Best Practices in Debt Management

Presented by

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Bank of America Bank of Opportunity™

FECG The Financial Executives Consulting Group, LLC

The Value Alliance

Day Pitney LLP

CFS Corporate Finance Solutions

Agenda

- Introduction
- Today's Capital Markets
- Bank Perspective on Debt
- Board of Directors Perspective on Debt
- Debt Covenant Survey
- Debt Management Process
- Conclusion

Introduction

CFS CORPORATE FINANCE SOLUTIONS — Jim Simpson

FECG THE FINANCIAL EXECUTIVES CONSULTING GROUP, LLC — Bruce Lynn

Introduction

- 2008 is becoming the “year of liquidity” for both lenders and borrowers
  - Corporates: Sales and profits becoming uncertain = > Need for external liquidity
  - Lenders: declining portfolio quality + balance sheet issues (i.e. capital constraints) => need for liquidity
- Remaining competitive in 2008 will require liquidity & / or borrowing capacity
  - Operating cash flows must support debt payments
  - Cash flows and EBITDA are not the same
    - Operating cash flow = Cash on hand +/- Working Capital
    - Financial cash flows = investment +/- debt flows
- Access to capital (i.e. liquidity) is the beginning not the end of debt management

Introduction (2)

- 4 different perspectives on liquidity
  - Bank Perspective
    - Jim Cockey – Senior VP, Bank of America
  - CFO Perspective
    - Jim Simpson – Managing Partner, Corporate Finance Solutions, LLC
    - Bruce Lynn – Managing Partner, FECG, LLC
  - Board Perspective
    - Eleanor Bloxham, CEO, The Value Alliance
  - Legal Perspective
    - Bob Wrobel – Of Counsel, Day Pitney LLP

Today's Capital Markets

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Jim Cockey

Today's Capital Markets

Senior Loan Market

- Loan markets generally remain in near grid-lock entering 2008
- Backlog of committed deals in the leveraged loan market swamps the supply of capital available to fill those orders
- CLOs are not being formed owing to liability ratings and warehouse issues, which effectively reduces the supply of capital by almost 50% vs. 1H 2007
- Relative value investors are finding better opportunities in secondary traded issues and are thus less interested in primary issues

High Yield Bond Market

- High yield market conditions have weakened since the summer amid housing concerns, backlog of higher-levered LBO-related issuance and general economic uncertainty
- Yields have moved off their historic lows with the Broad Market Index currently at 9.56%, up from 7.49% in May07
- Higher-quality corporate issuers can still access the market

Equity Capital Markets

- Investors are selectively receptive to new issues amid mixed macroeconomic indicators and market uncertainty
- Despite recent market volatility, follow-on volume remains robust

Today's Capital Markets

CDS Indices for High Yield Bonds and Leveraged Loans

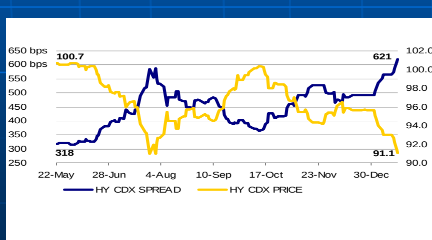
HIGH YIELD CDS INDEX

	HY CDX SPREAD	HY CDX PRICE
High	725 bps	104.100
Low	316 bps	91.000
Average	448 bps	96.452
Current	**621 bps**	**91.100**
Δ to Average	172 bps	(5.352)
Δ to High	(104 bps)	(13.000)
Δ to Low	305 bps	0.100

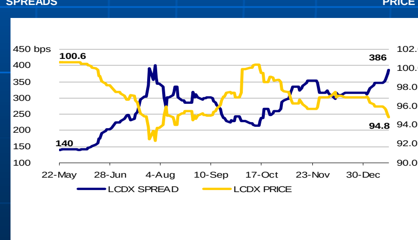
LOAN CDS INDEX

	LCDX SPREAD	LCDX PRICE
High	401 bps	100.600
Low	140 bps	92.300
Average	271 bps	97.096
Current	**386 bps**	**94.800**
Δ to Average	114 bps	(2.296)
Δ to High	(15 bps)	(5.800)
Δ to Low	246 bps	2.500

SPREADS PRICE



SPREADS PRICE



Source: BAS Broad Market Index

Note: Spike in LCDX price in September is due to the change from LCDX Series 8 to LCDX Series 9

Today's Capital Markets

- 2008 will be a year of "balance sheet repair" for Lenders
  - Substantial capital has been consumed with undistributed commitments funded in 2007
  - Declining market capacity means additional capital may be needed to cover 2008 commitments
  - Declining portfolio quality at banks will require higher provision expense to offset increasing write-offs
  - Recognition of losses on structured credit products
  - SIV exposures coming back on balance sheet
  - Other surprises ?????

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Today's Capital Markets

- Borrowing Realities in 2008
  - Issuers must carefully manage impact of financial and non-financial covenants which guide credit and liquidity availability
  - Why? Refinancing is a limited option in today's environment – doing so will likely be more difficult, more expensive, and on much tighter structures
  - Proactive debt management practices can assist in ensuring cost-advantaged access to much needed capital
- Bank's Expectations of Issuers
  - Assumptions behind financial models used to track and forecast compliance need to be critically challenged
  - Companies will need to explain how deviations are likely to impact financial results and possible covenant compliance
  - Lots of open, honest dialogue – ensure both the Issuer and Bank are on the same page – don't leave room for assumptions except for those that are factually correct or applicable
  - Avoid having to deal with "misunderstandings" later when a credit need has to be addressed

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Debt – Bank Perspective

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Debt – Bank Perspective

- Market volatility has been extensive
  - Almost all major firms have been plagued by the sub prime mortgage and CLO/CDO market issues
  - Over 12 of the largest "players" (e.g. BOA, Citi, JPM, Wachovia, Goldman, UBS, etc) have lost 30% or more in market value
- Banks are looking to tighten standards
  - Credit decisions have begun to tighten
  - Expect 2008 to result in tighter allocation of credit across the lending complex and in a weakening credit quality environment
  - The Covenant-Lite market is gone
  - Lenders will be very focused on financial covenant defaults in the coming quarters
- Continued access to credit will require active communication by Borrowers about anticipated performance and compliance to credit terms

Debt - Bank Perspective

- Debt management is a key filter through which banks evaluate a company and its management team
- Banks expect:
  - A company to fully understand all of the requirements of its loan agreements
  - The company's finance and legal teams to effectively marry operating performance to the loan agreements
  - To be advised ahead of time about all material events that could impact the loan agreements
    - Potential financial covenant breaches
    - Material transactions or events requiring bank approval
    - Any other "Material Adverse Changes"

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Debt – Bank Perspective

- Proactive communication of all relevant events concerning the loan agreements can result in:
  - More timely negotiation of amendments and/or waivers on terms that are fair to all parties
  - Lower costs
  - Enhanced credibility of management
- Key deliverables to think about when negotiating financial covenants
  - When developing financial projections be sure to include a full financial model including income statement, balance sheet and statement of cash flows on a monthly basis to reflect inherent seasonality in the business plan
  - Sensitize the plan to reflect changes in working capital and balance sheet impacts on projected covenant levels – justify fully the sensitivity adjustments
  - Create full functionality in the model to enable the user to sensitize the model to understand the impacts

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Debt – Bank Perspective

- Ineffective communication with the bank regarding issues related to the loan agreements can lead to:
  - Contentious negotiations of required amendments and/or waivers;
  - Higher costs;
  - Loss of credibility;
  - Greater involvement of the bank's credit department;
  - Workout / Default
- What processes are used by companies to manage their debt?

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Debt – Board Perspective

THE VALUE ALLIANCE

Eleanor Bloxham

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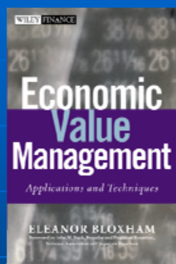
Corporate Model



Community and External Governance
Citizens

Regulators

Providers of Cash Capital
Investors

Lenders

Internal Suppliers
Board

Managers

Employees
External Suppliers

Consumers
Customers

External Observers
Critics

Exhibit 1.2 A Stock Company. Excerpted from *Economic Value Management: Applications and Techniques* *Copyright 2003, John Wiley & Sons*

Role of the Board

- Responsibility to the company and *all* its shareholders and stakeholders
  - Longevity of the firm
- Risk management and Boards of Directors
- Audit Committee
- Succession Planning
  - Risk climate and CEO survival
  - Future corporate leaders
- Nominations Committee

Covenant Survey

CORPORATE FINANCE SOLUTIONS — Jim Simpson

THE FINANCIAL EXECUTIVES CONSULTING GROUP, LLC — Bruce Lynn

Survey Demographics

- What do other companies do to mange their debt?
- FECG surveyed 406 companies in Sept. 2007
- Sales size:
  - 58% sales less than $100 million
  - 20% sales between $100 and $500 million
  - 22% sales greater than $500 million
- Ownership
  - 69% private companies
  - 25% public
- Debt rating
  - 46% had a debt rating
  - Of those 56% had > investment grade

Survey Demographics (2)

- Types of debt outstanding
  - 76% had bank debt
  - 16% had bonds
  - 48% had lease or other financing
- Amount of debt outstanding
  - 21% of bank financing is greater than $100 million with 5% greater than $500 million
  - 49% of bank financing is less than $10 million

Covenant Review Process

Do you have a formal **financial** covenant review process?	Total Group	By Sales ($MMs)		
		< $100	$100-500	>$500
No	23%	27%	16%	22%
Yes - each month	29%	36%	27%	11%
Yes - each quarter	33%	23%	38%	54%
Yes - annually	4%	3%	5%	4%
As required (i.e. informal process)	11%	11%	14%	10%
Total	100%	100%	100%	100%

Covenant Review Process

Do you have a formal **financial** covenant review process?	Total Group	By Rating		
		>BBB	<BBB	None
No	**23%**	**20%**	**18%**	**27%**
Yes - each month	**29%**	**26%**	**32%**	**29%**
Yes - each quarter	**33%**	**36%**	**41%**	**29%**
Yes - annually	**4%**	**6%**	**3%**	**3%**
As required (i.e. informal process)	**11%**	**12%**	**8%**	**12%**
Total	**100%**	**100%**	**100%**	**100%**

Rolling Forecast

Do you forecast covenant compliance ?	Total Group	By Sales		
		< $100	$100-500	>$500
No	**38%**	**43%**	**23%**	**39%**
Yes - next qtr	**8%**	**11%**	**4%**	**4%**
Yes - next 2 qtrs	**4%**	**3%**	**7%**	**3%**
Yes - next 3 qtrs	**6%**	**4%**	**13%**	**3%**
Yes - the current plan year	**19%**	**21%**	**18%**	**15%**
Yes - next 4 qtrs	**21%**	**16%**	**26%**	**26%**
Yes - other	**5%**	**2%**	**9%**	**10%**
Total	**100%**	**100%**	**100%**	**100%**

Rolling Forecast

Do you forecast covenant compliance ?	Total Group	By Ratings		
		>BBB	<BBB	None
No	38%	47%	27%	38%
Yes - next quarter	8%	10%	7%	8%
Yes - next 2 qtrs	4%	3%	5%	4%
Yes - next 3 qtrs	6%	3%	12%	5%
Yes - current plan year	19%	14%	26%	18%
Yes - next 4 qtrs	21%	19%	17%	23%
Yes - other	5%	6%	7%	4%
Total	100%	100%	100%	100%

Covenant Review Process

Do you have a formal ***non financial*** covenant review process?	Total Group	By Sales		
		< $100	$100 to 500	>$500
No	36%	41%	29%	34%
Yes - each month	19%	25%	17%	7%
Yes - each quarter	20%	13%	21%	32%
Yes - annually	5%	2%	11%	3%
As required (i.e. informal process)	20%	18%	22%	24%
Total	100%	100%	100%	100%

Covenant Review Process

Do you have a formal ***non financial*** covenant review process?	Total Group	By Rating		
		>BBB	<BBB	None
No	36%	37%	28%	40%
Yes - each month	19%	20%	21%	17%
Yes - each quarter	20%	23%	19%	18%
Yes - annually	5%	5%	7%	4%
As required (i.e. informal process)	20%	15%	26%	15%
Total	100%	100%	100%	94

Amendments & Waivers

What were the reasons for them?	Total Group	By Sales		
		< $100	$100 to 500	>$500
Does not apply	38%	37%	29%	48%
Financial covenant breach	34%	39%	38%	17%
Non financial covenant breach	9%	8%	16%	4%
Technical Default	6%	6%	9%	0.0%
Acquired a new business	12%	10%	13%	16%
Change of control	4%	4%	4%	6%
Added new debt	17%	15%	25%	13%
Change in mkt pricing	6%	2%	9%	13%
Improved ops performance	4%	4%	7%	3%
Other	11%	8%	10%	20%

Amendments & Waivers

How long to obtain?	Total Group	By Sales		
		< $100	$100-500	>$500
Does not apply	36%	40%	25%	39%
Under 1 month	37%	38%	30%	44%
1 - 3 months	23%	19%	38%	16%
3 - 6 months	2%	2%	4%	0%
Over 6 months	1%	1%	1%	0%
Unsuccessful	1%	1%	3%	1%
Total	100%	100%	100%	100%

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Debt – CFO & Legal Perspective

CFS CORPORATE FINANCE SOLUTIONS — Jim Simpson

DAY PITNEY LLP — Bob Wrobel

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Debt – CFO & Legal Perspective

- Create a formal debt review process
  - Forward Looking
  - Monitors future compliance with key provisions and sections of loan agreement
  - Finance and Legal must understand each others perspective
  - Understand how events impact the loan agreement
- Do not assume the “other guy” is watching your back.
  - He may be doing the same
  - When in doubt – assume control

Debt – Legal Perspective

- Maintain control of loan agreement Compliance Issues
- There are 4 “publics” which can often exert unwanted control
  - Auditors
  - Lawyers
  - Lenders
  - Board of Directors

Debt – Legal Perspective

- Find all organizing agreement provisions
  - Identify all sections and provisions that are impacted by:
    - Normal course business activities
    - Specific transactions
    - Triggers beyond the requirements of GAAP
    - Require reporting (either episodic or at fixed dates)
- Understand events of default
  - What are big "D" versus little "d" events?
- Have a process to "cure" default

Debt - CFO Perspective

- Best practices based on survey results
  - Read and *understand* loan agreement
  - Create a covenant checklist
  - Create a financial model to track and forecast financial compliance
  - Review covenant compliance on a regular basis and before events become defaults (i.e. create a debt calendar)
  - Proactively communicate with lenders
  - Stress test covenants

Debt - CFO Perspective

- Retain control of the debt process
  - “potential covenant issue” = company in control
  - “actual covenant issue” = bank in control
  - Build in ongoing and regular communication “events” with lenders
- You can’t communicate too much

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Conclusion

- Credit standards (i.e. covenants) will be tighter in 2008, regardless of the rate environment
- Banks will be less inclined to grant forgiveness
- Know your loan agreement
- Plan ahead (i.e. have a plan)
- Communicate early and often with lenders

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The Value Alliance
(www.thevaluealliance.com)

THE VALUE ALLIANCE is widely recognized internationally as a leading education and advisory firm. Founded in 1999, the firm provides educational and advisory resources to companies and boards of directors in the US and internationally. **The focus is on the information companies, boards, lenders and investors need in their strategic and oversight responsibilities.**

What drives our ability to produce meaningful results for clients?

Our clients consistently cite our ability to improve their results and effectiveness by first and foremost listening carefully and understanding their unique context. They tell us they find our approach to engagement to be comprehensive, flexible, and innovative. They cite our senior level experience and insightful, responsive, professionalism.

And they note our effectiveness in building consensus to arrive at solutions and process approaches that effectively manage the needs of all constituents in a way that promotes trust, respect, and ultimately, superior results.

The CEO of The Value Alliance is Eleanor Bloxham. Working for her on governance related matters is John M. Nash, Founder of the National Association of Corporate Directors, the largest organization of independent directors in the US today. On corporate finance, risk management and other matters, The Value Alliance has alliances with a number of firms, including Corporate Financial Solutions.

Eleanor Bloxham Background

Eleanor Bloxham is widely recognized internationally as a leading authority on strategic governance and valuation.

She is CEO of The Value Alliance and Corporate Governance Alliance. (www.thevaluealliance.com). As a corporate advisor, she helps organizations to improve their performance and their relationships with internal and external stakeholders, working with CEOs and boards of directors to help them anticipate change and establish programs and practices that effectively manage risks, and encourage innovation, resiliency, and better results. Her clients have included the largest Fortune 5 global firms as well as smaller start-up companies.

She is the author of two books, <u>Economic Value Management</u> (in the Wiley Finance Series) and <u>Value-led Organizations</u> and of a library of over 800 videos, articles and transcripts on board and financial topics, including audit, risk, financial management, corporate strategy and compensation, among others. She has over 50 published articles in board, financial and business journals and magazines on the topics of corporate finance, risk management and board related matters. In addition, she is a regular columnist for both NIRI and Accountability Central.

Her expertise is well-recognized and frequently sought by the national, financial and international press, including CNN's Moneyline with Lou Dobbs, CNBC's many daily programs, NPR, as well as the Wall Street Journal, New York Times, Business Week, USA Today, Financial Week, CFO Magazine, and American Banker, among many others.

Corporate Finance Solutions, LLC

- An independent and unbiased strategic and tactical, corporate finance advisory firm
- Focused on Corporate Finance needs of Mid-Sized companies with sales between $100 million and $1 billion
  - Quickly gets up to speed
  - Mobilizes resources and gets the project done within the framework of the company's culture
  - Levels the playing field with financial providers
  - Once project is completed, company staff is apprised of all steps and actions recommended
    - Knowledge transference
- Committed to building trust-based relationships with CEOs, CFOs, Boards of Directors and their finance teams
- Successor firm to Broadgate Capital Advisors founded 2003

Jim Simpson

- Jim Simpson has 31 years of Corporate/Consulting experience
  - 23 years of senior finance/capital markets treasury experience
    - CFO: C.S. Brooks, Inc. (private) and Moore Medical Corp (public)
    - Treasurer: Sandoz Corp (Novartis)
    - Assistant Treasurer: Combustion Engineering (ABB)
    - International Finance: PepsiCo, Inc.
    - Extensive corporate finance transactional experience
  - 8 years Consulting Experience
    - Manager Consulting: KPMG
    - Partner: Greenwich Treasury Advisors, LLC
    - Founding Partner: Broadgate Capital Advisors, LLC
  - A proven record of success working with Mid-Sized companies
  - Knows the ropes and can easily become part of the team

DAY PITNEY LLP

- **Professional Experience**
  - **Bob Wrobel** has more than thirty years experience as an in-house general counsel to assist clients with their domestic and international mergers, acquisitions and finance transactions.
  - Most recently, he served as Executive Vice President and Chief Legal Officer at Alpharma Inc. Prior to Alpharma, Bob held positions as Vice President and Associate General Counsel at Duracell Inc. and Senior Vice President, General Counsel and Chief Administrative Officer at The Marley Company. His areas of experience have included:
  - Acted as lead negotiator on numerous transactions, including
    - Traditional private and public M&A transactions, joint ventures, licensing arrangements and other traditional product marketing and manufacturing agreements. In addition to U.S. transactions, he has substantial experience in China, India, South Korea, Indonesia, Thailand, Australia, Mexico, Brazil, Colombia, England, Norway, Germany, Hungary, France, Spain, Saudi Arabia and South Africa
  - Established corporate governance policies and procedures to comply with Sarbanes-Oxley and NYSE rules
  - Regularly counseled board members and senior management on legal, commercial and corporate governance issues
  - Counseled extensively with respect to U.S. securities and antitrust laws and foreign competition laws.
  - Handled legal issues associated with the development and implementation of instruments facilitating debt and equity financing
- **Education -** University of Illinois College of Law, J.D., 1970; University of Illinois, B.S., 1967
- **Admitted -** State of Connecticut, Missouri, Kansas
- **Professional Affiliations -** American Bar Association

The FECG LLC (www.thefecg.com)

- Our business
  - The FECG provides its clients with a unique array of financial talent to solve their immediate and most pressing issues
    - Interim / Project staffing at CFO, Controller, Treasury levels
    - Advisory Assistance – planning, forecast, reporting, debt, cash flow enhancements, optimize banking relationships
  - Solutions avoid the issue of permanent changes in a company's cost structure
- Benefits we bring:
  - A "hands on" orientation to each assignment - each consultant has had operating responsibilities and may have faced and resolved a similar situation.
  - A cost effective solution - we operate without the large overhead associated with other consulting companies who charge higher rates for less experienced "juniors".

Bruce C. Lynn

- 20+ years of corporate and banking experience in all aspects of treasury and financial management. Has successfully completed major assignments for Fortune 500 companies in such areas as:
  - Treasury operations / technology
  - Working capital management
  - Strategic planning
  - Planning and analysis of operating and capital budgets
- Worked with all levels of management including the "C" level, both domestically and internationally
- Former VP, relationship manager at Bankers Trust and Director of Cash Management and Working Capital at Ogden Corporation
- Education
  - Industrial Engineering degree from Lehigh University
  - MBA in Finance from the Stern School of Business
  - Corporate Treasury Professional (CTP)
- Published articles or presentations in
  - AFP's *Exchange*
  - GTNews
  - National Association of Corporate Treasurers (NACT)
  - Institute of Internal Auditors (IIA).

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