

Plenary Session

Understanding Capital Markets

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2009 Southwest Bankruptcy Conference

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September 12, 2009



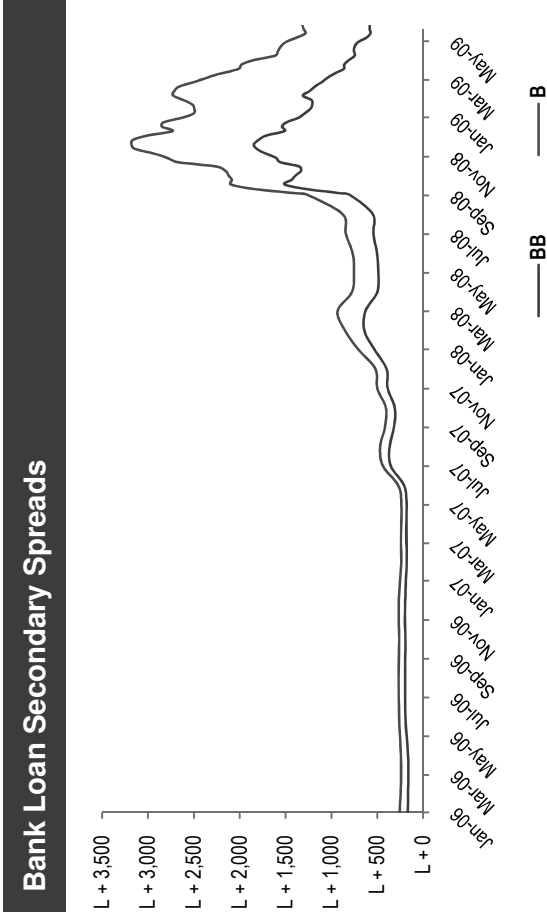
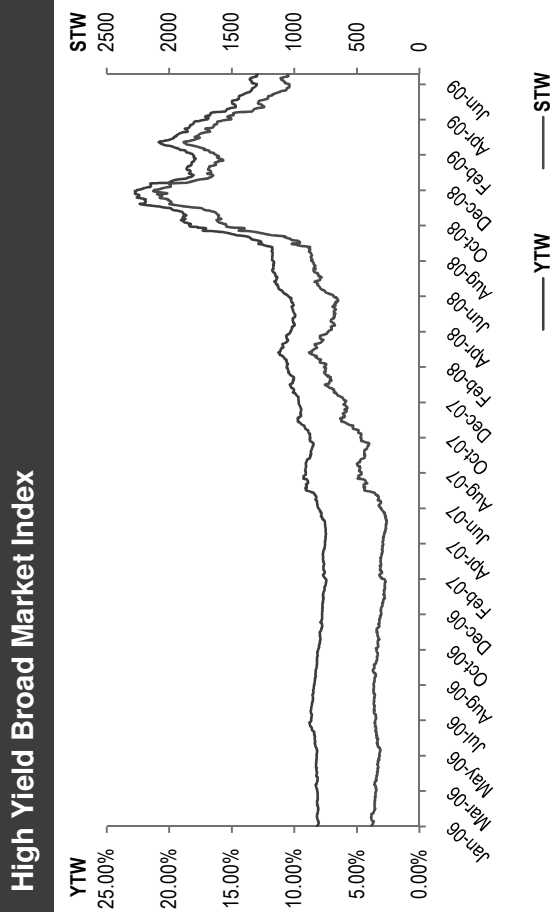
CONFIDENTIAL DRAFT

Current Macro Economic Conditions

Credit Markets are Improving...

Borrowing costs have risen dramatically driven by lack of liquidity in the capital markets and a flight to safety over general economic concerns

Since December the High Yield and Bank markets have come off their lows, with better rated credits benefiting the most



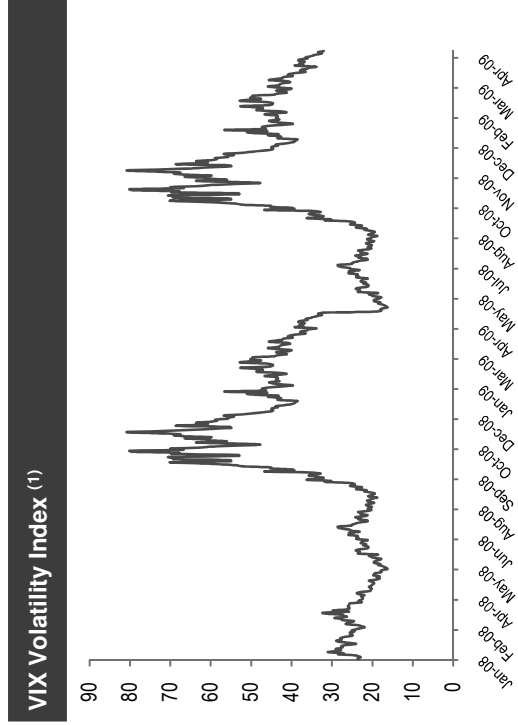
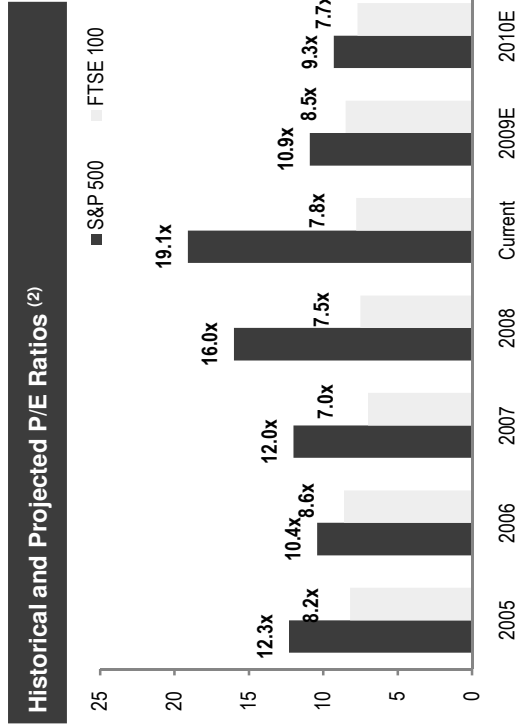
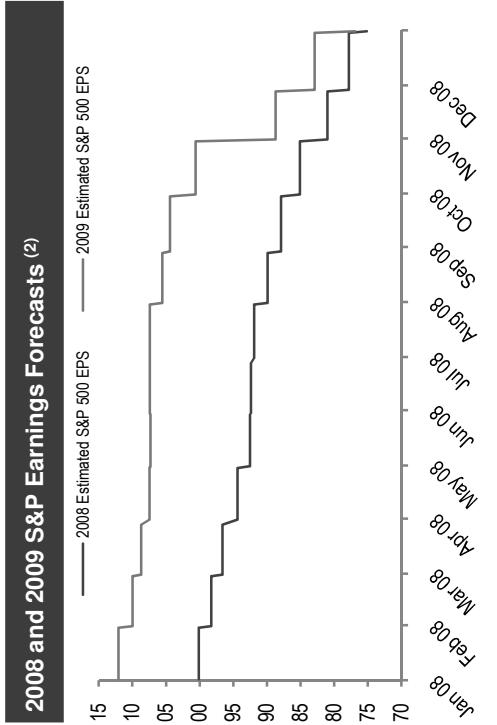
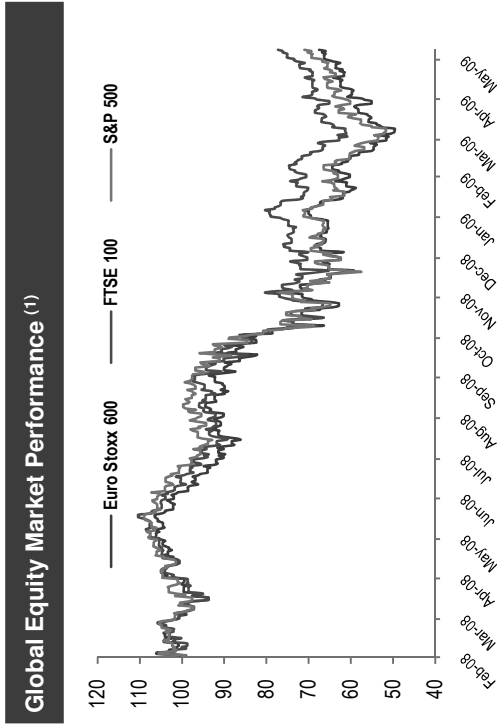
Equity Markets May Have Found A Bottom . . .

Investors are now focused on determining the scale and duration of the downturn

Profit warnings and earnings forecasts for 2009 and 2010 have begun to stabilize

As a result, volatility is declining, but remains elevated above normalized levels

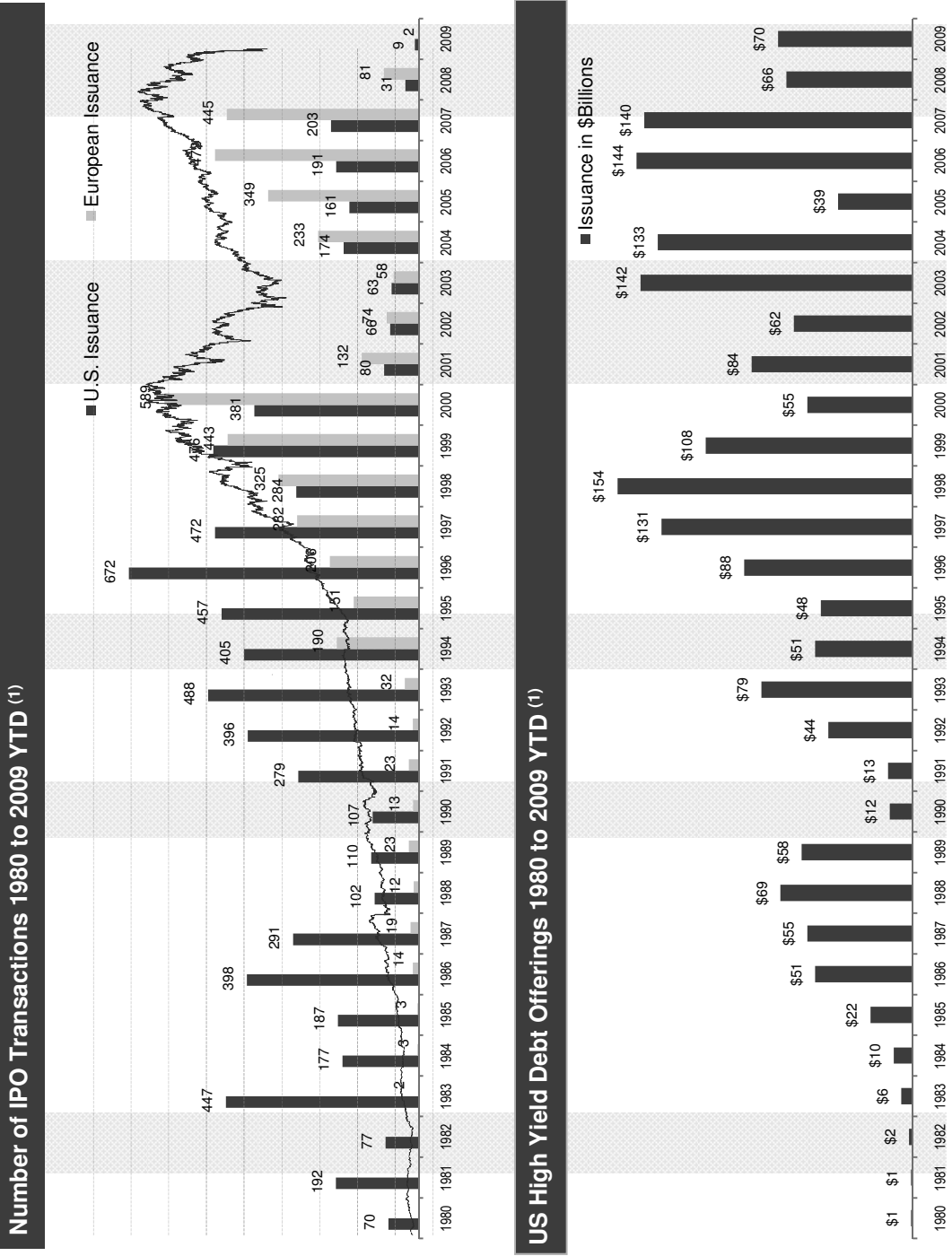
Recovery is unlikely to be found until there is more certainty to economic and corporate earnings outlook



(1) Source: Bloomberg.
 (2) Source: FactSet – S&P 500 includes Q3 08 earnings, but FTSE100 includes 1H 08 due to different reporting requirements. This is one reason for the wide spread between the indices current P/Es

Capital Market Issuance in Historic Economic Downturns

Even during historic economic downturns, the capital markets have remained open



Recessionary Period
 U.S. Issuance
 European Issuance
 S&P 500

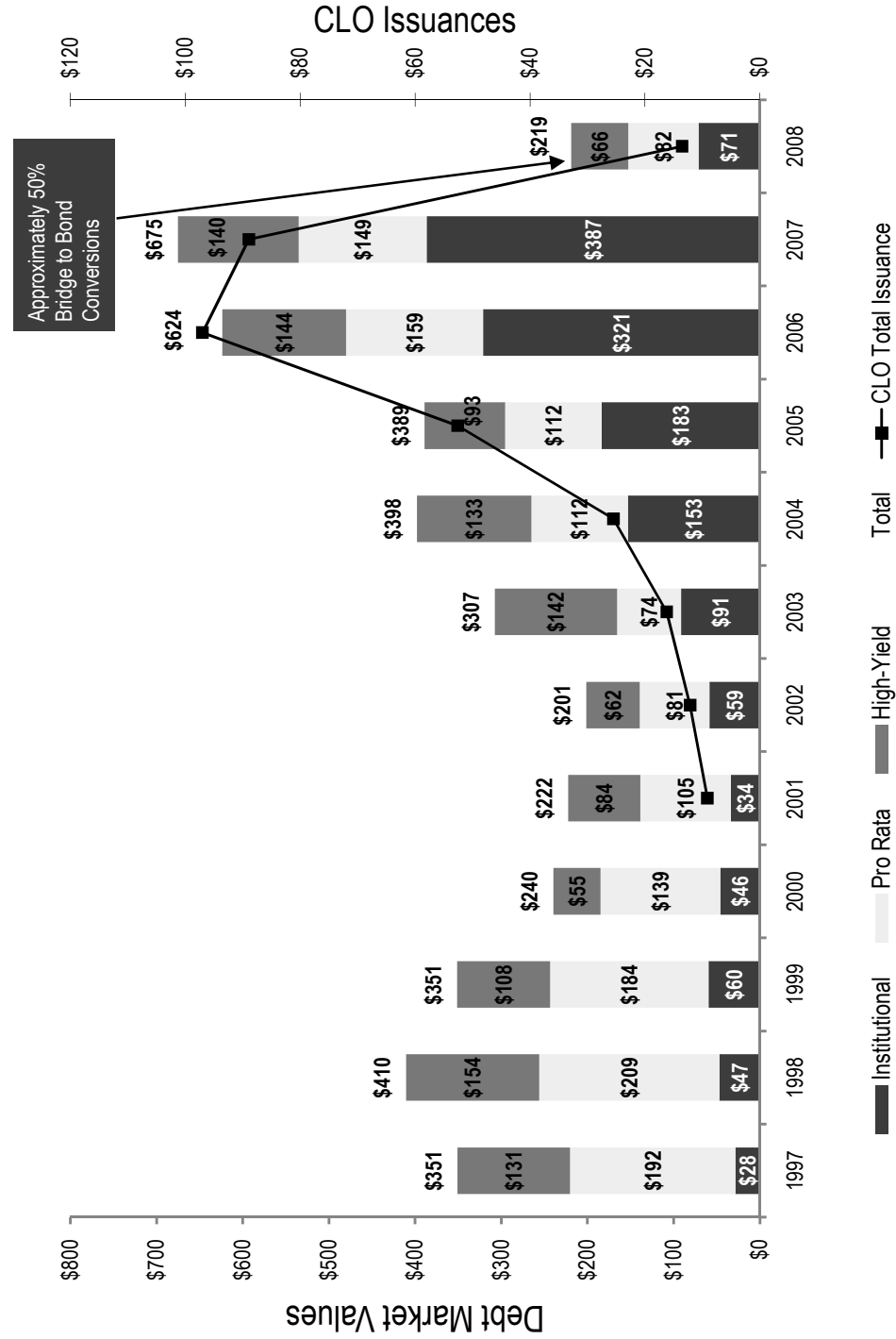


(1) Source: Dealogic and LCD.

Total Debt Market Volume

(\$Billions)

Over the last few years, much of the market was driven by CLO issuances that are now practically non-existent and hedge funds continue to experience / forced deleveraging

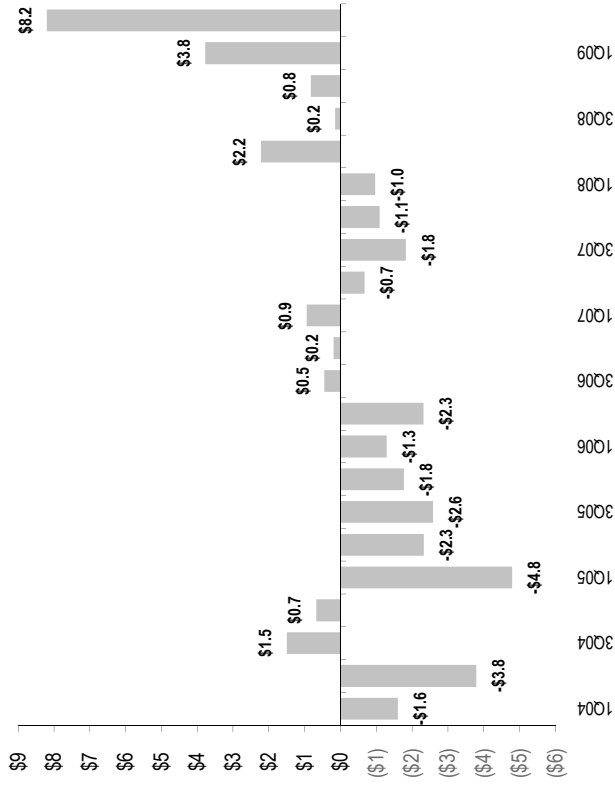


Total Debt Market Volume (cont'd)

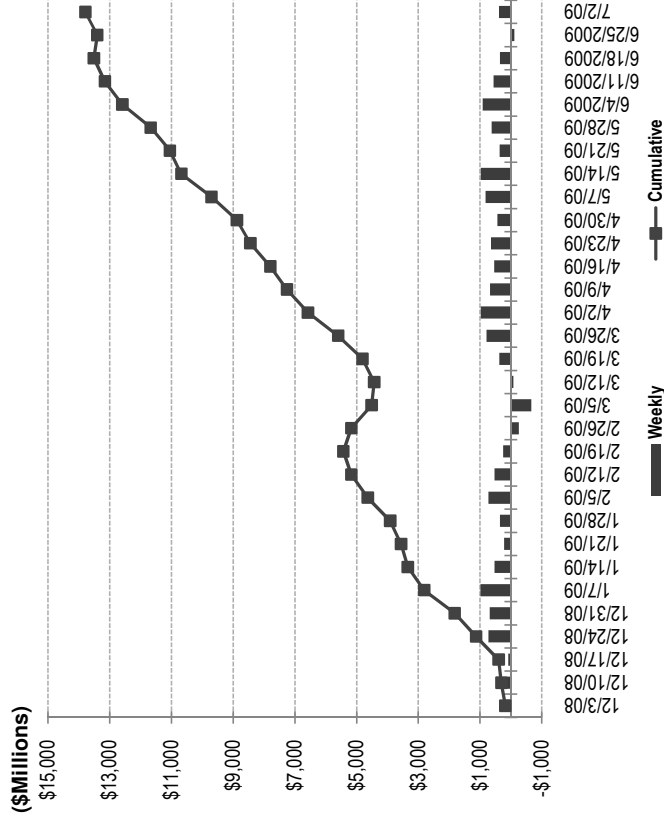
(\$Billions)

- While CLO activity has shut down, investment in traditional high yield mutual funds have substantially picked up in 2009 YTD as investors have started to put money to work in an oversold asset class

HY Mutual Funds Flows by Quarter



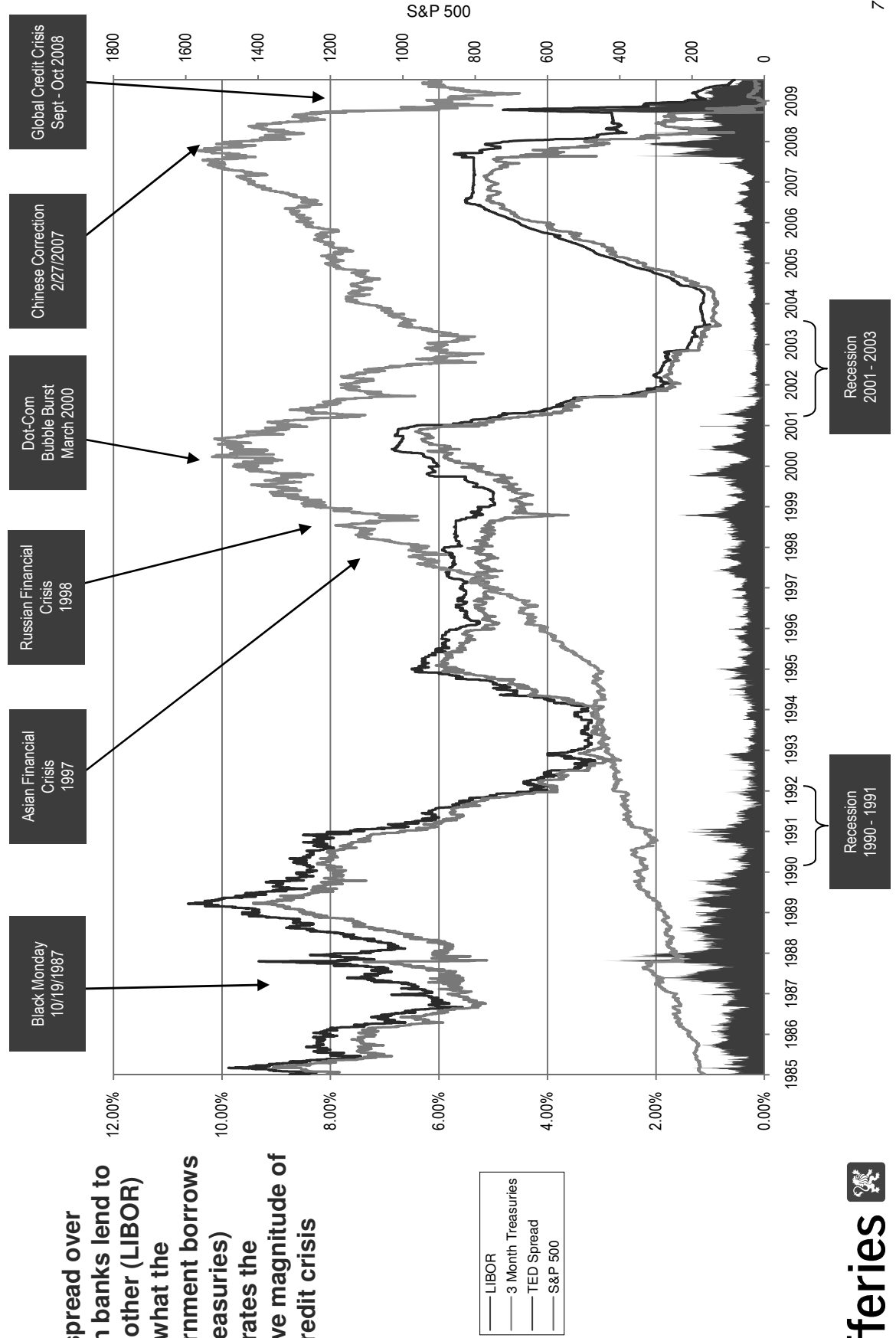
Weekly High Yield Mutual Fund Flows – Dec-08 to Present



Historical TED Spread Trends

1985 to Present

The spread over which banks lend to each other (LIBOR) over what the government borrows at (Treasuries) illustrates the relative magnitude of the credit crisis

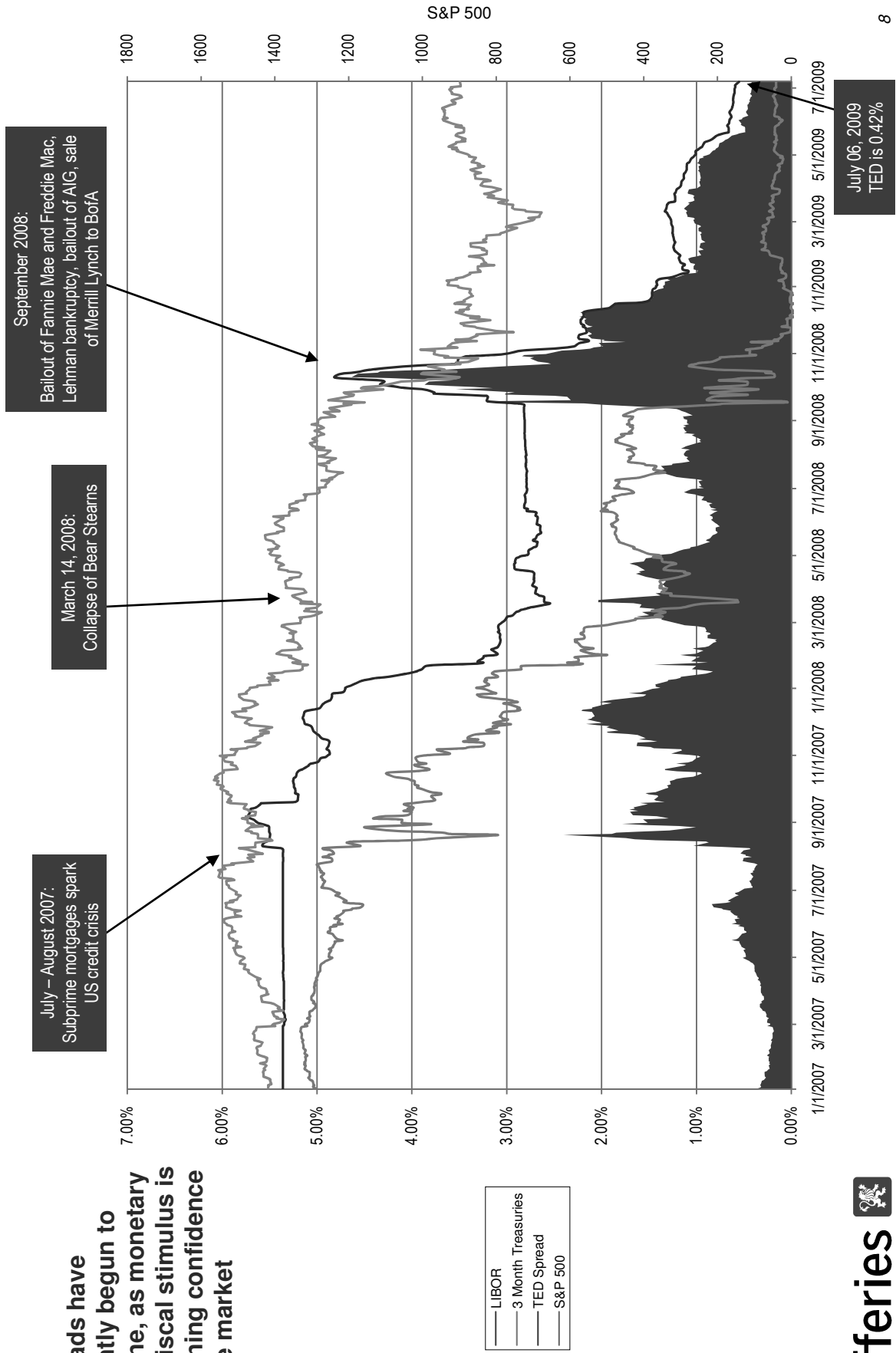


- LIBOR
- 3 Month Treasuries
- TED Spread
- S&P 500

Historical TED Spread Trends

2007 through 2009

Spreads have recently begun to decline, as monetary and fiscal stimulus is returning confidence to the market



Severe Financial System Stress Has Occurred

New issue market will remain constrained until the financial system deleverages and economy shows signs of recovery

- Major restructuring of financial institutions worldwide
 - Failure of Bear Stearns and Lehman
 - Sale of Merrill to Bank of America and Wachovia to Wells Fargo
 - Goldman Sachs, Morgan Stanley converted to bank holding companies and deleveraging
 - UBS received funding from Swiss government, and downsizing its operations
 - Other major players are receiving government investment, downsizing, selling assets and issuing equity, including Barclays, RBS, and HSBC
- Unprecedented fiscal and monetary measures have been taken to stimulate the economy
 - Takeover of major mortgage players Fannie and Freddie (nearly \$5 trillion of debt)
 - Significant expansion of Fed balance sheet by over \$2 trillion with TALF and qualitative easing
 - US government committed over \$1.5 trillion through fiscal stimulus and TARP
 - EU and other nations also taking strong actions to stimulate their economies
- Outlook remains challenging for lending markets
 - Increasing risk of recession in domestic and global economies - growing unemployment and declining housing prices and unit sales
 - Default rates ended the first quarter at 7.4% and are expected to reach 13.5% at the end of 2009 (historical average is approximately 5.0%)
 - Many institutions have liquidity and have begun to lend out money again, but on a more limited basis because of remaining uncertainty in credit markets

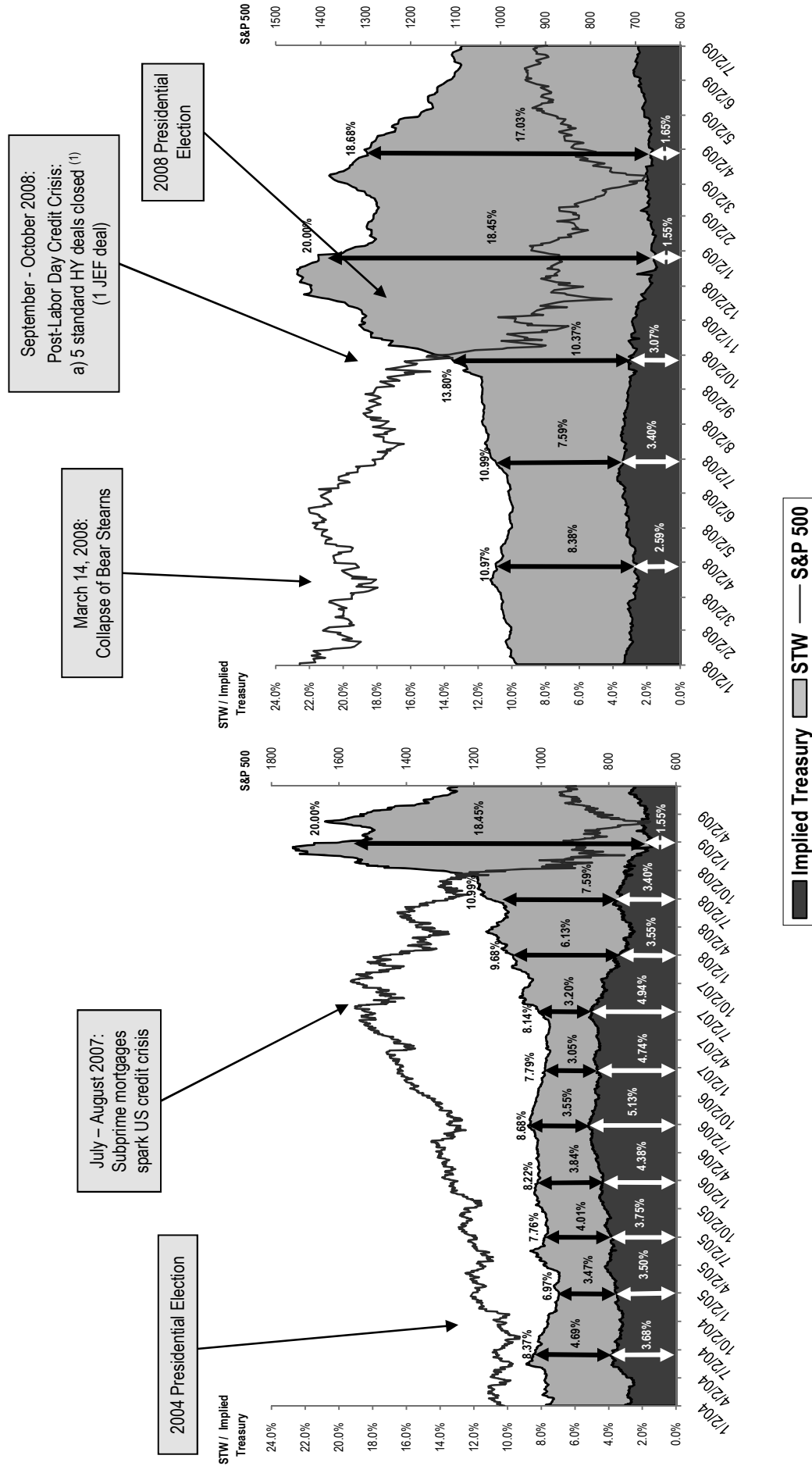
Indicators of a Sustained Market Recovery

Indicator	Current	Target
Global inflation peaks then eases as expected	Rising	Falls from Q1 '09 onward
Unemployment growth peaks then declines	Rising	One quarter of decline
Positive trend in consumer spending	Falling	3 – 6 months of growth
Interbank lending spreads return to traditional levels to encourage consumer and corporate lending	TED Spread Approximately 45bps	TED Spread at 100bps or less
Corporate default rate slows and doesn't exceed expectations	c.7%	Peak under 10%
Recovery rates on defaults remain above historical averages	c.65%	Not less than 60%
Forward P/Es of major indices begin to rise	c.16.0x	Rising through 15.0x
Positive corporate earnings forecasts for 2010	20-30% decline for FY2009	>15% increase for FY 2010
Equity market volatility recedes	VIX Index at c.25	VIX Index at 40 or less
Real estate valuations stabilize	Falling at 15-20% annually	One quarter of growth

Current Debt Market Conditions

High Yield Market Overview

Spread to Worst and Implied Treasury Yield on the High Yield Broad Market Index

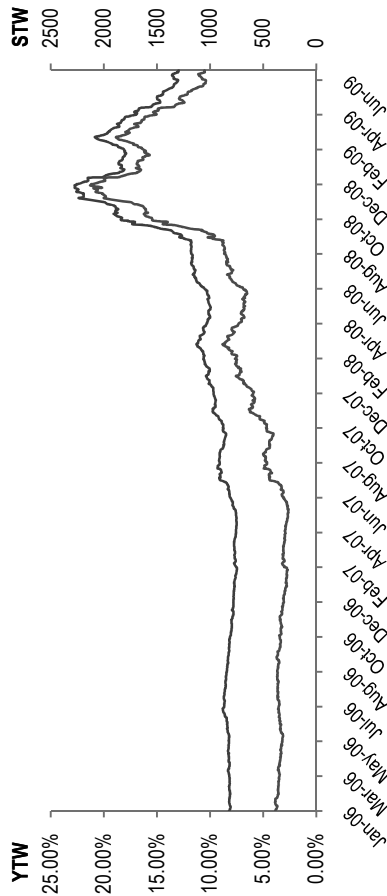


(1) Excludes 3 bridge loan to bond conversions.

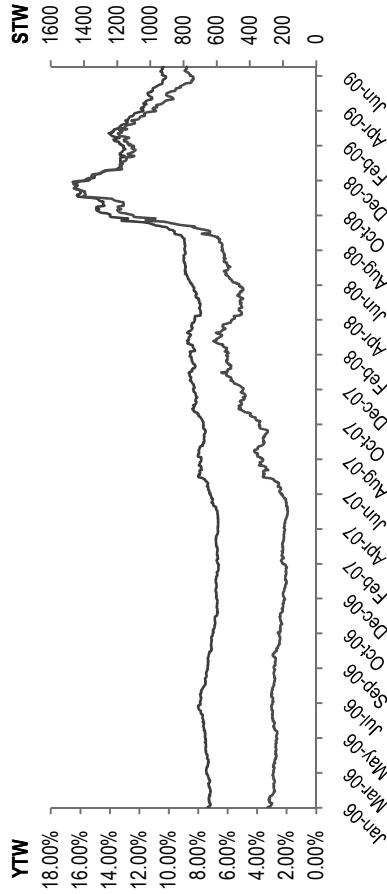
High Yield Market Overview

Spread and Yields – Jan-06 to Present

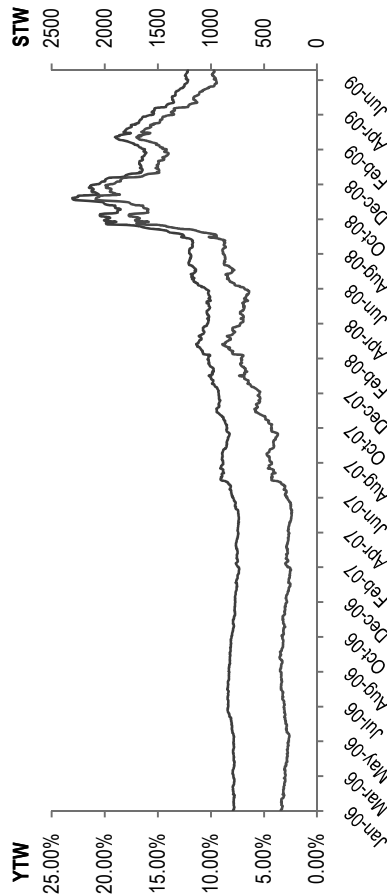
High Yield Broad Market Index



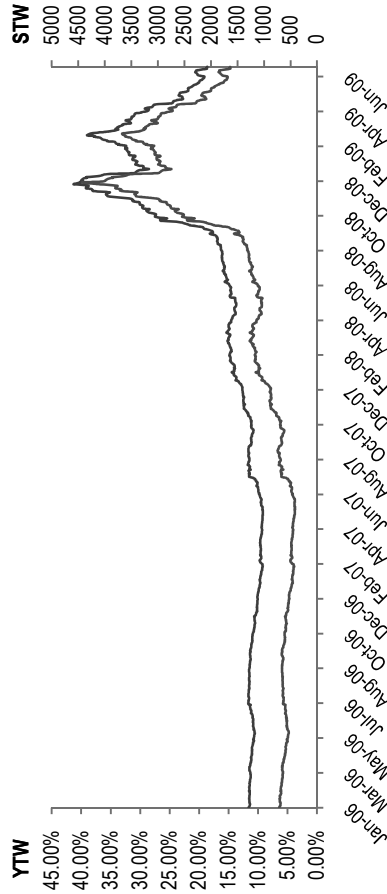
High Yield BB



High Yield Single B

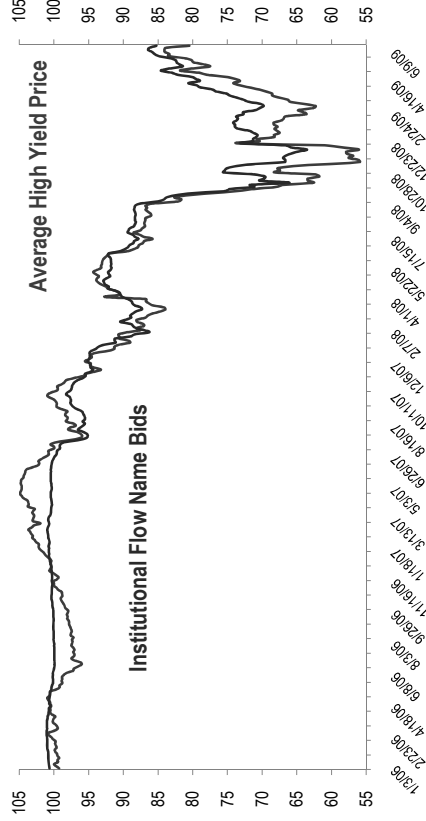


High Yield CCC

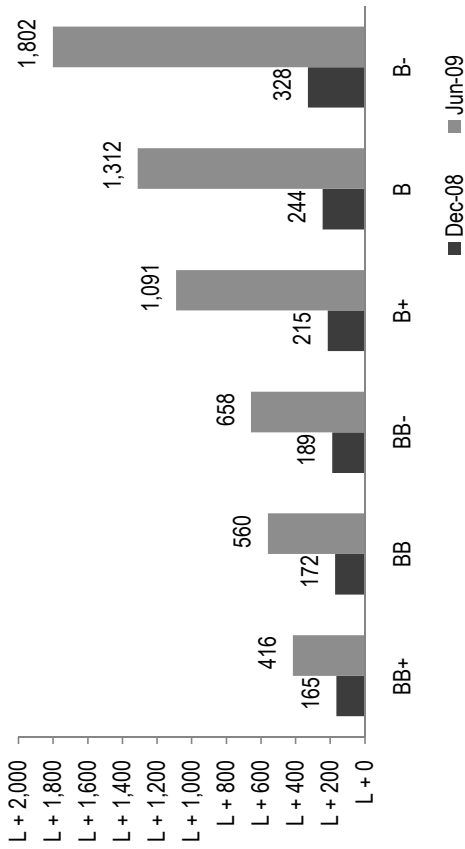


Loan Market Secondary Market Prices & Yields

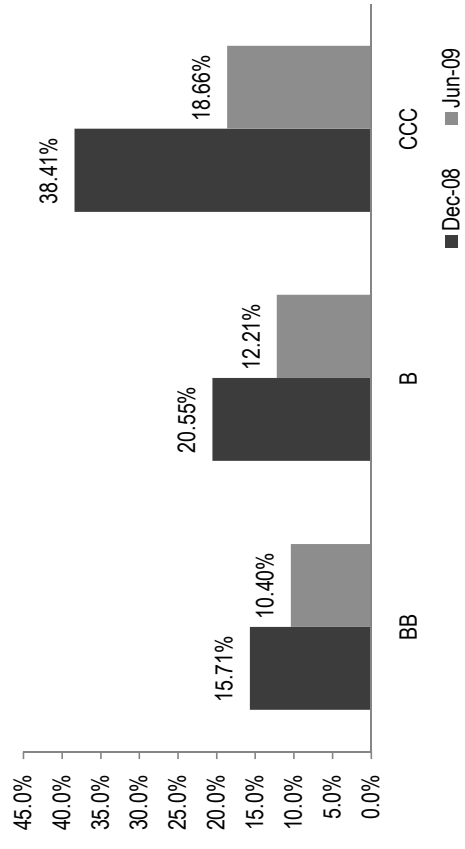
Average Price: HY Bonds vs. Leveraged Loans⁽²⁾



Bank Loan Secondary Spreads by Rating⁽¹⁾

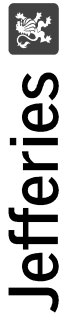


High Yield Secondary Yields⁽³⁾



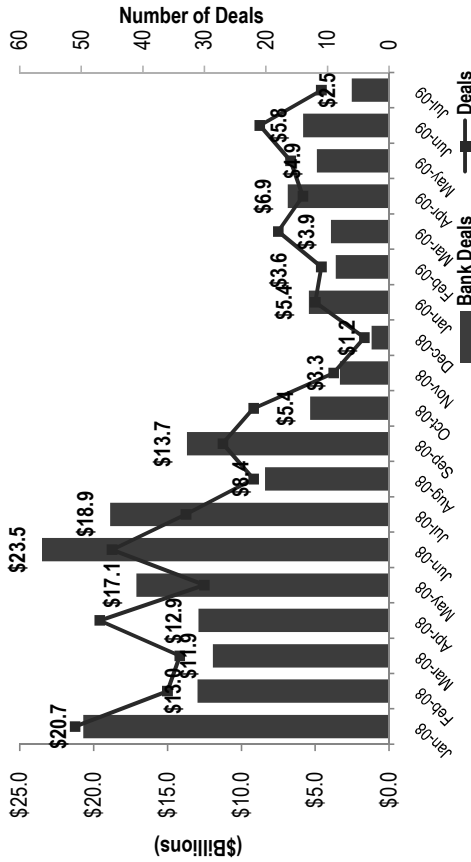
- Though still off pre-credit crunch highs, pricing environment continues to improve, driving improving market tone for new issuance from issuers and investors

(1) Source: Standard & Poor's LCD secondary spreads.
 (2) Source: Standard & Poor's LCD selected large high yield bonds and leveraged loans.
 (3) Source: Jefferies Internal Research.



New Debt Issuance Volumes for 2009 Continue to Improve

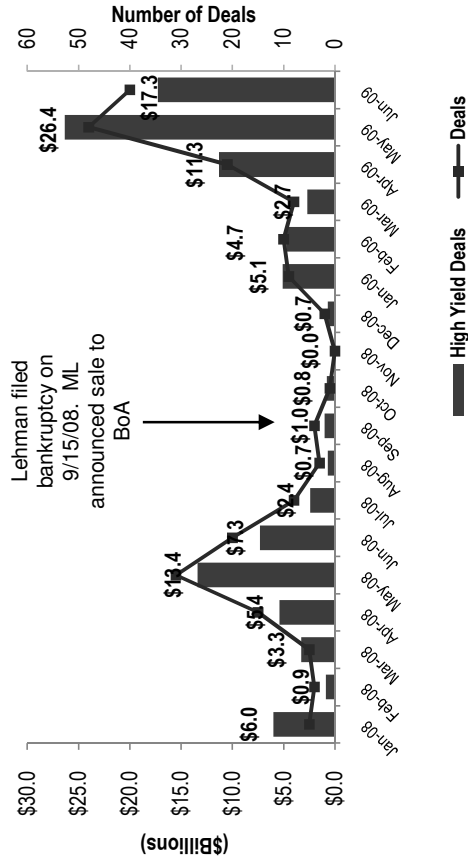
All New Money Bank Loan Issues



Recent Bank Transactions

Launch Date	Borrower	Amount	RC	TLA	TLB	Rating
6/25/2009	Terra-Gen Power LLC	\$ 275.0	\$25M / NA		\$250M / NA	NR/NR
6/24/2009	Casella Waste Systems Inc	280.0	\$180M / L+450		\$100M / L+500	B+/B2
6/23/2009	Primary Energy Recycling Corp	152.5			\$152.5M / L+850	NR/NR
6/17/2009	Arizant Inc	75.0	\$10M / L+300	\$65M / L+300		B+/NR
6/17/2009	QVC Inc	50.0			\$500M / L+400	NR/NR
6/17/2009	Travelport Inc	150.0			\$150M / L+750	B-/B2
6/16/2009	Fresh Del Monte Produce Inc	500.0	\$500M / L+300			BB-/NR
6/16/2009	U.S.I. Holdings Corp	117.0			\$117M / L+575	B-/B3
6/11/2009	Five Guys Burgers and Fries	35.0	\$10M / L+650	\$25M / L+650		NR/NR
6/11/2009	Neiman Marcus Group Inc	500.0	\$500M / L+425			B/Caa1
6/8/2009	Church's Chicken	155.0	\$15M / L+750	\$140M / L+750		NR/NR
6/3/2009	BRSP	290.0			\$290M / L+450	NR/NR
6/1/2009	Alliant Insurance Services Inc	60.0			\$60M / L+600	B-/B3
6/1/2009	Crescent Resources LLC	110.0	\$80M / L+1000	\$30M / L+1000		NR/NR
6/1/2009	Drew Marine	55.0	\$10M / L+650			NR/NR
5/29/2009	Eddie Bauer Inc	100.0	\$100M / L+400			NR/NR
5/28/2009	Greenbrier Companies Inc	75.0			\$75M / L+350	B-/B3

All New Money High Yield Issues(1)



Recently Completed New Money High Yield Transactions(1)

Issuer	Size (\$MM)	Security	Date	Price	Yield	Rating
Wind Telecomunicaciones	\$ 2,000.0	11.750% Sr. Notes due 2017	7/1/09	97.49	12.25%	B2/BB-
Toys 'R' Us	950.0	10.750% Sr. Notes due 2017	7/1/09	97.40	11.25%	B3/B+
Real Mex Restaurants Inc.	130.0	14.000% Sr. Sec. Notes due 2013	7/1/09	90.00	17.98%	B3/B-
Commercial Barge Line Company	200.0	12.500% Sr. Sec. Notes due 2017	7/1/09	95.18	13.50%	B2/B+
Casella Waste Systems	180.0	11.000% Sr. Sec. Notes due 2014	7/1/09	97.21	11.75%	B2/B+
Targa Resources Partners	250.0	11.250% Sr. Notes due 2017	6/30/09	94.97	12.25%	B2/B+
Royal Caribbean Cruises Ltd.	300.0	11.875% Sr. Notes due 2015	6/30/09	97.40	12.50%	Ba3/BB-
Digital Limited	160.0	12.000% Sr. Notes due 2014	6/30/09	99.50	12.12%	B2/B-
Bill Barrett Corp.	250.0	9.875% Sr. Notes due 2016	6/30/09	95.17	10.88%	B1/B+
United Airlines Inc.	175.0	12.750% Sr. Sec. Notes due 2012	6/26/09	90.70	17.00%	B2/B+
Alliance One International Inc.	570.0	10.000% Sr. Notes due 2016	6/26/09	95.18	11.00%	B2/B+
RSC Equipment Rental	400.0	10.000% Sr. Sec. Notes due 2017	6/26/09	97.32	10.50%	B1/BB
Alliance One International	570.0	10.000% Sr. Notes due 2016	6/26/09	95.18	11.00%	B2/B+
XM Satellite Radio	526.0	11.250% Sr. Sec. Notes due 2013	6/26/09	95.09	12.88%	Caat1/B
Univision Communications	545.0	12.000% Sr. Sec. Notes due 2014	6/25/09	93.01	14.00%	B2/B
Smithfield Foods	625.0	10.000% Sr. Sec. Notes due 2014	6/25/09	96.20	11.00%	Ba3/BB-
Solo Cup Company	300.0	10.500% Sr. Sec. Notes due 2013	6/24/09	97.33	11.15%	B2/B+
Belden Inc.	200.0	9.250% Sr. Sub. Notes due 2019	6/24/09	96.87	9.75%	Ba2/B+
Oxford Industries	150.0	11.375% Sr. Sec. Notes due 2015	6/23/09	97.35	12.00%	B1/BB-
Wendy's/Arby's	565.0	10.000% Sr. Notes due 2016	6/18/09	97.53	10.50%	Ba3/BB+
QuickSilver Resources	600.0	11.750% Sr. Notes due 2016	6/18/09	96.72	12.50%	Ba2/BB
Terremark Worldwide Inc.	420.0	12.000% Sr. Sec. Notes due 2017	6/17/09	95.13	13.00%	B3/B-
PAETEC Communications	350.0	8.875% Sr. Sec. Notes due 2017	6/17/09	96.55	9.50%	B2/B-
RailAmerica Inc.	740.0	9.250% Sr. Sec. Notes due 2017	6/17/09	95.92	10.00%	B1/BB
Cinemark USA Inc.	470.0	8.625% Sr. Notes due 2019	6/16/09	97.56	9.00%	B1/B
CB Richard Ellis Services	450.0	11.625% Sr. Sub. Notes due 2017	6/15/09	96.87	12.25%	B2/B+
Limited Brands Inc.	500.0	8.500% Sr. Notes due 2019	6/15/09	96.75	9.00%	B2/B

(1) Excludes bridge to bond deals.

Characteristics of Opportune Issuers: Be Prepared

65 deals were completed during the 2008 Market Window

- \$3.3 billion raised for new issuers
- \$22.3 billion raised for existing issuers

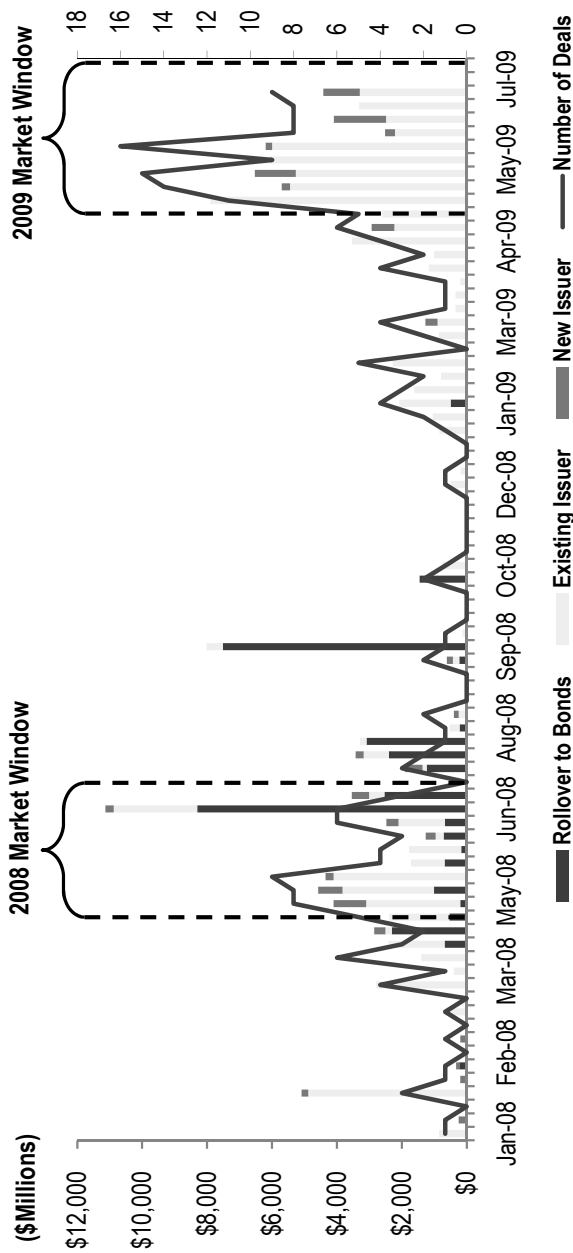
Current Market Window began at the end of March 2009 and is still open

- \$58 billion raised
- 119 deals completed since late March

- Well prepared issuers were able to take advantage of the high yield markets unexpected opening from April 2008 to July 2008 (the "Market Window")
 - Ability to use SEC automatic shelf filings and existing equity offering materials
 - Tack-ons to existing issues at a reasonable premium to current trading levels
- A near-complete offering circular enables new issuers to benefit from opportune conditions
- The historically volatile market conditions justify additional preparatory work in order to capitalize on improved market conditions when they occur

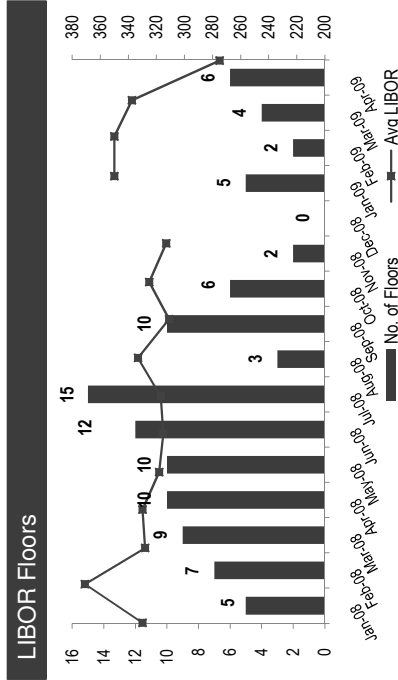
- Current market window
 - 2009 has seen a window for issuances
 - Broad Market Index yields have declined approximately 5% since early March

Weekly High Yield Issuances since 2008

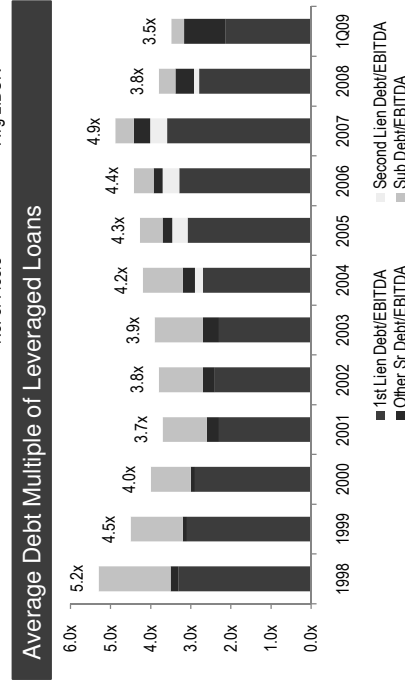


Structuring Takes More Conservative Tone

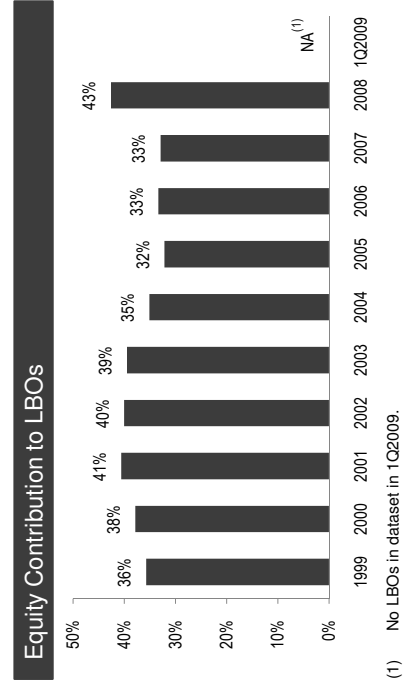
LIBOR floors continue to be market practice



More conservative leverage



Equity contributions have reached an all time high and show no signs of decreasing



(1) No LBOs in dataset in 1Q2009.



Other Considerations

- Leverage multiples ballooned in 2006-2007, driven by private equity buyouts
 - Average leverage peaked near 5x, well above prior 5-year average of 3.9x
- Leverage multiples will reduce to "normalized" levels or lower
 - For 1Q09, average leverage multiple is 3.5x
- Credit standards have tightened significantly, in line with previous downturns
 - Maintenance covenants on CapEx, interest coverage and leverage are tightening, as well as return of cash flow sweeps
 - Historically, lending conditions remain tight for 2-3 years after peak lending
- Lenders are focused on companies / loans with:
 - Significant hard asset
 - Defensible recurring revenue streams
 - Amortizing term loans with high excess cash flow recaptures
 - Shorter maturity / duration
 - Soft call protection
 - Meaningful maintenance covenants
 - Yield enhancements

Current DIP Market Conditions

DIP Financing Market Conditions

Lack of DIP Financing Making Bankruptcy More Challenging

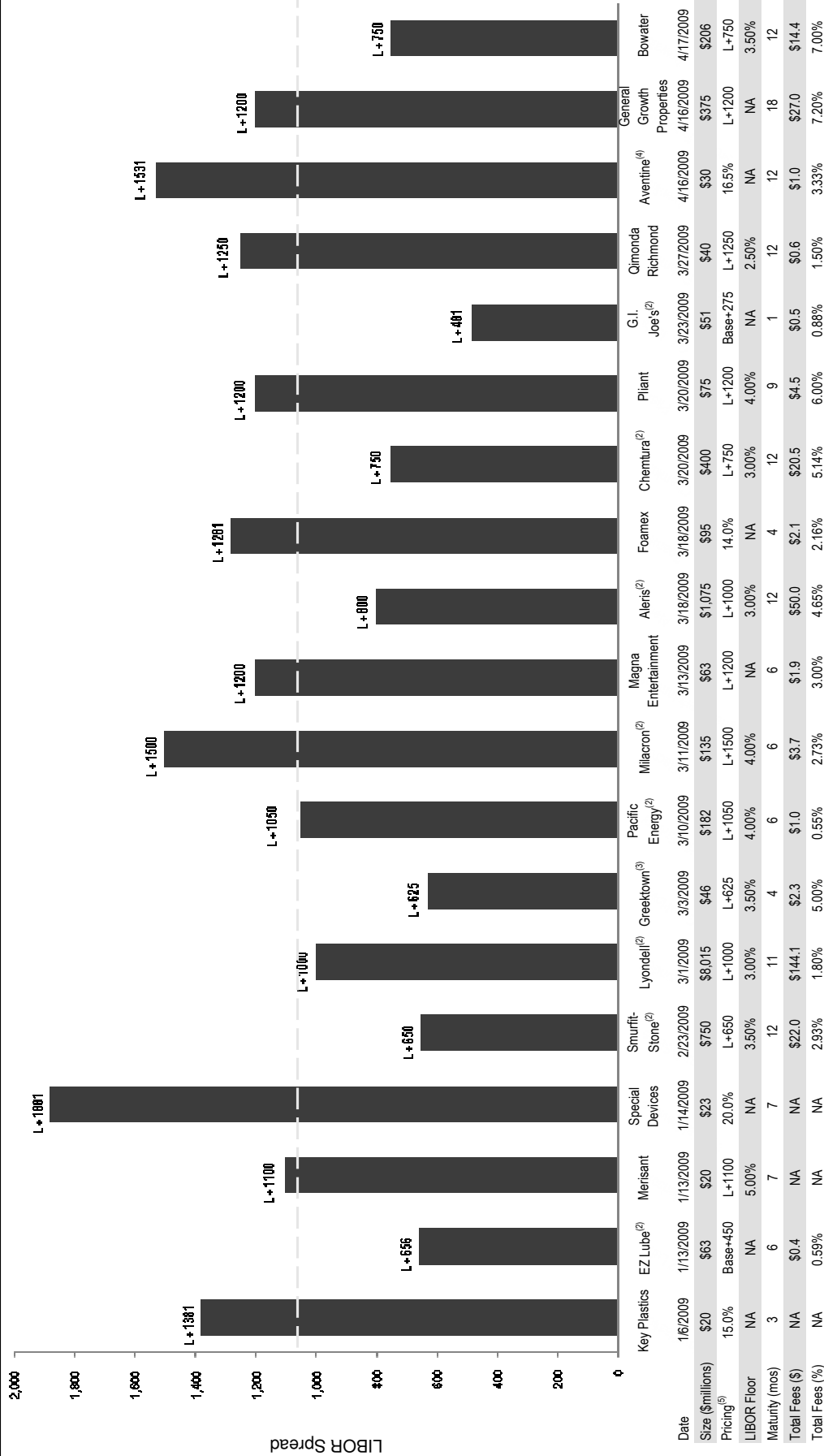
The frequency of Chapter 11 filings has increased considerably as companies continue to face extreme market pressures

- Restructuring activity has accelerated and the number of liquidations has dramatically increased
 - Circuit City
 - Levitt & Sons, LLC
 - Linens 'n Things
 - Progressive Molded Products Inc.
 - Quaker Fabric Corp.
 - The Sharper Image Corp.
- The tightening of loan standards and credit conditions has made it more difficult for companies in Chapter 11 to obtain the DIP financing and/or exit financing necessary to successfully emerge from bankruptcy
 - Despite a jump in bankruptcy filings in 2008, new DIP loans were sharply lower last year than in the two most recent restructuring cycles
 - In 2008, the number of new DIP loans was about 35 percent below the number issued during the economic downturn in 2002, and about 46 percent below the number issued in 2005 ahead of changes to the bankruptcy code ⁽¹⁾
 - DIP facility pricing has increased approximately 300bps since Lehman Brothers filed for Chapter 11 in September 2008
 - Mean DIP prices on revolving credit facilities and term loans are now approximately L + 700bps and L + 1000bps, respectively
 - As a result of the recent reluctance of parties to provide DIP financing, Debtors have recently been forced to pay significantly higher prices
 - Tronox Inc. is currently paying L+950 on its revolving DIP facility
 - Merisant Worldwide, Inc. is currently paying L+1100 on its revolving DIP facility
 - Pliant Corp. is currently paying L+1200 on its DIP financing facilities
 - AbitibiBowater Inc. is currently paying L+750 on its Term DIP facility

⁽¹⁾ Data from Thomson Reuters LPC.

DIP Comparisons Summary

Summary of Recent DIP Term Loans (1)



(1) Based on public filings. Total fees represent one time charges.
 (2) Calculation of total fees on DIP facility is based on both revolver and term loan borrowings.
 (3) Amount represents an amended interim order to the company's initial interim order on 6/2/08 where the company requested \$150 million.
 (4) Total fees consist of 3.0% of the principal amount plus \$100,000 in agent fees.
 (5) Assumes LIBOR of 1.19% and Base Rate of 3.25%. Pricing is based on term loan portion only.

