Lender Communications

State of the Lender Market

- Unprecedented Lack of Liquidity
  - Entrants: Few
  - Departures: Many
- Pendulum moved 180° away from investment market
- Lenders themselves in fear of seizure, capital call or illiquidity
- Acquisition/cash flow debt virtually non-existent
- Focus is on appearance of quality assets

Understand the position from which your stakeholders come

Lender Communications

Unique Corporate Situation

- Not only lenders, but borrowers experiencing worst of times
  - Overleverage bled working capital cushion
  - Reduced business reinvestment due to debt service needs
- Many situations seeing top line plummet faster than costs can be removed
- Some companies falling below critical mass
- Maintaining stability and positive cash flow becomes paramount
- Many situations do not allow for debt service of any kind

D&O positions become extremely tenuous

Lender Communications

Key Tenets of Restructuring Discussions

- First, critical component is credibility in discussions
- Transparency of position and goals critical
- Basis for discussion starts from a credible forward-looking plan and understanding of urgency (ie how much cash is available)
- Understand how much cash you have and what are potential sources of new liquidity
- How big is the pie before we can eat – what is the proxy for valuation
  - This may be tough when there is no ‘comparable’ environment to current experience
  - Understand the ‘indifference point’
- Try and gauge the needs and goals of each party
- In a distressed situation, money talks and time is not an ally

Success will be defined by meeting as many objectives of the most number of constituents

Lender Communications

General Approach

- Begin by discussing where each party might hope to get to
  - Long term restructure?
  - Exit options?
  - Pay down?
  - Marketable debt?
  - Fiduciary relief?
- Develop a structure that starts by focusing on stakeholders in order of priority
- Determine current ‘beneficial owner’ and cater to their temporal leadership position
- Junior classes must be part of the solution and will cost money as a trade off to reduce ‘adversary risk’

Success is achieved when everyone thinks the solution sucks, but can live with it

Lender Communications

Process with Multiple Constituents

- Understand available liquidity sources and needs
- Design structure to achieve serviceable market debt tranches
- Convert out of market tranches to high yield instruments with negative control feature
- Commit to term sheet, gain board and investor support
- Introduce concepts to senior lenders before delivering on paper
- Open dialogue with junior capital but await 'body language' of senior capital before proceeding
- Push discussions down to junior layers
- Move toward consensus (multiple iterations)

Lender Communications

Example of a Structure

Existing Senior Debt 12/31/08 balance: approx $90.0 million Providers: Existing Senior Lenders	♦ The Existing Senior Lenders consent to the following restructuring of their loans: – **"Escrow Cash"** All of the "Escrow Cash" (including earnings) to be released and used to support working capital needs – **Revolving Credit Facility** • $5 million commitment • 4-year term • Secured by first lien on accounts receivable and inventory • Cash interest of LIBOR + 1.50% • Commitment fee: 0.50% accrued • Unused line fee: 0.375% – **Term Loan A** • $10.0 million commitment • Fully drawn at closing • 4-year term • Secured by first lien on fixed and all other long-term assets, and a second lien on accounts receivable and inventory • Cash interest of LIBOR + 1.50% • Commitment fee: 1.00% accrued • Amortization: 7-year basis after year 1 • Cash flow recapture of 50.0% of "net excess cash flow" to be defined – **Term Loan B** • $15.0 million commitment • Similar to Term Loan A except: • Cash interest of LIBOR + 2.00% • .50% commitment fee accrued • Amortization - single payment maturity on the fourth anniversary of the Closing • No excess cash flow recapture provision – **Term Loan C** • $45.0 million commitment • Similar to Term Loan B except: • 8.5% coupon in year 1; thereafter, 12% coupon, in each case, PIK or to the extent that the Company has reasonable capacity to do so, in cash • Voting agreement to permit board control in the case of substantial non-performance ♦ Remaining debt (approximately $20 million) converted to 17.5% (pre-dilution for option pool) of newly issued common stock

Existing Second Lien Lenders 12/31/08 balance: approx $36.0 million	♦ Second Lien Lenders will convert their debt to convertible preferred stock, convertible into 31.5% (pre-dilution for option pool) of newly issued common stock. The preferred stock will have basic legal protections and no dividend
Existing Equity Investors	♦ All existing preferred will be converted into common stock ♦ Current equity investors will receive, pro rata on a fully converted basis, 51.0% (pre-dilution for the option pool) of the outstanding common stock post-restructuring ♦ No management fees will accrue ♦ Existing equity retain the right to appoint one board member
Management	♦ Management shall receive a $1.5 million incentive payment after the restructured senior Revolving Line of Credit, Term Loan A and Term Loan B have been repaid ♦ Thereafter, management shall receive the equivalent of 5.0% of all proceeds repaid with respect to Term Loan C ♦ Management shall also be eligible for up to 10% of common stock, to be earned based upon performance and an additional 5% of common stock to be earned after the common stock and all options and other securities convertible therefor shall receive $75 million ♦ The new Board of Directors shall work with management to determine the appropriate allocation of the incentives outlined herein
Governance	♦ The company shall be governed by a Board of Directors, comprised of: • CEO • 1 independent director nominated by the holders of Term Loan A, Term Loan B and Term Loan C • 1 director nominated by the holders of preferred stock • 1 director nominated by the existing Equity Investors ♦ The Existing Investors shall have the right to appoint one board observer