0.0
Ending Balance	$110.3	$121.6	$134.0	$147.7	$162.9	$162.9	$162.9
Cash Interest Expense	$0.0	$0.0	$0.0	$0.0	$0.0	$16.3	$16.3
Non-Cash Interest Expense	10.3	11.3	12.5	13.7	15.1	0.0	0.0
Total Interest Expense	$10.3	$11.3	$12.5	$13.7	$15.1	$16.3	$16.3

Reserve Note—Interest Expense Calculation

The calculation of annual interest expense on a reserve note that has semi-annual interest payments is the same as a straight cash pay note as outlined below:

($ in millions)

Beginning Principal Amount of Each Period x Coupon Rate

Principal:	$100.0 million
Gross Proceeds:	81.3 million
Reserve Amount:	18.7 million
Coupon:	10.0%
Reserve Period:	2 years
Maturity:	2007

	Fiscal Year Ended December 31,						
				Projected			
	2000	2001	2002	2003	2004	2005	2006
Beginning Balance of Each Period	$100.0	$100.0	$100.0	$100.0	$100.0	$100.0	$100.0
Amortization	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Ending Balance	$100.0	$100.0	$100.0	$100.0	$100.0	$100.0	$100.0
Cash Interest Expense	$10.0	$10.0	$10.0	$10.0	$10.0	$10.0	$10.0
Non-Cash Interest Expense	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Interest Expense	$10.0	$10.0	$10.0	$10.0	$10.0	$10.0	$10.0

Reserve Note—Restricted Cash Calculation

($ in millions)

Interest Rate on Escrowed Funds	Restricted Cash	Amount Placed in Escrow	Fiscal Year Ended December 31, Projected						
			2000	2001	2002	2003	2004	2005	2006
5.40%	Coupon Payment 1	$4.9	$5.0	–	–	–	–	–	–
5.45	Coupon Payment 2	4.7	5.0	–	–	–	–	–	–
5.46	Coupon Payment 3	4.6	4.9	$5.0	–	–	–	–	–
5.47	Coupon Payment 4	4.5	4.7	5.0	–	–	–	–	–
	Escrowed Cash	$18.7	$19.6	$10.0	–	–	–	–	–
	Beginning Cash in Escrow		$18.7	$9.6	–	–	–	–	–
	Plus: Interest Income		0.9	0.4					
	Less: Interest Expense		10.0	10.0					
	Ending Cash in Escrow		$9.6	$0.0					

Reserve Note Economics

Terms ($ in millions)

Total Issue	$100.0
Reserve Amount	18.7
Gross Proceeds to Company	81.3
Coupon	10.00%
Interest Payments in Escrow	4
Maturity (Years)	7

Calculation of Interest Reserve ($ in millions)

Period (Years)	0.5	1.0	1.5	2.0
Interest Payment Due	$5.0	$5.0	$5.0	$5.0
Treasury Rate	5.40%	5.45%	5.46%	5.47%
Present Value of Coupon[1]	$4.9	$4.7	$4.6	$4.5

Cash Flow ($ in millions)

Period (Years)	0.0	0.5	1.0	1.5	2.0	2.5	3.0	3.5	4.0	4.5–5.5	6.0	6.5	7.0
Cash Flow	$81.3	–	–	–	–	($5.0)	($5.0)	($5.0)	($5.0)	($5.0)	($5.0)	($5.0)	($105.0)[2]

Cost of Issue ($ in millions)

Effective Interest Rate	10.21%	Total Principal Amount	$100.0
Cost Over Coupon	0.21%	Total Present Value of Pre-Funded Interest	18.7

(1) This is the amount that needs to be used today to buy government securities which will be worth $5 million exactly on the relevant interest payment dates.
(2) Semi-annual interest payment plus principal amount.

PIK Preferred Stock—Dividend Calculation

The calculation of annual dividend payments on PIK Preferred Stock that has quarterly dividend payments is outlined below:

($ in millions)

PIK Period:	**Beginning of Each Period Balance**	**X**	**[[1 + (Dividend Rate/4)]^4-1]**

Cash Payment Period:	**Beginning of Each Period Balance**	**X**	**Dividend Rate**

Principal:	$100.0 million
Dividend Rate:	10.0%
Maturity:	2010
PIK Period:	5 years

	Fiscal Year Ended December 31,						
				Projected			
	2000	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**
Beginning Balance	$100.0	$110.4	$121.8	$134.5	$148.5	$163.9	$163.9
Accretion (Non-Cash)	10.4	11.5	12.6	14.0	15.4	0.0	0.0
Ending Balance	$110.4	$121.8	$134.5	$148.5	$163.9	$163.9	$163.9
Cash PIK Dividends	0.0	0.0	0.0	0.0	0.0	16.4	16.4
Non-Cash PIK Dividends	10.4	11.5	12.6	14.0	15.4	0.0	0.0
Total PIK Dividends	$10.4	$11.5	$12.6	$14.0	$15.4	$16.4	$16.4

BEAR STEARNS

Section 7

Refinancing Model

Why Construct a Refinancing Model with Different Debt Tranches?

- To find the most appropriate capital structure, two competing factors should be considered.
  - Cost of capital.
  - Financial flexibility.
- As securities become more equity-like, they increase an issuer's financial flexibility, but also increase its cost of capital.
- The financing model enables us to evaluate various capital structures in the context of a company's operating projections, and sensitivity analysis thereto, to determine the optimal capital structure given the above considerations.

Refinancing Model

Sources And Uses Of Funds ($ in millions)

Sources of Funds:		
Revolver (OpCo)	8.000%	$ –
Term Loan A (OpCo)	8.000	100.0
Senior Notes (OpCo)	8.500	125.0
Senior Discount Notes (HoldCo)	9.000	–
Senior Reserve Notes (HoldCo)	9.250	–
PIK Preferred (HoldCo)	9.250	–
Equity		–
Total Sources of Funds		$225.0
Uses of Funds:		
Repay Existing Debt		$150.0
Purchase of Target Equity		–
General Corporate Purposes		67.3
Restricted Cash		–
Fees & Expenses		7.8
Total Uses of Funds		$225.0

Pro Forma Capitalization ($ in millions)

	1998	ADJ	PF1998	% of Cap.
Cash	$75.0	$67.3	$142.3	49.2%
Long-Term Debt:				
Revolving Credit	–	–	–	0.0%
Term Loan A	–	$100.0	$100.0	34.6%
Senior Notes	–	125.0	125.0	43.2%
Senior Discount Notes	–	–	–	0.0%
Senior Reserve Notes	–	–	–	0.0%
Other Long-Term Debt	$150.0	($150.0)	–	
Total Long-Term Debt	$150.0	$75.0	$225.0	77.8%
Total Debt	$150.0	$75.0	$225.0	77.8%
PIK Preferred (HoldCo)	–	–	–	0.0%
Stockholders' Equity	$64.2	–	$64.2	22.2%
Total Book Capitalization	$214.2	$75.0	$289.2	100.0%
Total Debt / Total Book Capitalization	70.0%		77.8 %	

Pro Forma Summary Credit Statistics ($ in millions)

	1999	2000	2001	2002
Senior Debt / EBITDA	3.99x	3.17x	2.72x	2.30x
Total Debt / EBITDA	3.99	3.17	2.72	2.30
Net Debt / EBITDA	3.98	3.15	2.71	2.29
EBITDA / Interest	3.05	4.09	4.40	5.23
(EBITDA - CapEx) / Interest	-8.33	1.18	2.14	2.78

Refinancing Model (cont.)

Summary of Operating Assumptions

($ in millions)

	Fiscal Year Ended December 31, Actual			Offering Adj.	Pro Forma FYE	Projected						
	1996	1997	1998 PF		1998	1999	2000	2001	2002	2003	2004	2005
Income Statement Assumptions												
Net Sales Growth	NA	7.6%	39.0	N/M	N/M	9.4%	6.0%	7.5%	7.5%	7.5%	7.5%	7.5%
Gross Margin (% of Sales)	34.8%	35.4	39.0	N/M	N/M	38.8	38.8%	38.8	38.8	38.8	38.8	38.8
R & D (% of sales)	0.0	0.0	0.0	N/M	N/M	0.0	0.0%	0.0	0.0	0.0	0.0	0.0
Selling, General & Administrative (excluding R & D, % of Sales)	18.9	16.7	19.0	N/M	N/M	16.3	15.4%	15.4	15.4	15.4	15.4	15.4
Tax Rate (% of Pretax Income)	41.9	40.2	37.9	N/M	N/M	38.0	38.0	38.0	38.0	38.0	38.0	38.0
Interest on Cash Balance	4.5	4.5	4.5	N/M	N/M	4.5	4.5	4.5	4.5	4.5	4.5	4.5
Balance Sheet Assumptions												
ASSET ASSUMPTIONS:												
Minimum Cash Balance	$–	$–	$–	N/M	$1.0	$1.0	$1.0	$1.0	$1.0	$1.0	$1.0	$1.0
Days Receivable	93.3	70.2	57.6	NM	57.6	52.9	54.0	54.0	54.0	54.0	54.0	54.0
Days Inventory	108.9	51.5	56.5	N/M	56.5	54.9	54.9	53.0	49.0	49.0	49.0	49.0
Other Current Assets (% of Sales)	3.7%	7.8%	3.0%	N/M	3.0%	2.7%	2.6%	2.4%	2.2%	2.1%	2.1%	2.1%
Other Long Term Assets (% of Sales)	1.1	4.6	23.2	N/M	1.2	1.1	1.0	0.9	0.9	0.8	0.8	0.8
Liability Assumptions												
Days Payable	24.4	16.7	26.7	N/M	26.7	15.0	15.0	15.0	15.0	15.0	15.0	15.0
Accrued Expenses (% of COGS)	8.6%	11.1%	14.1%	N/M	N/M	11.3%	11.3%	11.3%	11.3%	11.3%	11.3%	11.3%
Taxes Payable ($)	$–	$–	$–	N/M	N/M	$–	$–	$–	$–	$–	$–	$–
Other Current Liabilities (% of Sales)	1.8%	0.4%	1.0%	N/M	9.6%	7.2%	7.3%	7.2%	7.2%	7.2%	7.2%	7.2%
Other Long-Term Liabilities (% of Sales)	1.6	1.2	0.6	N/M	N/M	1.1	1.1	1.1	1.1	1.1	1.1	1.1
Cash Flow Statement Assumptions												
Capital Expenditures	$1.4	$0.4	$0.9	$–	$0.9	$200.0	$50.0	$40.0	$40.0	$40.0	$40.0	$40.0

(1) Typically for US companies you can use the corporate tax rate of 40%.

Refinancing Model (cont.)

Financial Covenant Analysis

($ in millions, except per share amounts)

	Projected Fiscal Year Ended December 31,						
	1999	2000	2001	2002	2003	2004	2005
Total Debt/EBITDA							
Covenant	5.00x	5.00x	5.00x	5.00x	5.00x	5.00x	5.00x
Projected	3.99x	3.17x	2.72x	2.30x	1.87x	1.44x	1.14x
Total Allowable Debt	$268.3	$350.8	$389.5	$426.9	$465.6	$505.7	$547.4
$ Change in Total Debt Allowed (Required)	54.0	128.6	177.4	230.6	291.2	360.3	422.4
Total Allowable EBITDA	1,071.5	1,111.3	1,060.6	981.7	872.4	727.4	625.0
$ Change in EBITDA (Allowed) Required	1,017.8	1,041.1	982.7	896.3	779.2	626.2	515.5
EBITDA/Cash Interest							
Covenant	2.00x	2.00x	2.00x	2.00x	2.00x	2.00x	2.00x
Projected	3.05x	4.09x	4.40x	5.23x	6.28x	7.90x	10.12x
Total Allowable EBITDA	$35.1	$34.3	$35.4	$32.7	$29.7	$25.6	$21.6
$ Change in EBITDA (Allowed) Required	(18.5)	(35.9)	(42.5)	(52.7)	(63.5)	(75.6)	(87.8)
Total Allowable Cash Interest	26.8	35.1	39.0	42.7	46.6	50.6	54.7
$ Change in Cash Interest Allowed (Required)	9.3	17.9	21.3	26.4	31.7	37.8	43.9
EBITDA/Total Interest							
Covenant	2.00x	2.00x	2.00x	2.00x	2.00x	2.00x	2.00x
Projected	3.05x	4.09x	4.40x	5.23x	6.28x	7.90x	10.12x
Total Allowable EBITDA	$35.1	$34.3	$35.4	$32.7	$29.7	$25.6	$21.6
$ Change in EBITDA (Allowed) Required	(18.5)	(35.9)	(42.5)	(52.7)	(63.5)	(75.6)	(87.8)
Total Allowable Total Interest	26.8	35.1	39.0	42.7	46.6	50.6	54.7
$ Change in Total Interest Allowed (Required)	9.3	17.9	21.3	26.4	31.7	37.8	43.9

Refinancing Model (cont.)

Credit Statistics

($ in millions, except per share amounts)

	Projected Fiscal Year Ended December 31,						
	1999	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**
EBITA	$41.6	$45.6	$48.8	$52.3	$56.1	$60.1	$64.4
Depreciation	12.1	24.6	29.1	33.1	37.1	41.1	45.1
EBITDA	53.7	70.2	77.9	85.4	93.1	101.1	109.5
CapEx	200.0	50.0	40.0	40.0	40.0	40.0	40.0
Senior Interest Expense	17.6	17.1	17.7	16.3	14.8	12.8	10.8
Operating Company Interest Expense	17.6	17.1	17.7	16.3	14.8	12.8	10.8
Cash Interest Expense	17.6	17.1	17.7	16.3	14.8	12.8	10.8
Total Interest Expense	17.6	17.1	17.7	16.3	14.8	12.8	10.8
PIK Preferred Dividends	–	–	–	–	–	–	–
Taxes	9.8	11.4	13.1	13.7	15.7	18.0	20.5
Cash Pay Principal Amortization	(10.7)	–	(2.2)	(15.8)	(21.9)	(29.0)	(20.5)
Total Principal Amortization	(10.7)	–	(2.2)	(15.8)	(21.9)	(29.0)	(20.5)
Senior Secured Debt	89.3	97.3	87.1	71.3	49.5	20.5	–
Total Senior Debt	214.3	222.3	212.1	196.3	174.5	145.5	125.0
Operating Company Debt	214.3	222.3	212.1	196.3	174.5	145.5	125.0
Total Debt	214.3	222.3	212.1	196.3	174.5	145.5	125.0
Net Total Debt	213.3	221.3	211.1	195.3	173.5	144.5	107.4
Total Book Capitalization	292.0	316.2	324.9	329.0	330.3	328.2	338.8
PIK Preferred Stock	–	–	–	–	–	–	–
EBITA/Cash Interest Expense	2.37x	2.66x	2.76x	3.20x	3.78x	4.70x	5.95x
EBITA/Total Interest Expense	2.37x	2.66x	2.76x	3.20x	3.78x	4.70x	5.95x
EBITA/(Total Interest Expense + PIK Preferred Dividends)	2.37x	2.66x	2.76x	3.20x	3.78x	4.70x	5.95x
EBITDA/Cash Interest Expense	3.05x	4.09x	4.40x	5.23x	6.28x	7.90x	10.12x
EBITDA/Total Interest Expense	3.05x	4.09x	4.40x	5.23x	6.28x	7.90x	10.12x
EBITDA/(Total Interest Expense + PIK Preferred Dividends)	3.05x	4.09x	4.40x	5.23x	6.28x	7.90x	10.12x
(EBITDA - CapEx)/Cash Interest Expense	–8.33x	1.18x	2.14x	2.78x	3.58x	4.78x	6.42x
(EBITDA - CapEx)/Total Interest Expense	–8.33x	1.18x	2.14x	2.78x	3.58x	4.78x	6.42x
(EBITDA - CapEx)/(Total Interest Expense + PIK Preferred Dividends)	–8.33x	1.18x	2.14x	2.78x	3.58x	4.78x	6.42x
EBITDA/(Total CapEx + Cash Interest Expense + Cash Pay Principal Amortization)	0.26x	1.05x	1.40x	2.10x	2.83x	4.25x	3.61x
EBITDA/(Total CapEx + Total Interest Expense + Total Principal Amortization)	0.26x	1.05x	1.40x	2.10x	2.83x	4.25x	3.61x
EBITDA/(Total CapEx + Total Interest Expense + Total Principal Amortization + PIK Preferred Dividends + Taxes)	0.25x	0.89x	1.14x	1.57x	1.91x	2.42x	2.15x
Senior Secured Debt/EBITDA	1.66x	1.39x	1.12x	0.84x	0.53x	0.20x	0.00x
Senior Debt/EBITDA	3.99x	3.17x	2.72x	2.30x	1.87x	1.44x	1.14x
Operating Company Debt/EBITDA	3.99x	3.17x	2.72x	2.30x	1.87x	1.44x	1.14x
Total Debt/EBITDA	3.99x	3.17x	2.72x	2.30x	1.87x	1.44x	1.14x
Net Debt/EBITDA	3.98x	3.15x	2.71x	2.29x	1.86x	1.43x	0.98x
(Total Debt + PIK Preferred Stock)/EBITDA	3.99x	3.17x	2.72x	2.30x	1.87x	1.44x	1.14x
Senior Secured Debt/Total Book Capitalization	30.6%	30.8%	26.8%	21.7%	15.0%	6.2%	0.0%
Senior Debt/Total Book Capitalization	73.4%	70.3%	65.3%	59.7%	52.8%	44.3%	36.9%
Total Debt/Total Book Capitalization	73.4%	70.3%	65.3%	59.7%	52.8%	44.3%	36.9%
(Total Debt + PIK Preferred Stock)/Total Book Capitalization	73.4%	70.3%	65.3%	59.7%	52.8%	44.3%	36.9%

Refinancing Model (cont.)

Income Statement

($ in millions, except per share amounts)

	Actual FYE December 31,			Offering	Adjusted Pro Forma	Projected FYE December 31,						
	1996	1997	1998	Adjustments	1998	1999	2000	2001	2002	2003	2004	2005
Net Sales	$106.4	$114.5	$159.1		$159.1	$174.1	$184.5	$198.3	$213.2	$229.2	$246.4	$264.9
% Growth	*NA*	*7.6 %*	*39.0 %*		*0.0 %*	*9.4 %*	*6.0 %*	*7.5 %*	*7.5 %*	*7.5 %*	*7.5 %*	*7.5 %*
Cost of Goods Sold	69.4	74.0	97.0		97.0	106.5	112.9	121.4	130.5	140.3	150.8	162.1
Gross Profit	37.0	40.5	62.1		62.1	67.5	71.6	77.0	82.7	88.9	95.6	102.8
Gross Profit Margin	*34.8 %*	*35.4 %*	*39.0 %*		*39.0 %*	*38.8 %*	*38.8 %*	*38.8 %*	*38.8 %*	*38.8 %*	*38.8 %*	*38.8 %*
Research and Development	–	–	–	–		–	–	–	–	–	–	–
R&D (% of sales)	*0.0 %*	*0.0 %*	*0.0 %*		*0.0 %*	*0.0 %*	*0.0 %*	*0.0 %*	*0.0 %*	*0.0 %*	*0.0 %*	*0.0 %*
Selling, General & Administrative (excl. R&D)	20.1	19.1	30.3		30.3	28.4	28.4	30.5	32.8	35.3	37.9	40.8
SG&A (% of Sales)	*18.9 %*	*16.7 %*	*19.0 %*		*19.0 %*	*16.3 %*	*15.4 %*	*15.4 %*	*15.4 %*	*15.4 %*	*15.4 %*	*15.4 %*
EBIT	16.9	21.4	31.8	–	31.8	39.2	43.2	46.4	49.9	53.6	57.7	62.0
EBIT Margin	*15.9 %*	*18.7 %*	*20.0 %*		*20.0 %*	*22.5 %*	*23.4 %*	*23.4 %*	*23.4 %*	*23.4 %*	*23.4 %*	*23.4 %*
Interest Expense	3.1	2.3	2.4	17.6	20.0	17.6	17.1	17.7	16.3	14.8	12.8	10.8
Interest Income	(0.0)	(0.0)	(1.7)	–	(1.7)	(1.7)	(1.5)	(3.2)	(0.0)	(0.0)	(0.0)	(0.4)
Pretax Income	13.9	19.1	31.1	(17.6)	13.5	23.3	27.6	31.9	33.6	38.8	44.9	51.6
Pretax Margin	*13.0 %*	*16.7 %*	*19.5 %*		*8.5 %*	*13.4 %*	*14.9 %*	*16.1 %*	*15.8 %*	*16.9 %*	*18.2 %*	*19.5 %*
Income Taxes	5.8	7.7	11.8	–	11.8	9.8	11.4	13.1	13.7	15.7	18.0	20.5
Tax Rate	*41.9 %*	*40.2 %*	*37.9 %*		*87.2 %*	*42.0 %*	*41.4 %*	*40.9 %*	*40.8 %*	*40.4 %*	*40.1 %*	*39.8 %*
Net Income	$8.1	$11.4	$19.3	$(17.6)	$1.7	$13.5	$16.2	$18.9	$19.9	$23.2	$26.9	$31.1
Net Income Margin	*7.6 %*	*10.0 %*	*12.1 %*		*1.1 %*	*7.8 %*	*8.8 %*	*9.5 %*	*9.3 %*	*10.1 %*	*10.9 %*	*11.7 %*
PIK Preferred Dividends	–	–	–	–	–	–	–	–	–	–	–	–
Net Income Available to Common	$8.1	$11.4	$19.3	$(17.6)	$1.7	$13.5	$16.2	$18.9	$19.9	$23.2	$26.9	$31.1
Basic Shares Outstanding	8.724	7.484	7.450	–	7.450	7.182	7.182	7.182	7.182	7.182	7.182	7.182
EPS	$0.92	$1.53	$2.59	–	$2.59	$1.88	$2.25	$2.63	$2.77	$3.22	$3.75	$4.32
Fully Diluted Shares Outstanding	8.730	7.563	7.624	–	7.624	7.441	7.390	7.472	7.516	7.556	7.608	7.651
Fully Diluted EPS	$0.92	$1.51	$2.53	–	$2.53	$1.82	$2.19	$2.53	$2.65	$3.06	$3.54	$4.06
Net Income	8.1	11.4	19.3	–	19.3	13.5	16.2	18.9	19.9	23.2	26.9	31.1
Plus: Goodwill Amortization	1.4	1.0	1.1	–	1.1	2.4	2.4	2.4	2.4	2.4	2.4	2.4
Cash Net Income	$9.5	$12.4	$20.4	$0.0	$20.4	$16.0	$18.6	$21.3	$22.3	$25.6	$29.3	$33.5
Basic Cash EPS	$1.09	$1.66	$2.74	$–	$2.74	$2.22	$2.59	$2.97	$3.11	$3.56	$4.09	$4.66
Fully Diluted Cash EPS	$1.09	$1.64	$2.68	$–	$2.68	$2.14	$2.52	$2.85	$2.97	$3.39	$3.86	$4.38
EBIT	$16.9	$21.4	$31.8	$–	$31.8	$39.2	$43.2	$46.4	$49.9	$53.6	$57.7	$62.0
Amortization	1.4	1.0	1.1	0.8	1.9	2.4	2.4	2.4	2.4	2.4	2.4	2.4
EBITA	18.3	22.4	32.9	0.8	33.7	41.6	45.6	48.8	52.3	56.1	60.1	64.4
Depreciation	1.5	1.6	1.5	–	1.5	12.1	24.6	29.1	33.1	37.1	41.1	45.1
EBITDA	$19.9	$24.0	$34.4	$0.8	$35.2	$53.7	$70.2	$77.9	$85.4	$93.1	$101.1	$109.5
EBITDA Margin	*18.7 %*	*21.0 %*	*21.6 %*		*22.1 %*	*30.8 %*	*38.0 %*	*39.3 %*	*40.0 %*	*40.6 %*	*41.1 %*	*41.3 %*

(1) Excludes depreciation and amortization.

Refinancing Model (cont.)

Balance Sheet

($ in millions, except per share amounts)

	Actual FYE December 31,			Offering	Pro Forma	Projected Fiscal Year Ended December 31,						
	1996	1997	1998	Adjustments	1998	1999	2000	2001	2002	2003	2004	2005
Assets												
Cash	$0.9	$0.7	$75.0	$67.3	$142.3	$1.0	$1.0	$1.0	$1.0	$1.0	$1.0	$17.6
Restricted Cash	–	–	–	–	–	–	–	–	–	–	–	–
Accounts Receivable	27.2	22.0	25.1	–	25.1	25.2	27.3	29.3	31.5	33.9	36.5	39.2
Inventory	20.7	10.4	15.0	–	15.0	16.0	17.0	17.6	17.5	18.8	20.2	21.8
Deferred Financing Fees	–	–	–	7.8	7.8	7.0	6.2	5.4	4.7	3.9	3.1	2.3
Other Current Assets	3.9	8.9	4.7	–	4.7	4.7	4.8	4.8	4.7	4.8	5.2	5.6
Total Current Assets	52.7	42.1	119.8	75.0	194.8	53.9	56.3	58.2	59.4	62.4	66.0	86.4
Property, Plant & Equipment	17.7	12.0	14.4	–	14.4	202.4	227.8	238.7	245.7	248.6	247.6	242.5
Existing Goodwill	29.8	21.0	66.3	–	66.3	64.7	63.0	61.4	59.7	58.0	56.4	54.7
New Goodwill	–	–	–	–	–	–	–	–	–	–	–	–
Other Long-Term Assets	1.2	5.3	36.9	–	36.9	1.9	1.8	1.8	1.9	1.8	2.0	2.1
Total Assets	$101.4	$80.4	$237.5	$75.0	$312.5	$322.9	$348.9	$360.0	$366.7	$370.9	$371.9	$385.7
Liabilities & Stockholders' Equity												
Accounts Payable	$4.6	$3.4	$7.1	–	7.1	$4.4	$4.6	$5.0	$5.4	$5.8	$6.2	$6.7
Accrued Expenses	6.0	8.2	13.7	–	13.7	12.0	12.7	13.7	14.7	15.8	17.0	18.2
Taxes Payable	–	–	–	–	–	–	–	–	–	–	–	–
Other Current Liabilities	2.0	0.5	1.6	–	1.6	12.5	13.4	14.3	15.2	16.5	17.7	19.1
Total Current Liabilities	12.6	12.1	22.4	–	22.4	28.9	30.7	32.9	35.3	38.0	40.9	44.0
Other Long-Term Liabilities	1.7	1.4	0.9	–	0.9	1.9	2.1	2.2	2.4	2.6	2.7	3.0
Revolving Credit	33.9	14.0	–	–	–	–	8.0	–	–	–	–	–
Term Loan A	–	–	–	100.0	100.0	89.3	89.3	87.1	71.3	49.5	20.5	–
Senior Notes	–	–	–	125.0	125.0	125.0	125.0	125.0	125.0	125.0	125.0	125.0
Senior Discount Notes	–	–	–	–	–	–	–	–	–	–	–	–
Senior Reserve Notes	–	–	–	–	–	–	–	–	–	–	–	–
PIK Preferred Stock	–	–	–	–	–	–	–	–	–	–	–	–
Other Long-Term Debt	4.9	1.9	150.0	(150.0)	–	–	–	–	–	–	–	–
Total Long-Term Liabilities	40.5	17.3	150.9	75.0	225.9	216.2	224.3	214.3	198.7	177.0	148.2	128.0
Total Liabilities	$53.0	$29.4	$173.3	$75.0	$248.3	$245.1	$255.0	$247.2	$234.0	$215.1	$189.1	$171.9
Stockholders' Equity	48.4	51.0	64.2	–	64.2	77.7	93.9	112.8	132.7	155.9	182.8	213.8
Total Liabilities and Stockholders' Equity	$101.4	$80.4	$237.5	$75.0	$312.5	$322.9	$348.9	$360.0	$366.7	$370.9	$371.9	$385.7

Refinancing Model (cont.)

Annual Statement of Changes in Financial Position

($ in millions, except per share amounts)

	Projected FYE December 31,						
	1999	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**
Cash Flow from Operations							
Net Income	$13.5	$16.2	$18.9	$19.9	$23.2	$26.9	$31.1
Plus: Depreciation	12.1	24.6	29.1	33.1	37.1	41.1	45.1
Accretion of Senior Discount Notes	–	–	–	–	–	–	–
Reserve Note Restricted Cash Interest Expense	–	–	–	–	–	–	–
Amortization of Deferred Financing Fees	0.8	0.8	0.8	0.8	0.8	0.8	0.8
Amortization of Goodwill	1.7	1.7	1.7	1.7	1.7	1.7	1.7
Funds Flow from Operations	28.0	43.2	50.4	55.4	62.7	70.4	78.5
(Increase) Decrease in Accounts Receivable	(0.1)	(2.1)	(2.0)	(2.2)	(2.4)	(2.5)	(2.7)
(Increase) Decrease in Inventory	(1.0)	(1.0)	(0.6)	0.1	(1.3)	(1.4)	(1.5)
(Increase) Decrease in Other Current Assets	0.0	(0.1)	0.0	0.1	(0.1)	(0.4)	(0.4)
(Increase) Decrease in Current Operating Assets	(1.1)	(3.1)	(2.7)	(2.0)	(3.8)	(4.3)	(4.6)
Increase (Decrease) in Accounts Payable	(2.7)	0.3	0.3	0.4	0.4	0.4	0.5
Increase (Decrease) in Accrued Expenses	(1.7)	0.7	1.0	1.0	1.1	1.2	1.3
Increase (Decrease) in Taxes Payable	–	–	–	–	–	–	–
Increase (Decrease) in Other Current Liabilities	10.9	0.8	0.9	1.0	1.3	1.2	1.3
(Increase) Decrease in Current Operating Liabilities	6.5	1.8	2.2	2.4	2.8	2.9	3.1
(Increase) Decrease in Operating Working Capital	5.4	(1.3)	(0.4)	0.3	(1.0)	(1.5)	(1.6)
Cash Flow from Operations	33.4	41.9	49.9	55.7	61.6	68.9	77.0
Cash Flow from Investing							
Less: Capital Expenditures	(200.0)	(50.0)	(40.0)	(40.0)	(40.0)	(40.0)	(40.0)
Asset Purchases	–	–	–	–	–	–	–
Net (Increase) Decrease in Other Long-Term Assets	36.0	0.2	0.2	0.0	0.3	0.1	0.1
Plus: Net Cash Proceeds from Asset Sales	–	–	–	–	–	–	–
Cash Flow from Investing	(164.0)	(49.8)	(39.8)	(40.0)	(39.7)	(39.9)	(39.9)
Cash Flow from Financing before Revolver and Term Loan A							
Principal Repayment Requirement	–	–	–	–	–	–	–
Increase (Decrease) in Senior Notes	–	–	–	–	–	–	–
Increase (Decrease) in Senior Discount Notes	–	–	–	–	–	–	–
Increase (Decrease) in Senior Reserve Notes	–	–	–	–	–	–	–
Increase (Decrease) in PIK Preferred Stock	–	–	–	–	–	–	–
Other Long-Term Debt Financing	–	–	–	–	–	–	–
Equity Financing	–	–	–	–	–	–	–
Cash Flow from Financing before Revolver and Term Loan A	–	–	–	–	–	–	–
Total Change in Cash before Working Capital Financing	(130.5)	(8.0)	10.1	15.8	21.9	29.0	37.0
Increase (Decrease) in Revolving Credit	–	8.0	(8.0)	–	–	–	–
Increase (Decrease) in Term Loan A	(10.7)	–	(2.2)	(15.8)	(21.9)	(29.0)	(20.5)
Total Change in Cash	(141.3)	0.0	(0.0)	0.0	(0.0)	0.0	16.6
Beginning Cash Balance	142.3	1.0	1.0	1.0	1.0	1.0	1.0
Total Change in Cash	(141.3)	0.0	(0.0)	0.0	(0.0)	0.0	16.6
Ending Cash Balance	$1.0	$1.0	$1.0	$1.0	$1.0	$1.0	$17.6

Refinancing Model (cont.)

Depreciation Schedule

($ in millions)

Straight Line Depreciation

Years to Depreciate Existing PP&E:	7
Years to Depreciate Capital Expenditures:	10

		Fiscal Year Ended December 31,						
		Projected						
		1999	2000	2001	2002	2003	2004	2005
Existing PP&E	$14.4	$2.1	$2.1	$2.1	$2.1	$2.1	$2.1	$2.1
1999 CapEx	200.0	10.0	20.0	20.0	20.0	20.0	20.0	20.0
2000 CapEx	50.0		2.5	5.0	5.0	5.0	5.0	5.0
2001 CapEx	40.0			2.0	4.0	4.0	4.0	4.0
2002 CapEx	40.0				2.0	4.0	4.0	4.0
2003 CapEx	40.0					2.0	4.0	4.0
2004 CapEx	40.0						2.0	4.0
2005 CapEx	40.0							2.0
		$12.1	**$24.6**	**$29.1**	**$33.1**	**$37.1**	**$41.1**	**$45.1**

Amortization Schedule

($ in millions)

Years to Amortize Deferred Financing Costs:	10

Fees and Expenses Calculation

	Amount Raised	Fee %	Fee $
Revolving Credit	–	2.00%	–
Term Loan A	100.0	3.00%	3.0
Senior Notes	125.0	3.00%	3.8
Senior Reserve Notes	–	3.00%	–
Senior Discount Notes	–	3.00%	–
PIK Preferred	–	3.00%	–
Equity	–	5.00%	–
Legal	NA	NA	1.0
Total Fees and Expenses			7.8

		Projected Fiscal Year Ended December 31,						
		1999	2000	2001	2002	2003	2004	2005
	Beginning Balance	$7.8	$7.0	$6.2	$5.4	$4.7	$3.9	$3.1
	Amortization	(0.8)	(0.8)	(0.8)	(0.8)	(0.8)	(0.8)	(0.8)
	Ending Balance	$7.0	$6.2	$5.4	$4.7	$3.9	$3.1	$2.3

Years to Amortize Goodwill:	40

		Projected Fiscal Year Ended December 31,						
		1999	2000	2001	2002	2003	2004	2005
New Goodwill	Beginning Balance	$–	$–	$–	$–	$–	$–	$–
	Amortization	–	–	–	–	–	–	–
	Ending Balance	$–	$–	$–	$–	$–	$–	$–
Existing Goodwill	Beginning Balance	$66.3	$64.7	$63.0	$61.4	$59.7	$58.0	$56.4
	Amortization	1.7	1.7	1.7	1.7	1.7	1.7	1.7
	Ending Balance	$64.7	$63.0	$61.4	$59.7	$58.0	$56.4	$54.7

Refinancing Model (cont.)

Debt Schedule

($ in millions, except per share amounts)

Revolving Credit	Interest Rate:	8.00%	Offering Adjustments	Adjusted Pro Forma 1998	Projected FYE December 31, 1999	2000	2001	2002	2003	2004	2005
Total Facility	**$200.0**										
Beginning Cash Balance					$142.3	$1.0	$1.0	$1.0	$1.0	$1.0	$1.0
Plus: Period Cash Flows											
Cash Flow from Operating					33.4	41.9	49.9	55.7	61.6	68.9	77.0
Cash Flow from Investing					(164.0)	(49.8)	(39.8)	(40.0)	(39.7)	(39.9)	(39.9)
Cash Flow from Financing before Revolver					–	–	–	–	–	–	–
Less: Minimum Cash Balance					(1.0)	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)
Excess Cash (Cash Deficit)					10.7	(8.0)	10.1	15.8	21.9	29.0	37.0
Beginning Revolving Credit Balance					–	–	8.0	–	–	–	–
Borrowings (Repayments) under Revolving Credit					–	8.0	(8.0)	–	–	–	–
Ending Revolving Credit Balance					–	8.0	–	–	–	–	–
Interest Expense					$ –	$ –	$0.6	$ –	$ –	$ –	$ –

Term Loan A	Interest Rate:	8.00%	Offering Adjustments	Adjusted Pro Forma 1998	Projected FYE December 31, 1999	2000	2001	2002	2003	2004	2005
Cash Balance After Revolver Borrowing/(Paydown)					$10.7	$ –	$2.2	$15.8	$21.9	$29.0	$37.0
Beginning Term Loan A Balance					$100.0	$89.3	$89.3	$87.1	$71.3	$49.5	$20.5
Contractual Amortization					–	–	–	–	–	–	–
Voluntary Repayment					(10.7)	–	(2.2)	(15.8)	(21.9)	(29.0)	(20.5)
Total Amortization					(10.7)	–	(2.2)	(15.8)	(21.9)	(29.0)	(20.5)
Ending Balance					$89.3	$89.3	$87.1	$71.3	$49.5	$20.5	$–
Interest Expense					$7.6	$7.1	$7.1	$6.3	$4.8	$2.8	$0.8

Senior Notes	Interest Rate:	8.00%	Offering Adjustments	Adjusted Pro Forma 1998	Projected FYE December 31, 1999	2000	2001	2002	2003	2004	2005
Beginning Balance					$125.0	$125.0	$125.0	$125.0	$125.0	$125.0	$125.0
Amortization					–	–	–	–	–	–	–
Ending Balance					$125.0	$125.0	$125.0	$125.0	$125.0	$125.0	$125.0
Interest Expense					$10.0	$10.0	$10.0	$10.0	$10.0	$10.0	$10.0

Senior Discount Notes	Interest Rate:	8.00%	Offering Adjustments	Adjusted Pro Forma 1998	Projected FYE December 31, 1999	2000	2001	2002	2003	2004	2005
Beginning Balance					$ –	$ –	$ –	$ –	$ –	$ –	$ –
Amortization					–	–	–	–	–	–	–
Ending Balance					$ –	$ –	$ –	$ –	$ –	$ –	$ –
Cash Interest Expense					$ –	$ –	$ –	$ –	$ –	$ –	$ –
Non–Cash Interest Expense					–	–	–	–	–	–	–
Total Interest Expense					$ –	$ –	$ –	$ –	$ –	$ –	$ –

Refinancing Model (cont.)

Debt Schedule (cont.)

($ in millions, except per share amounts)

Senior Reserve Notes	Interest Rate:	8.00%	**Offering Adjustments**	**Pro Forma FYE 1998**	**Projected FYE December 31, 1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**
Beginning Balance					$ –	$ –	$ –	$ –	$ –	$ –	$ –
Amortization					–	–	–	–	–	–	–
Ending Balance					$ –	$ –	$ –	$ –	$ –	$ –	$ –
Interest Expense					$ –	$ –	$ –	$ –	$ –	$ –	$ –
Restricted Cash:	**Rate**	**Beg. Balance**									
Beginning Balance 1	5.68%	$ –			$ –	$ –	$ –	$ –	$ –	$ –	$ –
Beginning Balance 2	5.81	–			–	–	–	–	–	–	–
Beginning Balance 3	5.93	–			–	–	–	–	–	–	–
Beginning Balance 4	6.05	–			–	–	–	–	–	–	–
Beginning Balance 5	6.11	–			–	–	–	–	–	–	–
Beginning Balance 6	6.17	–			–	–	–	–	–	–	–
		$ –			$ –	$ –	$ –	$ –	$ –	$ –	$ –
Interest Income					$ –	$ –	$ –	$ –	$ –	$ –	$ –
Interest Expense					–	–	–	–	–	–	–
New Total					$ –	$ –	$ –	$ –	$ –	$ –	$ –

PIK Preferred Stock	Interest Rate:	8.00%	**Offering Adjustments**	**Pro Forma FYE 1998**	**Projected FYE December 31, 1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**
Beginning Balance					$ –	$ –	$ –	$ –	$ –	$ –	$ –
Amortization					–	–	–	–	–	–	–
Ending Balance					$ –	$ –	$ –	$ –	$ –	$ –	$ –
Cash Dividends					$ –	$ –	$ –	$ –	$ –	$ –	$ –
Non–Cash Dividends					–	–	–	–	–	–	–
Total Dividends					$ –	$ –	$ –	$ –	$ –	$ –	$ –

Total Debt	$214.3	$222.3	$212.1	$196.3	$174.5	$145.5	$125.0
Total Debt Plus Pik Preferred Stock	$214.3	$222.3	$212.1	$196.3	$174.5	$145.5	$125.0
Total Cash Interest Expense	17.6	17.1	17.7	16.3	14.8	12.8	10.8
Total Non-Cash Interest Expense	–	–	–	–	–	–	–
Total Interest Expense	17.6	17.1	17.7	16.3	14.8	12.8	10.8
Total Interest Expense Plus Total Dividends	17.6	17.1	17.7	16.3	14.8	12.8	10.8

BEAR STEARNS

Section 8

Comps

BEAR STEARNS

Section 8-A

Leveraged Loan Comparable Transactions Analysis and Lender Universe

Leveraged Loan Comparable Transactions Analysis

What is a leveraged loan comparable transactions analysis ("bank comps")?

Bank comps compare bank loan transactions of similar companies, specifically analyzing their structure, covenants, pricing, and trading levels.

When will I use bank comps?

- To identify market precedent for financing similar companies.
- To understand investor/market capacity.
- To determine how similar companies are capitalized.
- To compare leverage and coverage ratios.
- To determine likely debt ratings from the rating agencies, if applicable.
- To determine initial pricing ranges.
- To determine financial covenants and initial levels.
- To formulate syndication strategies.
- To evaluate selldown potential.

Leveraged Loan Comparable Transactions Analysis (cont.)

How do I select the right group of comparables?

Bank comps tend to have the following characteristics in common.

- Company size (as defined by revenues, EBITDA, and market capitalization).
- Stage of development (early stage vs. mature).
- Financial health (i.e., not distressed).
- Industry/business lines (operational characteristics).
- Credit ratings (at close).
- Capital structure.
- Deal size.
- Purpose.
- Initial pricing.
- Similar structure (i.e., type of obligor, collateral, seniority).
- Composition of tranches.
- Date “in-market”.

Leveraged Loan Comparable Transactions Analysis (cont.)

Where do I find the information required to complete bank comps?

Summary Deal Terms:	■ Publicly-filed credit agreements (exhibits to SEC filings on Disclosure, Edgar and FactSet). ■ Loan Connector/Deal Scan. ■ Loan Ware. ■ PMD Database. ■ Bloomberg. ■ Offering Memoranda. ■ Leveraged Loan Sales Group.

Comparable Leveraged Loan Transactions—Template Description

($ in millions)

	Explanation	Example: World Movie Co.
Sr. Secured Ratings (current):	S&P/Moody's	BB/Ba2
Sr. Secured Ratings (at close):	S&P/Moody's	BB/Ba2
Business:	Brief description	Motion Picture Exhibition
Deal Date:	Month-Year	May 1999
Sponsor:	Financial sponsor	Hicks, Muse, Tate & Furst
Purpose:	Brief explanation	Refinance existing bank facility
Lead Arranger(s):	List Lead Arrangers	Chase, BSC
Agent(s):	Administrative Agent, Syndication Agent, Documentation Agent	Chase, BSC, FUN
Security:	Secured (type)/Unsecured	Stock of subsidiaries and all assets
Facilities and Tenor:	Deal Size	$250.00
Revolver	Facility Sizes and Term	75.00, 5 years
Term Loan A		75.00, 6 years
Term Loan B		100.00, 7 years
Term Loan C		
Other		
Initial Pricing:		
Pro Rata	Initial spread with fixed period	LIBOR + 275.00 bps (fixed for 1 year)
Institutional	Initial spread with fixed period or grid indication	LIBOR + 325.00 bps (no grid)
Grid Basis:	List what pricing grid is based upon	Total Debt/EBITDA
Pricing Grid:	Outline full pricing grid Level—Drawn/Undrawn	*Pro Rata (Dr/Undr)* ≥ 4.50x–275/50.0 ≥ 4.00–250/50.0 ≥ 3.50–225/50.0 ≥ 3.00–200/50.0 < 3.00–175/37.5

Comparable Leveraged Loan Transactions—Template Description (cont.)

($ in millions)

	Explanation	Example: World Movie Co.
Other:		
Utilization Fee	*List fee and level, if applicable*	*None*
Call Protection	*List levels and periods, if applicable*	*None*
Covenants:		
Total Leverage Ratio	List levels and range if applicable	4.75x–4.00x
Senior Leverage Ratio		None
Fixed Charge Coverage Ratio(1)		1.1x–1.2x
Interest Coverage Ratio		2.50x
Other		None
Definitions:	Provide any material notes (such as addbacks)	EBITDA is annualized for theatre openings/closings Fixed Charges = Principal Amortization + Interest + Taxes + Maintenance CapEx
Upfront Fees (on allocation unless otherwise noted):		
Agent	Provide commitment level and corresponding upfront fee	Not Public
Senior Managing Agent		NA
Managing Agent		$40M–100bps
Co-Agent		$25M–50bps
Lead Manager		NA
Participant		$15M–35bps
Institutional		All–25bps

(1) The definition of Fixed Charge Coverage Ratio varies with each deal, so you need to look up the definition of fixed charges in the credit agreement each time, if it is available.

Comparable Leveraged Loan Transactions—Example

($ in millions)

	Winsloew Furniture	Blount Inc.	ChipPac International	Intersil Corporation	Pacer International Corp.	St. John Knits, Inc.
Sr. Secured Ratings (current):	NR/NR	B/B2	NR/NR	BB-/Ba3	B+/B1	B+/Ba3
Sr. Secured Ratings (at close):	NR/NR	B/B2	NR/NR	BB-/Ba3	NR/NR	B+/Ba3
Business:	Household furniture and fixtures	Industrial buildings and warehouses	Semiconductors and related devices	Semiconductors and related devices	Freight transportation equipment	Knit outerwear mills
Deal Date:	8/27/99	8/19/99	8/5/99	8/13/99	5/28/99	7/7/99
Sponsor:	Trivest	Lehman Merchant Banking Partners II	Bain Capital	Citicorp Venture Capital Ltd.	Apollo Advisors	Vestar Capital
Purpose:	LBO	LBO	LBO	LBO	LBO	LBO
Facilities and Tenor:	**$155.00**	**$500.00**	**$220.00**	**$275.00**	**$235.00**	**$215.00**
Revolver:	$40.00, 5.33 yr.	$100.00, 5 yr.	$50.00, 6 yr. $20.00(1), 6 yr.	$70.00, 5.83 yr.	$100.00, 5 yr.	$25.00, 6 yr.
Term Loan A:	$25.00, 5.33 yr.	$60.00, 4.83 yr.	$70.00, 6 yr.			$75.00, 6 yr.
Term Loan B:	$62.50, 6.83 yr.	$340.00, 6.83 yr.	$80.00, 7 yr.	$205.00, 5.83 yr.	$135.00, 7 yr.	$115.00, 8 yr.
Term Loan C:	$7.50, 6.83 yr.					
Other:	$20.00(2), 5.33 yr.					
Initial Pricing:						
Pro Rata:	L + 300 bps (Fixed for 3 months)	L + 325 bps	L + 325 bps	L + 325 bps (Fixed for 3 months)	L + 250 bps	L + 300 bps (Fixed for 6 months)
Institutional:	L + 350 bps (Fixed for 3 months)	L + 400 bps (No grid)	L + 400 bps (No grid)	L + 400 bps (No grid)	L + 300 bps	L + 350 bps (Fixed for 6 months)
Grid Basis:	Total Debt/EBITDA	Total Debt/EBITDA	Total Debt/EBITDA	Total Debt/EBITDA	Total Debt/EBITDA	Total Debt/EBITDA
Pricing Grid:	*Pro Rata (Dr/Undr)* ≥ 5.25x: 300/50.0 ≥ 4.50x: 275/50.0 ≥ 3.75x: 250/37.5 ≥ 3.00x: 225/37.5 < 3.00x: 200/37.5	*Pro Rata (Dr/Undr)* ≥ 5.00x: 325/50.0 ≥ 4.50x: 300/50.0 ≥ 4.00x: 275/50.0 ≥ 3.50x: 225/37.5 < 3.50x: 175/37.5	*Pro Rata (Dr/Undr)* ≥ 3.50x: 325/50.0/100.0 ≥ 3.00x: 300/50.0/100.0 ≥ 2.50x: 275/50.0/100.0 < 2.50x: 250/50.0/100.0	*Pro Rata (Dr/Undr)* ≥ 4.00x: 325/50.0 ≥ 3.50x: 300/50.0 ≥ 3.25x: 275/50.0 ≥ 3.00x: 250/50.0 ≥ 2.75x: 225/50.0 < 2.75x: 200/50.0	*Pro Rata (Dr/Undr)* ≥ 5.00x: 275/50.0 ≥ 4.00x: 250/50.0 ≥ 3.50x: 225/37.5 < 3.50x: 200/37.5	*Pro Rata (Dr/Undr)* ≥ 5.00x: 300/50.0 ≥ 4.50x: 275/50.0 ≥ 4.00x: 250/50.0 ≥ 3.75x: 225/50.0 < 3.75x: 200/37.5
	Institutional ≥ 5.25x: 350 ≥ 3.00x: 325 < 3.00x: 300				*Institutional* ≥ 4.00x: 300 ≥ 3.50x: 275 < 3.75x: 250	*Institutional* ≥ 4.25x: 350 ≥ 3.75x: 325 < 3.75x: 300

(1) Facility is a CapEx, multiple draw Revolver/Term Loan.
(2) Represents an Acquisition Facility.

Comparable Leveraged Loan Transactions—Example

	Winsloew Furniture	Blount Inc.	ChipPac International	Intersil Corporation	Pacer International Corp.	St. John Knits, Inc.
Other:						
Utilization Fee:	None	None	None	None	NA	NA
Call Protection:		*Term Loan B* 101.5 in Year 1 100.5 in Year 2	None	*Term Loan B* 102 in Year 1 101 in Year 2	NA	NA
Covenants:						
Total Leverage Ratio:	5.75x–4.00x	5.90x–3.75x	4.75x–2.50x	4.50x–2.50x	5.50x–4.50x	6.00x–3.75x
Senior Leverage Ratio:	None	None	None	None	None	None
Fixed Charge Coverage Ratio:	1.20x		1.10x	1.10x	None	1.10x
Interest Coverage Ratio:	1.40x–2.00x	1.50x–3.25x	2.00x–2.50x	1.75x–3.00x	1.75x–2.25x	1.75x–2.25x

Lender Universe

What is a lender universe?

A lender universe is an analysis which compiles a list of the banks which participated in prior bank financings for comparable companies.

Why do we create a lender universe?

In assessing market capacity for a proposed transaction in a given industry sector, we look at a lender universe to make determinations based on the number of existing lenders to the company and on the active loan investors to comparable companies. This information is used to develop syndication strategies (i.e., number of banks invited, proposed commitment tiers and titles, and upfront fees) that enable the bank facility to be successfully distributed.

Where do I get the information required to complete a lender universe?

Lenders:	■ Publicly-filed credit agreements (exhibits to financial statements on Disclosure, Edgar and FactSet). ■ Loan Connector/Deal Scan. ■ Loan Ware. ■ PMD. ■ Bloomberg. ■ Leveraged Loan Sales Group.

Lender Universe–Example

Insert Landscape Tabloids 100090 (doc # 217383), page 73

Helpful Guidelines for Bank Comps and Lender Universe

- Adjustments to Deal Terms.
  - Third-Party databases may not include the final deal structure/amount if it was modified in-market after its initial launch (i.e., retranching, changes in deal size, tenor, covenants, pricing). Consult the credit agreement, which is filed as an exhibit to the financial statements if the company is a public-reporting entity, for the final definitive terms.
- Credit Ratings.
  - Third-party databases often include credit ratings at closing in deal descriptions. However, these ratings may not be accurate for decision making with respect to pre-existing instruments. For example, the listings may not be specific as to instrument, include the same rating (i.e., senior secured vs. senior unsecured) or may not be updated to reflect the company's pro forma credit profile. For confirmation, consult S&P and Moody's bank loan ratings guides or call either service directly.
- Incomplete Information.
  - Because the leveraged loan market is a "private market," complete and accurate information regarding certain transactions is not always readily available. Accordingly, numerous sources may have to be consulted to obtain and confirm details of the financings.
- Lender Universe.
  - Caution must be exercised to exclude institutions that no longer exist due to industry consolidation (i.e., Fleet and Bank of Boston, Bank of America and NationsBank) and to avoid double counting institutions that participate in bank financings as different entities (i.e., Chase Manhattan and Chase Texas, Salomon Smith Barney and Citibank). While historical information regarding the syndication is helpful, it must be put into the context of the syndication being presently contemplated. Consult the Leveraged Finance Group for further information if you have any questions.

BEAR STEARNS

Section 8-B

High Yield Comparable Companies Analysis

High Yield Comparable Companies Analysis

What is a high yield comparable companies analysis ("debt comps")?

A high yield comparable companies analysis compares high yield transactions of similar companies, specifically analyzing their structure, covenants, pricing and trading levels.

When will I use a high yield comparable companies analysis?

- To identify market precedent for financing similar companies.
- To understand investor/market capacity.
- To determine how similar companies are capitalized.
- To compare leverage and coverage ratios.
- To determine likely debt ratings from rating agencies.
- To determine initial pricing ranges.
- To determine financial covenants and initial levels.
- To determine how a Company's bonds are trading and how the public market is assessing its creditworthiness relative to its peers.
- To assess the ability of the Company to obtain high yield financing.

High Yield Comparable Companies Analysis (cont.)

How do I select the right set of comparable companies?

Companies used in a high yield comparison generally have the following common characteristics.

- Company size (as defined by Revenues, EBITDA, and market capitalization).
- Stage of development (early stage vs. mature).
- Financial health (i.e., not distressed).
- Industry/business lines (operational characteristics).
- Credit ratings (at close).
- Capital structure.
- Deal size.
- Purpose.
- Similar structure (i.e., type of obligor, collateral, seniority).
- Date “in-market”.

High Yield Comparable Companies Analysis (cont.)

Where do I find the information required to complete a high yield comparable companies analysis?

Comparable Companies:	BSC Rel. Val., BSC High Yield Database
Historical Financial Statements:	10K, 10Q (Disclosure, Edgar, FactSet)
Credit Ratings:	S&P (212) 438-2400, Moody's (212) 553-0377
Yield to Worst:	BSC Rel. Val., BSC High Yield Capital Markets, Bloomberg
Treasury Yield:	Bloomberg
Bond Offering Size and Terms:	High Yield Database, SDC, Prospectus, Exchange Offer (Disclosure, Edgar, FactSet, 3rd Floor High Yield Library)

High Yield Comparable Companies Analysis—Example

Insert Landscape Tabloids 100090 (doc # 217383), page 78

Helpful Guidelines for Debt Comps

- Extraordinary Items.
  - Extraordinary items are one-time items and should always be excluded. These items may include restructuring charges, gains/(losses) on sales of assets, litigation expenses or merger-related write-offs. Remember to footnote all adjustments.

- Key Items Not Broken Out.
  - Often companies simply show net interest expense instead of separating gross interest expense and interest income, or they do not break out depreciation in their 10Qs. If the information is available annually, then use it to estimate quarterly data that the company has presented and footnote the assumptions. Financial ratios should be calculated using both gross and net interest expense.

- Recent Financial Activity.
  - Check recent press releases and SEC filings (i.e., 10-K, 10-Q, 8-K, Prospectus, whichever is most recent) to see whether or not the company has been involved in any major acquisitions/divestitures or capital raising activities. If so, make pro forma adjustments to the company's financials to reflect the activity and remember to footnote any assumptions that you make.

- Operating Leases.
  - Operating lease payments (i.e., rent expense) are considered fixed obligations. They are likely to be significant in industries that require large amounts of real estate (i.e., retailing). Therefore, in such circumstances, operating leases should be "capitalized" and included in the calculation of total debt to compare companies with varying amounts of owned vs. leased properties. Leverage and coverage ratios should be calculated in both ways: (i) Total Debt/EBITDA and EBITDA/Interest Expense; and (ii) Total Debt plus capitalized leases/EBITDA plus "rent expense" and EBITDA plus rent expense/interest expense plus rent expense for comparability. The example on the following page illustrates how S&P capitalizes operating leases and how to pro forma financials using this technique.

Helpful Guidelines for Debt Comps

Lease Model Calculation

($ in millions)

Payment Period	1999 Minimum Lease Payment
2000	$40.1
2001	40.9
2002	40.8
2003	41.0
2004	41.0
2005	41.0
2006	41.0
2007	41.0
2008	41.0
2009	41.0
2010	41.0
2011	12.2
Total Minimum Cash Lease Payments	$462.0
Interest Rate Assumption[(1)]	10.0%
	1999
Net Present Value (NPV)	$269.1
Implicit Lease Period Interest Expense	26.9
Implicit Lease Period Depreciation Expense	13.2

Steps Required to Capitalize Operating Leases

Step 1	Input the minimum future lease payments for the next 5 years using the footnotes in the Company's financial statements.
Step 2	Divide the "Thereafter" amount by the fifth year and enter the fifth year amount for the remaining years based upon that whole number, with the remainder in the last year.
Step 3	Calculate the Net Present Value of the minimum future lease payments @ 10%. [(1)]
Step 4	Calculate Implicit Lease Interest Expense @ 10%[(1)] of the Net Present Value of the minimum future lease payments.
Step 5	Calculate the Implicit Lease Depreciation Expense by subtracting the Implicit Lease Interest Expense from the 2000 minimum lease payment.
Step 6	Calculate pro forma EBITDA by adding the first year Minimum Lease Payment to actual EBITDA.
Step 7	Calculate pro forma interest expense by adding implied interest expense to actual interest expense.
Step 8	Calculate pro forma total debt by adding the Net Present Value of future lease payments.
Step 9	Recalculate leverage and coverage ratios.

Capitalization

($ in millions)

	Year Ended 12/31/99		
	Actual	Adjustments	Pro Forma
Total Debt			
Operating Leases	–	$269.1	$269.1
Senior Notes due 2005	41.5	–	41.5
Total Debt	$41.5	$269.1	$310.6
Stockholders' Equity	306.4	–	306.4
Total Capitalization	$347.9	–	$617.0

Credit Statistics

($ in millions)

	Year Ended 12/31/99		
	Actual	Adjustments	Pro Forma
EBITDA	$106.9	$40.1	$147.0
Interest Expense	36.8	26.9	63.7
Total Debt/EBITDA	0.4x		2.1x
Total Debt/Total Capitalization	11.9%		50.3%
EBITDA/Interest Expense	2.9x		2.3x

(1) Suggested rate assumption from Standard & Poor's. The actual rate used in the analysis may vary based on the credit profile of the company and the current market cost of debt financing.

BEAR STEARNS

Section 9

Leveraged Buyout

Leveraged Buyout

What is a leveraged buyout (LBO)?

- An LBO is the acquisition of a company or a division/subsidiary by a sponsor (i.e., LBO Sponsor).
- The buyer (the LBO Sponsor) uses debt to finance a significant portion of the purchase price (i.e., leverage).
- The LBO Sponsor generally injects equity capital into a new shell company (NewCo), which issues debt and uses the aggregate amounts of debt and equity to simultaneously acquire the target company's stock.
- The LBO Sponsor typically initiates the transaction with the intent of monetizing its investment within five years through a liquidity event, such as an outright sale of all or a portion of the company or an initial public offering.
- The focus of the Equity Sponsor is to increase the total enterprise value through internal growth or acquisitions and/or to pay down debt and thereby increase the value of the equity.

Leveraged Buyout

What is the focus of an LBO analysis?

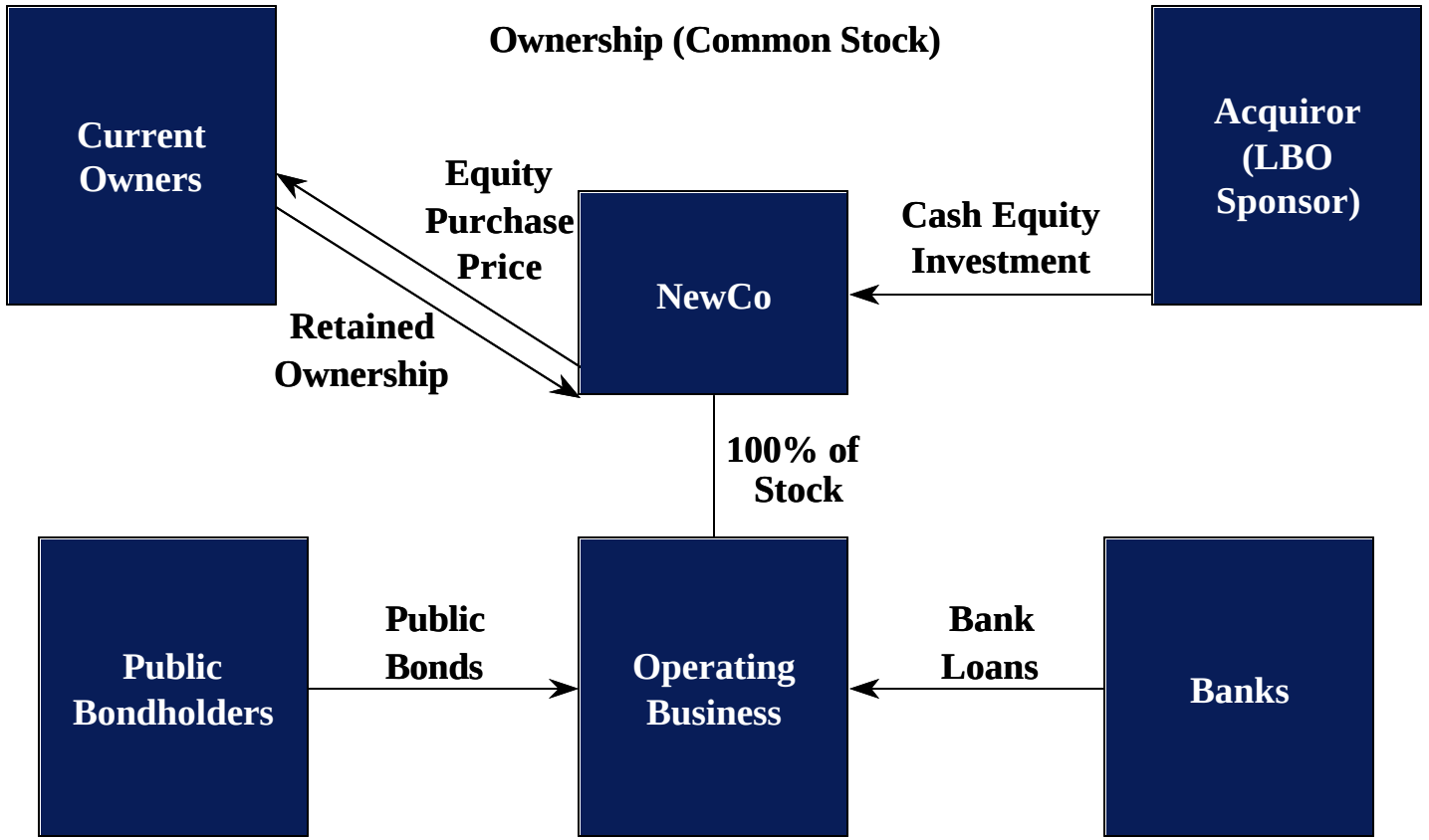
- To determine the most appropriate capital structure (i.e., to determine an appropriate mix of debt and equity capital and an appropriate structure of the debt in light of the projected cash flow of the Company.
- To forecast equity returns based on a given purchase price and capital structure.
- Sell side applications of an LBO.
  - Choosing the best buyers to approach.
  - Determining which prices potential buyers might pay.
- Buy side applications of an LBO.
  - Determining how much the client can afford to pay for a potential acquisition.
  - Determining how to structure the financing for a potential acquisition.

Leveraged Buyout (cont.)

What are the typical characteristics of a good LBO candidate?

- Steady and predictable revenues, earnings and cash flow.
- Significant available free cash flow (i.e., minimal capital expenditures and working capital requirements).
- Strong management team.
- Viable exit strategy.
  - Initial public offering.
  - Subsequent sale of the entire company to either strategic buyers or other LBO investors.
- Leading market share and strong competitive position.
- Positive industry fundamentals (i.e., low cyclicality) with attractive growth prospects.
- Opportunities for value creation.
  - Revenue growth.
  - Margin enhancement (i.e., cost reductions and improved revenue composition).
  - Improved working capital management.
  - Synergies with other portfolio companies.
  - Hidden assets (i.e., undervalued assets) that can be monetized.
  - Ability to make add-on acquisitions.

Leveraged Buyout Structure



Financing Sources for a Leveraged Buyout

While LBO Sponsors differ in their preferred levels of leverage for a given transaction, the typical components of an LBO are presented below.

	Bank Debt	High Yield Bonds	Hybrid Debt	Common Equity
Description:	■ Revolver. ■ Term Loan A. ■ Institutional Term Loans.	■ Senior Notes. ■ Senior Subordinated Notes. ■ Senior Discount Notes. ■ Interest Reserve Notes.	■ Mezzanine Debt. ■ Convertible Subordinated Notes. ■ Preferred Stock. ■ PIK Preferred Stock. ■ Warrants.	
Typical Term/ Investment Horizon:	5–9 years.	7–10 years.	7–10+ years.	4–6 years.
Amortization:	Yes.	No.	Varies	No.
Cash Coupon/Dividend:	Yes.	Yes.	Varies.	No.
Interest Rates/ Targeted Rates of Return:	LIBOR + 275–400 bps	10-Year Treasury + 600 bps	18%–22%	25%+
Typical Percentage of Total Capital:	30%–50%	0%–35%	0%–35%	25%–35%
Sources:	■ Commercial Banks. ■ Investment Banks. ■ Institutional Lenders (i.e., mutual funds, CLOs, etc.)	■ Public Market. ■ Pension Funds. ■ Mutual Funds. ■ Hedge Funds. ■ CBOs. ■ Insurance Companies ■ Others.	■ Public Market. ■ Pension Funds. ■ Mutual Funds. ■ Hedge Funds. ■ CBOs. ■ Insurance Companies. ■ Others.	■ Management Investors. ■ Private Equity Funds. ■ Merchant Banks. ■ Investment Banks.

Evolution of Leveraged Buyouts

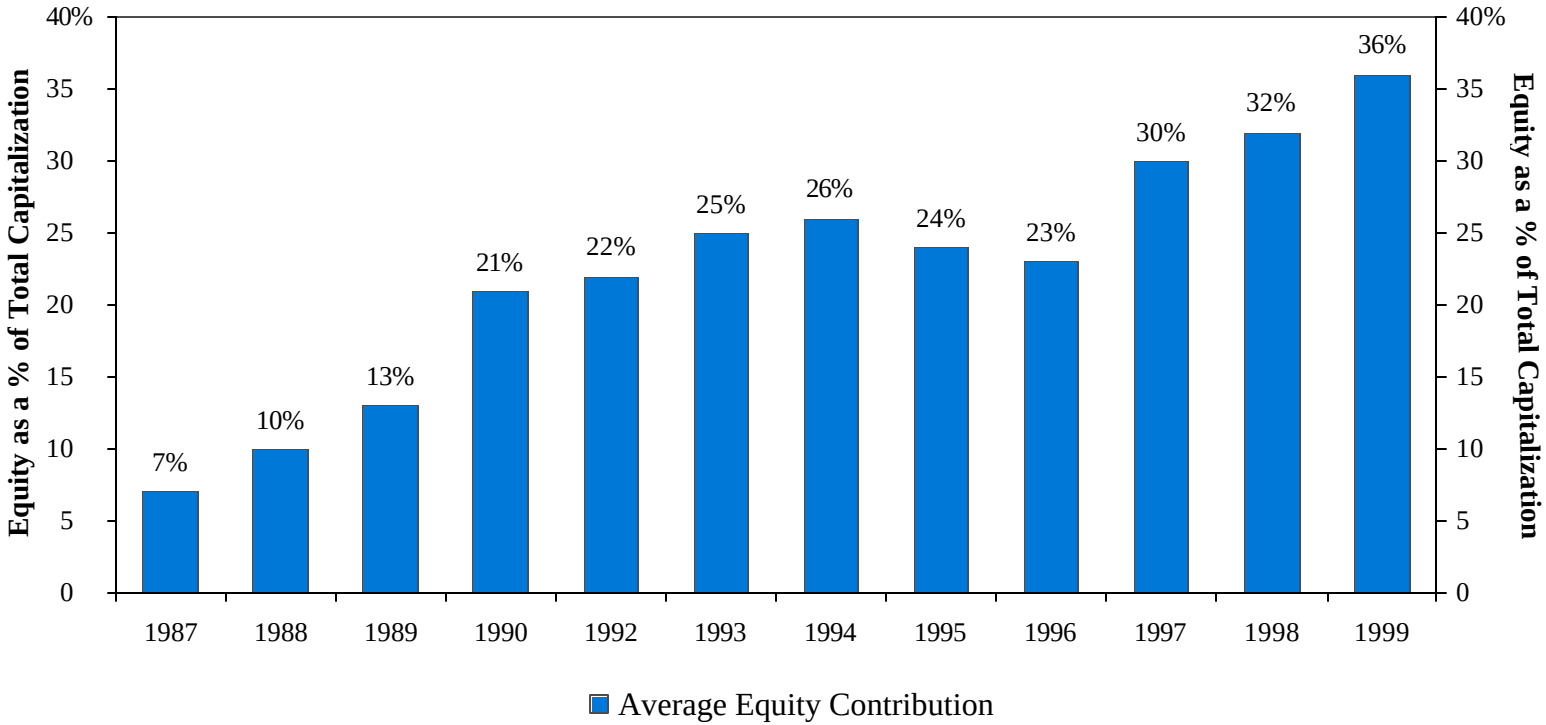
Although the features of LBOs have been quite varied in each period, certain broad generalizations about the evolution of LBOs can be drawn.

	Early 1980s	Late 1980s/Early 1990s	Mid/Late 1990s
Purchase Price Multiple:	6.0x EBITDA	7.0x EBITDA	9.0x EBITDA
Exit Multiple:	6.0x EBITDA	9.0x EBITDA	20.0x + P/E
Preferred Exit Strategy:	■ Sale to strategic buyer.	■ Sale to strategic buyer.	■ Sale to strategic buyer. ■ Initial public offering.
Return Drivers:	■ Debt reduction. ■ Break-up value.	■ Internal growth. ■ Multiple expansion. ■ Debt reduction.	■ Internal growth. ■ Add-on acquisitions. ■ Public market exit valuations. ■ Some debt reduction.
Investment Themes:	■ Discrete transactions. ■ Break-ups. ■ Sale of non-core operations. ■ Reduce capital expenditure/ working capital investment. ■ Focus on cash flow generation. ■ Management incentives.	■ Improve operations. ■ Consolidation. ■ Tuck-in acquisitions. ■ Management incentives.	■ Buy and build/platforms. ■ Achieve critical mass through add-on acquisitions. ■ Corporate partnering. ■ Highly structured transactions. ■ Turnarounds. ■ Management incentives.
Targeted Rates of Return:	40%–50%	30%–35%	25% +

Equity Contributions to Leveraged Buyouts

Due to a combination of: (i) higher purchase prices; (ii) volatility in the debt capital markets; and (iii) increased conservatism among debt investors, the portion of an LBO purchase price financed with equity has steadily increased over the last three years.

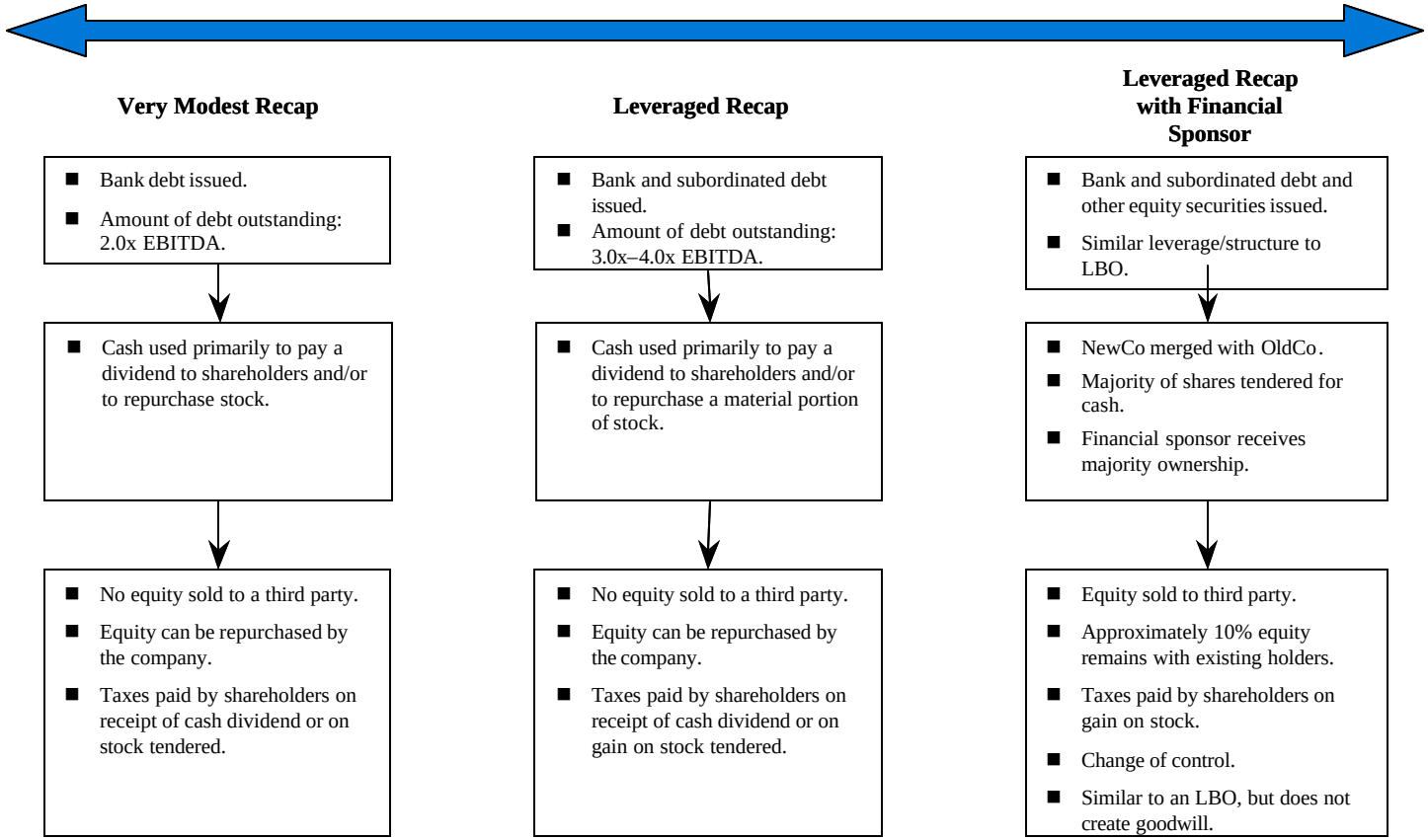
Average Equity Contribution to Leveraged Buyouts



Note: The sample size in 1991 was too low to be meaningful.

Recapitalization

A recapitalization encompasses a broad range of financial restructuring alternatives and can appear anywhere on the following spectrum:



Leveraged Recapitalization

What is a Leveraged Recapitalization?

- Financial sponsors are sometimes reluctant to create goodwill, and its associated annual amortization requirements, if they: (i) anticipate an exit strategy that involves an IPO; and (ii) the company is in an industry in which goodwill amortization might reduce the valuation achievable in an IPO.

- A leveraged recapitalization is a transaction, through which a company modifies its existing capital structure by significantly increasing its leverage.
  - The equity holders are paid a cash dividend or stock is repurchased by utilizing a large amount of debt to fund the recapitalization.
  - To qualify as a recapitalization, approximately 10% of the Company's stock must remain outstanding or be exchanged ("rolled over") for stock in the NewCo.

What is the difference between a Leveraged Recapitalization with a Financial Sponsor and an LBO?

- Economically, a leveraged recapitalization is similar to an LBO. The difference lies in the accounting treatment of goodwill.
  - In a traditional LBO, a new company is formed, purchase accounting is required, and goodwill is created. The goodwill is then amortized over a period of time (usually between 20 and 40 years, although in recent years the SEC has required companies to write off goodwill more aggressively and the number is now closer to 20).
  - In a Recapitalization, goodwill is not created because the aggregate purchase price of the equity is immediately written off against the book value of equity.

Leveraged Recapitalization (cont.)

When will I perform a Recapitalization analysis?

- When you are working with financial sponsors who would like to make an LBO-like acquisition but who would also like to avoid the creation of goodwill and the structure of the transaction does not require the use of purchase accounting.

Leveraged Buyout and Recapitalization

Accounting Methods

	Purchase (LBO)	Leveraged Recap with Financial Sponsor
Philosophy:	■ Acquisition of one company by the other.	■ Exchange of part of shareholder interest in target for equity in surviving NewCo.
Requirements:	■ None.	■ At least 10% of existing equity to remain outstanding or to be exchanged.
Flexibility:	■ High.	■ Low.
EPS Dilution:	■ Generally high due to goodwill amortization and the write-up of assets to fair market value.	■ Generally lower due to the absence of goodwill amortization and additional depreciation expense.
Asset Value:	■ Creates goodwill. In purchase accounting, assets and liabilities are marked-to-market.	■ No goodwill. No purchase accounting. No change in accounting for assets and liabilities.
Accounting Treatment:	■ Complex. ■ Financials combined from date of acquisition. ■ Goodwill created. Assets may be written up. ■ Over 50% must be acquired or the acquirer must have control for book consolidation. For tax consolidation, 80% must be acquired.	■ Immediate charge against shareholders' equity.
Form of Consideration:	■ No restrictions on form of consideration.	■ At least 10% of Target equity to remain outstanding or to be exchanged into stock of surviving NewCo.
Stock/Asset Purchase:	■ Can buy stock or assets.	■ Can only buy stock.
Number of Transactions:	■ Can be accomplished through multiple transactions.	■ Can be accomplished through multiple transactions.

Leveraged Buyout and Leveraged Recapitalization (cont.)

Accounting Methods

- When does purchase accounting make sense?
  - Assets can be marked up to capture value of tax shields associated with additional depreciation expense.
  - Goodwill is tax deductible but only in an asset transaction.
  - Desire to avoid a significant reduction in book equity post-transaction.
  - Focus is on cash earnings vs. accounting earnings.
  - Desire to avoid having minority shareholder(s).

- When does recap accounting make sense?
  - Financial sponsor does not want to create new goodwill and the associated annual amortization expense. In "leveraged acquisitions," the accounting form (recap or purchase) is determined by the percentage of the Company purchased by the buyer.
  - Companies are valued on earnings and are likely to have an exit strategy through an IPO.
    - Results in stronger income statement (i.e., no goodwill amortization drag on earnings).
  - Retained ownership by a minority shareholder is acceptable to the financial buyer.

LBO and Recapitalization Accounting Adjustments

The following pages illustrate the difference in the accounting treatments for a leveraged buyout and a recapitalization of the same Company with similar transaction sources and uses and how the Company's post-transaction balance sheet is different based solely on the accounting method used.

The following shows the sources and uses of funds for both an LBO and a recapitalization.

Sources	**($ in millions)**
New Revolver	$37.3
New Term Loan A	400.0
New Term Loan B	350.0
New Senior Sub. Notes	400.0
New Senior Reserve Notes	–
New Senior Discount Notes	–
New PIK Preferred Stock	–
New Financial Sponsor Common Equity	220.0
Common Equity Rollover	14.2
Excess Cash	–
Total Sources of Funds	**$1,421.5**

Uses	
Purchase of Common Equity	$286.0
Common Equity Rollover	14.2
Repay Existing Revolver	279.8
Repay Existing X.X% Senior Notes	96.4
Repay Existing Y.Y% Senior Sub. Notes	297.7
Repay Existing Other Debt	50.3
Repay Existing Z.Z% Covt. Disc. Notes	316.4
Restricted Cash	–
Total Fees and Expenses	80.8
Total Uses of Funds	**$1,421.5**

LBO (Purchase) Accounting Adjustment

Assets

($ in millions)

Assets	Actual 1999	Transaction Adjustments	Pro Forma 1999
Cash & Equivalents	$20.0	$0.0	$20.0
Accounts Receivable	366.7	–	366.7
Inventory	421.8	–	421.8
Other Current Assets	32.0	–	32.0
Total Current Assets	$840.5	$0.0	$840.5
Property, Plant & Equipment, Net	$439.1	$0.0	$439.1
Intangible Assets, Net	548.6	(548.6)(1)	–
Transaction Goodwill	–	731.2(1)	731.2
Deferred Financing Fees	16.0	9.8(2)	25.8
Deferred Income Taxes	68.5	–	68.5
Other Assets	58.1	–	58.1
Total Assets	**$1,970.8**	**$192.4**	**$2,163.2**

(1) Goodwill Calculation

($ in millions)

Purchase Price of Equity (including rollover equity)	$300.2
Plus: Non-Financing Fees and Expenses	24.1
	$324.3
Less: Existing Book Value	(141.7)
Plus: Existing Goodwill	548.6
Less: Asset Write-Ups	–
	$731.2
Amortization Term (years)	30
Annual Goodwill Amortization	$24.4

(2) Deferred Financing Fees Calculation

($ in millions)

Deferred Financing Fees	$9.8

LBO (Purchase) Accounting Adjustment

Liabilities and Shareholders' Equity

($ in millions)

Liabilities & Shareholders' Equity	Actual 1999	Transaction Adjustments	Pro Forma 1999
Accounts Payable	$246.4	$0.0	$246.4
Accrued Compensation, Benefits and Income Taxes	97.2	–	97.2
Other Current Liabilities	125.0	–	125.0
Total Current Liabilities	$468.6	$0.0	$468.6
Existing Revolver	$279.8	($279.8)	$0.0
Existing X.X% Senior Notes	96.4	(96.4)	–
Existing Y.Y% Senior Sub. Notes	297.7	(297.7)	–
Existing Other Debt	50.3	(50.3)	–
Existing Z.Z% Covt. Disc. Notes	316.4	(316.4)	–
New Revolver	–	37.3	37.3
New Term Loan A	–	400.0	400.0
New Term Loan B	–	350.0	350.0
New Senior Sub. Notes	–	400.0	400.0
New Senior Reserve Notes	–	–	–
New Senior Discount Notes	–	–	–
Total Debt	$1,040.5	$146.8	$1,187.3
Accrued Retirement Benefits	136.0	–	136.0
Other Long Term Liabilities	166.0	–	166.0
Total Liabilities	$1,811.1	$146.8	$1,957.9
Minority Interest	18.0	–	18.0
Common Equity	141.7	45.6[(1)]	187.3
Total Liabilities and Shareholders' Equity	**$1,970.8**	**$192.4**	**$2,163.2**

(1) Purchase Accounting Equity Adjustment

($ in millions)

Elimination of Existing Book Value	($141.7)
Plus: New Financial Sponsor Common Equity	220.0
Plus: Rollover Equity Contribution	14.2
Less: Write-Off of Deferred Financing Fees	(16.0)
Less: Equity Financing Fees	(8.8)
Less: After-Tax Debt Repurchase Costs	(22.2)
Total Adjustments	$45.6

Recapitalization Accounting Adjustment

Assets

($ in millions)

Assets	Actual 1999	Transaction Adjustments	Pro Forma 1999
Cash & Equivalents	$20.0	$0.0	$20.0
Accounts Receivable	366.7	–	366.7
Inventory	421.8	–	421.8
Other Current Assets	32.0	–	32.0
Total Current Assets	$840.5	$0.0	$840.5
Property, Plant & Equipment, Net	$439.1		
Intangible Assets, Net	548.6	$0.0	$439.1
Transaction Goodwill	–	–	548.6
Deferred Financing Fees	16.0	–	–
Deferred Income Taxes	68.5	9.8(1)	25.8
Other Assets	58.1	–	68.5
Total Assets	**$1,970.8**	**–**	**$58.1**

(1) Deferred Financing Fees Calculation

($ in millions)

Deferred Financing Fees	$9.8

Recapitalization Accounting Adjustment

Liabilities and Shareholders' Equity

($ in millions)

Liabilities & Shareholders' Equity	Actual 1999	Transaction Adjustments	Pro Forma 1999
Accounts Payable	$246.4	$0.0	$246.4
Accrued Compensation, Benefits and Income Taxes	97.2	–	97.2
Other Current Liabilities	125.0	–	125.0
Total Current Liabilities	$468.6	$0.0	$468.6
Existing Revolver	$279.8	($279.8)	$0.0
Existing X.X% Senior Notes	96.4	(96.4)	–
Existing Y.Y% Senior Sub. Notes	297.7	(297.7)	–
Existing Other Debt	50.3	(50.3)	–
Existing Z.Z% Covt. Disc. Notes	316.4	(316.4)	–
New Revolver	–	37.3	37.3
New Term Loan A	–	400.0	400.0
New Term Loan B	–	350.0	350.0
New Senior Sub. Notes	–	400.0	400.0
New Senior Reserve Notes	–	–	–
New Senior Discount Notes	–	–	–
Total Debt	$1,040.5	$146.8	$1,187.3
Accrued Retirement Benefits	136.0	–	136.0
Other Long Term Liabilities	166.0	–	166.0
Total Liabilities	$1,811.1	$146.8	$1,957.9
Minority Interest	18.0	–	18.0
Common Equity	141.7	(137.0)[(1)]	4.7
Total Liabilities and Shareholders' Equity	**$1,970.8**	**$9.8**	**$1,980.6**

(1) Recapitalization Accounting Equity Adjustment

($ in millions)

Repurchase of Common Equity	($286.0)
Plus: New Financial Sponsor Common Equity	220.0
Less: Non-Financing Transaction Advisory Fees	(24.1)
Less: Equity Financing Fees	(8.8)
Less: After-Tax Debt Repurchase Costs	(22.2)
Less: Write-off of Deferred Financing Fees	(16.0)
Total Adjustments	($137.0)

BEAR STEARNS

Section 10

Leveraged Buyout Model

Why Construct an LBO Model?

- In order to analyze the implications of potential LBOs, financial models are created to evaluate the outcomes associated with various operating and financing assumptions.
  - Part of the analysis involves developing the optimal capital structure for a transaction by using the financing portion of the model.
  - The other principal focus of the LBO model involves conducting returns analyses to ensure that investors and other capital providers receive appropriate returns. The model calculates the returns that investors will receive based on their initial cash outlay and subsequent cash receipts.
- The combination of the financing aspect of the model and the return analyses creates a comprehensive model that allows us to develop capital structures for issuers that meet investors' return requirements.

Leveraged Buyout Model

($ in millions, except per share amounts)

Sources and Uses of Funds

Sources of Funds:		
Revolver (OpCo)	8.000%	–
Term Loan A (OpCo)	8.000	$100.0
Senior Notes	8.500	125.0
Senior Reserve Notes (HoldCo)	9.000	–
Senior Discount Notes (HoldCo)	9.250	–
PIK Preferred (HoldCo)	9.250	–
Equity		125.0
Total Sources of Funds		**$350.0**
Uses of Funds:		
Purchase of Common Equity		$18.5
Purchase of Target Equity		300.0
General Corporate Purposes		17.5
Restricted Cash		–
Fees & Expenses		14.0
Total Uses of Funds		**$350.0**

Valuation Summary

Purchase Price of Equity	$300.0
Plus: Total Debt	18.5
Less: Cash	(5.0)
Enterprise Value	$313.6

Purchase Price to EBITDA Multiple

	EBITDA	Multiple
1999	$49.1	6.1x
2000	53.5	5.6
2001	57.1	5.3
2002	60.8	4.9
2003	64.9	4.6
2004	69.2	4.3
2005	73.8	4.1

Goodwill Calculation

Purchase Price of Equity	$300.0
Less: Book Value of Equity	64.2
Goodwill Created	$235.8

Pro Forma Capitalization

	1998	Adj	Pro Forma 1998	% of Total Capitalization
Cash	$5.0	$17.5	$22.4	6.4%
Long-Term Debt:				
Revolving Credit	–	–	–	0.0%
Term Loan A	–	100.0	100.0	28.6%
Senior Notes	–	125.0	125.0	35.7%
Senior Discount Notes	–	–	–	0.0%
Senior Reserve Notes	–	–	–	0.0%
Other Long-Term Debt	18.5	(18.5)	–	
Total Long-Term Debt	18.5	206.5	225.0	64.3%
Total Debt	18.5	206.5	225.0	64.3%
PIK Preferred (HoldCo)	–	–	–	0.0%
Stockholders' Equity	64.2	60.8	125.0	35.7%
Total Book Capitalization	$82.7	$267.3	$350.0	100.0%
Total Debt/Total Capitalization	22.4%		64.3%	

Summary Credit Statistics

	1999	2000	2001	2002
Senior Debt/EBITDA	3.68x	2.96x	2.32x	2.05x
Total Debt/EBITDA	3.68	2.96	2.32	2.05
Net Debt/EBITDA	3.66	2.94	2.30	1.66
EBITDA/Interest	3.03	3.95	4.90	5.91
(EBITDA-CapEx)/Interest	2.73	3.72	4.65	5.62

Leveraged Buyout Model (cont.)

Five Year Exit (2003)

($ in millions, except per share amounts)

Ownership Percentage	**100%**
EBITDA	$64.9
Total Debt	125.0
PIK Preferred	–
Cash	56.5

Terminal Multiple	Enterprise Value	Equity Value	Initial Outlay	1999	2000	2001	2002	2003	IRR
5.0x	$324.4	$255.9	$(125.0)	–	–	–	–	$255.9	15.4%
5.5	356.9	288.4	(125.0)	–	–	–	–	288.4	18.2
6.0	389.3	320.8	(125.0)	–	–	–	–	320.8	20.7
6.5	421.8	353.3	(125.0)	–	–	–	–	353.3	23.1
7.0	454.2	385.7	(125.0)	–	–	–	–	385.7	25.3
7.5	486.7	418.2	(125.0)	–	–	–	–	418.2	27.3
8.0	519.1	450.6	(125.0)	–	–	–	–	450.6	29.2

Seven Year Exit (2005)

($ in millions, except per share amounts)

Ownership Percentage	**100%**
EBITDA	$73.8
Total Debt	125.0
PIK Preferred	–
Cash	130.4

Terminal Multiple	Enterprise Value	Equity Value	Initial Outlay	2000	2001	2002	2003	2004	2005	2006	IRR
5.0x	$369.2	$374.6	$(125.0)	–	–	–	–	–	–	$375.6	17.0%
5.5	406.1	411.5	(125.0)	–	–	–	–	–	–	412.5	18.6
6.0	443.0	448.4	(125.0)	–	–	–	–	–	–	449.4	20.1
6.5	479.9	485.3	(125.0)	–	–	–	–	–	–	486.3	21.4
7.0	516.9	522.2	(125.0)	–	–	–	–	–	–	523.2	22.7
7.5	553.8	559.1	(125.0)	–	–	–	–	–	–	560.1	23.9
8.0	590.7	596.1	(125.0)	–	–	–	–	–	–	597.1	25.0

Leveraged Buyout Model (cont.)

Summary of Operating Assumptions

($ in millions, except per share amounts)

	Actual FYE December 31,			Offering	Pro Forma FYE	Projected						
	1996	1997	1998	Adjustments	1998	1999	2000	2001	2002	2003	2004	2005
Income Statement Assumptions												
Net Sales Growth	NA	7.6%	39.0%	NM	NM	9.4%	6.0%	7.5%	7.5%	7.5%	7.5%	7.5%
Gross Margin (% of Sales)	34.8%	35.4	39.0	NM	NM	38.8	38.8	38.8	38.8	38.8	38.8	38.8
Research & Development (% of Sales)	0.0	0.0	0.0	NM	NM	0.0	0.0	0.0	0.0	0.0	0.0	0.0
SG&A (% of Sales)	18.9	16.7	19.0	NM	NM	16.3	15.4	15.4	15.4	15.4	15.4	15.4
Tax Rate (% of Pre-tax Income)	41.9	40.2	40.0	NM	NM	38.0	38.0	38.0	38.0	38.0	38.0	38.0
Interest on Cash Balance	4.5	4.5	4.5	NM	NM	4.5	4.5	4.5	4.5	4.5	4.5	4.5
Balance Sheet Assumptions												
Asset Assumptions												
Minimum Cash Balance	–	–	–	NM	$1.0	$1.0	$1.0	$1.0	$1.0	$1.0	$1.0	$1.0
Days Receivable	$93.3	$70.2	$57.6	NM	57.6	52.9	54.0	54.0	54.0	54.0	54.0	54.0
Days Inventory	108.9	51.5	56.5	NM	56.5	54.9	54.9	53.0	49.0	49.0	49.0	49.0
Other Current Assets (% of Sales)	3.7%	7.8%	3.0%	NM	3.0%	2.7%	2.6%	2.4%	2.2%	2.1%	2.1%	2.1%
Other Long-term Assets (% of Sales)	1.1	4.6	1.2	NM	1.2	1.1	1.0	0.9	0.9	0.8	0.8	0.8
Liability Assumptions												
Days Payable	24.4	16.7	26.7	NM	26.7	15.0	15.0	15.0	15.0	15.0	15.0	15.0
Accrued Expenses (% of COGS)	8.6%	11.1%	14.1%	NM	NM	11.2%	11.2%	11.2%	11.2%	11.2%	11.2%	11.2%
Taxes Payable ($)	–	–	–	NM	NM	–	–	–	–	–	–	–
Other Current Liabilities (% of Sales)	1.8%	0.4%	1.0%	NM	9.6%	7.2%	7.3%	7.2%	7.2%	7.2%	7.2%	7.2%
Other Long-term Liabilities (% of Sales)	1.6	1.2	0.6	NM	NM	1.1	1.1	1.1	1.1	1.1	1.1	1.1
Cash Flow Statement Assumptions												
Capital Expenditures	$1.4	$0.4	$0.9	–	$0.9	$4.8	$3.0	$3.0	$3.0	$3.0	$3.0	$3.0

Leveraged Buyout Model (cont.)

Summary Capitalization Statistics

($ in millions, except per share amounts)

	Projected FYE December 31,						
	1999	2000	2001	2002	2003	2004	2005
EBITA	$46.8	$50.8	$54.1	$57.6	$61.3	$65.3	$69.6
Depreciation	2.3	2.7	3.0	3.3	3.6	3.9	4.2
EBITDA	49.1	53.5	57.1	60.8	64.9	69.2	73.8
CapEx	4.8	3.0	3.0	3.0	3.0	3.0	3.0
Senior Interest Expense	16.2	13.6	11.6	10.3	10.0	10.0	10.0
Operating Company Interest Expense	16.2	13.6	11.6	10.3	10.0	10.0	10.0
Cash Interest Expense	16.2	13.6	11.6	10.3	10.0	10.0	10.0
Total Interest Expense	16.2	13.6	11.6	10.3	10.0	10.0	10.0
PIK Preferred Dividends	–	–	–	–	–	–	–
Taxes	11.7	14.3	16.3	18.2	20.0	21.8	24.0
Cash Pay Principal Amortization	(44.4)	(21.9)	(26.4)	(7.2)	–	–	–
Total Principal Amortization	(44.4)	(21.9)	(26.4)	(7.2)	–	–	–
Senior Secured Debt	55.6	33.6	7.2	–	–	–	–
Total Senior Debt	180.6	158.6	132.2	125.0	125.0	125.0	125.0
Operating Company Debt	180.6	158.6	132.2	125.0	125.0	125.0	125.0
Total Debt	180.6	158.6	132.2	125.0	125.0	125.0	125.0
Net Total Debt	179.6	157.6	131.2	100.9	68.5	33.4	(5.4)
Total Book Capitalization	310.7	304.5	297.1	311.8	336.7	364.7	396.1
PIK Preferred Stock	–	–	–	–	–	–	–
EBITA/Cash Interest Expense	2.89x	3.75x	4.65x	5.59x	6.13x	6.53x	6.96x
EBITA/Total Interest Expense	2.89	3.75	4.65	5.59	6.13	6.53	6.96
EBITA/(Total Interest Expense + PIK Preferred Dividends)	2.89	3.75	4.65	5.59	6.13	6.53	6.96
EBITDA/Cash Interest Expense	3.03	3.95	4.90	5.91	6.49	6.92	7.38
EBITDA/Total Interest Expense	3.03	3.95	4.90	5.91	6.49	6.92	7.38
EBITDA/(Total Interest Expense + PIK Preferred Dividends)	3.03	3.95	4.90	5.91	6.49	6.92	7.38
(EBITDA - CapEx)/Cash Interest Expense	2.73	3.72	4.65	5.62	6.19	6.62	7.08
(EBITDA - CapEx)/Total Interest Expense	2.73	3.72	4.65	5.62	6.19	6.62	7.08
(EBITDA - CapEx)/(Total Interest Expense + PIK Preferred Dividends)	2.73	3.72	4.65	5.62	6.19	6.62	7.08
EBITDA/(Total CapEx + Cash Interest Expense + Cash Pay Principal Amortization)	(2.10)	(9.97)	(4.85)	10.05	4.99	5.32	5.68
EBITDA/(Total CapEx + Total Interest Expense + Total Principal Amortization)	(2.10)	(9.97)	(4.85)	10.05	4.99	5.32	5.68
EBITDA/(Total CapEx + Total Interest Expense + Total Principal Amortization + PIK Preferred Dividends + Taxes)	(4.19)	5.98	12.50	2.51	1.97	1.99	2.00
Senior Secured Debt/EBITDA	1.13	0.63	0.13	0.00	0.00	0.00	0.00
Senior Debt/EBITDA	3.68	2.96	2.32	2.05	1.93	1.81	1.69
Operating Company Debt/EBITDA	3.68	2.96	2.32	2.05	1.93	1.81	1.69
Total Debt/EBITDA	3.68	2.96	2.32	2.05	1.93	1.81	1.69
Net Debt/EBITDA	3.66	2.94	2.30	1.66	1.06	0.48	(0.07)
(Total Debt + PIK Preferred Stock)/EBITDA	3.68	2.96	2.32	2.05	1.93	1.81	1.69
Senior Secured Debt/Total Book Capitalization	17.9%	11.0%	2.4%	0.0%	0.0%	0.0%	0.0%
Senior Debt/Total Book Capitalization	58.1	52.1	44.5	40.1	37.1	34.3	31.6
Total Debt/Total Book Capitalization	58.1	52.1	44.5	40.1	37.1	34.3	31.6
(Total Debt + PIK Preferred Stock)/Total Book Capitalization	58.1	52.1	44.5	40.1	37.1	34.3	31.6

Leveraged Buyout Model (cont.)

Covenant Analysis

($ in millions, except per share amounts)

	Projected Fiscal Year Ended December 31,						
	1999	2000	2001	2002	2003	2004	2005
Senior Secured Debt/EBITDA							
Covenant	5.00 x	5.00 x	5.00 x	5.00 x	5.00 x	5.00 x	5.00 x
Projected	1.13 x	0.63 x	0.13 x	0.00 x	0.00 x	0.00 x	0.00 x
Total Allowable Senior Secured Debt	$245.6	$267.6	$285.3	$304.2	$324.4	$346.1	$369.2
$ Change in Senior Secured Debt Allowed (Required)	190.1	234.0	278.1	304.2	324.4	346.1	369.2
Total Allowable EBITDA	277.9	168.2	36.2	0.0	0.0	0.0	0.0
$ Change in EBITDA (Allowed) Required	228.7	114.6	(20.9)	(60.8)	(64.9)	(69.2)	(73.8)
Total Debt/EBITDA							
Covenant	5.00 x	5.00 x	5.00 x	5.00 x	5.00 x	5.00 x	5.00 x
Projected	3.68 x	2.96 x	2.32 x	2.05 x	1.93 x	1.81 x	1.69 x
Total Allowable Debt	$245.6	$267.6	$285.3	$304.2	$324.4	$346.1	$369.2
$ Change in Total Debt Allowed (Required)	65.1	109.0	153.1	179.2	199.4	221.1	244.2
Total Allowable EBITDA	902.9	793.2	661.2	625.0	625.0	625.0	625.0
$ Change in EBITDA (Allowed) Required	853.7	739.6	604.1	564.2	560.1	555.8	551.2
EBITDA/Cash Interest Expense							
Covenant	2.00 x	2.00 x	2.00 x	2.00 x	2.00 x	2.00 x	2.00 x
Projected	3.03 x	3.95 x	4.90 x	5.91 x	6.49 x	6.92 x	7.38 x
Total Allowable EBITDA	$32.4	$27.1	$23.3	$20.6	$20.0	$20.0	$20.0
$ Change in EBITDA (Allowed) Required	(16.7)	(26.4)	(33.8)	(40.3)	(44.9)	(49.2)	(53.8)
Total Allowable Cash Interest	24.6	26.8	28.5	30.4	32.4	34.6	36.9
$ Change in Cash Interest Allowed (Required)	8.3	13.2	16.9	20.1	22.4	24.6	26.9
EBITDA/Total Interest Expense							
Covenant	2.00 x	2.00 x	2.00 x	2.00 x	2.00 x	2.00 x	2.00 x
Projected	3.03 x	3.95 x	4.90 x	5.91 x	6.49 x	6.92 x	7.38 x
Total Allowable EBITDA	$32.4	$27.1	$23.3	$20.6	$20.0	$20.0	$20.0
$ Change in EBITDA (Allowed) Required	(16.7)	(26.4)	(33.8)	(40.3)	(44.9)	(49.2)	(53.8)
Total Allowable Total Interest	24.6	26.8	28.5	30.4	32.4	34.6	36.9
$ Change in Total Interest Allowed (Required)	8.3	13.2	16.9	20.1	22.4	24.6	26.9
EBITDA/CapEx + Total Interest							
Covenant	2.00 x	2.00 x	2.00 x	2.00 x	2.00 x	2.00 x	2.00 x
Projected	2.34 x	3.23 x	3.90 x	4.58 x	4.99 x	5.32 x	5.68 x
Total Allowable EBITDA	$42.0	$33.1	$29.3	$26.6	$26.0	$26.0	$26.0
$ Change in EBITDA (Allowed) Required	(7.1)	(20.4)	(27.8)	(34.3)	(38.9)	(43.2)	(47.8)
Total Allowable CapEx + Interest	24.6	26.8	28.5	30.4	32.4	34.6	36.9
$ Change in CapEx + Interest Allowed (Required)	3.5	10.2	13.9	17.1	19.4	21.6	23.9

Leveraged Buyout Model (cont.)

Pro Forma Balance Sheet

($ in millions, except per share amounts)

	Pro Forma FYE 1998	Offering Adjustments	Adjusted Pro Forma 1998
Assets			
Cash	$5.0	$17.5	$22.4
Restricted Cash	–	–	–
Accounts Receivable	25.1	–	25.1
Inventory	15.0	–	15.0
Deferred Financing Fees	–	14.0	14.0
Other Current Assets	4.7	–	4.7
Total Current Assets	49.8	31.5	81.3
Property, Plant & Equipment	14.4	–	14.4
Existing Goodwill	39.9	–	39.9
New Goodwill	–	235.8	235.8
Other Long-Term Assets	1.9	–	1.9
Total Assets	$106.0	$267.3	$373.3
Liabilities & Stockholders' Equity			
Accounts Payable	$7.1	$–	$7.1
Accrued Expenses	13.6	–	13.6
Taxes Payable	–	–	–
Other Current Liabilities	1.6	–	1.6
Total Current Liabilities	22.3	–	22.3
Other Long-Term Liabilities	0.9	–	0.9
Revolving Credit	–	–	–
Term Loan A	–	100.0	100.0
Senior Notes	–	125.0	125.0
Senior Discount Notes	–	–	–
Senior Reserve Notes	–	–	–
PIK Preferred Stock	–	–	–
Other Long-Term Debt	18.5	(18.5)	–
Total Long-Term Liabilities	19.4	206.5	225.9
Total Liabilities	$41.8	$206.5	$248.3
Stockholders' Equity	64.2	60.8	125.0
Total Liabilities and Stockholders' Equity	$106.0	$267.3	$373.3

Leveraged Buyout Model (cont.)

Income Statement

($ in millions, except per share amounts)

	Actual FYE December 31,			Offering	Pro Forma	Projected FYE December 31,						
	1996	1997	1998	Adjustments	FYE 1998	1999	2000	2001	2002	2003	2004	2005
Net Sales	$106.4	$114.5	$159.1		$159.1	$174.1	$184.5	$198.3	$213.2	$229.2	$246.4	$264.9
% Growth	*NA*	*7.6%*	*39.0%*		*0.0%*	*9.4%*	*6.0%*	*7.5%*	*7.5%*	*7.5%*	*7.5%*	*7.5%*
Cost of Goods Sold	69.4	74.0	97.0		97.0	106.5	112.9	121.4	130.5	140.3	150.8	162.1
Gross Profit	37.0	40.5	62.1		62.1	67.5	71.6	77.0	82.7	88.9	95.6	102.8
Gross Profit Margin	*34.8%*	*35.4%*	*39.0%*		*39.0%*	*38.8%*	*38.8%*	*38.8%*	*38.8%*	*38.8%*	*38.8%*	*38.8%*
Research and Development	–	–	–	–		–	–	–	–	–	–	–
R&D (% of sales)	*0.0%*	*0.0%*	*0.0%*		*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*
Selling, General & Administrative (excl. R&D)	20.1	19.1	30.3		30.3	28.4	28.4	30.5	32.8	35.3	37.9	40.8
SG&A (% of Sales)	*18.9%*	*16.7%*	*19.0%*		*19.0%*	*16.3%*	*15.4%*	*15.4%*	*15.4%*	*15.4%*	*15.4%*	*15.4%*
EBIT	16.9	21.4	31.8	–	31.8	39.2	43.2	46.4	49.9	53.6	57.7	62.0
EBIT Margin	*15.9%*	*18.7%*	*20.0%*		*20.0%*	*22.5%*	*23.4%*	*23.4%*	*23.4%*	*23.4%*	*23.4%*	*23.4%*
Interest Expense	3.1	2.3	2.4	16.2	18.6	16.2	13.6	11.6	10.3	10.0	10.0	10.0
Interest Income	(0.0)	(0.0)	(0.1)	–	(0.1)	(0.1)	(0.4)	(0.5)	(0.6)	(1.3)	(2.1)	(3.5)
Pretax Income	13.9	19.1	29.5	(16.2)	13.3	23.1	30.0	35.3	40.2	44.9	49.7	55.5
Pretax Margin	*13.0%*	*16.7%*	*18.6%*		*8.4%*	*13.3%*	*16.3%*	*17.8%*	*18.8%*	*19.6%*	*20.2%*	*20.9%*
Income Taxes	5.8	7.7	11.8	–	11.8	11.7	14.3	16.3	18.2	20.0	21.8	24.0
Tax Rate	*41.9%*	*40.2%*	*40.0%*		*88.7%*	*50.6%*	*47.7%*	*46.3%*	*45.3%*	*44.5%*	*43.9%*	*43.3%*
Net Income	$8.1	$11.4	$17.7	$(16.2)	$1.5	$11.4	$15.7	$19.0	$22.0	$24.9	$27.9	$31.5
Net Income Margin	*7.6%*	*10.0%*	*11.1%*		*0.9%*	*6.5%*	*8.5%*	*9.6%*	*10.3%*	*10.9%*	*11.3%*	*11.9%*
PIK Preferred Dividends	–	–	–	–	–	–	–	–	–	–	–	–
Net Income Available to Common	$8.1	$11.4	$17.7	$(16.2)	$1.5	$11.4	$15.7	$19.0	$22.0	$24.9	$27.9	$31.5
Basic Shares Outstanding	8.724	7.484	7.450	–	7.450	7.182	7.182	7.182	7.182	7.182	7.182	7.182
EPS	$0.92	$1.53	$2.38	–	$2.38	$1.59	$2.19	$2.64	$3.06	$3.47	$3.89	$4.38
Fully Diluted Shares Outstanding	8.730	7.563	7.624	–	7.624	7.424	7.387	7.505	7.569	7.614	7.649	7.679
Fully Diluted EPS	$0.92	$1.51	$2.33	–	$2.33	$1.53	$2.13	$2.53	$2.91	$3.28	$3.65	$4.10
Net Income	8.1	11.4	17.7	–	17.7	11.4	15.7	19.0	22.0	24.9	27.9	31.5
Plus: Goodwill Amortization	1.4	1.0	1.1	–	1.1	7.7	7.7	7.7	7.7	7.7	7.7	7.7
Cash Net Income	$9.5	$12.4	$18.8	$0.0	$18.8	$19.1	$23.4	$26.6	$29.7	$32.6	$35.6	$39.1
Basic Cash EPS	$1.09	$1.66	$2.53	$–	$2.53	$2.65	$3.25	$3.71	$4.13	$4.54	$4.96	$5.45
Fully Diluted Cash EPS	1.09	1.64	2.47	–	2.47	2.57	3.16	3.55	3.92	4.28	4.65	5.10
EBIT	16.9	21.4	31.8	–	31.8	39.2	43.2	46.4	49.9	53.6	57.7	62.0
Amortization	1.4	1.0	1.1	(5.1)	(4.0)	7.7	7.7	7.7	7.7	7.7	7.7	7.7
EBITA	18.3	22.4	32.9	(5.1)	27.8	46.8	50.8	54.1	57.6	61.3	65.3	69.6
Depreciation	1.5	1.6	1.5	–	1.5	2.3	2.7	3.0	3.3	3.6	3.9	4.2
EBITDA	$19.9	$24.0	$34.4	($5.1)	$29.3	$49.1	$53.5	$57.1	$60.8	$64.9	$69.2	$73.8
EBITDA Margin	*18.7%*	*21.0%*	*21.6%*		*18.4%*	*28.2%*	*29.0%*	*28.8%*	*28.5%*	*28.3%*	*28.1%*	*27.9%*

Leveraged Buyout Model (cont.)

Balance Sheet

($ in millions, except per share amounts)

	Actual FYE December 31,			Offering	Pro Forma	Projected FYE December 31,						
	1996	1997	1998	Adjustments	FYE 1998	1999	2000	2001	2002	2003	2004	2005
Assets												
Cash	$0.9	$0.7	$5.0	$17.5	$22.4	$1.0	$1.0	$1.0	$24.1	$56.5	$91.6	$130.4
Restricted Cash	–	–	–	–	–	–	–	–	–	–	–	–
Accounts Receivable	27.2	22.0	25.1	–	25.1	25.2	27.3	29.3	31.5	33.9	36.5	39.2
Inventory	20.7	10.4	15.0	–	15.0	16.0	17.0	17.6	17.5	18.8	20.2	21.8
Deferred Financing Fees	–	–	–	14.0	14.0	7.0	6.2	5.4	4.7	3.9	3.1	2.3
Other Current Assets	3.9	8.9	4.7	–	4.7	4.7	4.8	4.8	4.7	4.8	5.2	5.6
Total Current Assets	52.7	42.1	49.8	31.5	81.3	53.9	56.3	58.2	82.5	117.9	156.5	199.2
Property, Plant & Equipment	17.7	12.0	14.4	–	14.4	16.9	17.2	17.2	16.9	16.4	15.5	14.3
Existing Goodwill	29.8	21.0	39.9	–	39.9	38.9	37.9	36.9	35.9	34.9	33.9	32.9
New Goodwill	–	–	–	235.8	235.8	229.9	224.0	218.1	212.2	206.3	200.4	194.5
Other Long-Term Assets	1.2	5.3	1.9	–	1.9	1.9	1.8	1.8	1.9	1.8	2.0	2.1
Total Assets	$101.4	$80.4	$106.0	$267.3	$373.3	$341.5	$337.2	$332.2	$349.5	$377.3	$408.3	$443.1
Liabilities & Stockholders' Equity												
Accounts Payable	$4.6	$3.4	$7.1	–	7.1	$4.4	$4.6	$5.0	$5.4	$5.8	$6.2	$6.7
Accrued Expenses	6.0	8.2	13.6	–	13.6	12.0	12.7	13.6	14.7	15.8	17.0	18.2
Taxes Payable	–	–	–	–	–	–	–	–	–	–	–	–
Other Current Liabilities	2.0	0.5	1.6	–	1.6	12.5	13.4	14.3	15.2	16.5	17.7	19.1
Total Current Liabilities	12.6	12.1	22.3	–	22.3	28.9	30.7	32.9	35.3	38.0	40.9	44.0
Other Long-Term Liabilities	1.7	1.4	0.9	–	0.9	1.9	2.1	2.2	2.4	2.6	2.7	3.0
Revolving Credit	33.9	14.0	–	–	–	–	–	–	–	–	–	–
Term Loan A	–	–	–	100.0	100.0	55.6	33.6	7.2	–	–	–	–
Senior Notes	–	–	–	125.0	125.0	125.0	125.0	125.0	125.0	125.0	125.0	125.0
Senior Discount Notes	–	–	–	–	–	–	–	–	–	–	–	–
Senior Reserve Notes	–	–	–	–	–	–	–	–	–	–	–	–
PIK Preferred Stock	–	–	–	–	–	–	–	–	–	–	–	–
Other Long-Term Debt	4.9	1.9	18.5	(18.5)	–	–	–	–	–	–	–	–
Total Long-Term Liabilities	40.5	17.3	19.4	206.5	225.9	182.5	160.7	134.4	127.4	127.6	127.7	128.0
Total Liabilities	$53.0	$29.4	$41.8	$206.5	$248.3	$211.4	$191.4	$167.4	$162.7	$165.6	$168.6	$171.9
Stockholders' Equity	48.4	51.0	64.2	60.8	125.0	130.1	145.8	164.8	186.8	211.7	239.7	271.1
Total Liabilities and Stockholders' Equity	$101.4	$80.4	$106.0	$267.3	$373.3	$341.5	$337.2	$332.2	$349.5	$377.3	$408.3	$443.1

Leveraged Buyout Model (cont.)

Annual Statement Of Changes In Financial Position

($ in millions, except per share amounts)

	Projected FYE December 31,						
	1999	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**
Cash Flow from Operations							
Net Income	$11.4	$15.7	$19.0	$22.0	$24.9	$27.9	$31.5
Plus: Depreciation	2.3	2.7	3.0	3.3	3.6	3.9	4.2
Accretion of Senior Discount Notes	–	–	–	–	–	–	–
Reserve Note Restricted Cash Interest Expense	–	–	–	–	–	–	–
Amortization of Deferred Financing Fees	0.8	0.8	0.8	0.8	0.8	0.8	0.8
Amortization of Goodwill	6.9	6.9	6.9	6.9	6.9	6.9	6.9
Funds Flow from Operations	21.4	26.1	29.6	32.9	36.2	39.5	43.3
(Increase) Decrease in Accounts Receivable	(0.1)	(2.1)	(2.0)	(2.2)	(2.4)	(2.5)	(2.7)
(Increase) Decrease in Inventory	(1.0)	(1.0)	(0.6)	0.1	(1.3)	(1.4)	(1.5)
(Increase) Decrease in Other Current Assets	0.0	(0.1)	0.0	0.1	(0.1)	(0.4)	(0.4)
(Increase) Decrease in Current Operating Assets	(1.1)	(3.1)	(2.7)	(2.0)	(3.8)	(4.3)	(4.6)
Increase (Decrease) in Accounts Payable	(2.7)	0.3	0.3	0.4	0.4	0.4	0.5
Increase (Decrease) in Accrued Expenses	(1.7)	0.7	1.0	1.0	1.1	1.2	1.3
Increase (Decrease) in Taxes Payable	–	–	–	–	–	–	–
Increase (Decrease) in Other Current Liabilities	10.9	0.8	0.9	1.0	1.3	1.2	1.3
(Increase) Decrease in Current Operating Liabilities	6.5	1.8	2.2	2.4	2.8	2.9	3.1
(Increase) Decrease in Operating Working Capital	5.4	(1.3)	(0.4)	0.3	(1.0)	(1.5)	(1.6)
Cash Flow from Operations	26.8	24.8	29.2	33.3	35.2	38.0	41.8
Cash Flow from Investing							
Less: Capital Expenditures	(4.8)	(3.0)	(3.0)	(3.0)	(3.0)	(3.0)	(3.0)
Asset Purchases	–	–	–	–	–	–	–
Net (Increase) Decrease in Other Long-Term Assets	1.0	0.2	0.2	0.0	0.3	0.1	0.1
Plus: Net Cash Proceeds from Asset Sales	–	–	–	–	–	–	–
Cash Flow from Investing	(3.8)	(2.8)	(2.8)	(3.0)	(2.7)	(2.9)	(2.9)
Cash Flow from Financing before Revolver and Term Loan A							
Principal Repayment Requirement	–	–	–	–	–	–	–
Increase (Decrease) in Senior Notes	–	–	–	–	–	–	–
Increase (Decrease) in Senior Discount Notes	–	–	–	–	–	–	–
Increase (Decrease) in Senior Reserve Notes	–	–	–	–	–	–	–
Increase (Decrease) in PIK Preferred Stock	–	–	–	–	–	–	–
Other Long-Term Debt Financing	–	–	–	–	–	–	–
Equity Financing	–	–	–	–	–	–	–
Cash Flow from Financing before Revolver and Term Loan A	–	–	–	–	–	–	–
Total Change in Cash before Working Capital Financing	23.0	21.9	26.4	30.3	32.4	35.1	38.8
Increase (Decrease) in Revolving Credit	–	–	–	–	–	–	–
Increase (Decrease) in Term Loan A	(44.4)	(21.9)	(26.4)	(7.2)	–	–	–
Total Change in Cash	(21.4)	–	–	23.1	32.4	35.1	38.8
Beginning Cash Balance	22.4	1.0	1.0	1.0	24.1	56.5	91.6
Total Change in Cash	(21.4)	–	–	23.1	32.4	35.1	38.8
Ending Cash Balance	$1.0	$1.0	$1.0	$24.1	$56.5	$91.6	$130.4

Leveraged Buyout Model (cont.)

Depreciation Schedule

($ in millions, except per share amounts)

Straight Line Depreciation

Years to Depreciate Existing PP&E:	7
Years to Depreciate Capital Expenditures:	10

		Fiscal Year Ended December 31, Projected						
		1999	2000	2001	2002	2003	2004	2005
Existing PP&E	$14.4	$2.1	$2.1	$2.1	$2.1	$2.1	$2.1	$2.1
1999 CapEx	4.8	0.2	0.5	0.5	0.5	0.5	0.5	0.5
2000 CapEx	3.0		0.2	0.3	0.3	0.3	0.3	0.3
2001 CapEx	3.0			0.2	0.3	0.3	0.3	0.3
2002 CapEx	3.0				0.2	0.3	0.3	0.3
2003 CapEx	3.0					0.2	0.3	0.3
2004 CapEx	3.0						0.2	0.3
2005 CapEx	3.0							0.2
		$2.3	$2.7	$3.0	$3.3	$3.6	$3.9	$4.2

Amortization Schedule

($ in millions, except per share amounts)

Years to Amortize Deferred Financing Costs:	10

Fees and Expenses Calculation	Amount Raised	Fee %	Fee $
Revolving Credit Commitment	-	2.00%	-
Term Loan A	$100.0	3.00	$3.0
Senior Notes	125.0	3.00	3.8
Senior Reserve Notes	-	3.00	-
Senior Discount Notes	-	3.00	-
PIK Preferred	-	3.00	-
Equity	125.0	5.00	6.3
Legal, Accounting, Other	NA	NA	1.0
Total Fees and Expenses			$14.0
Total Fees and Expenses to be Capitalized			$6.3

Years to Amortize Goodwill	40

		Projected FYE December 31,						
		1999	2000	2001	2002	2003	2004	2005
	Beginning Balance	$7.8	$7.0	$6.2	$5.4	$4.7	$3.9	$3.1
	Amortization	(0.8)	(0.8)	(0.8)	(0.8)	(0.8)	(0.8)	(0.8)
	Ending Balance	$7.0	$6.2	$5.4	$4.7	$3.9	$3.1	$2.3
New Goodwill	Beginning Balance	$235.8	$229.9	$224.0	$218.1	$212.2	$206.3	$200.4
	Amortization	5.9	5.9	5.9	5.9	5.9	5.9	5.9
	Ending Balance	$229.9	$224.0	$218.1	$212.2	$206.3	$200.4	$194.5
Existing Goodwill	Beginning Balance	$39.9	$38.9	$37.9	$36.9	$35.9	$34.9	$33.9
	Amortization	1.0	1.0	1.0	1.0	1.0	1.0	1.0
	Ending Balance	$38.9	$37.9	$36.9	$35.9	$34.9	$33.9	$32.9

		Projected FYE December 31,						
		27	30	32	36	39	43	48
New Goodwill	Beginning Balance	$235.8	$229.9	$224.0	$218.1	$212.2	$206.3	$200.4
	Amortization	5.9	5.9	5.9	5.9	5.9	5.9	5.9
	Ending Balance	$229.9	$224.0	$218.1	$212.2	$206.3	$200.4	$194.5
Existing Goodwill	Beginning Balance	$39.9	$38.9	$37.9	$36.9	$35.9	$34.9	$33.9
	Amortization	1.0	1.0	1.0	1.0	1.0	1.0	1.0
	Ending Balance	$38.9	$37.9	$36.9	$35.9	$34.9	$33.9	$32.9

Leveraged Buyout Model (cont.)

Debt Schedule

($ in millions, except per share amounts)

Revolving Credit	Interest Rate:	8.00%	Offering Adjustments	Pro Forma FYE 1998	Projected FYE December 31, 1999	2000	2001	2002	2003	2004	2005
Total Facility	**$200.0**										
Beginning Cash Balance					$22.4	$1.0	$1.0	$1.0	$24.1	$56.5	$91.6
Plus: Period Cash Flows											
Cash Flow from Operating					26.8	24.8	29.2	33.3	35.2	38.0	41.8
Cash Flow from Investing					(3.8)	(2.8)	(2.8)	(3.0)	(2.7)	(2.9)	(2.9)
Cash Flow from Financing before Revolver					–	–	–	–	–	–	–
Less: Minimum Cash Balance					(1.0)	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)
Excess Cash (Cash Deficit)					44.4	21.9	26.4	30.3	55.5	90.6	129.4
Beginning Revolving Credit Balance					–	–	–	–	–	–	–
Borrowings (Repayments) under Revolving Credit					–	–	–	–	–	–	–
Ending Revolving Credit Balance					–	–	–	–	–	–	–
Interest Expense					–	–	–	–	–	–	–

Term Loan A	Interest Rate:	8.00%	Offering Adjustments	Pro Forma FYE 1998	Projected FYE December 31, 1999	2000	2001	2002	2003	2004	2005
Cash Balance After Revolver Borrowing/(Paydown)					$44.4	$21.9	$26.4	$30.3	$55.5	$90.6	$129.4
Beginning Term Loan A Balance					$100.0	$55.6	$33.6	$7.2	–	–	–
Contractual Amortization					–	–	–	–	–	–	–
Voluntary Repayment					(44.4)	(21.9)	(26.4)	(7.2)	–	–	–
Total Amortization					(44.4)	(21.9)	(26.4)	(7.2)	–	–	–
Ending Balance					$55.6	$33.6	$7.2	–	–	–	–
Interest Expense					$6.2	$3.6	$1.6	$0.3	–	–	–

Senior Notes	Interest Rate:	8.00%	Offering Adjustments	Pro Forma FYE 1998	Projected FYE December 31, 1999	2000	2001	2002	2003	2004	2005
Beginning Balance					$125.0	$125.0	$125.0	$125.0	$125.0	$125.0	$125.0
Amortization					–	–	–	–	–	–	–
Ending Balance					$125.0	$125.0	$125.0	$125.0	$125.0	$125.0	$125.0
Interest Expense					$10.0	$10.0	$10.0	$10.0	$10.0	$10.0	$10.0

Senior Discount Notes	Interest Rate:	8.00%	Offering Adjustments	Pro Forma FYE 1998	Projected FYE December 31, 1999	2000	2001	2002	2003	2004	2005
Beginning Balance					–	–	–	–	–	–	–
Amortization					–	–	–	–	–	–	–
Ending Balance					–	–	–	–	–	–	–
Cash Interest Expense					–	–	–	–	–	–	–
Non–Cash Interest Expense					–	–	–	–	–	–	–
Total Interest Expense					–	–	–	–	–	–	–

Leveraged Buyout Model (cont.)

Debt Schedule (cont.)

($ in millions, except per share amounts)

Senior Reserve Notes	Interest Rate:	8.00%	**Offering Adjustments**	**Pro Forma FYE 1998**	**Projected FYE December 31, 1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**
Beginning Balance					–	–	–	–	–	–	–
Amortization					–	–	–	–	–	–	–
Ending Balance					–	–	–	–	–	–	–
Interest Expense					–	–	–	–	–	–	–
Restricted Cash:	**Rate**	**Beg. Balance**									
Beginning Balance 1	5.68%	–			–	–	–	–	–	–	–
Beginning Balance 2	5.81	–			–	–	–	–	–	–	–
Beginning Balance 3	5.93	–			–	–	–	–	–	–	–
Beginning Balance 4	6.05	–			–	–	–	–	–	–	–
Beginning Balance 5	6.11	–			–	–	–	–	–	–	–
Beginning Balance 6	6.17	–			–	–	–	–	–	–	–
		–			–	–	–	–	–	–	–
Interest Income					–	–	–	–	–	–	–
Interest Expense					–	–	–	–	–	–	–
New Total					–	–	–	–	–	–	–

PIK Preferred Stock	Interest Rate:	8.00%	**Offering Adjustments**	**Pro Forma FYE 1998**	**Projected FYE December 31, 1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**
Beginning Balance					–	–	–	–	–	–	–
Amortization					–	–	–	–	–	–	–
Ending Balance					–	–	–	–	–	–	–
Cash Dividends					–	–	–	–	–	–	–
Non–Cash Dividends					–	–	–	–	–	–	–
Total Dividends					–	–	–	–	–	–	–

Total Debt	$180.6	$158.6	$132.2	$125.0	$125.0	$125.0	$125.0
Total Debt Plus PIK Preferred Stock	$180.6	$158.6	$132.2	$125.0	$125.0	$125.0	$125.0
Total Cash Interest Expense	16.2	13.6	11.6	10.3	10.0	10.0	10.0
Total Non–Cash Interest Expense	–	–	–	–	–	–	–
Total Interest Expense	16.2	13.6	11.6	10.3	10.0	10.0	10.0
Total Interest Expense Plus Total Dividends	16.2	13.6	11.6	10.3	10.0	10.0	10.0

BEAR STEARNS

Appendices

BEAR STEARNS

Appendix A

Yield-to-Worst Analysis

Yield-to-Worst Analysis

What are some common measurements of yield?

- Investors in the high yield bond market use various calculations to describe the potential return from an investment in a security. The two most prevalent calculations used are yield-to-maturity ("YTM") and yield-to-worst ("YTW").
  - **YTM**—is the return that an investor would realize if the investor purchased a bond at the current trading price and held it until maturity.
  - **YTW**—measures the lowest yield of the YTM and the respective yields that would be realized if the bonds were repaid prior to maturity at the pre-specified call dates.
  - Because the YTW calculation is an important consideration for investors, as it is the "worst case" return (assuming total principal repayment of a bond), YTW calculations are an important factor for fixed income investors in making an investment decision.

When will I use a Yield-to-Worst analysis?

- To determine the lowest return an investor could receive (assuming the bond is held until maturity or the call date and is redeemed at or above par value) given either the initial offer price (if evaluating a new issue) or current trading price (if evaluating an outstanding issue) and the various potential cash flow outcomes.
- To compare the relative value/return of different bonds and to determine pricing ranges for a potential new bond issue.

Where do I find the information required to complete a Yield to Worst analysis?

Summary Terms of Bond Deal:	High Yield Database, Prospectus, Exchange Offer (Disclosure, Edgar, FactSet, 3rd Floor High Yield Library).
Bond Price:	High Yield Capital Markets.

Yield-to-Worst Analysis

Insert Portrait Tabloid 100090 (doc # 209115), page 113

BEAR STEARNS

Appendix B

Debt Rating Classifications

High Yield Debt Is Defined as Any Issue That Is Rated or Would Be Rated Less Than Investment Grade

	Standard & Poor's	Moody's	Meaning
Investment Grade	AAA	Aaa	Highest rating assigned. Capacity to pay interest and repay principal is extremely strong.
	AA+ AA AA-	Aa1 Aa2 Aa3	Very strong capacity to pay interest and repay principal and differs from the highest rated issues only in small degree.
	A+ A A-	A1 A2 A3	Strong capacity to pay interest and repay principal although it is somewhat more susceptible to the adverse affects of changes in circumstances and economic conditions than debt in higher rated categories.
	BBB+ BBB BBB-	Baa1 Baa2 Baa3	Adequate capacity to pay interest and repay principal. Whereas it normally exhibits adequate protection parameters, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity to pay interest and repay principal for debt in this category than in higher rated categories.
High Yield	BB+ BB BB-	Ba1 Ba2 Ba3	Less near-term vulnerability to default than other speculative issues. However, faces major ongoing uncertainties or exposure to adverse business, financial, or economic conditions which could lead to inadequate capacity to meet timely interest and principal payments.
	B+ B B-	B1 B2 B3	Greater vulnerability to default but currently has the capacity to meet interest payments and principal repayments. Adverse business, financial, or economic conditions will likely impair capacity or willingness to pay interest and repay principal.
	CCC+ CCC CCC-	Caa1 Caa2 Caa3	Currently identifiable vulnerability to default, and is dependent upon favorable business, financial, and economic conditions to meet timely payment of interest and repayment of principal. In the event of adverse business, financial, or economic conditions, it is not likely to have the capacity to pay interest and repay principal.
	CC C	Ca C	Subordinated debt of higher rated senior debt issuers or bankruptcy petition will be filed.
	D		In Default.

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Appendix C

Relative Value Analysis

Relative Value Analysis

Driven by the increasing convergence of the debt capital markets, in particular the leveraged bank loan market and the high yield bond market, underwriters are increasingly using relative value analysis in structuring and pricing new debt securities and investors are using relative value analysis to facilitate their investment decision.

- What is Relative Value Analysis?
  - Relative value analysis has two main forms.
    - Comparing the pricing/yield of similar securities (i.e., rating, seniority, collateral) issued by different, but similar companies.
    - Comparing the pricing/yield of different securities (i.e., bank loans, senior unsecured debt, and senior subordinated debt) of the same borrower/issuer.

- What are some examples?
  - A high yield bond investor will compare the difference in yields (taking into consideration any perceived risk differences) between various bonds of different issuers prior to making an investment decision.
  - An investor that can purchase either bank debt or high yield debt of the same issuer will compare the differences in yield and security/seniority of the instruments before making an investment decision. Rational investors will buy the debt that offers the most "relative value" (i.e., risk-adjusted return).
    - Evolution of the leveraged loan market into a true capital market and the emergence of market cross-over investors.
    - Compare yields on bank debt and high yield bonds. Calculate the "floating-rate" equivalent yield for a high yield bond (which are fixed rate vs. floating-rate bank debt). The yield difference is attributable to factors such as: security/seniority, prepayability/call protection, as well as technical supply and demand in each market.

- Contact the Leveraged Finance Group for more information on this topic.

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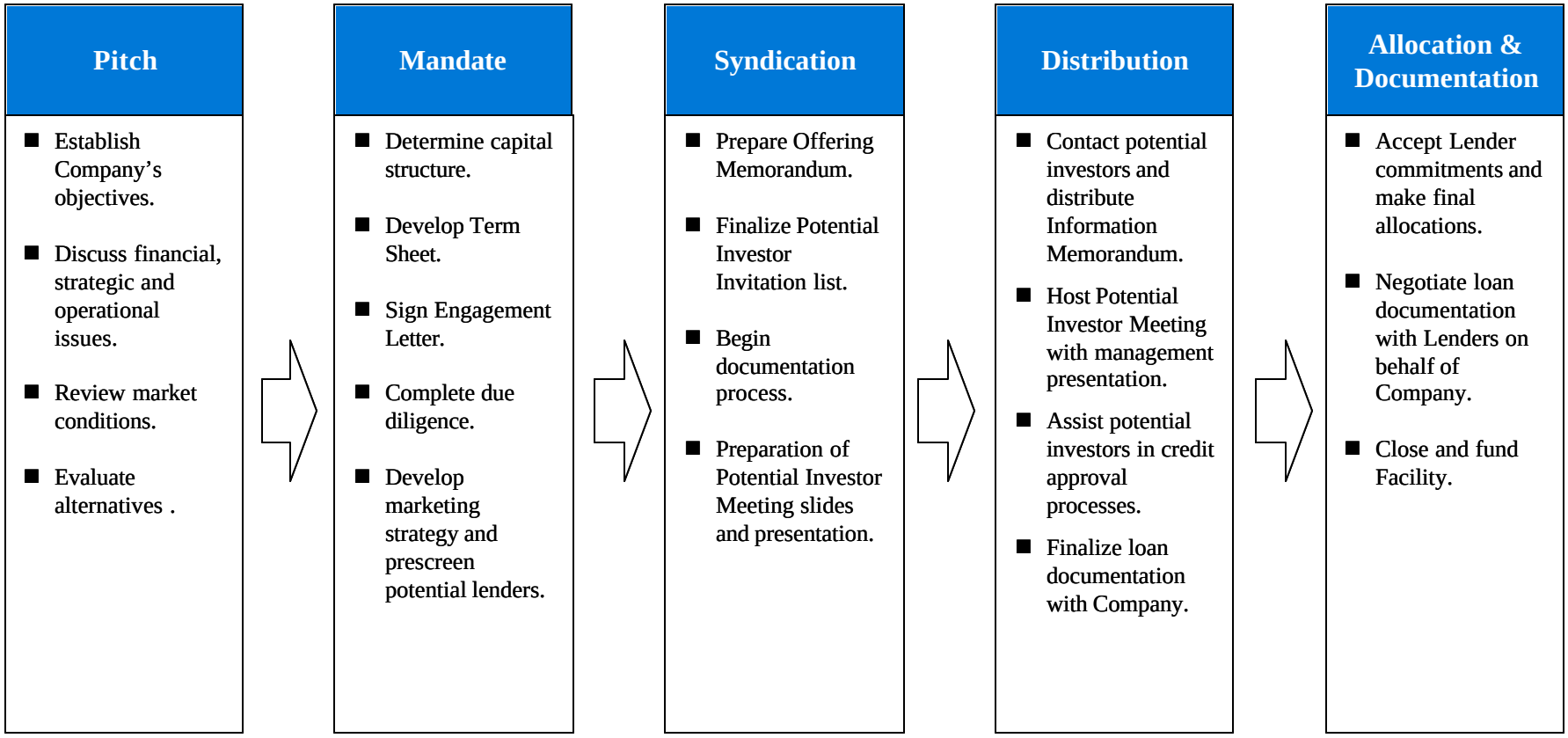
Appendix D

Bank Loan Syndication Process and Timetable

Bank Loan Syndication Process

Syndication is a 5-stage process:



Syndication Timetable

Typical Syndication Timetable

Event/Week	Week 1	Week 2	Week 3	Week 4	Week 5	Week 6	Week 7	Week 8
Mandate awarded								
Bring in Administrative Agent								
Complete due diligence								
Prepare information package for credit facilities								
First draft of credit agreement from counsel								
Prepare invitation to select group of investors								
Review first draft of credit agreement								
Second draft of credit agreement from counsel								
Invitation sent to investors								
Information package sent to investors								
Host Bank Meeting								
Investors seek credit approval								
Negotiate credit agreement with borrower								
Final draft of credit agreement from counsel								
Commitments due and final allocations made								
Lenders review credit agreement								
Negotiate credit agreement with Lenders								
Collect administration details								
Print execution copies of credit agreement								
Satisfaction of conditions precedent;								
Signing/closing/funding								

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Appendix E

High Yield Offering Timetable

Summary High Yield Offering Timetable—External Activities

Week #	Rule 144A Offering
Weeks 1 & 2	■ Organizational meeting. ■ Commence due diligence. ■ Begin drafting preliminary offering memo randum. ■ Negotiate description of Notes.
Weeks 3 & 4	■ Commence preparation of roadshow presentation and rating agency presentation. ■ Continue drafting preliminary offering memorandum. ■ Continue due diligence. ■ Meet with rating agencies.
Week 5 & 6	■ Continue drafting preliminary offering memorandum. ■ Finalize roadshow presentation. ■ Receive ratings from agencies. ■ Receive ratings. ■ Finalize roadshow presentation.
Week 7	■ Finalize and print offering memorandum. ■ Commence roadshow.
Weeks 8 & 9	■ Continue roadshow. ■ Pricing.
Week 10	■ Closing and Funding.

- After closing a 144A offering, the Company, with the assistance of its legal counsel, begins the registration process with the SEC to publicly register the securities.
  - If the deal is a public offering, a preliminary prospectus, instead of an offering memorandum, is filed with the SEC and declared effective before commencing the roadshow.