Overview of Distressed and Special Situation Investing

November 2015

Introduction to Distressed and Special Situation Investing

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- Distressed and Special Situation investing represents a broad spectrum of investment strategies that seek to capitalize on market dislocations or other events to purchase assets at what is hoped to be a significant discount to their intrinsic value
- Distressed debt is typically defined as trading at >1000bp over Treasuries or below 80 cents on the dollar for bonds and below 90 for leveraged loans
- In the wake of the 2008 credit crisis distressed investing gained increased prominence as distressed opportunities in global credit markets exploded
- In anticipation of the crisis a great deal of money had been raised by distressed and credit opportunity funds, nevertheless, many were caught over-invested and over-leveraged when the crisis hit
- In 2008 the vast majority of distressed and credit opportunity funds experienced substantial losses, down 50% or more
- In 2009 as a result of TARP and Quantitative Easing the markets stabilized and distressed and credit funds came roaring back generating 70%+ returns. By 2010 most funds had hit their *"high water mark"* and were able to again collect performance fees. This was the best year for distressed since 2002-03 cycle
- In July and October 2011 the US credit markets experienced violent sell offs as the result of fears over a European sovereign debt crisis and lackluster US economic growth
- The $64,000 question remains when the next cycle will begin, not if there will be another one. This seems to be a forgone conclusion given the excess credit in the system. Current central bank policies around the globe are likely sowing the seeds of the next crisis

Distressed and Event Driven Strategies

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- Distressed debt is typically defined as trading at >1000bp over Treasuries or below 80 cents on the dollar for bonds and below 90 for leveraged loans
- Within the broad spectrum of distressed investing there are several sub strategies including:
  - Distressed for control (a/k/a distressed private equity)
    - Oaktree
    - Centerbridge
    - Cerberus
    - Apollo
    - Avenue
    - Matlin Patterson
    - Angelo Gordon
    - Sun Capital
    - Strategic Value Partners
  - Activist Distressed/Event Driven (non-control Focus)
    - Aurelius
    - Elliot
    - Third Point
    - Jana
    - Perry Capital
    - Steel Partners
    - Carl Icahn
    - Pershing
    - Greenlight
  - Credit Opportunities
    - Contrarian
    - Caspian
    - Golden Tree
    - Saba
    - Millennium
    - White Box
    - Baupost
    - Marathon
    - Och Ziff
  - Middle Market Distressed (Control distressed in the middle market)
    - Littlejohn
    - Versa
    - Ares
    - Black Diamond
    - Levine Liechtman
    - Z Capital
    - HIG/Bayside
    - Patriarch
    - Wellspring

Distressed for Control

- Distressed for control or Distressed Private Equity seeks to purchase controlling stakes in companies (segmented into large cap >$1bn EV and middle market) either through the bankruptcy process such as a court mandated auction known as a §363 sale, by obtaining a controlling or blocking position in the "Fulcrum" security prior to bankruptcy and effecting control either through additional ownership in a rights offering or by negotiating board control
- During the 2008-2009 credit crisis many distressed for control firms utilized the Debtor-in-possession (DIP) loan as tool for gaining control of a company. Due to a lack of 3rd party DIP providers willing to lend, Distressed PE funds agreed to put in DIP loans that were effectively bridges to a sale with the PE fund becoming the stalking horse bidder. This was accomplished by incorporating aggressive "milestones' into the DIP covenant such as a sale or POR filed within 60 days
- Funds engaged in this strategy are long term investors and generally are structured as PE funds with locked up money for 7-10 years with an investment period (3-5 years) and harvest period (3-5 years). They are not subject to quarterly or annual redemptions and therefore can afford to hold illiquid investments. Investment is monetized or harvested either through an outright sale of the business, IPO or a dividend recap
- Investors in this space target rates of return based on a multiple of invested capital (MOIC). LPs expect the fund to return at least a 2x on its original investment and in the middle market it may be 3-4x. These funds tend to deploy capital in large chunks (10-20%) as opposed to the more common 3-5% positions found in the average hedge fund
- In order to manage this strategy effectively funds must have the infrastructure to monitor and a portfolio of operating companies. This will require operating partners familiar with managing and restructuring businesses as well as audit, compliance, tax and accounting issues. Most traditional hedge funds are not set up for this kind investing. The due diligence and compliance costs along with less stable capital make control investing less attractive to all but the largest credit hedge funds

Activist Distressed Funds

- Activist distressed funds tend to invest in larger, more liquid capital structures and may seek to wield significant influence in a restructuring or bankruptcy. Alternatively they may seek to trade out if the credit if it improves
- Activists look to a take a leading position in negotiations with the Debtor and need to own enough of a class of a security to get a seat at the negotiating table. May form steering committees or ad hoc groups along with other Creditors. Typically are willing to enter into trading restriction agreements when necessary
- Funds tend to have a long bias but will short as a hedge, engage in Cap Arb and outright short overvalued securities
- Activists tend not seek operational or ownership control but may do so depending on the situation. As hedge funds have grown larger and need to take larger positions activists have entered the middle market distressed loan arena and taken control of the company. Angelo Gordon lead Philly News and American Media transactions
- Activist funds typically have traditional 2-20% structure with annual and sometimes even quarterly redemptions, although most funds have tried to move towards longer lock ups due to the illiquid and volatile nature of distressed securities. In 2008 many funds were forced to put up Gate, this cause considerable problems with LPs
- Activist funds typically target a 20% IRR, however given the current low interest rate environment most funds are guiding investors to expect low to mid teen returns. Big return are generated post a credit dislocation such as 2002-03 and 2009-10
- Activists may also seek to exploit opportunities related to covenant violations or other event driven strategies. For example a company may need to extend the term on its bank debt or be in violation of a covenant. In exchange for granting an amendment or waiver the fund may extract a large consent fee or as well as increase the coupon and potentially institute a LIBOR floor if one does not already exist. May also be able to enforce inspection rights to look at a company's books as well as be given a board seat if the company is private (not likely if company has public equity)
- With respect to high yield bonds activists may seek to exploit difference among a companies existing indentures with respect to guarantees, structural seniority, layering provisions or types of collateral and security or inter-creditor issues. May also seek to enforce CoC of control language in an out of court restructuring
- If there is significant secured debt, particularly bank debt, bond holders may have little recourse until there is an event of default or bankruptcy given that most HY bonds don not contain maintenance covenants

Credit Opportunity Funds

- Credit opportunity funds are either credit funds that employ a trading based strategy to earn excess returns in the credit markets based on relative value, exploiting HY or distressed opportunities, credit selection, or a combination of these strategies. Some funds use quantitative strategies, while other use fundamental. Credit opportunity players may be part of a larger multi-strategy fund that has a credit team. Citadel, Och Ziff, Whitebox and Paulson are examples of multi-strategy funds with credit teams. Bank prop desks function very similar to credit opportunity funds, albeit with even more leverage
- Typically these funds hold less concentrated positions (2-3%) and are less inclined to become restricted or sit on steering committees. These funds are also to use leverage to enhance returns as they typically are not investing in credit intensive distressed securities with 20%+ YTW
- In the 2002-2008 time frame many of these funds used Total Return Swaps (TRS) which allowed them to employ 2-10x leverage to enhance returns. During that time LIBOR was around 5% and HY spreads were anywhere from 250-500bp. Due to the boom in the CLO market and unprecedented LBO activity, there was a tremendous opportunity to make money "flipping" new issues that would trade up 1-3pts post pricing. Hedge funds would purchase the securities at issue and then flip them to CLOs and institutional fund managers that did not receive a their desired allocation in the offering. Capital markets desks were incentivized to funnel product to hedge funds because they tend to trade more frequently generating more commissions and the demand for product from institutional funds allowed the hedge funds to earn a quick "arb" and cause the issue to trade up in the secondary market
- Credit opportunities funds tend to invest more globally including sovereign debt, non-US$ denominated corporate debt and also will do more relative value and spread arbitrage
- These funds may at times take more concentrated bets or increase their weighting towards distressed securities opportunistically. For example Paulson in Lehman Brothers

Shareholder Activism

- In 2013, activist hedge funds added nearly $5.3 billion in net asset inflows, up sharply from $2.9 billion in the previous year and the most since 2006, according to data compiled by Hedge Fund Research. Total assets in activist funds – a small slice of all hedge fund assets – stood at $93 billion at the end of 2013, an all-time high and up 42 percent from the prior year.
- On average, the roughly 60 funds tracked by HFR that specialize in activist investing returned 16.6 percent in 2013. While that is still less than the Standard & Poor's 500 stock index jump of roughly 30 percent, it is far better than the average hedge fund, which returned 9.3 percent according to HFR.
- John Studzinski, who leads the advisory arm of Blackstone Group LP, estimates that almost 20 percent of the S&P 500 companies have already had some type of activist involvement.
- The strength of stock markets - the S&P rose 30 percent in 2013 – means there are fewer cheap stocks to buy. Moreover, companies, realizing that it's too late when activists show up on their doorsteps, are proactively taking steps such as breaking up the company or boosting buybacks.
- For the companies themselves, the consequence of multiple agitators could mean a more costly and time-consuming battle, a distraction from running day-to-day operations, as well as greater fees for legal and defense advisors.

Shareholder Activism

- In 2013 an activist fund was preparing to go public with proposals to shake up Aeropostale Inc. and was amassing a stake, only to learn that Sycamore Partners had taken an 8 percent stake in the teen clothing retailer. Sycamore's disclosure sent stocks surging nearly 20 percent on the day of the announcement.
- Similarly, activist Barrington Capital took a 2% position in Darden Restaurants and was followed by an announcement that Starboard Capital had taken a 5.6% position.
- Other companies fending off multiple activist investors include Juniper Networks Inc., where both Elliott Management Corp. and Jana Partners LLC reported stakes, and Sotheby's, which is under the scrutiny of Third Point LLC and Marcato Capital Management LP.
- Emulex Corp. and Compuware Corp. have three activist funds involved in the stock. In the last two weeks alone, at least three U.S. companies – Aarons Inc., BJ's Restaurants Inc. and ALCO Stores Inc. – saw two different investor groups nominate competing slates to their boards.
- Other campaigns include large cap companies previously considered too large for an activist such Third Point's call for Dow to be split up, Nelson Peltz's Trian pressuring Dupont to spin out its specialty chemicals business, Value Acts investment in Microsoft and Icahn and Greenlight in Apple.

Investing in Distressed and Debt and Special Situations

Investing in Distressed and Special Situations

- Distressed investing combines a variety of skill sets including valuation, capital markets, M&A, operations, negotiation, execution, trading and legal expertise
- While FAs and attorneys are helpful, a successful investor must be able to driver process, and steer FA's and attorneys who are by nature more conservative towards a desired outcome. Particularly if you are fighting for value in a class that may be deemed out-of-the money or impaired
- Understanding Capital Structure is critical to being a successful distressed investor
  - This requires reading documents, understanding covenants and inter-creditor rights, detailed knowledge of the corporate legal structure
- In depth understanding of the bankruptcy process is also essential for distressed investors
  - Must be able to anticipate potential issues regarding valuation, distribution of recovery value among various classes, potential challenges to confirmation, the ability to obtain exit financing and the conditions of the capital markets
- Distressed investors need to be able to assess long term fundamental value versus timing of turn around, return thresholds, opportunity costs, liquidity needs

How do Distressed Situations Arise?

- Distressed opportunities can occur for company specific reasons such as an overleveraged balance sheet or exogenous event, however changes in the credit cycle and hence the default rate tend to be the best time to make distressed investments. During these crises it is much more likely to be able to purchase good companies with bad balance sheets or capture discounts due to a liquidity squeezes
- Primary causes of financial distress
  - Overleveraged balance sheet leads to event of default or a forced restructuring
  - Technological disintermediation or secular shift in demand (Newspapers, printers, wireline, publishing)
  - Exogenous shock such as a natural disaster, terrorist attack or other systemic event (Packaging and Chemicals during hurricane Katrina)
  - Fraud such as Enron or WorldCom
  - Adverse event such large legal judgment or a busted merger (Asbestos)
- Distressed investing is rarely about making a good company great, its about buying a poor performing company at a great price and making it an average company
- For example during the 2005-2008 period many US auto companies and auto suppliers could be created at 2x EBITDA if one was willing to bet that they could get relief on costs and better pricing throughout the supply chain which the big 3 had been squeezing as a result of their own legacy pension and OPEB issues and high union labor costs

Company Considerations In Distressed Situations

ALTERNATIVE	DESCRIPTION	IMPACT ON: LEVERAGE	IMPACT ON: LIQUIDITY	IMPACT ON: SHARE PRICE	EXECUTION RISK	KEY CONSIDERATIONS
Stay the Course	n Implement business plan n Seek covenant relief from banks	○	○	◔	●	n High risk of default and liquidity crisis n Ability to achieve covenant relief n Credibility of business plan n Best upside for existing shareholders
Out-of-Court Restructuring	n Concessions From Stakeholders n Bondholders (Debt/Equity) n Employees/Retirees/PBGC n Customers/Vendors n Financing n Rights offering n PIPE n Convertible preferred stock	◑	◑	◑	◔	n Requires execution of multiple strategies to have material impact n Ability to achieve outside of Chapter 11 n Flat financial performance through 2007 n Operational stress n Dilution of current shareholders n Management retention
Strategic Transaction	n Sell select division(s) n Sell or merge whole company	●	●	◔	◔	n Interest of potential buyers n Many competing assets in market n Management distraction/turnover
Chapter 11	n Pre-packaged/Pre-negotiated n Free-fall	●	◑	○	◔	n High secured debt levels and international pension limits ability to deleverage n Liquidity and deleveraging benefits partially offset by Chapter 11 costs n Minimal prospect for shareholder recovery n Cannot pursue pre-pack if Company seeks to terminate legacy costs

High ● Medium ◑ Low ○

Source: Lazard

Investment Approach

- Founded in classic distressed investing where we seek to capitalize on market dislocations or other events to purchase assets at what is hoped to be a significant discount to their intrinsic value.
- We commonly look for value in out of favor sectors either as the result of cyclical swings, industry disruption or disintermediation, or other shifting industry fundamentals as well as other macro idiosyncratic dislocations.
- We are continually looking globally for opportunities across assets classes where securities are being mispriced as a result of liquidity, corporate events such as: distress, restructurings, bankruptcy, merger/sale/liquidation and litigation.
- We employ PE type approach looking at long-term cash flow generation potential while adjusting for the optimized capital structure and using normalized earnings and multiples as the base case for out exit valuations.
- We believe there is significant excess return that can be generated from taking liquidity and timing risks which most institutional and retail investors are unable or unwilling to take either due to LP liquidity preferences or a general bias towards herd investing.
- However, we do not limit ourselves to "Classic Distressed" situations. We simply believe that it is the most comprehensive and encompassing framework for analyzing businesses and generating long term wealth creation.

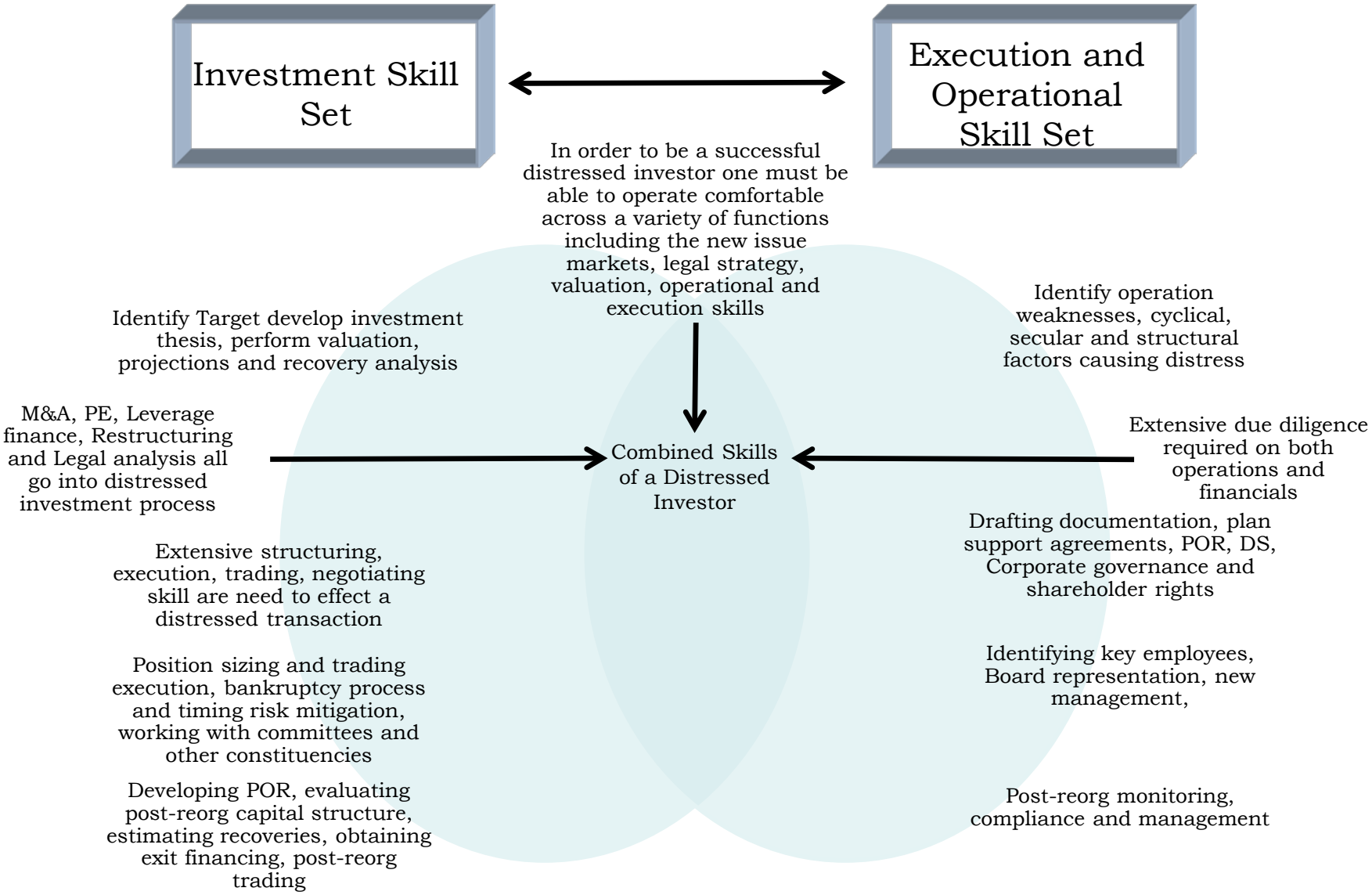
Opportunity Set

- One of the most frequent remarks in distressed circles is "there is nothing to do in distressed", yet distressed funds have tens of billions of dollars under management and very few are returning capital. Larger funds are at a disadvantage currently because many of the opportunities are in smaller, less liquid names.
- However, part of the problems stems from too narrow a view of what constitutes distress. If you limit it solely to bankruptcies or bonds trading >1000 bp over Treasuries, then the statement is true. However, if you look at distress as merely a framework through which to view the universe of investible assets then the opportunity set expands significantly.
- So while there might not be "anything to do in distressed" there are always opportunities for the well honed distressed investor. For example, there is currently a $200mm 1st lien secured bond 4x leveraged with a 12% coupon and a 2% amort kicker with the potential for a 112 call trading at par. While not distressed, this opportunity is the type that an experienced distressed investor ferrets out.
- We have found opportunities over the last year have including lower tier securities of European banks; loans and secured bonds of distressed shipping companies; busted preferred stock in REITs that have "gone dark" or are utilizing shareholder oppression techniques where our experience in litigation and contacts with top litigators is essential to unlocking value; bankruptcy trade claims; post-reorg and event driven equities; as well as middle market leverage loans and HY bonds.

Opportunity Set

- With leveraged loans returning 4.5%, HY returning 6% and CCC returning 11% YTD, clearly to earn excess return one has to move further out on the risk curve in general to capture returns. That is why distressed and absolute return investors have flocked to munis, emerging markets, Greek banks, Lower Tier securities in European banks and equities. Another reason is there are large enough issues to accommodate the big hedge funds.
- While we do not rule out a sector or region "for the sake of being contrarian" and have certainly been active in distressed European financials and emerging market issues, we prefer to look towards smaller or less liquid issues primarily in the US and to lesser extent Western Europe.
- These include issues under $200mm in HY and leverage loans, busted converts, distressed energy such as Oil Sands and fracking companies, post-reorg and event driven equities, trade claims and stubs as well as distressed for control situation where we will be a minority to the "plan sponsor" but through our experience and influence in the restructuring process are able to obtain minority shareholder protections or feel our interests are sufficiently aligned to mitigate the risk.
- Other areas of interest are preferred stock, particularly of REITs where the equity owners have turned off dividends and tried coercive tenders well below par+accrued. We believe this situations are ripe for distressed investors who are experienced at forming ad hoc groups and employing litigation or the threat of obtain remedy.

Diverse and Unique Skill Set Required for Distressed

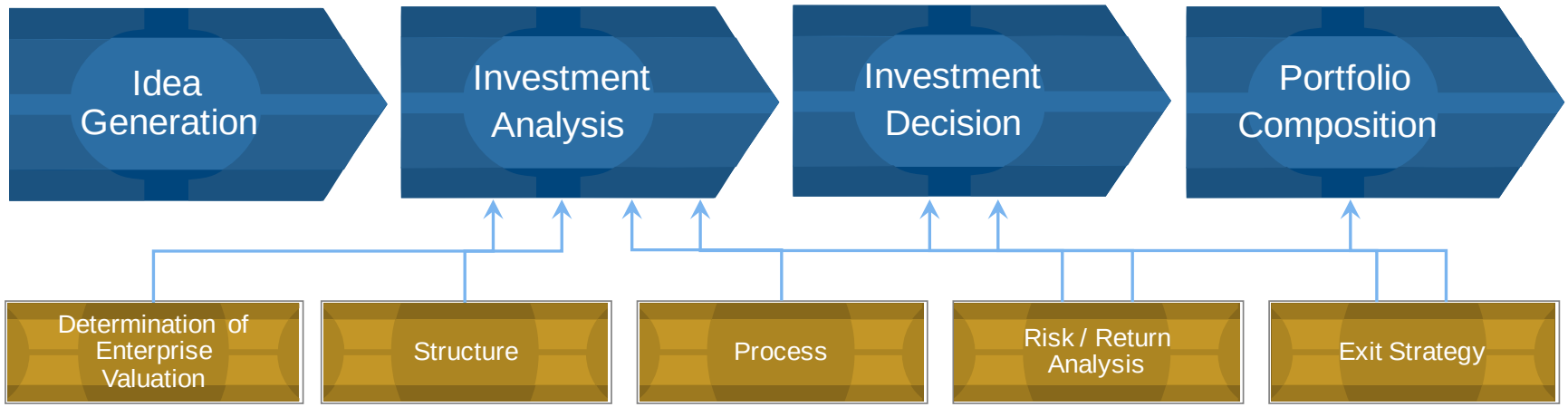


Distressed Debt Investing Overview

Identify Cause of Distress	• While most distressed funds employ a "bottoms up" valuation methodology, understanding the factors driving the current distressed opportunity are critical
	  • Macro factors, secular vs cyclical
	  • Operational factors, cost structure, labor, suppliers, working capital, access to liquidity
	  • Management, need to be replaced? How soon, cost of transition. Need to hire turnaround firm (eg: Zolfo, Alvarez)
	  • Overleveraged capital structure

Capital Structure Analysis	• The target investment's capital structure must be broken down and the likely fulcrum security identified • Credit agreements, covenants, security and guarantee agreements, inter-creditor agreement, and bond indentures must be reviewed in depth to understand the company's ability to issue more debt and at what level of the capital structure as well terms that may impact seniority, collateral value, structural issues • Evaluate other potential claims, trade, pension, leases, environmental and litigation • Need for a DIP, ability to prevent priming DIP, ability to put in DIP, receive adequate protection, risks of cram-up or cram down
Valuation and Analysis	• Deep dive on the company's operating and financial drivers. • Identify and estimate COGS drivers by commodities, supplier cost-push, supply chain inefficiency. Compare against industry norm. Read 10-K's and Q's of industry leaders and laggards and see how company stacks up • SG&A Drivers. Labor, Pension, OPEB, unions, outsourcing other inefficiencies • Is there high operating and or financial leverage? What should the optimal capital structure look like?
Portfolio Management	• What is the fulcrum security? What is your target return? Do you want to be at top of capital structure and risk being crammed up, or lower down and risk being crammed down? • What size position? 2%, 5% 10%. Looking for control 33% 51%? How do you put on trade • Form ad hoc committee or steering committee. Looking for leadership role? • Will the investment require additional capital? DIP, rights offering etc. How much do you keep in reserve? • Can deal be done out of court? Pre-pack? Exit financing and post-reorg cap structure. Will it be public or private? What is your exit?

Investment Process



- Analysis of industry and competitive landscape
- Compare with market multiples
- Model cash flows
- Valuation: DCF, LBO, M&A, break-up
- Identification of hidden asset value
- Liquidation values

- Detailed analysis of credit agreements and bond indentures
- Structural and legal analysis
- Identification, measurement, and ranking of contingent or hidden liabilities and claims
- Liquidation priorities
- Guarantees

- Construct a view of the bankruptcy or out-of-court restructuring process
- Analyze factors after an in- or out-of-court event
  - Quality of management
  - Governance issues
- Assess motivations of other stakeholders; strategic blocking positions

- Measure potential downside
- Assess recovery scenarios and their timing
- Determine entry price; accumulate position
- Monitor specific catalysts / milestones identified at onset of investment as a means to measure the validity of the thesis over time

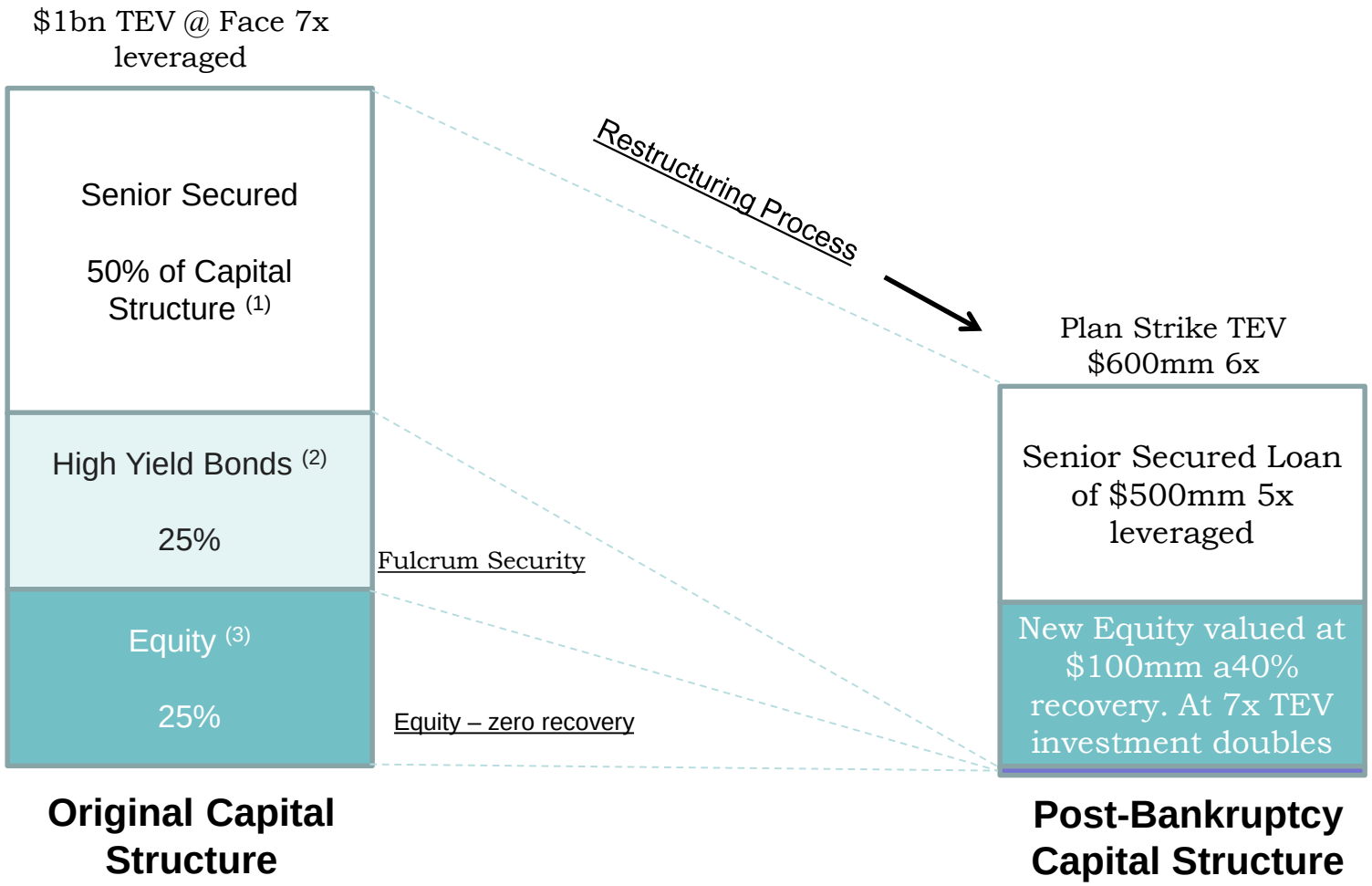
- Work with management and other stakeholders to determine appropriate capital structure
- Assess need to restructure Board or replace management
- Timing the liquidation of investment to maximize return

Restructuring and Investment Timeline

	Deteriorating Credit Profile	Early Stage Restructuring	Mid-Stage Restructuring	Late Stage Restructuring	Recovery
Situation	▪ Deteriorating operating results ▪ Covenant and/or liquidity issues	▪ Event of default catalyst (Missed coupon payment or covenant violation) ▪ Ad-hoc formation of creditor committees ▪ Out-of-court restructuring or Chapter 11 filing (official committees formed) ▪ Committees drive restructuring process	▪ Restructuring process in development ▪ Balance sheet restructuring being negotiated	▪ Restructuring plan in place ▪ Recovery to stakeholders is clear to the market	▪ Management is key ▪ Drive toward exit / emergence from bankruptcy
Investment Opportunity	▪ Identify broader sector issues for future opportunities	▪ Deep value securities ▪ Option value securities	▪ Fulcrum securities	▪ New debt financing ▪ Reorganized equity through purchase of pre-petition debt	▪ Equity or debt securities ▪ Evaluate further upside potential

Value Creation Process

Distressed funds seek to re-create equity at lower multiples and then turn capitalize on company's turn around post reorganization



(1) Secured by all assets and capital stock of the company
(2) Unsecured debt – sometimes subordinated
(3) Residual claim of equity sponsor or public shareholders

Typical Capital Structure 1990's HY Issuer

Revolving Loan

Term Loan

Senior Unsecured Bond

Senior Subordinated Bond

Equity

Typical Capital Structure 2000's LBO Deal

Revolving Loan

Term Loan

Senior Unsecured Bond

Senior Subordinated Bond

Equity

Typical Capital Structure 2008 Credit Crisis

Debtor-in-Possession Loan

Revolving Loan

TermLoan

Senior Unsecured Bond

Senior Subordinated Bond

Equity

Travel Port Case Study

Situation Overview

- GDS's are facing secular pressure from reduced travel as the result of higher fuel prices as well as increasing competition and disintermediation from other platforms.
- Airline consolidation has decreased number of customers, thereby decreasing available segments and shifting leverage in pricing discussions toward the airlines
  - Intense pressure from US airlines to decrease GDS booking fee
  - Lack of differentiation in the core GDS business has caused incentive fees to increase year after year
  - Competitor Amadeus has outperformed Travelport in the high-value international geographies, and based on differences in capital expenditures, Travelport is not likely to take share from Amadeus in the next few years
- Significant operating leverage caused by slight changes in booking fees magnifies the downside risk presented by the trends above
- Blackstone recouped its equity investment through a dividend recapitalization and now likely views the company as an option to upside
  - Blackstone has demonstrated this option viewpoint by under-spending on capital expenditures
  - Blackstone will attempt to remove as much capital as possible from the company before it files

Company Overview

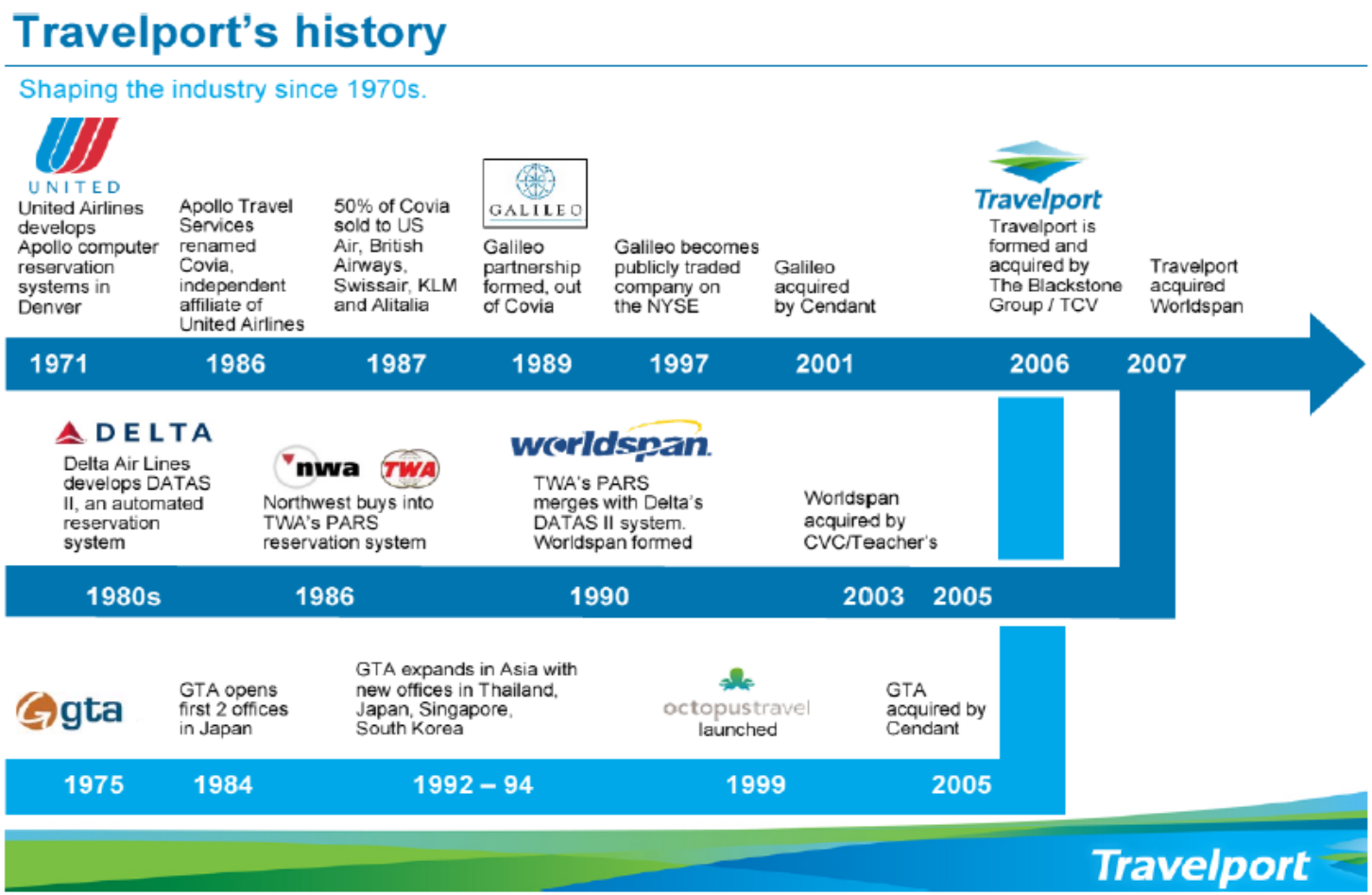
Business Description	• Travelport is a provider of transaction processing solutions, data aggregation and search services to companies in the global travel industry • The company mediates between travel suppliers and travel consumers through its Global Distribution Systems (GDS) – Galileo and Worldspan • The company's Airline IT solutions branch provides airlines with hosting and IT solutions and business intelligence • Oligopolistic Market Dynamic: Travelport competes with Amadeus and Sabre (TPORT captured ~28% of 2010 global air segments)
Reason to Exist	• Travelport posesses significant market share in the GDS industry • Contractual agreements with large travel agencies keep GDSs largely entrenched in the market place • GDSs provide critical distribution platforms for travel suppliers. Further, on-line distribution channels and supplier-direct platforms are unlikely to supplant GDSs, particularly with respect to corporate travel
Capital Structure	• HoldCo: $287.5MM PIK Loan due 2016 and $135MM PIK due 2012/2016 (Gty from OpCo 2nd Lien) • Travelport LLC (OpCo): $1.66Bn Secured Term Loans; $181MM capacity (undrawn) Secured Revolvers; $1.03Bn Senior Unsecured Notes; $450MM Senior Subordinated Notes
Ownership	• Prior to the 2011 HoldCo restructuring, Travelport was 100% privately held by The Blackstone Group, One Equity Partners, Technology Crossover Ventures, and Travelport Management • As part of the restructuring consideration, HoldCo lenders received a 40% equity stake • Travelport currentlly owns approximately 48% of Orbitz Worldwide (NYSE: OWW)
Historical Transactions	• 2004-2005: Travelport acquires Flairview, Orbitz, ebookers and GTA • August 2006: Blackstone acquires Travelport for total consideration of $4.5 billion ($900mm equity check) • December 2006: Travelport acquires Worldspan for $1.4 billion • March 2007: Travelport HoldCo completes $1.1bn PIK loan dividend deal • May 2011: Travelport divests Gullivers Travel Associates (GTA) to Kuoni Travel Holdings Ltd for $720MM • Sep 2011: Travelport restructures the $715MM HoldCo loan, with lenders receiving a mix of cash (12%), new 2nd lien loans at OpCo (29%), extended HoldCo PIK loan (40%), extended HoldCo PIK backed by additional 2nd lien debt of OpCo (19%) and a 40% equity stake in the company

Source: Company filings.

History

- As part of Cendant's starburst transaction in 2006, Travelport was taken private by Blackstone and Technology Crossover Ventures in June 2006. In December of 2006, Travelport announced its acquisition of a competitor GDS, Worldspan, which it completed in August of 2007. The acquisition was financed by $1,040mm of new debt and $250mm of PIK loans previously made by Travelport to Worldspan in December.
- In March of 2007, Travelport announced the spin-off of 52% of Orbitz, its captive online travel agency (OTA), which it completed in July of 2007. Also in March of 2007, Travelport completed a $1.1bn dividend recapitalization with a HoldCo PIK loan. Pro forma for all three transactions, Travelport guided the market to believe that its leverage would be ~5.0x, assuming LTM adjusted EBITDA of $1,036mm.
- In January of 2010, Travelport announced a cash tender offer for its notes with the intention of going public but withdrew the IPO the following month. In March of 2011, Travelport sold its GTA business for $720mm, using the proceeds to pay down bank debt.

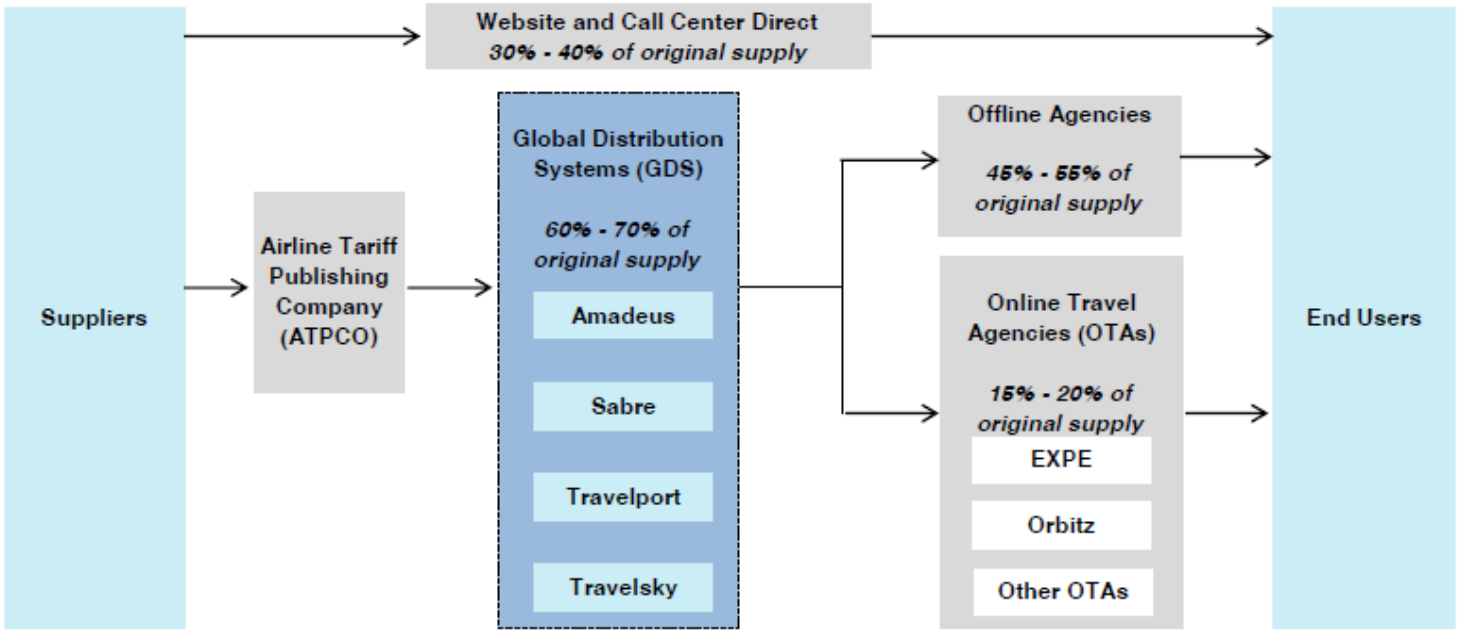
History



Source: Company Filings

Industry Overview

- Travelers book 1/3 of tickets directly with the carrier. The remaining 2/3 is booked via a third party – offline or online travel agencies
- Global Distribution Systems (GDS) as well as travel agencies charge distribution fees to the carrier, which on a combined basis are typically $10-$15 per round trip
- Airline Tariff Publishing Company (ATPCO) provides air data to GDSs from carriers representing 97% of air traffic
- Global Distribution Systems (GDS) are intermediaries acting as a single point of contact for schedule and fare data to offline agencies and OTAs to search and process transactions
- Offline Agencies and Online Travel Agencies (OTAs) are booking portals for travelers, often times combining air travel with hotel, car rental, cruise, and other products



Source: Farelogix, PhoCusWright. (Treat percentages as estimates)

Industry Overview – Competitive Landscape

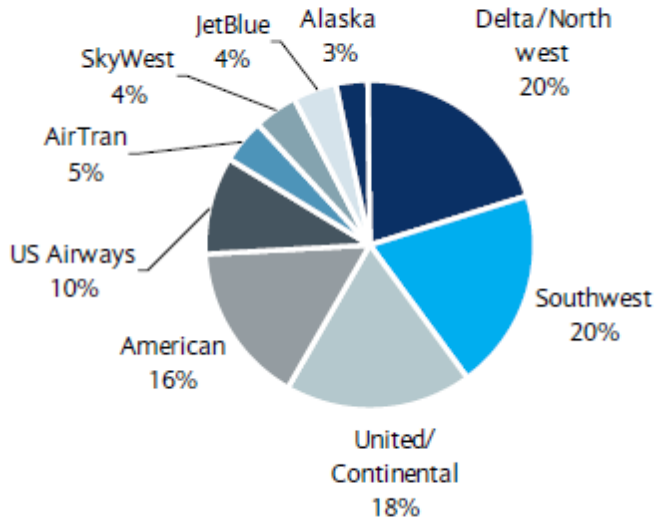
- The four largest global GDS providers are Galileo, Worldspan, Amadeus, and Sabre. Both Galileo and Worldspan are part of Travelport, comprising 28% of the global air segment market share, down from 33% in 2007.
- This shrinking footprint was mainly driven by Expedia ending its business with Worldspan in 2007 and the Company's decision to trade reduced market share for increased margins in the Middle East and Africa.
- Geographically, the Company's share of the GDS-processed air segment business was 46%, 25%, 11% and 18% in the Americas, Europe, MEA and Asia Pacific, respectively, for 2010. In contrast to Travelport's more diversified market shares, its major competitors are more concentrated in the markets of their respective founder airlines.
- In 2010, Amadeus's GDS-processed air segment business accounted for approximately 80% share in European nations, including Germany, France Spain, Denmark, Norway and Sweden. In the same period, Sabre accounted for roughly 60% of the share in the U.S. The Asian GDS market is more fragmented and is mainly captured by regional players. Abacus, the largest GDS in the Asian region, is primarily owned by a group of ten Asian airlines.

Industry Overview – Competitive Landscape

- In addition to direct competition from other GDS providers, airlines are starting their own direct connect systems to take control over pricing, customer value and marketing efforts on an individual transaction basis.
- American Airline provides a good example of the practice when it tried to disrupt the money flow that has existed for years in the GDS industry by offering services directly to travel agents. American sued Travelport and Sabre for monopolizing the distribution of airfare and related flight information to travel agencies.
- The court dismissed American Airline's primary claims, including the claim where the airline said that Sabre "unreasonably" restrained competition. American also alleged that Travelport "effectively controls the distribution of airline tickets to a large portion of business travelers" while Orbitz benefits from it.
- Moreover, American did the unthinkable by completely pulling its fares from Orbitz in December 2010. The action was later reversed by an Illinois Court. The carrier represented approximately 5% of Orbitz's revenue.

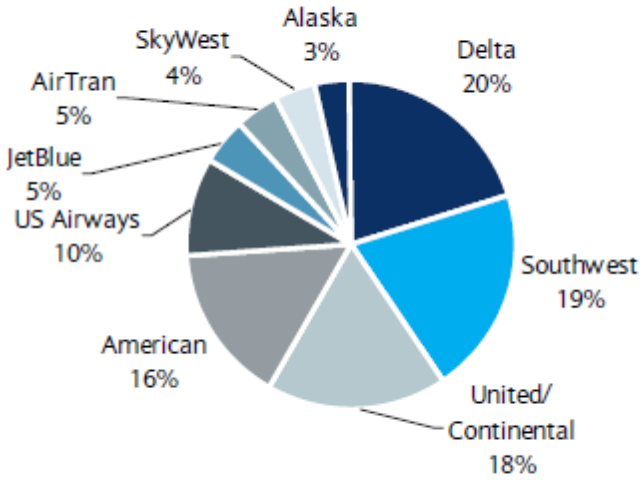
Industry Overview – Top Airlines by # of Passengers

Figure 21: Top 9 US Airlines 2010 Enplaned Passengers



Source: Bureau of Transportation Statistics

Figure 22: Top 9 US Airlines August 2011 YTD Enplaned Passengers



Source: Bureau of Transportation Statistics

Source: Barclays Capital

Business Overview

- The Company's Apollo, Worldspan, and Galileo brands made up approximately 28% of the global GDS air segment market in 2010. Of the $1.8bn in transaction-processing revenue (excluding Airline IT
- Solutions revenue) generated from GDSs in 2010, approximately $1.5bn (83%) was from airlines, $108mm (6%) from hotels, $74mm (4%) from car rentals, and the remaining from rail, cruise and other travel related services.
- From the fee that Travelport receives from travel suppliers for each segment booked, cancelled or changed, the Company pays commissions or other financial incentives to travel agencies to encourage greater use of its GDS. The travel agencies then distribute the travel inventory to end customers.
- The Company's top 15 travel suppliers (all airlines) represented approximately 42% of 2010's transaction-processing revenue. American Airlines and US Airways, the top two suppliers, represented about 8% of Travelport's transaction-processing revenue in 2010.
- Approximately 77% of Travelport's air segment revenue was derived from full-content agreement contracts where airlines allow full access to their public content and parity in functionality, including the ability to book the last available seat.
- These agreements typically range from three to seven years. The Company is in these full-content agreements with 95 airlines worldwide, including all major US airlines, as well as leading global airlines such as British Airways, Air France, KLM, Iberia, Lufthansa Swiss Air, Alitalia, Qantas and Singapore Airlines.
- The Company also has 50 low cost carriers (LCCs) participating in its GDSs, with the top 10 carriers accounting for 4% of its air segment transaction processing revenue. The segment volume growth from LCCs was 20% in 2010 versus only 2% for traditional carriers

Business Overview – Customer Breakout

Americas	Europe	MEA	APAC
American Air	Air France	Egypt Air	Cathay Pacific
Delta/Northwest	Alitalia	Emirate	Jet Airways
United/Continental	KLM	Qatar Airways	Qantas
US Airways	Lufthansa	Saudi Arabian Airlines	Singapore Airlines
	TAP Air Portugal	South African Airways	Thai Airways

Source: American Air and US Airways accounted for 8% of transaction processing revenue in 2010. Top 10 air suppliers accounted for ~35% of GDS transaction processing revenue in 2010. Full content agreements comprised 77% of air segments in 2010. Top 10 low cost carriers account for 4% of air segments in 2010. Source: Company reports

Corporate	Leisure	Online
American Express	AAA Travel	Orbitz (1)
BCD Holdings	Affinion	Priceline
Carlson Wagonlit Travel	Kuoni	Expedi
Flight Centre Limited	USA Gateway	
Hogg Robinson Group		

Note: Top 10 travel agencies accounted for 31% of GDS transaction processing revenue in 2010. 2010 GDS bookings contributions were over 60%, less than 25% and 15% or less, from regional travel agencies, OTAs and global accounts, respectively. (1) Orbitz accounted for 14% of 2010 air segments. Source: Company reports

Source: Barclays Capital

Business Overview – Revenue Trends

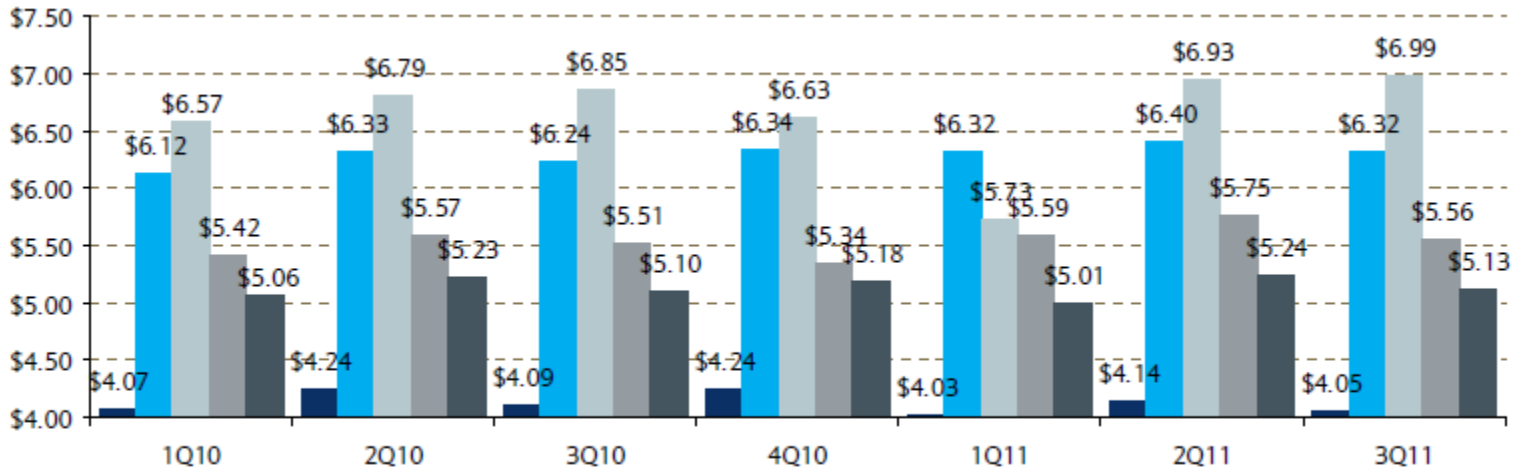
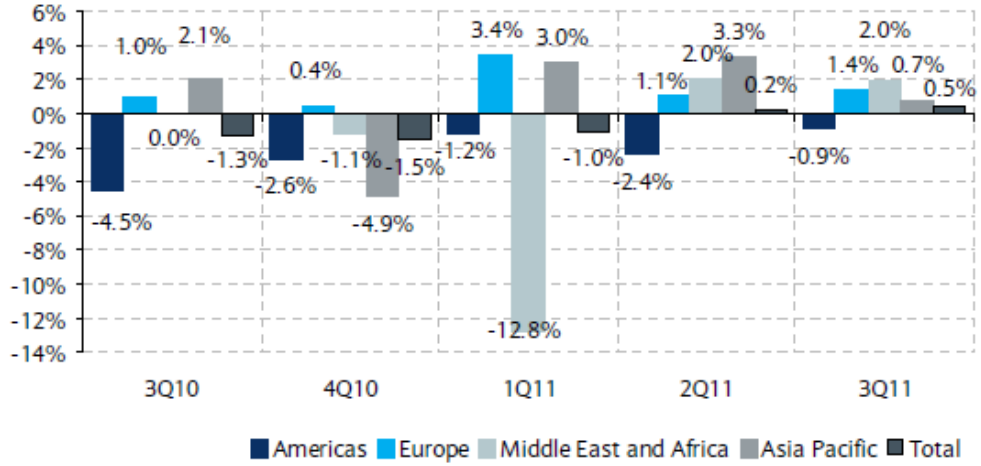


Figure 20: Travelport RevPAS y/y % change



Source: Company filings

Source: Barclays Capital

2011 Credit Agreement Amendment

- The company received 99.3% consent from term loan lenders to amend its credit agreement. Lenders received a 4pt amendment fee in connection with the amendment.
- The company obtained additional covenant headroom under its total leverage covenant, and a new first-lien gross leverage maintenance covenant and $75mn minimum liquidity covenant (defined largely as unrestricted cash) was added.
- The company is also required to repurchase $20mn of 2014 or 2016 maturity senior notes over each 12-month period (first 12-month period ending September 30, 2012, and the second 12-month period ending September 30, 2013) from persons other than 5% shareholders, provided the company does not breach the minimum liquidity covenant.
- The $270mn revolver commitment was reduced by 33% (to $181mn), with $118mn extended to August 2013 at L+450, with a 300bp commitment fee, and the $63mn unextended revolver (L+275) maturing August 2012
- As part of the amendment, LTM covenant EBITDA is adjusted for the loss of the UAL contract (currently expected to roll off at the end of 1Q12) as follows:
  - $60mn deduction for each fiscal quarter ending on or prior to March 31, 2012
  - $45mn deduction for the June 30, 2012, quarter
  - $30mn deduction for the September 30, 2012, quarter
  - $15mn deduction for the December 31, 2012, quarter and $0mn for subsequent quarters

2011 Restructuring Transaction

- In September of 2011, Travelport announced the restructuring of $715mm of HoldCo PIK term loans. The holders of the loans were offered: a) $89.5mm in cash (via a restricted payment); b) a par exchange of $207.5mm of OpCo second lien term loans due December 2016 (via a restricted payment); c) an extension of remaining PIK loans in two tranches: $287.5mm extended to December 2016 and $135mm extended to September 2012; and d) 40% equity in HoldCo.
- Furthermore, if HoldCo is unable to repay the $135mm term loan due September 2012, the HoldCo term loans will be replaced by a second lien OpCo term loan of $135mm. Notably, in the event the HoldCo loan is converted into an OpCo loan, the HoldCo loan will become Tranche A term loan, while the $207.5mm term loan created by the prior exchange will become a tranche B term loan

Original HoldCo Loan	$MM
HoldCo PIK due Mar 2012	715
	715

Exchange Consideration:	$MM	% of Orig
Cash Payment[a]	125	17%
OpCo 2nd Lien due Dec 2016	208	29%
Tranche A HoldCo PIK due Sep 2012[b][c]	95	13%
Tranche B HoldCo PIK due Dec 2016	288	40%
40% Equity Stake	NA	
	715	**100%**

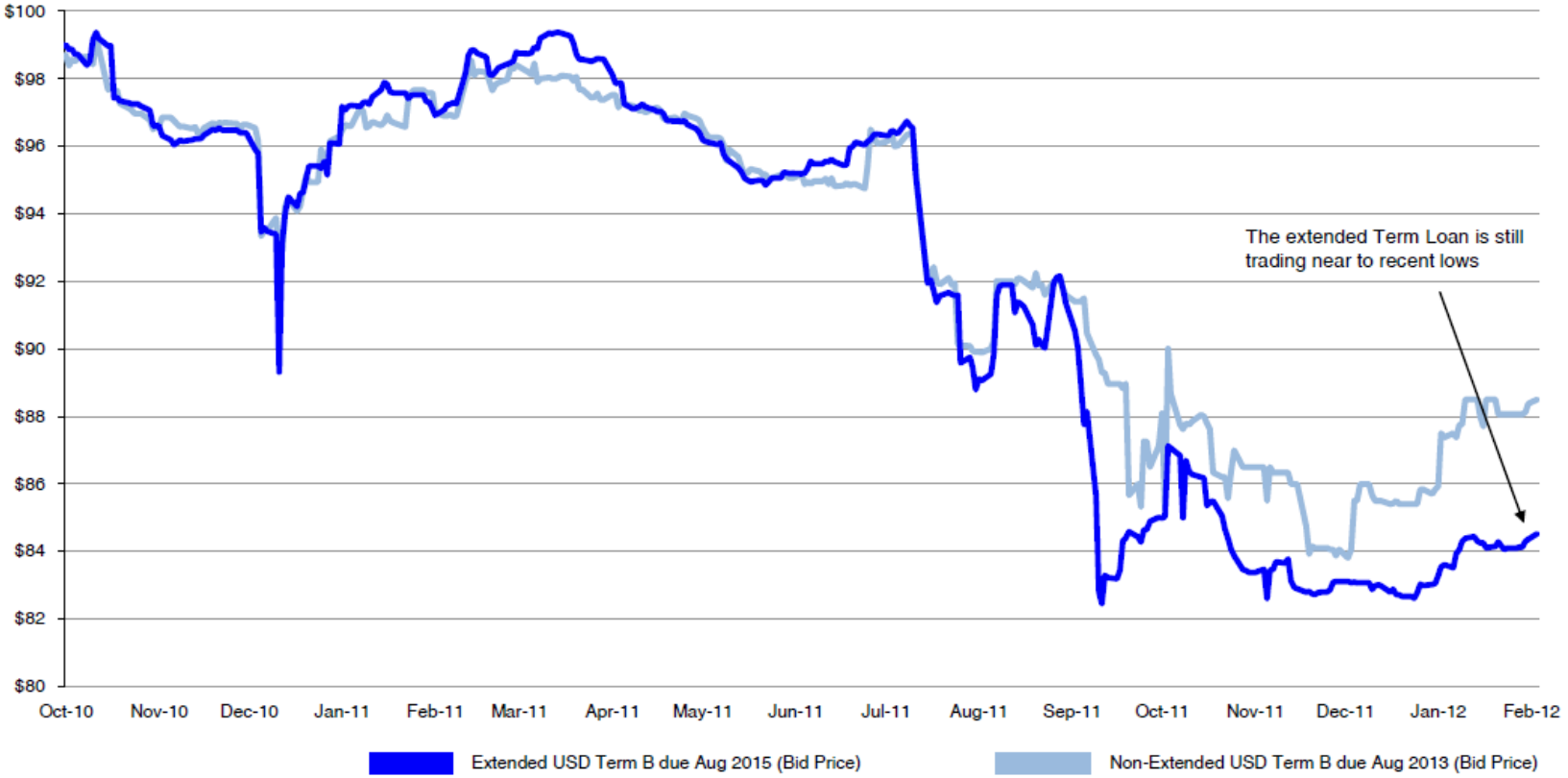
(a) Includes $85MM of direct cash payments and an effective $40MM additional cash payment as a result of sponsor requirement to purchase $40MM of Tranche A loans at par post-deal

(b) $135MM Tranche A loans will be issued, of which $40MM will be subsequently acquired by TDS Investor

(c) Tranche A HoldCo loans will be backed by a guaranty from 'newco" (holder of $135mm additional OpCo 2nd lien debt), assuming bondholders are unsuccessfull in blocking this mechanism

Source: Company filings.

1st Lien Term Loan Trading History (Since Refinanced)

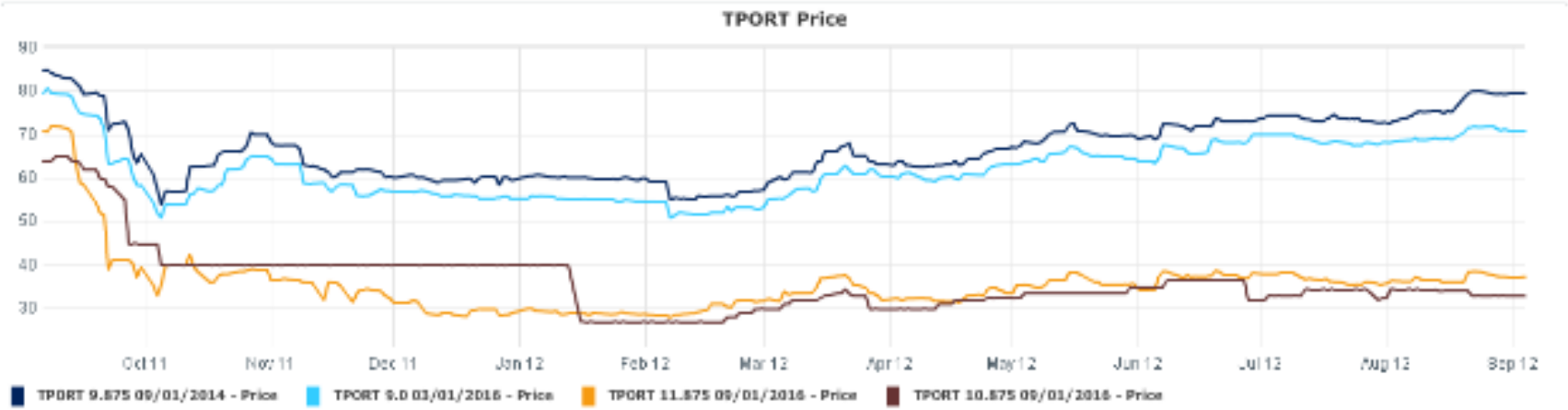


Source: Markit pricing.

Travelport
Providing Informed Travel Choice

Benchmark 9.875% Sr Unsecured Note Trading History

Figure 5: Travelport 9 7/8%, 9% Senior Notes, and 10 7/8%, 11 7/8% Senior Sub Notes: Price ($)



Key	Last	Minimum		Maximum		Mean	SD	SD Chg
	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
	71.000	51.000	02/27/2012	80.750	09/07/2011	61.000	6.615	1.027
	37.375	28.000	02/27/2012	72.100	09/06/2011	35.769	7.284	1.367
	33.000	27.000	02/24/2012	66.105	09/06/2011	36.306	7.772	1.994

Source: Barclays Live - Chart

Source: Barclays

Capital Structure

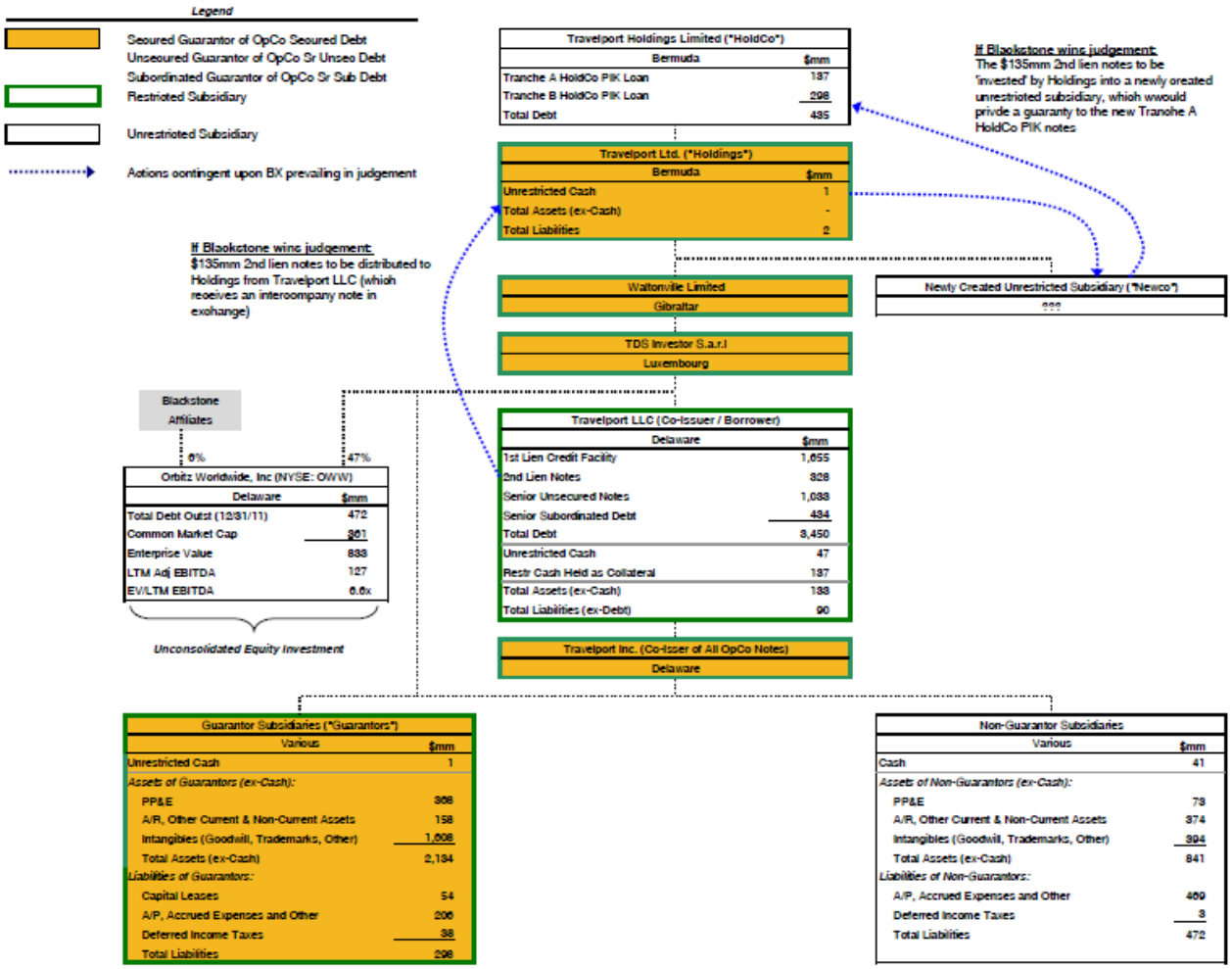
Capital Structure as of Sept 30, 2012	Maturity	Rate	Amount Outstanding	Price	Yield To Worst	Option Adjusted Spread	Leverage Face	Leverage Market
RC			35.0					
Capital lease			56.0					
Extended TL USD (No flr)	Aug 2015	L+450	1,064.0	93.3	*6.65%*	*705.00*	3.6x	3.2x
Extended TL EUR (No flr)	Aug 2015	E+450	277.0	92.0	*6.65%*	*755.00*	3.6x	3.2x
Tranche S (No flr)	Aug 2015	L+450	137.0	NA			3.6x	3.2x
1.5 Lien Term Loan (1.5% flr)	Nov 2015	L+950	170.0	101.5	*10.44%*	*999.00*	4.0x	4.0x
2nd Lien PIK Toggle (No flr) (1)	Dec 2016	L+600	221.0	75.0	*13.51%*		4.5x	4.3x
Total secured debt			**1,960.0**					
US$ FRN	Sep 2014	L+462.5	122.0	74.0	*19.37%*	*2,277.00*	6.7x	6.2x
Euro FRN	Sep 2014	E+462.5	196.0	74.0	*20.44%*	*2,432.00*	6.7x	6.2x
9.875% Senior Notes	Sep 2014		429.0	80.0	*23.23%*	*2,280.00*	6.7x	6.2x
9% Senior Notes	Mar 2016		250.0	70.0	*20.56%*	*2,005.00*	6.7x	6.2x
Total senior unsecured debt (2)			**997.0**					
11.875% US$ Sr Subordinated Notes	Sep-16		247.0	38.5	*47.79%*	*4,722.00*	7.7x	7.1x
10.875% Euro Sr Subordinated Notes	Sep-16		180.0	34.5	*50.54%*	*4,993.00*	7.7x	7.1x
Total senior subordinated notes			**427.0**					
Total OpCo debt outstanding			**3,384.0**					
Cash held as collateral			137.0					
Cash on BS			125.0					
Net OpCo debt			**3,122.0**					
LTM Adj EBITDA			$480.0					
LTM Covenant EBITDA			$440.0					

Note:

(1) Additional $135mm From HoldCo conversion if Unsecureds are unsucessful in litigation attempting to block issuance.
(2) As per 2011 Restructuring agreement, must repurchase $20mm of unsecured debt per year.

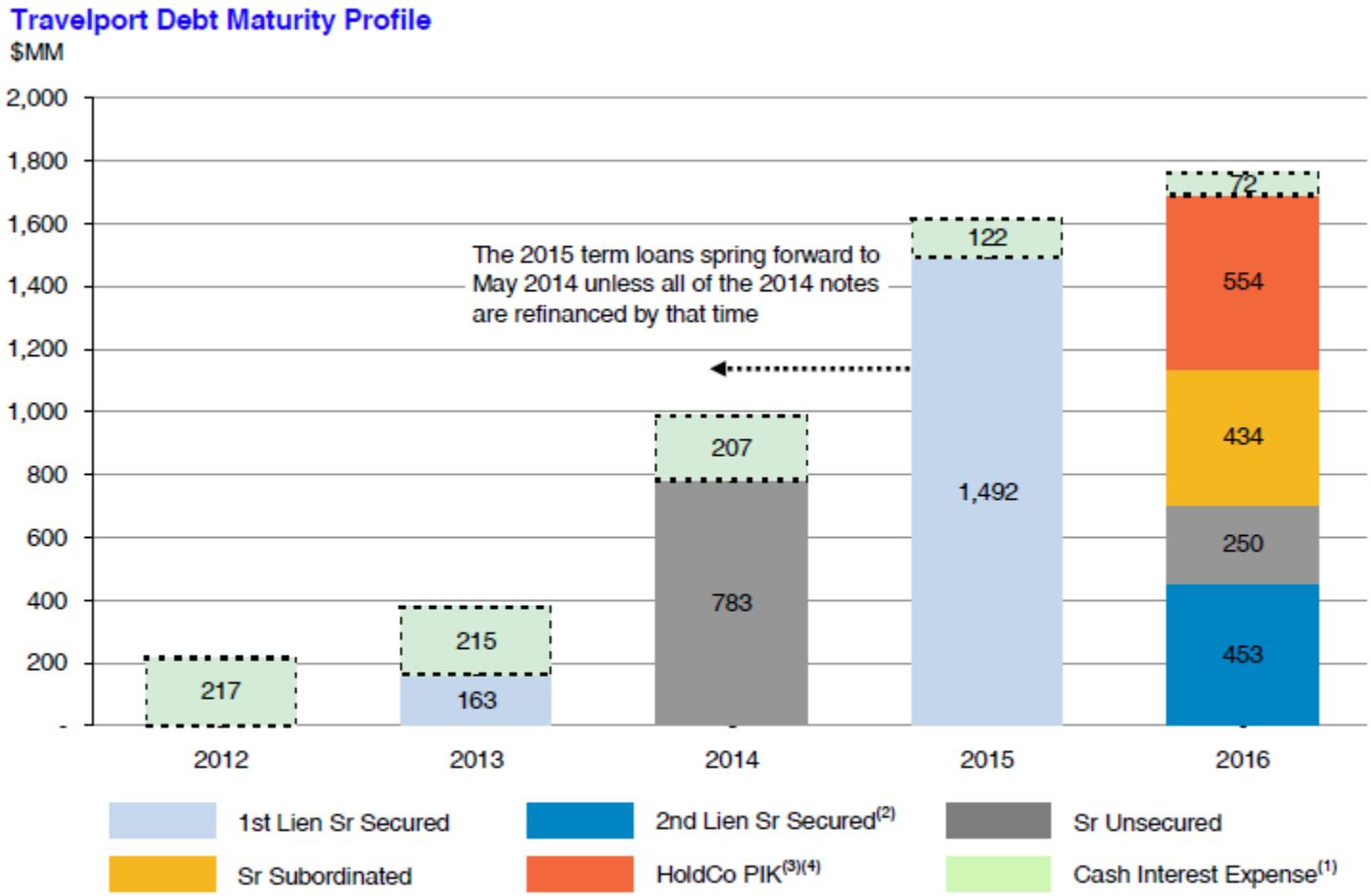
Source: Company Filings, Our Estimates

Issuer and Guarantor Entities



Source: Company filings.

Debt Maturity Profile



1. Cash interest payments on existing capital structure only.
2. Assumes full $343mm 2nd lien remains outstanding (bondholders fail to block) and PIK interest accretes until maturity.
3. Excludes the Tranche A HoldCo PIK loan (assumes holders successfully take NewCo 2nd liens).
4. Principal amount at maturity factors in PIK accretion on Tranche B loan.

Source: Morgan Stanley

Restructuring Scenarios

- Historic public comparables have traded in a range of 5.0x – 9.0x FV / NTM EBITDA with an average of ~7.0x
- Floor valuation of 6.0x FV / NTM EBITDA with projected valuation in bankruptcy ranging from 5.5x – 6.5x FV / NTM EBITDA
- Three likely catalysts between now and 2015:
  - Maturity of non-extended term loan in August of 2013
  - Springing Maturity of Extended TL May 2014
  - Maturity of senior subordinated notes in August of 2014
  - Maturity of extended term loan in August of 2015
- Travelport strategy will likely be to launch a distressed exchange for the 2014 notes in January of 2014. The goal would be to discharge principal as well as push out maturities
  - Significant holdouts likely make difficult to complete. If they see themselves as fulcrum may push for equitization
  - Company could pay another extension fee to TL and push maturity out to August buying option value and time to negotiate a pre-arranged bankruptcy or out-of-court restructuring

Investment Opportunity

- The first lien TL due 2013 and the extended TL due 2015 trade at an 11% YTW and a 14% YT Springing Maturity and are priced at 86/85 respectively with L+250/450 coupons.
  - Leverage is 3x at market and 3.4x face
- At 3x leverage there is significant Enterprise Value cushion beneath the 1st lien debt with comps trade in the 7-8x range implying $1.5bn of cushion. Given the overcollateralization and over $1bn dollars of junior debt that would likely push to cram up the 1st liens, they represent an attractive opportunity at current levels
  - Potential to receive bump in coupon, consent, amendment fees if there is a covenant trip
- The Second Lien TL at L+600 due 2016 and trading at 73 appears to offer attractive an opportunity as a secured piece of paper that makes a good case to be the fulcrum security. However, given the small size of the issue ($200mm) and lack of liquidity hard to be fulcrum from that position. Also, risk of cramdown since it is a small issue would need to come up with large investment relative to position size to delver the firsts (150% of face)
  - Moreover, an additional $135mm of 2nd lien capacity remains and expect it to be issued in September of 2012 if the HoldCo Tranche B TL is not repaid. This represents dilution of 65% to the existing 2nd liens. However much of that is priced in with seconds in the 70s, 100% covered in all my restructuring scenarios.
- The 2nd liens represent an opportunity if one is looking to create equity value, but is willing to be crammed up
- There are ≈ $1bn in senior unsecured bonds coming due in September 2014. If they are not refinanced prior to the springing maturity, which seems unlikely. Travelport will need to file for Ch 11. While they have a good case for the fulcrum security, they will likely need to inject additional cash through a rights offering into the structure

Potential Return Scenarios on 1st Lien Extended TL

Scenario: Trip covenant in 2013

Springing maturity May 2014

XIRR		6/30/12	9/30/12	12/31/12	3/31/13	6/30/13	9/30/13	12/31/13	3/31/14	6/30/14	9/30/14
	$100	70%	38%	27%	22%	19%	17%	15%	14%	13%	12%
Trading Price	$98	60%	34%	24%	20%	17%	15%	14%	13%	12%	11%
Upon Default	$96	50%	29%	22%	18%	15%	14%	13%	12%	11%	11%
	$94	41%	25%	19%	16%	14%	12%	11%	11%	10%	10%
	$92	32%	20%	16%	13%	12%	11%	10%	10%	9%	9%
	$90	24%	16%	13%	11%	10%	9%	9%	9%	8%	8%
	$88	16%	11%	10%	9%	8%	8%	8%	7%	7%	7%
	$86	8%	7%	7%	7%	7%	6%	6%	6%	6%	6%
	$84	1%	3%	4%	4%	5%	5%	5%	5%	5%	5%
	$82	-6%	-1%	1%	2%	3%	3%	4%	4%	4%	4%
	$80	-13%	-5%	-2%	0%	1%	2%	2%	3%	3%	4%

> 20% | 10% to 20% | < 0%

Source: Morgan Stanley

Secured Credit Facility - Summary of Amended Terms

- Permitted the issuance of the second lien term loans.
- Added a minimum $70mm liquidity covenant
- Increased the restricted payment baskets
- Limits the general basket for investments to $20mm
- Required TPORT to purchase $20mm of its senior notes under certain conditions for each of the next two years,
- Amended TPORT's total leverage ratio to initially set at 8.0x until June 13, 2013, and
- Added a 1st Lien (Senior Secured) leverage test to initially set at 4.0x until June 13, 2013.

	March 31	June 30	September 30	December 31
2011			8.00	8.00
2012	8.00	8.00	8.00	8.00
2013	8.00	8.00	7.75	7.75
2014	7.50	7.50	7.50	7.50
Thereafter	7.25			

Note: Consolidated EBITDA base is less United EBITDA ($60mn through March 2012 quarter, stepping down by $15mn per quarter to $0mn in March 2013 quarter). Consolidated Total Debt under "Total Leverage" defined as total debt (excludes extended synthetic LC but includes new second-lien debt) plus present value of all remaining payments due under FASA credits assuming 11% discount rate, less cash and equivalents (including restricted cash credited to Tranche S collateral account). Source: Company reports

Source: Company Filings,

Revolving Credit Agreement Description

- As of September 30, 2011 the Company had a $270mm revolving credit facility without borrowings and letters of credit drawn against. On October 6, 2011 the Company reduced the facility size to $181mm and amended certain terms of the agreement, including i) extending of the maturity on $118mm of the commitment to August 23, 2013; ii) raising the interest rate on the extended loan from LIBOR plus 2.75% to LIBOR plus 4.5%; and iii) increasing the commitment fee on the extended portion from 50bps to 300bps.
- The Company has a separate $133mm letter of credit facility collateralized by the $137mm restricted cash mentioned above and a $13mm synthetic letter of credit facility of which $75mm is related to Orbitz Worldwide. As of September 30, 2011 Travelport had approximately $99mm and $10mm outstanding under the respective letters of credit facility

Secured Credit Facility

- The Company has a total of five term loan facilities denominated in dollars and euros with maturities in August 2013 and 2015. In October 2010, Travelport entered into the Fourth Amended and Restated Credit Agreement which impacted 90% of its outstanding term loans.
- The amendment i) extended the maturity on $1.523bn of dollar denominated term loans, $427mm of euro denominated term loans and $137mm of the synthetic letters of credit by two years to August 2015; ii) established a new $137mm dollar denominated "Tranche S" term loan funded through a restricted deposit account to provide cash collateral for existing and future letters of credit; iii) created an option to extend the maturity on the revolving credit facility at a later date; and iv) provided the ability to incur additional junior refinancing debt.
- The amendment increased the interest margin on the extended dollar and euro denominated term loans from 2.5% to 4.5%. The interest on the non-extended dollar and euro term loans remained at 2.5%.
- On September 30, 2011 the Company further amended its credit agreement to i) allow the issuance of new second lien term loans; ii) amend the total leverage ratio to 8.0x through June 30, 2013, then 7.75x through December 31, 2013, then 7.50x through December 31, 2014 and 7.25x through maturity of the extended term loans; iii) add a first lien leverage ratio covenant test of 4.0x through June 30, 2013, then 3.85x through December 31, 2013, then 3.7x through December 31, 2014 and 3.5x through the maturity of the extended term loans; iv) add a covenant requiring minimum unrestricted cash of $75mm to be effective under certain conditions at the end of each fiscal quarter; v) increase the restricted payment capacity to $297mm; vi) limit the general basket for investments to $20mm; vii) require the repurchase of $20mm of its senior notes for each of the next two years; and viii) amend the total leverage ratio to 8.0x until June 30, 2013 and add a first lien leverage ratio test of 4.0x until June 30, 2013

Liquidity Profile

Illustrative Forward Cash Flow / Liquidity Profile

$MM Fiscal Period	4Q11	FY 2012	FY 2013	FY 2014
TPORT Adj EBITDA	99	461	433	433
Y/Y Chg	-12%	-8%	-6%	0%
Less:				
Cash Taxes	(4)	(16)	(16)	(16)
Changes in Operating Working Capital	(8)	(33)	(20)	(3)
Other	(18)	-	-	-
CFO + Cash Interest	69	412	397	414
Less: CapEx	(18)	(80)	(80)	(80)
UFCF	51	332	317	334
Less: Cash Interest	(27)	(215)	(213)	(206)
LFCF	24	117	104	128
Debt Maturities	-	-	(163)	(783)
LFCF - Debt Maturities	24	117	(59)	(655)
Unrestricted Cash, BoP	90			
Less: Minimum Operating Cash	(75)			
Excess Cash, BoP	15	39	156	97
LFCF - Debt Maturities (from above)	24	117	(59)	(655)
Excess Cash, EoP	39	156	97	(558)
1st Lien Leverage	3.42x	3.71x	3.57x	NM
Covenant Max 1st Lien Leverage	4.00x	4.00x	3.85x	3.70x
Total Leverage	7.04x	7.63x	7.75x	NM
Covenant Max Total Leverage	8.00x	8.00x	7.75x	7.50x

Source: Company filings.

Comment

For illustrative purposes, 2013 EBITDA is calculated as the threshold level consistent with breaching the Maximum Total Leverage covenant at year-end. Working capital changes, capex spend and 2012 EBITDA sourced from the Disclosure Statement filed 09/22/11 (4Q11 also derived as disclosed FY 2011 projection of $500mm less YTD reported adj EBITDA of $401mm). For simplicity 2014 EBITDA assumed to be unchanged from 2013. Cash taxes paid assumed to remain unchanged from LTM 09/30/11.

2014 maturities are prohibitive

Travelport could generate sufficient cash to cover $163mm debt maturing in 2013 …

… but covenants in 1st lien credit facility are likely to be tight

Source: Morgan Stanley

Recovery

2014 Midpoint Estimate	
	2014E
Revenue	2,109.5
COGS	(1,250.6)
SG&A	(409.3)
EBITDA	449.7
Margin %	*21.3%*

Recovery					
EBITDA	449.7	449.7	449.7	449.7	449.7
Multiple	6.0x	6.5x	7.0x	7.5x	8.0x
EV	2,697.9	2,922.8	3,147.6	3,372.4	3,597.3
DIP	100.0	100.0	100.0	100.0	100.0
Estate Fees	100.0	100.0	100.0	100.0	100.0
+Cash Build	200.0	200.0	200.0	200.0	200.0
Distributable Value	2,697.9	2,922.8	3,147.6	3,372.4	3,597.3
1st Lien Debt	1,611.9	1,611.9	1,611.9	1,611.9	1,611.9
Recovery	*100.0%*	*100.0%*	*100.0%*	*100.0%*	*100.0%*
Distributable Value	1,086.0	1,310.8	1,535.7	1,760.5	1,985.3
2nd Lien Debt	342.0	342.0	342.0	342.0	342.0
Recovery	*100.0%*	*100.0%*	*100.0%*	*100.0%*	*100.0%*
Distributable Value	744.0	968.8	1,193.7	1,418.5	1,643.3
Senior Notes	997.0	997.0	997.0	997.0	997.0
Recovery	*74.6%*	*97.2%*	*100.0%*	*100.0%*	*100.0%*
Distributable Value	(253.0)	(28.2)	196.7	421.5	646.3
Sub Notes	434.0	434.0	434.0	434.0	434.0
Recovery	*0.0%*	*0.0%*	*45.3%*	*97.1%*	*148.9%*
HoldCo PIK TLB	288.0	288.0	288.0	288.0	288.0
Recovery	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*

- Assumptions based on the mid-point of assumed BK valuation
- In the event of a restructuring significant equity value could be unlocked by equitizing the 2nd lien TL which in the high case would be >2x return
- Risks in a restructuring are a economic downturn that values EV at trough EBITDA and trough multiple. This would then require a substantial equity commitment to prevent a cramdown for the Seniors
- The Subnotes will likely have no recovery in the event of a restructuring as they will not be able to reinstate both securd debt and refinance the seniors note snd should be valued based on how many coupons one expects to receive plus option value

Source: Our Estimates

Recovery Sensitivity – First Liens

TEV of TPORT GDS Platform:

EBITDA Multiple	Normalized EBITDA 300	325	350	375	400	425	450	475	500
4.0x	1,200	1,300	1,400	1,500	1,600	1,700	1,800	1,900	2,000
4.5x	1,350	1,463	1,575	1,688	1,800	1,913	2,025	2,138	2,250
5.0x	1,500	1,625	1,750	1,875	2,000	2,125	2,250	2,375	2,500
5.5x	1,650	1,788	1,925	2,063	2,200	2,338	2,475	2,613	2,750
6.0x	1,800	1,950	2,100	2,250	2,400	2,550	2,700	2,850	3,000
6.5x	1,950	2,113	2,275	2,438	2,600	2,763	2,925	3,088	3,250
7.0x	2,100	2,275	2,450	2,625	2,800	2,975	3,150	3,325	3,500
Plus: OWW Value	170	170	170	170	170	170	170	170	170
Less: Priority Claims	(113)	(113)	(113)	(113)	(113)	(113)	(113)	(113)	(113)

Recovery to 1st Lien Creditors (Under 09/30/11 Amt Outst)

EBITDA Multiple	Normalized EBITDA 300	325	350	375	400	425	450	475	500
4.0x	80%	86%	93%	99%	105%	112%	118%	124%	131%
4.5x	89%	97%	104%	111%	118%	125%	132%	140%	147%
5.0x	99%	107%	115%	123%	131%	139%	147%	155%	163%
5.5x	109%	117%	126%	135%	144%	152%	161%	170%	179%
6.0x	118%	128%	137%	147%	156%	166%	175%	185%	194%
6.5x	128%	138%	148%	159%	169%	179%	190%	200%	210%
7.0x	137%	148%	159%	171%	182%	193%	204%	215%	226%

Recovery to 1st Lien Creditors (Under Est March 2014 Amt Outst)

EBITDA Multiple	Normalized EBITDA 300	325	350	375	400	425	450	475	500
4.0x	89%	96%	103%	110%	118%	125%	132%	139%	146%
4.5x	100%	108%	116%	124%	132%	140%	148%	156%	164%
5.0x	110%	119%	128%	137%	146%	155%	164%	173%	181%
5.5x	121%	131%	141%	150%	160%	170%	180%	189%	199%
6.0x	132%	142%	153%	164%	174%	185%	196%	206%	217%
6.5x	142%	154%	165%	177%	189%	200%	212%	223%	235%
7.0x	153%	165%	178%	190%	203%	215%	228%	240%	252%

- Severe deterioration in EBITDA and draconian EV valuations are required to impair the 1st lien term loans

Source: Morgan Stanley

Valuation

Company Disclosed Liquidation Analysis September 2011

	Reorganization Value		Recovery (%)		Recovery ($)	
	Low	High	Low	High	Low	High
Value of Going Concern	$3,765	$4,315	55%	65%	$ 2,071	$ 2,805
Restricted Cash and Excess Cash	220[1]	220[1]	NM	NM	311[2]	311[2]
Gross Estimated Proceeds					$ 2,381	$ 3,115
Less: Trustee Fees					(71)	(93)
Less: Professional Fees					(15)	(15)
Less: Estimated Post-Petition Claims					(5)	(5)
Net Estimated Liquidation Proceeds					$ 2,290	$ 3,002
Less: Opco Indebtedness [3]					(3,169)	(3,169)
Net Proceeds Available to Holdco Claims					$ —	$ —
Estimated Recovery %					*0%*	*0%*

Compares to $1.71bn of 1st lien debt outstanding today (or a lesser $1.57bn outstanding net of the Tranche S term loan, which is cash collateralized)

Source: Company Filings

Restructuring Scenario - Senior Notes Fulcrum

Post-Reorg Assumptions	
Plan EBITDA	425.0
Multiple	6.5x
Plan Strike	$2,762.5
Max 1st Lien Levarge	3.5x
Max Total Leverage	4.5x
Min Interest Coverage	2.0x
Senior Notes Rights Offering	250.0
Senior Note Plan Recovery Incl Cost of Rights	*68.2%*
Post-Reorg Capital Strucutre	
New First Lien TL L+550 1.5% Floor	1,487.5
New 9.5% HY Bond	425.0
Implied Equity Value	850.0

Sources and Uses	
Soruces:	
New TL	1,487.5
New HY Bond	425.0
Cash Build in BK	133.2
Rights Offering	250.0
Total Sources	2,295.7
Uses:	0.000
DIP	100.0
Administraitive Expenses	75.0
Exisiting First Lien Debt	1,511.0
2nd Lien Debt	342.0
Cash Balance Post Exit	219.2
Exit Financing Fees and Expenses	48.5
Total Uses	2,295.7

Pro Forma Credit Stats	
1st Lien Leverage	3.1x
Total leverage	4.1x
Interest Coverage	3.1x
EBITDA-Capex/Interest	2.4x

Source: Our Estimates

Post-Reorg Financials

Restrucuted Financial Projections					
	2013PF	2014PF	2015PF	2016PF	2017PF
Revenue	2,068.0	2,109.5	2,151.9	2,195.2	2,239.3
Growth	-	*2.0%*	*2.0%*	*2.0%*	*2.0%*
COGS	1,236.1	1,250.6	1,275.8	1,301.4	1,327.6
Gross Profit	831.9	858.9	876.2	893.8	911.7
Margin %	*40.2%*	*40.7%*	*40.7%*	*40.7%*	*40.7%*
SG&A	401.2	409.3	417.5	425.9	434.4
% of Revenue	*19.4%*	*19.4%*	*19.4%*	*19.4%*	*19.4%*
EBITDA	430.7	449.7	458.7	467.9	477.3
Margin %	*20.8%*	*21.3%*	*21.3%*	*21.3%*	*21.3%*
Interest	139.6	129.3	118.1	106.0	92.9
Taxes	20.0	25.0	25.0	25.0	25.0
D&A	240.0	245.0	250.0	260.0	265.0
EBIT	31.1	50.3	65.6	76.9	94.3
Margin %	*1.5%*	*2.4%*	*3.0%*	*3.5%*	*4.2%*
EBTIDA	430.7	449.7	458.7	467.9	477.3
-Interest	(139.6)	(129.3)	(118.1)	(106.0)	(92.9)
-Taxes	(20.0)	(25.0)	(25.0)	(25.0)	(25.0)
-WC	(25.0)	(25.0)	(25.0)	(25.0)	(25.0)
-Capex	(100.0)	(100.0)	(100.0)	(100.0)	(100.0)
Free Cash Flow	146.1	170.3	190.6	211.9	234.3

Post-Reorg Debt Schedule

Debt Schedule					
Exit TL	1,487.5	1,348.2	1,193.5	1,026.7	847.2
Mandatory Amort	(29.8)	(27.0)	(23.9)	(20.5)	(16.9)
75% FCF Sweep	(109.6)	(127.7)	(143.0)	(158.9)	(175.8)
Ending Balance	1,348.2	1,193.5	1,026.7	847.2	654.5
Interest	99.2	89.0	77.7	65.6	52.6
9.5% HY Bond	425.0	425.0	425.0	425.0	425.0
Interest	40.4	40.4	40.4	40.4	40.4
Total Interest	139.6	129.3	118.1	106.0	92.9
Ending Cash	36.5	42.6	47.7	53.0	58.6
Net Debt	1,736.7	1,575.9	1,404.0	1,219.2	1,020.9
Net Debt /EBITDA	4.0x	3.5x	3.1x	2.6x	2.1x
EBITDA/Interest	3.1x	3.5x	3.9x	4.4x	5.1x
EBITDA-Capex/Interest	2.4x	2.7x	3.0x	3.5x	4.1x

Source: Our Estimates

Post-Reorg Valuation Sensitivity

Pro Forma Valuation					
EV/EBITDA Multiple	Enterprise Value				
	2013PF	2014PF	2015PF	2016PF	2017PF
5.5x	2,368.9	2,473.1	2,522.8	2,573.4	2,625.1
6.0x	2,584.2	2,697.9	2,752.1	2,807.3	2,863.7
6.5x	2,799.6	2,922.8	2,981.4	3,041.3	3,102.3
7.0x	3,015.0	3,147.6	3,210.8	3,275.2	3,341.0
7.5x	3,230.3	3,372.4	3,440.1	3,509.2	3,579.6
Less Net Debt	(1,736.7)	(1,575.9)	(1,404.0)	(1,219.2)	(1,020.9)
Implied Equity Value					
5.5x	632.2	897.2	1,118.8	1,354.2	1,604.2
6.0x	847.6	1,122.0	1,348.1	1,588.1	1,842.8
6.5x	1,062.9	1,346.9	1,577.4	1,822.1	2,081.5
7.0x	1,278.3	1,571.7	1,806.8	2,056.0	2,320.1
7.5x	1,493.6	1,796.5	2,036.1	2,290.0	2,558.7

Source: Our Estimates

Post-Reorg Returns Sensitivity

Return Matrix					
Purchase Price @75 Including Rights					
997.8					
Pre-tax IRR	2013PF	2014PF	2015PF	2016PF	2017PF
5.5x	*-36.6%*	*-5.2%*	*3.9%*	*7.9%*	*10.0%*
6.0x	*-15.1%*	*6.0%*	*10.6%*	*12.3%*	*13.1%*
6.5x	*6.5%*	*16.2%*	*16.5%*	*16.2%*	*15.8%*
7.0x	*28.1%*	*25.5%*	*21.9%*	*19.8%*	*18.4%*
7.5x	*49.7%*	*34.2%*	*26.8%*	*23.1%*	*20.7%*
Multiple of Invested Capital					
5.5x	*0.63x*	*0.90x*	*1.12x*	*1.36x*	*1.61x*
6.0x	*0.85x*	*1.12x*	*1.35x*	*1.59x*	*1.85x*
6.5x	*1.07x*	*1.35x*	*1.58x*	*1.83x*	*2.09x*
7.0x	*1.28x*	*1.58x*	*1.81x*	*2.06x*	*2.33x*
7.5x	*1.50x*	*1.80x*	*2.04x*	*2.30x*	*2.56x*

Financial Forecast - RW Pressprich

	Historicals FYE December 31,			Projected FYE December 31,					LTM
	2008A	2009A	2010A	2011E	2012E	2013E	2014E	2015E	
Total Segments	372.2	338.2	349.4	394.9	372.6	384.2	392.3	400.6	353.0
Total Segment Growth	(10.4%)	(9.1%)	3.3%	*13.0%*	*(5.6%)*	*3.1%*	*2.1%*	*2.1%*	
Weighted Average Revenue per Segment	$5.19	$5.20	$5.14	$5.14	$5.19	$5.24	$5.29	$5.34	$5.14
Weighted Average Rpas Growth		0.1%	(1.1%)	*(0.1%)*	*1.0%*	*1.0%*	*1.0%*	*1.0%*	
GDS Revenue	**$1,932**	**$1,758**	**$1,797**	**$2,030**	**$1,934**	**$2,013**	**$2,076**	**$2,140**	**$1,814**
GDS Revenue Growth		(9.0%)	2.2%	13.0%	(4.7%)	4.1%	3.1%	3.1%	
Airline IT Revenue	239	223	199	211	151	134	135	137	209
Airline IT Revenue Growth		(6.7%)	(10.8%)	*6.0%*	*(28.4%)*	*(11.3%)*	*1.0%*	*1.0%*	
Total Net Revenue	**$2,171**	**$1,981**	**$1,996**	**$2,241**	**$2,085**	**$2,147**	**$2,211**	**$2,277**	**$2,023**
Revenue Growth		*(8.8%)*	*0.8%*	*12.3%*	*(7.0%)*	*3.0%*	*3.0%*	*3.0%*	
Commissions	($848)	($771)	($859)	($942)	($918)	($950)	($979)	($1,008)	($920)
Commissions per Segment	*$2.28*	*$2.28*	*$2.46*	*$2.39*	*$2.46*	*$2.47*	*$2.49*	*$2.52*	*$2.61*
TelCo & Tech	(338)	(278)	(260)	(314)	(277)	(271)	(279)	(287)	(272)
TelCo & Tech as a % of Revenue	*15.6%*	*14.0%*	*13.0%*	14.0%	13.3%	12.6%	12.6%	12.6%	*13.4%*
Processing Costs per Segment	*$0.91*	*$0.82*	*$0.74*	$0.80	$0.74	$0.70	$0.71	$0.72	
GDS COGS	**(1,186)**	**(1,049)**	**(1,119)**	**(1,256)**	**(1,195)**	**(1,221)**	**(1,257)**	**(1,295)**	**(1,192)**
COGS as a % of Revenue	*54.6%*	*53.0%*	*56.1%*	*56.0%*	*57.3%*	*56.9%*	*56.9%*	*56.9%*	*58.9%*
COGS per Segment	*$3.19*	*$3.10*	*$3.20*	*$3.18*	*$3.21*	*$3.18*	*$3.20*	*$3.23*	*$2.61*
GDS Gross Profit	**$985**	**$932**	**$877**	**$985**	**$890**	**$926**	**$954**	**$982**	**$831**
Gross Profit Margin	*45.4%*	*47.0%*	*43.9%*	*44.0%*	*42.7%*	*43.1%*	*43.1%*	*43.1%*	*41.1%*
GDS SG&A	(373)	(326)	(311)	(462)	($426)	(438)	(451)	(464)	(356)
SG&A as a % of Revenue		*16.5%*	*15.6%*	*20.6%*	*20.4%*	*20.4%*	*20.4%*	*20.4%*	*17.6%*
Restructuring Charges	(14)	(6)	(6)	0	0	0	0	0	
Other Income	(7)	2	0	0	0	0	0	0	
Segment EBITDA	**$591**	**$602**	**$560**	**$523**	**$464**	**$488**	**$503**	**$517**	**$475**
Total Revenues per Segment	*$5.83*	*$5.86*	*$5.71*	*$5.67*	*$5.60*	*$5.59*	*$5.64*	*$5.68*	*$5.73*
Total Costs per Segment	*$4.19*	*$4.07*	*$4.09*	*$4.35*	*$4.35*	*$4.32*	*$4.35*	*$4.39*	*$3.61*
EBITDA per Segment	*$1.59*	*$1.78*	*$1.60*	*$1.32*	*$1.25*	*$1.27*	*$1.28*	*$1.29*	*$1.35*

Source: RW Pressprich

Financial Forecast - POR

	Historicals FYE December 31,			Projected FYE December 31,					LTM
	2008A	2009A	2010A	2011E	2012E	2013E	2014E	2015E	
Total Segments	372.2	338.2	349.4	358.4	375.9	400.4	426.6	455.0	353.0
Total Segment Growth	(10.4%)	(9.1%)	3.3%	*2.6%*	*4.9%*	*6.5%*	*6.5%*	*6.7%*	
Weighted Average Revenue per Segment	$5.19	$5.20	$5.14	$5.19	$5.45	$5.78	$6.19	$6.62	$5.14
Weighted Average Rpas Growth		0.1%	(1.1%)	*1.0%*	*5.0%*	*6.0%*	*7.0%*	*7.0%*	
GDS Revenue	**$1,932**	**$1,758**	**$1,797**	**$1,862**	**$2,050**	**$2,315**	**$2,639**	**$3,012**	**$1,814**
GDS Revenue Growth		(9.0%)	2.2%	3.6%	10.1%	12.9%	14.0%	14.1%	
Airline IT Revenue	239	223	199	211	150	132	133	134	209
Airline IT Revenue Growth		(6.7%)	(10.8%)	*6.0%*	*(29.0%)*	*(12.0%)*	*1.0%*	*1.0%*	
Total Net Revenue	**$2,171**	**$1,981**	**$1,996**	**$2,072**	**$2,200**	**$2,447**	**$2,772**	**$3,146**	**$2,023**
Revenue Growth		*(8.8%)*	*0.8%*	*3.8%*	*6.2%*	*11.2%*	*13.3%*	*13.5%*	
Commissions	($848)	($771)	($859)	($686)	($810)	($962)	($1,145)	($1,359)	($920)
Commissions per Segment	*$2.28*	*$2.28*	*$2.46*	*$1.92*	*$2.16*	*$2.40*	*$2.68*	*$2.99*	*$2.61*
TelCo & Tech	(338)	(278)	(260)	(262)	(272)	(285)	(301)	(319)	(272)
TelCo & Tech as a % of Revenue	*15.6%*	*14.0%*	*13.0%*	12.7%	12.4%	11.6%	10.9%	10.1%	*13.4%*
Processing Costs per Segment	*$0.91*	*$0.82*	*$0.74*	$0.73	$0.72	$0.71	$0.71	$0.70	
GDS COGS	**(1,186)**	**(1,049)**	**(1,119)**	**(949)**	**(1,082)**	**(1,247)**	**(1,446)**	**(1,678)**	**(1,192)**
COGS as a % of Revenue	*54.6%*	*53.0%*	*56.1%*	*45.8%*	*49.2%*	*51.0%*	*52.2%*	*53.3%*	*58.9%*
COGS per Segment	*$3.19*	*$3.10*	*$3.20*	*$2.65*	*$2.88*	*$3.12*	*$3.39*	*$3.69*	*$2.61*
GDS Gross Profit	**$985**	**$932**	**$877**	**$1,124**	**$1,118**	**$1,199**	**$1,326**	**$1,468**	**$831**
Gross Profit Margin	*45.4%*	*47.0%*	*43.9%*	*54.2%*	*50.8%*	*49.0%*	*47.8%*	*46.7%*	*41.1%*
GDS SG&A	(373)	(326)	(311)	(645)	($644)	(679)	(746)	(820)	(356)
SG&A as a % of Revenue		*16.5%*	*15.6%*	*31.1%*	*29.3%*	*27.7%*	*26.9%*	*26.1%*	*17.6%*
Restructuring Charges	(14)	(6)	(6)	0	0	0	0	0	
Other Income	(7)	2	0	0	0	0	0	0	
Segment EBITDA	**$591**	**$602**	**$560**	**$478**	**$474**	**$521**	**$579**	**$648**	**$475**
Total Revenues per Segment	*$5.83*	*$5.86*	*$5.71*	*$5.78*	*$5.85*	*$6.11*	*$6.50*	*$6.91*	*$5.73*
Total Costs per Segment	*$4.19*	*$4.07*	*$4.09*	*$4.45*	*$4.59*	*$4.81*	*$5.14*	*$5.49*	*$3.61*
EBITDA per Segment	*$1.59*	*$1.78*	*$1.60*	*$1.34*	*$1.26*	*$1.30*	*$1.36*	*$1.42*	*$1.35*

Source: POR

HY Comps

Security	TPORT	TPORT	TPORT	TPORT	TSG	TSG	Amadeus (in EUR)		
Security	1L TL (L+450)	9 7/8% Sr Nts	9% Sr Nts	11 7/8% Sub Nts	TLB (L+225)	6.35% Sr Nts	# of shares		448
Maturity	8/23/15	9/1/14	3/1/16	9/1/16	9/30/14	3/15/16	Share Price		12.60
Amt o/s ($mn)	1,067	443	250	247	2,872	400			
Ratings	B1	Caa2/CCC+	Caa2/CCC+	Caa3/CCC	B1/B	Caa1/CCC+	Market Cap		5,637
Price	83.50	61.00	58.00	32.00	83.00	78.00	EV		7,520
YTW / Yield w Curve	10.87	32.36	25.86	51.05	9.98	15.58			
LIBOR OAS / Z-DM	990	3,157	2,479	4,990	920	1,448			
5y CDS					26 / 27.5	pts			
Period Ending	PF LTM 9/30/11		FY-Est 12/31/11	FY-Est 12/31/12	LTM 9/30/11		LTM (EUR) 9/30/11	Cons.Est 12/31/11	Cons.Est 12/31/12
Revenue	2,022		2,034	2,044	2,981		2,624	2,700	2,815
EBITDA	516		499	437	685		1,009	1,032	1,090
% margin	*25.5%*		*24.5%*	*21.4%*	*23.0%*		*38.5%*	*38.2%*	*38.7%*
Interest	270		261	245	187				
Capex	78		75	80	159		299		
Free Cash Flow	(78)		26	21	194				
Cash	90		90	75	99		710		
Revolver Availability	181		153	101	298				
Total Liquidity	271		243	176	397				
Total Debt through:									
1st Lien	1,709		1,734	1,711	3,052				
2nd Lien	1,917		1,944	1,935	3,052				
Senior	2,950		2,977	2,948	3,432				
Total OpCo	3,384		3,411	3,382	3,432		2,592		
Net OpCo	3,294		3,321	3,308	3,333		1,882		
Total HoldCo	3,806		3,846	3,867					
Net HoldCo	3,716		3,756	3,793					
Credit Stats									
EBITDA/Interest	1.9x		1.9x	1.8x	3.7x		EV/Sales	2.8x	2.7x
EBITDA-Capex/Interest	1.6x		1.6x	1.5x	2.8x		EV/EBITDA	7.3x	6.9x
1st lien leverage	3.3x		3.5x	3.9x	4.5x				
2nd lien leverage	3.7x		3.9x	4.4x	4.5x				
Senior leverage	5.7x		6.0x	6.8x	5.0x				
Total OpCo leverage	6.6x		6.8x	7.7x	5.0x		2.6x		
Net OpCo leverage	6.4x		6.7x	7.6x	4.9x		1.9x		
Total HoldCo leverage	7.4x		7.7x	8.9x					
Net HoldCo leverage	7.2x		7.5x	8.7x					

Source: Barclays Capital

HY Comps

					Recent Market Data						Call Data		LTM				
		Issue Data			5yr	Bid	Current		YTW	YTW			EBITDA	EBITDA /	Debt /	Net Debt /	TEV /
Coupon	Issue	Maturity	Ratings	Amt. ($MM)	CDS	Price	Yield	YTW	Spread	Date	Date	Price	($mm)	Net Interest	EBITDA	EBITDA	EBITDA[1]
TRAVEL SERVICES																	
Expedia Inc. (EXPE)													*LTM 09/30/11*				
7.456%	Senior Notes	08/15/2018	Ba1/BBB-	500.0	199.0	112.00	6.66%	5.29%	396	08/15/2018	Put 8/13	100.00	1010.3	7.9x	1.2x	0.2x	4.9x
5.950%	Senior Notes	08/15/2020	Ba1/BBB-	750.0		101.00	5.89%	5.80%	405	08/15/2020	MW	+50					
Interval Acquisition Corp (IILG)													*LTM 09/30/11*				
9.500%	Senior Notes	09/01/2016	B1/BB+	300.0	93.2	104.00	9.13%	2.61%	250	09/01/2016	09/01/2012	100.00	147.6	4.1x	2.3x	1.0x	6.4x
Orbitz Worldwide, Inc. (OWW)													*LTM 09/30/11*				
3.557%	Term Loan (L+300)	07/01/2014	B2/B+	472.2		85.00	4.18%	10.84%	1,020	07/01/2014	NC	NC	123.0	3.0x	3.8x	2.7x	5.9x
Sabre Holdings Corp. (TSG)													*Private*				
2.831%	Term Loan B (L+225)	09/30/2014	B1/B	3,015.0	1207.5	84.00	3.37%	9.75%	916	09/30/2014	NC	NC					
6.350%	Senior Notes	03/15/2016	Caa1/CCC+	400.0		78.25	8.12%	13.31%	1,277	03/15/2016	MW	+30					
Travelport LLC (TPORT)													*LTM 09/30/11*				
5.061%	Term Loan (L+450)	08/23/2015	B1/B	1,260.0		83.00	6.10%	11.05%	1,033	08/23/2015	NC	NC	600.0	2.0x	5.6x	5.5x	NA
4.951%	Senior Notes (L + 462.5 Floaters)	09/01/2014	Caa2/CCC+	144.0		51.00	9.71%	35.92%	3,399	09/01/2014	callable	100.00					
9.875%	Senior Notes	09/01/2014	Caa2/CCC+	443.0		60.25	16.39%	33.99%	3,368	09/01/2014	09/01/2012	100.00					
9.000%	Senior Notes	03/01/2016	Caa2/CCC+	250.0		55.00	16.36%	28.06%	2,752	03/01/2016	09/01/2013	104.50					
10.875%	Senior Subordinated Notes	09/01/2016	Caa3/CCC	€ 123.20		27.00	40.28%	56.91%	5,615	09/01/2016	09/01/2012	103.63					
11.875%	Senior Subordinated Notes	09/01/2016	Caa3/CCC	247.0		29.00	40.95%	56.24%	5,548	09/01/2016	09/01/2012	103.96					
Travel Services Bank Debt Median				1260.0		84.00	4.18%	10.84%	1,020				373.8	3.6x	3.1x	1.9x	5.9x
Travel Services Weighted Average						83.83	4.18%	10.20%	957								
Travel Services Median				300.0	199.0	60.25	9.71%	28.06%	2,752								
Travel Services Weighted Average						79.98	13.16%	19.40%	1,843								

Source: Wells Fargo

Trade Claims

Introduction to Trade Claims

- Section 101(5) of the Bankruptcy Code defines a "claim" as a right to payment, or rightto equitable remedy for breach of performance if such breach gives rise to a right of payment.
- The Code has steadily expanded the scope of "claims" over the years and the legislative history makes clear that "the Code contemplates that all legal obligations of the Debtor, no matter how remote or contingent, will be able to be dealt with in the case.1 Thus, a "trade claim" can be a defined amount of money (e.g. account payable) or a contingent ,unliquidated liability (e.g. asserted claim for breach of contract).
- Trade claims are generally evidenced in two ways: (1) via the Debtor's Schedules of Assets and Liabilities ("Schedules"); or (2) via a valid and timely filed proof of claim ("POC").
- In most instances, a buyer of trade claims can rely on the amounts set forth in the Debtor's Schedules. This happens via operation of Section 1111(a) which states in relevant part: "A proof of claim or interest is deemed filed under Section 501 of this title for any claim or interest that appears in the Schedules filed under Section 521(1) or 1106(a)(2) of this title, except a claim or interest that is scheduled as disputed, contingent, or unliquidated."

Source: Fulcrum Capital

Introduction to Trade Claims

- While bank lenders and bondholders generally represent the largest portion of debtor's pre-petition claims, upon filing there is a large constituency of other creditors who also possess claims against the debtor at various levels of priority within the capital structure.
- Because the sale, assignment and transfer of ownership of these claims are not considered securities, securities trading laws do not apply. The lack of uniformity and active market for these claims makes the instruments less liquid and transparent, thereby providing an opportunity for outsize returns for those willing to perform the necessary due diligence and shoulder the liquidity risk.
- Vendor claims generally trade at a 10-20% discount to other wise pari passu securities and therefore present a potential arbitrage opportunity for investors. The typical vendor does not wish, or may not be financially able, to wait months or possibly years to receive his money and is usually sufficiently motivated to sell his claim at a discount.
- A distressed investors may also purchase trade claims as a way to obtain strategic advantage in a restructuring. By gaining control of a larger share of a company's General Unsecured Claims ("GUCs"), a sophisticated distressed investor can gain leverage to influence negotiations with the Debtor and other Creditors.
- By purchasing trade claims at a discount to the unsecured debt he already owns, the investor also lowers the effective cost basis of his investment (assuming trade and bonds will receive the same consideration in the reorganization). In addition, if the claims pool is large enough an investor can set up a capital structure arbitrage trade by going long a trade claim and short pari passu unsecured bonds of the same company.

Introduction to Trade Claims

- In structuring such a trade, one must ensure that the bond and the claim are at the same entity and that the bond does not have any guarantees or claims on subsidiaries that might make it more valuable.
- Often it may not be immediately clear where value flows or their may not be full disclosure on foreign subs. In these cases and one needs to try and apportion the value using information available in the company's financial statements. If the company has subsidiaries that are not guarantors of its debt then it will segregate the financials of the guarantor and non-guarantor subs.
- Also, one may look to segment reporting of revenue and EBITDA and attempt estimate how much value may be attributable to the various entities. In a scenario where the investor faces a great deal of uncertainty over valuation and how it will be attributed amongst various entities, he must bid an appropriate discount to compensate for the risk.

Introduction to Trade Claims

- A "Claim" is a right to payment, whether that right is fixed, liquidated, potential or contingent (i.e., based on the outcome of litigation). Claims can fall into different categories: priority, secured, unsecured, contingent, liquidated, disputed or matured. The most common claim to arise out of a bankruptcy filing is a vendor claim or trade claim as they are more commonly known. Other Types of claims include:
  - Contract Rejection Damage Claims: Damages resulting from the termination of contracts under Section 365 of the Bankruptcy Code.
  - Deficiency Claims: Secured claims that are under collateralized result in a deficiency claim under Section 506 of the Bankruptcy Code for the portion of the claim where there is insufficient collateral securing the claim.
  - Pension/OPEB Claims: Collective Bargaining Agreements ("CBAs"), Defined Benefit Pension Plans and other employee benefits that are terminated pursuant to Sections 1113 and 1114 of the Bankruptcy Code give rise to unsecured claims.
  - Contingent Claims: Claims that may result from pending lawsuits, environmental damages or other contingent events. Some examples of cases where large contingent claims were involved include the asbestos cases such as Owens Corning, Grace and Armstrong and environmental claims include cases such as Asarco and Tronox.
  - Priority Claims: Generally include back taxes and unpaid employee wages and benefits, however, can also include lease deposits up to $2,452 and "Gap Claims" which arise when the Debtor is targeted in an Involuntary Bankruptcy Petition filed by one of its Creditors
  - 503(b)9 Claims: These are claims for goods shipped within 20 days of a company filing for bankruptcy. Unlike other trade claims, these claims are accorded administrative status and are paid in full as long as the estate is administratively solvent.

Introduction to Trade Claims

- Reclamation Claims: Reclamation claims allow for the Creditor to reclaim the goods shipped to the Debtor. These claims arise under state law, §2-702(2) of the Uniform Commercial Code ("UCC"). Once the Debtor files for bankruptcy protection, §546(c) of the Bankruptcy Code preserves a creditor's state law reclamation rights, those rights are enhanced by the code and create additional requirements and defenses. The Bankruptcy Abuse Prevention and Consumer Protection Act of 2005 ("BAPCPA") expanded the reclamation period from 10 days to 45 days prior to a bankruptcy and to 20 days post-petition from 10 days previously. There are a number of requirements that must be met for these claims as well as potential defenses against such claims.
- Proof of Claim
  - In order for the Creditor's claim to be paid he must file a Proof of Claim ("POC") with the court. This is done by filling out Official Form 10 within 90 days from the Section 341 meeting of creditors and filing it with the Bankruptcy Court.
  - The date past which a claim can no longer be filed is known as the Claims Bar Date, and claims past this date generally will not be paid, although it is possible to appeal. The POC will have a Docket Stamp on it denoting the date of its filing. The POC must be signed by the creditor, include the amount of the claim, whether there is a perfected security interest and have attached to the POC documentation evidencing the claim such as invoices, purchase orders or contracts.

Introduction to Trade Claims

B10 (Official Form 10) (04/10)

UNITED STATES BANKRUPTCY COURT	PROOF OF CLAIM
Name of Debtor:	Case Number:
NOTE: *This form should not be used to make a claim for an administrative expense arising after the commencement of the case. A request for payment of an administrative expense may be filed pursuant to 11 U.S.C. § 503.*	
Name of Creditor (the person or other entity to whom the debtor owes money or property):	☐ Check this box to indicate that this claim amends a previously filed claim.
Name and address where notices should be sent: Telephone number:	**Court Claim Number:**_____ (*If known*) Filed on:_____
Name and address where payment should be sent (if different from above): Telephone number:	☐ Check this box if you are aware that anyone else has filed a proof of claim relating to your claim. Attach copy of statement giving particulars. ☐ Check this box if you are the debtor or trustee in this case.
1. Amount of Claim as of Date Case Filed: $_____ If all or part of your claim is secured, complete item 4 below; however, if all of your claim is unsecured, do not complete item 4. If all or part of your claim is entitled to priority, complete item 5. ☐ Check this box if claim includes interest or other charges in addition to the principal amount of claim. Attach itemized statement of interest or charges.	**5. Amount of Claim Entitled to Priority under 11 U.S.C. §507(a). If any portion of your claim falls in one of the following categories, check the box and state the amount.** Specify the priority of the claim. ☐ Domestic support obligations under 11 U.S.C. §507(a)(1)(A) or (a)(1)(B).
2. Basis for Claim: _____	☐ Wages, salaries, or commissions (up to

Introduction to Trade Claims

- In examining the schedules it best to bid on an Allowed Claim. Under Section 502(a), a claim for which a proof of claim has been filed is deemed "Allowed" unless a party of interest (e.g. Bankruptcy Trustee, or the Debtor) objects to the claim, in which case the Bankruptcy Court will conduct a hearing to determine whether, or to what extent, the claim should be allowed.
- There are instances where the Debtor marks every claim on the schedule as disputed or contingent. This increases the risk and will required extra due diligence as well as the willingness to litigate if need be.
- Once a claim holder willing to sell has been located, the negotiation process for purchasing the claim begins. This process can take anywhere from a few days to several weeks depending on the complexity of the issues involved. Since the seller is not a capital markets participant, he may change his mind several times throughout the negotiation process and also increase his offer based on competing bids.
- Moreover, factors may come into play in the due diligence phase that require a re-pricing or cancellation of the trade altogether. If an investor is bidding on a disputed claim he will need to factor the risk that the claim might ultimately be disallowed into his bid price. In addition, he may want to reduce price of his bid to allow him to negotiate with the debtor for a reduction in claim size in exchange for a stipulation that the debtor will treat the claim as an Allowed Claim.

Source: Fulcrum Capital

Introduction to Trade Claims

- Once an initial bid is agreed upon, the parties enter into a trade confirmation, subject to final due diligence. This phase again can take a few days to a few weeks depending on the issues involved.
- At this stage in the process the buyer will begin examining the documentation supporting the claim. This includes reviewing invoices, purchase orders, or other contracts in order to determine the validity of the claim. It is also necessary to reconcile the amounts on the invoices with what is filed on the POC and the Schedules. The purchaser must also confirm that the entity at which the claim he is purchasing is filed corresponds to the entity listed on the supporting invoices as well as have been filed prior to the Claims Bar Date.
- The claims purchase will be executed via a custom tailored contract known as a Purchase Sale Agreement ("PSA"). The PSA will contain provisions governing the transfer of the claim, Representations and Warranties and Indemnification provisions. The PSA will required the seller to provide Reps and Warranties on the ownership, validity and lack of any encumbrances on the claim. In addition, the PSA will contain Indemnification provisions, should the claim be impaired or disallowed .
- It is common for the PSA to require disputes to be litigated under New York or Delaware law, courts which routinely handle complex commercial litigation. This also avoids being in the home town court of the seller of the claim.

Source: Fulcrum Capital

Introduction to Trade Claims

- There are several legal issues that can impact the value of a claim or cause the claim to be disallowed. The following is a brief summary of some of the major issues that need to be diligenced from a legal perspective before purchasing a claim.
- Equitable Subordination. If the seller of the claim aided and abetted fraud, insider trading or breach of fiduciary duty his claim may be equitably subordinated causing the priority of the claim to be moved to the end of the priority chain. This has the effect of the claim being treated as equity, not debt. This risk is heightened when a claim is purchased from an insider and one must have strong reps and warranties from an insider that he has not aided and or abetted any malfeasance.
- Avoidance Actions. When a company files for bankruptcy all payments made in the 90 days prior to bankruptcy (1 year for payments to insiders) are investigated as potential Preference Payments. A Preference Payment is the payment of a debt to one creditor rather than dividing the assets equally among all those to whom he/she/it owes money, often by making a payment to a favored creditor just before filing a petition to be declared bankrupt. The Bankruptcy Trustee has the power to Avoid (unwind) any payments that are deemed to be a Preference This is known as an Avoidance Action and the money is reclaimed by the bankruptcy estate

Source: Fulcrum Capital

Introduction to Trade Claims

- There are several criteria that are used to evaluate whether a payment was a Preference:
  - The transfer was "to or for the benefit of a creditor."
  - The transfer was made for or on account of an "antecedent debt"—that is, a debt owed prior to the time of the transfer.
  - The debtor was insolvent at the time of the transfer. (Fraudulent Conveyance which has 2-year look-back pursuant to 11 U.S.C. § 548)
  - The transfer was made within 90 days before the date of the filing of the bankruptcy petition or was made between 90 days and one year before the date of the filing of the petition to an insider who had reasonable cause to believe that the debtor was insolvent at the time of the transfer.
  - The transfer has the effect of increasing the amount that the transferee would receive in a liquidation proceeding under chapter 7 of the bankruptcy law (11 U.S.C.A. § 701 et seq.). 11 U.S.C.A. § 547
- However, Section 547(c) of the Bankruptcy Code contains exceptions for payments made in the ordinary course of business. The prior course of dealings between the parties, including the amount and timing of payments, and circumstances surrounding the payments, should be analyzed

Source: Fulcrum Capital

Introduction to Trade Claims

- Closing trades often utilizes a concept from securities trading know as Delivery Versus Payment, or "DVP". This occurs when, to complete a trade, there is a simultaneous exchange of securities, in this case they are not securities but the format is the same, for cash that ensures that delivery occurs if, and only if, payment occurs.
- Closing can occur anywhere from 10-30 days post initial confirmation of the trade. The standard practice is that once the trade has closed, the Transferee files a Notice of Transfer and Evidence of Transfer (supporting documentation to evidence the transfer of claim) with the Bankruptcy Court pursuant to Bankruptcy Rule 3001(e). Rule 3001(e) reads as follows:
  - Transferees trading on the "scheduled amount" prior to the filing of a POC must file a POC with court, although "evidence of transfer" is not required it recommend. Rule 3001(e) 1
  - Assignment of a claim after a POC has been filed requires both a Notice of Transfer and an Evidence of Transfer to be filed with court. 3001(e)2
- The clerk of the court or claims agent has the duty to notify the Transferor. The Transferor has 20 days to object to the transfer. Within 15-30 days post closing buyer follows up with claims agent to ensure claims register properly reflects the new owner of the claims.

Source: Fulcrum Capital

Litigation Stubs

- Often one of the most valuable assets of an bankruptcy estate can be the right to pursue litigation against bad actors, professionals, officers, directors and others for actions that either contributed to the company's insolvency or deprived the estate of value.
- This litigation frequently takes years to go to trial or extract a settlement and since remaining in bankruptcy is both prohibitively expensive and a drag on a company's ability to move forward, creditors and other stakeholders generally create litigation trusts or escrow receipts ("Stubs") that are assigned the rights to those recoveries when they are received and can freely traded.
- This allows the company exit from bankruptcy and creditors to receive generally a large portion of their recovery while maintaining their exposure to upside from the litigation. Furthermore, since many creditors do not wish to hold these illiquid and opaque instruments, there is an opportunity for distressed investors to get involved.
- The estate usually funds the trust at exit to fund the litigation and often times a contingency arrangement with the attorney's handling the case is established. One problem is the defendants tend to try and wait until that fund is exhausted to gain the most leverage in settlement negotiations.
- In instances where fraud is involved such as Madoff, Stanford, Enron, Le Nature et al, litigation may be the most substantial asset of the estate.

Litigation Stubs

- Another aspect of Stubs arises from the fact that a company may wish to exit bankruptcy, but may not have completed the claims process. Often times contingent claims such as litigation against the debtor or other undetermined or objected to claims still remain outstanding.
- These claims are reserved for often with post-reorg equity which is held in reserve when a company emerges from bankruptcy. If the claims come in lower than estimated by the reserve, the excess shares are released to creditors still holding the claims. One prominent example of this is GM's Motors Liquidation (MTLQQ).
- Frequently in airline bankruptcies where there are complex tax issues involved with claims for terminated plane leases (TICs), there is a substantial claim reserve. Other cases include American Airlines, Mirant, Calpine, Lyondell, Tribune and Tronox.
- One strategy is for an investor to short the post reorg equity and go long the stub. This isolates the litigation and or claims pool aspect of the Stub and allows an investor to speculate on non-market risk.
- One reason investors like Stub claims is that the risk is often not correlated to the market and is rather dependent on a smaller claims pool or litigation payoff.
- Investing in these instrument requires a detailed understanding of the legal process, fluency with legal briefings and searching the court dockets, as well as the ability to interact with attorney's and ask intelligent questions.

Litigation Stubs

- Some current Stub trades are Tribune, Lyondell, Tronox, American Airlines, Sem Group, TOUSA and Le Nature.
- Tribune and Lyondell are probably two of the most interesting because they involve Fraudulent Conveyance litigation related to the original LBOs. The litigation concerning these issues has been consolidated in the 2nd Circuit.
- What makes these cases so interesting is that pre-LBO equity holders may potentially have their gains "clawed back" back the court for the benefit of the estates creditors.
- The issues are too complicated to discuss here, however, there are several cases post credit crisis dealing with fraudulent conveyance that have been favorable to creditors. Two rulings in particular in TOUSA and Tronox were closely watched.
- In TOUSA proceeds from a refinancing that had gone to repay bondholders in a JV were ordered clawed back by the bankruptcy court. The District Court overturned the decision and finally the Court of Appeals for the 11th Circuit reversed the district court and reinstated most of the bankruptcy courts findings.
- In December of 2013, Judge Allan Gropper in the SDNY ruled in Tronox that Anadarko Petroleum Corp.'s Kerr-McGee unit is responsible for between $5 billion and $14.5 billion in environmental cleanup costs and toxic tort liability. As a result of its leveraged spin-off of Tronox in 2005 that left the company highly indebt and with large toxic cleanup liabilities.

Litigation Stubs

- Some current Stub trades are Tribune, Lyondell, Tronox, American Airlines, Sem Group, TOUSA and Le Nature.
- Tribune and Lyondell (both SDNY) are probably two of the most interesting because they involve Fraudulent Conveyance litigation under state law related to the original LBOs. The litigation in Lyondell will be likely hinge on a ruling in Tribune and Sem Group which have been consolidated before the 2nd Circuit.
- What makes these cases so interesting is that pre-LBO equity holders may potentially have their gains "clawed back" back the court for the benefit of the estates creditors.
- The issues are too complicated to discuss here, however, there are several cases post credit crisis dealing with fraudulent conveyance that have been favorable to creditors. Two rulings in particular in TOUSA and Tronox were closely watched.
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Distressed Debt Case Studies

Tronox Case Study

Company Overview

- Tronox Incorporated ("TRX" or the "Company") is the fourth largest producer of titanium dioxide (TiO2) pigments (93% of sales) in the world. Titanium dioxide is used in a range of products for its ability to impart whiteness, brightness and opacity. The pigment product is used in coatings for residential and commercial paint, industrial, automotive, specialty market, plastics such as polyolefins, PVC, engineered plastics, and paper and specialty products such as inks, food, cosmetics.

Capital Structure

	Face Amount	Market Price	Market Value	Multiple of 2010P EBITDAR
Cash	$77.0		77.0	
New DIP/Exit Facility	425.0	*100.0%*	425.0	2.2x
9.5% Sr. Unsecured Notes	370.4	*70.0%*	259.3	5.8x
EPA Claim	270.0	*100.0%*	270.0	5.8x
Other GUCs	100.0	*70.0%*	70.0	5.8x
Enterprise Value	1,242.4		1,101.3	5.8x
2010P EBITDAR	$190.0			
Normalized EBITDAR	$165.0			

Situation Overview

- Tronox was spun off from Kerr-McGee Corporation in 2006. At the time of the spin-off, the Company was burdened with substantial legacy liabilities that are not related to its operating TiO2 or Electrolytic businesses Legacy liability costs have consumed substantial cash flow, resulting in an inability to continue to service Tronox's debt. Due to the continued impact from legacy liabilities, exacerbated by credit market conditions and the resulting tight liquidity situation, certain of Tronox's U.S. businesses and foreign affiliates filed for protection under Chapter 11 of the United States Code on January 12, 2009
- Tronox was set to sell the majority of its assets in a 363 sale to Huntsman for $415mm. An ad hoc bondholder group of the 9.5% Senior Unsecured Noteholders has proposed a plan of reorganization in conjunction with Goldman Sachs as replacement DIP and exit lender and the support of the Debtor. In additon the EPA a major other unsecured creditor has reached an agreement to take $115mm cash and 88% of litigation proceeds against Anadarko Petroleum (purchased Kerr-McGee).

Tronox Case Study

Investment Opportunity

- The 9.5% Sr Notes trades from 40 prior to filing down to 10 post. Secured creditors were concerned about a liquidation and substantial loss of value. This was exacerbated by the lack of access to capital markets in 2009 and the continuing credit crisis. Chemical maker Huntsman had mae a stalking horse bid to purchase the company for the value of the secured debt.
- Tronox was at a cyclical low in the demand and pricing cycle. If unsecured creditors were willing to put in new capital to bridge the company until a trunaround in the pricing environment. Bondholders could capture the equity value.
- Tronox bonds traded into the low 70s as a steering committee working with GS prepared to make an offer to finance the company out of bankruptcy. The companies projections were to do $190mm of EBITDAR in 2010 which would create the equity through the Sr Notes at 5.8x.

POR Summary

- Bondholders agreed to backstop a $170mm rights offering that would fund the EPA settlement and GS committed to finance a $425mm replacemnt DIP facility that converted to an exit facility upon emergence.
- In exchange bondholders would receive 16.9% of the re-organized equity as well as 78.4% of the equity in the rights-offering giving them 95% of the equity in the company prior to dilution from MIP
- The EPA received $270mm cash and 88% of the proceeds from litigation against Andardko relating to the Tronox spin off

Claim	Consideration	Amount	Plan Reco
DIP	Rolls into New Exit Facilty	$425.0	*100%*
Class 1 Priority Non-Tax	Cash	$1.0	*100%*
Class 2 Secured Claims	Cash	$1.0	*100%*
Class 3 GUCs	16.9% of Equity and 78.4% of Rights	$470.6	*80%-100%*
Class 4 Tort Claims	Cash $12mm 12% Litigation Trust, $4mm Insurance	NA	NA
Class 5 Environmental	$270mm Cash, 88% Litigation trust $50mm Insurance	NA	NA
Class 6 Equity	2-yr Warrants for 5% of Company Strike	$3-6mm	NA

Tronox Case Study

Tronox Disclosure Statement Projections

Plan Projections	2009	2010P	2011P	2012P	2013P
Global revenues	1,071.8	1,168.5	1,231.0	1,247.7	1,272.9
% growth	*-27.8%*	*9.0%*	*5.4%*	*1.4%*	*2.0%*
Gross profit	187.9	248.9	254.0	231.7	235.3
% margin	*17.5%*	*21.3%*	*20.6%*	*18.6%*	*18.5%*
EBITDAR	130.6	189.9	181.1	156.3	157.4
% margin	*12.2%*	*16.3%*	*14.7%*	*12.5%*	*12.4%*
Interest	31.2	78.0	31.1	27.5	23.8
Rent		5.0	5.0	5.0	5.0
Mandatory Amortization		3.4	3.2	2.8	2.3
Chg WC	(99.7)	14.7	(26.2)	(17.8)	(15.4)
CapEx	22.0	106.0	57.1	49.0	47.5
% of revenues	*2.1%*	*9.1%*	*4.6%*	*3.9%*	*3.7%*
Free Cash Flow	177.1	12.3	58.4	54.3	63.5
NWC	258.6	282.0	297.1	301.1	307.2
% Of Sales	*24.1%*	*24.1%*	*24.1%*	*24.1%*	*24.1%*

Tronox Case Study

Recovery Estimates at Emergence

				Recovery to 9.5% Sr Unsecured Notes					Other GUCs Recovery			
TEV	Multiple of 2010P EBITDAR	Equity Value	Value per Share	Value of Primary Shares for Notes	Value of Rights for Notes	Total Value for Notes	Recovery on Face	Recovery On Claim	Value of Primary Shares for GUCs	Value of Rights for GUCs	Total Value for GUCs	Recovery on Claim
$ 950.0	5.0x	$ 511.9	**$ 31.37**	$ 62.6	$ 156.5	$ 219.1	**62.6%**	**59.2%**	$ 16.9	$ 42.2	$ 59.2	**59.2%**
1,000.0	5.3x	$ 561.9	**$ 34.43**	68.7	184.9	253.6	**72.5%**	**68.5%**	18.6	49.9	68.5	**68.5%**
1,025.0	5.4x	$ 586.9	**$ 35.96**	71.8	199.0	270.8	**77.4%**	**73.1%**	19.4	53.7	73.1	**73.1%**
1,050.0	5.5x	$ 611.9	**$ 37.49**	74.8	213.2	288.1	**82.3%**	**77.8%**	20.2	57.6	77.8	**77.8%**
1,075.0	5.7x	$ 636.9	**$ 39.02**	77.9	227.4	305.3	**87.2%**	**82.4%**	21.0	61.4	82.4	**82.4%**
1,100.0	5.8x	$ 661.9	**$ 40.56**	81.0	241.6	322.5	**92.2%**	**87.1%**	21.9	65.2	87.1	**87.1%**
1,125.0	5.9x	$ 686.9	**$ 42.09**	84.0	255.8	339.8	**97.1%**	**91.7%**	22.7	69.0	91.7	**91.7%**
1,150.0	6.1x	$ 711.9	**$ 43.62**	87.1	269.9	357.0	**102.0%**	**96.4%**	23.5	72.9	96.4	**96.4%**
1,175.0	6.2x	$ 736.9	**$ 45.15**	90.1	284.1	374.2	**106.9%**	**101.0%**	24.3	76.7	101.0	**101.0%**
1,200.0	6.3x	$ 761.9	**$ 46.68**	93.2	298.3	391.5	**111.9%**	**105.7%**	25.2	80.5	105.7	**105.7%**
1,225.0	6.4x	$ 786.9	**$ 48.22**	96.2	312.5	408.7	**116.8%**	**110.3%**	26.0	84.4	110.3	**110.3%**
1,250.0	6.6x	$ 811.9	**$ 49.75**	99.3	326.7	426.0	**121.7%**	**115.0%**	26.8	88.2	115.0	**115.0%**
1,275.0	6.7x	$ 836.9	**$ 51.28**	102.4	340.8	443.2	**126.6%**	**119.7%**	27.6	92.0	119.7	**119.7%**

Note: Does not assume any shares allocated to management. 5% to manangement would shave approximately 4pts off recovery.

Rights Strike Price	**$14.46**
Cash	30.0
Debt	468.1
Preferred	15.0

Tronox Case Study

Tronox Financials Post Emergence

	2005A	2006A	2007A	2008A	2009A	2010A	2011A	2012E
Total Revenue	**1,375.2**	**1,421.8**	**1,426.3**	**1,245.8**	**1,070.1**	**1,217.6**	**1,651.0**	**1,816.0**
Growth Over Prior Year	*5.6%*	*3.4%*	*0.3%*	*(12.7%)*	*(14.1%)*	*13.8%*	*35.6%*	*17.7%*
Gross Profit	**229.9**	**175.5**	**121.0**	**112.4**	**137.7**	**221.2**	**499.7**	**-**
Margin %	*16.7%*	*12.3%*	*8.5%*	*9.0%*	*12.9%*	*18.2%*	*30.3%*	*-*
EBITDA	**191.0**	**171.6**	**115.9**	**1.5**	**119.1**	**259.4**	**435.4**	**594.0**
Margin %	*13.9%*	*12.1%*	*8.1%*	*0.1%*	*11.1%*	*21.3%*	*26.4%*	*32.7%*
EBIT	**87.9**	**68.6**	**3.6**	**(74.2)**	**66.0**	**209.3**	**353.1**	**504.0**
Margin %	*6.4%*	*4.8%*	*0.3%*	*(6.0%)*	*6.2%*	*17.2%*	*21.4%*	*27.8%*
Earnings from Cont. Ops.	**46.4**	**25.0**	**(105.1)**	**(145.5)**	**(28.7)**	**4.6**	**873.0**	**-**
Margin %	*3.4%*	*1.8%*	*(7.4%)*	*(11.7%)*	*(2.7%)*	*0.4%*	*52.9%*	*-*
Net Income	**18.8**	**(0.2)**	**(106.4)**	**(334.9)**	**(38.5)**	**5.8**	**872.8**	**469.0**
Margin %	*1.4%*	*(0.0%)*	*(7.5%)*	*(26.9%)*	*(3.6%)*	*0.5%*	*52.9%*	*25.8%*
Diluted EPS Excl. Extra Items[3]	**1.89**	**0.61**	**(2.58)**	**(3.55)**	**(0.7)**	**0.11**	**49.135**	**28.95**
Growth Over Prior Year	*NM*	*(67.7%)*	*NM*	*NM*	*NM*	*NM*	*44,568.3%*	*87.3%*

Tronox Case Study

Recovery Estimates 2 Years Post Emergence

				Recovery to 9.5% Sr Unsecured Notes					Other GUCs Recovery			
TEV	Multiple of 2010P EBITDAR	Equity Value	Value per Share	Value of Primary Shares for Notes	Value of Rights for Notes	Total Value for Notes	Recovery on Face	Recovery On Claim	Value of Primary Shares for GUCs	Value of Rights for GUCs	Total Value for GUCs	Recovery on Claim
$ 2,475.0	4.5x	$ 2,036.9	**$ 124.81**	$ 249.1	$ 1,021.5	$ 1,270.6	**363.0%**	**343.0%**	$ 67.3	$ 275.8	$ 343.0	**343.0%**
2,612.5	4.8x	2,174.40	**133.23**	265.9	1,099.5	1,365.4	**390.1%**	**368.6%**	71.8	296.8	368.6	**368.6%**
2,750.0	5.0x	2,311.90	**141.66**	282.8	1,177.5	1,460.3	**417.2%**	**394.2%**	76.3	317.9	394.2	**394.2%**
2,887.5	5.3x	2,449.40	**150.08**	299.6	1,255.5	1,555.1	**444.3%**	**419.8%**	80.9	338.9	419.8	**419.8%**
3,025.00	5.5x	2,586.90	**158.51**	316.4	1,333.5	1,649.9	**471.4%**	**445.4%**	85.4	360.0	445.4	**445.4%**
3,162.50	5.8x	2,724.40	**166.93**	333.2	1,411.5	1,744.7	**498.5%**	**471.0%**	90.0	381.1	471.0	**471.0%**
3,300.00	6.0x	2,861.90	**175.36**	350.0	1,489.5	1,839.5	**525.6%**	**496.6%**	94.5	402.1	496.6	**496.6%**
3,437.50	6.3x	2,999.40	**183.78**	366.8	1,567.5	1,934.3	**552.7%**	**522.2%**	99.0	423.2	522.2	**522.2%**
3,575.00	6.5x	3,136.90	**192.20**	383.7	1,645.4	2,029.1	**579.7%**	**547.8%**	103.6	444.2	547.8	**547.8%**
3,712.50	6.8x	3,274.40	**200.63**	400.5	1,723.4	2,123.9	**606.8%**	**573.4%**	108.1	465.3	573.4	**573.4%**
3,850.0	7.0x	3,411.90	**209.05**	417.3	1,801.4	2,218.7	**633.9%**	**599.0%**	112.7	486.3	599.0	**599.0%**
3,987.5	7.3x	3,549.40	**217.48**	434.1	1,879.4	2,313.5	**661.0%**	**624.6%**	117.2	507.4	624.6	**624.6%**
4,125.0	7.5x	3,686.90	**225.90**	450.9	1,957.4	2,408.4	**688.1%**	**650.2%**	121.7	528.4	650.2	**650.2%**

Current Capitalization (Millions of USD)	
Currency	***USD***
Share Price as of Apr-02-2012	$179.0
Shares Out.	15.1
Market Capitalization**	**2,698.7**
- Cash & Short Term Investments	154.0
+ Total Debt	427.3
+ Pref. Equity	-
+ Total Minority Interest	-
= Total Enterprise Value (TEV)	**2,972.0**

Tronox Case Study

Recovery Estimates 2 Years Post Emergence

SemGroup LP

Company Overview

- Prior to filing for Chapter 11 SemGroup was a privately held limited partnership engaged in midstream energy services including pipelines, storage, propane distribution, gas liquids extraction and energy marketing and trading.
- These assets included the White Cliff's Pipeline, a critical component of the west's energy infrastructure as the only pipeline from the oil rich DJ Basin in Colorado to the strategic storage hub in Cushing Oklahoma where the company had approximately 3mm barrels of storage capacity
- The company's energy marketing and trading operations were personally controlled by SemGroup's CEO who entered into naked call options on the belief that crude prices would remain stable. Large trading losses occurd forcing SemGroup to post $2bn in collateral to support the trades putting a sever strain on the company's liquidity. In July 2008 Barclay's took over SemGroup's trading book as the result of substantial losses and liquidity demands. This resulted in a $2.4bn loss. On July 28 the company filed for Chapter 11 bankruptcy protection

Pre Petition Capital Structure

	Face Amount
Secured Working Capital Agreement	1,740.0
Secured Revolver	665.0
Series B-2 Loan	200.0
SemEuro Credit Agreement	45.0
White Cliffs Credit Agreement	120.0
Total 1st Lien Secured Debt	2,770.0
8.75% Senioir Notes	610.0
Total Debt	3,380.0

Chapter 11 Summary

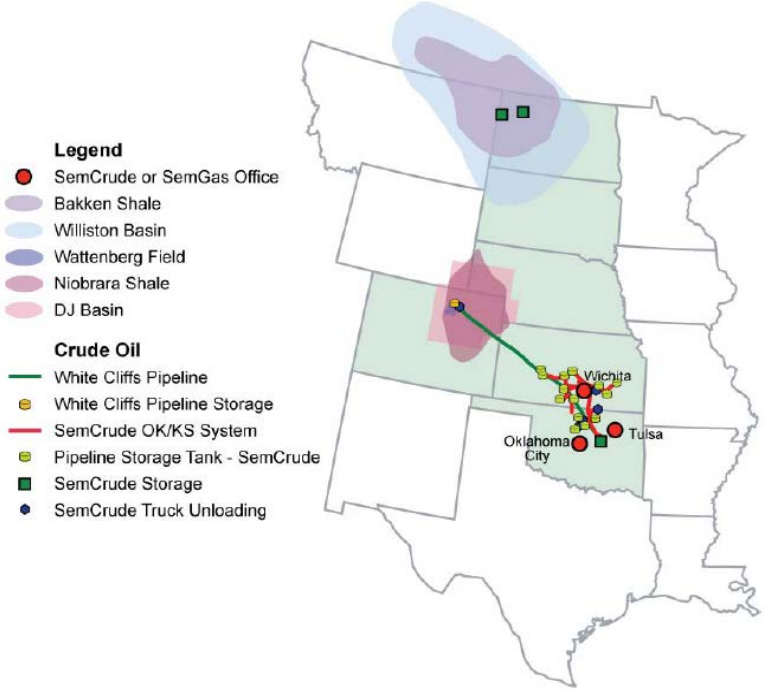
- SemGroup was able to secure post petition financing and stabilize operations. It had considerable litigation related to contracts with its crude suppliers that utilized the White Cliff's Pipeline.
- SemGroup sold non-core assets, focused on managing its fee based assets and dramatically curtailed energy marketing activities
- As a result the company was able to accumulate approximately $650mm in free cash as well as another $400mm in restricted and subidiary cash as well as $150mm in cash from asset sales. The company was rejected or restructured over 1,600 uneconomical leases and contracts

SemGroup LP

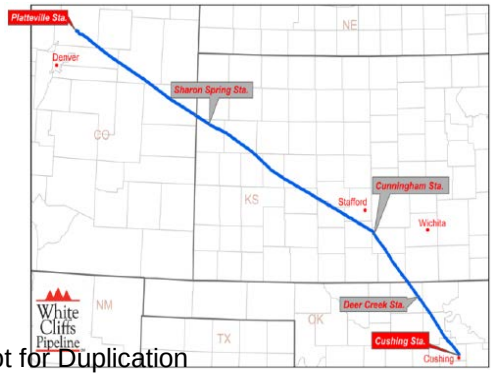
SemCrude

- SemGroup's assets are strategically located in resource rich geographic areas including the Bakken, Niobara, Duvernay, Montney Shales and the Mississippi Lime formation
- In addition, SemGroup is 51% owner of White Cliff's pipeline, a FERC pipeline and 4.2 mm barrels of oil storage capacity located in Cushing, OK. White Cliff's is an oil pipeline serving the DJ Basin / Wattenberg and Niobrara Shale and is the only pipeline connecting DJ Basin to the strategic storage assets in Cushing, OK
- 48% was sold during to Plains All American, Anadarko, and Noble Petroleum to help pay down debt. Strategically, these partners are incented to use White Cliffs as much as possible
- The majority of the volume for White Cliff's comes from Watterburg Shale - a stable oil/gas field that is break-even at $50-60 WTI. However, the adjacent Niobrara Shale is a high quality emerging gas/oil shale that has enormous potential and is being compared to the Bakken Shale
- The North Dakota System, which consists of the Bakken Shale and Williston Basin, offers growing demand for take-away capacity to provide gathering, storage and processing to the hub in Clearbrook, Minnesota
- SemGroup is positioned to potentially increase its capacity on the Enbridge pipeline in the North Dakota System and expand with additional growth in take-away capacity

SemCrude Strategic Positioning



White Cliff's Pipeline



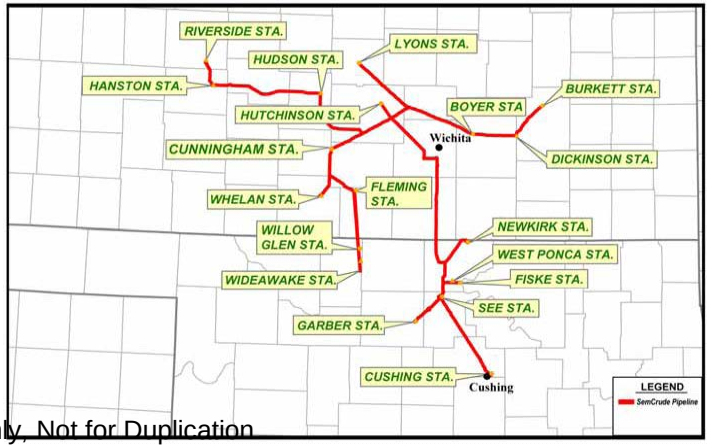
SemGroup LP

SemCrude

- The DJ basin is key development area and in February of this year Chesapeake Energy announced an investment from CNOOC for $700mm for a 33% interest in DJ and Powder River Basin leasehold interests
- Noble Drilling, Chesapeake, and Anadarko have all spoken favorably of the Niobrara and are increasing their exploration of the area
- Noble's Q1 conference call the company stated . "We've now identified over 2,000 potential drilling locations on our 400,000-acre Wattenberg position are containing unrisk potential of 600 million barrels equivalent net to Noble Energy's interest. We're accelerating the program where we continue to see strong well results in the core and on the edges of the field."
- SemGroup's Cushing is a critical Hub for oil storage / Nymex delivery and gets the highest oil prices in the region. Therefore, transportation into Cushing is a highly valuable asset
- 95% of the storage capacity leased to 3rd parties with 3-5 year contracts. SemGroup announced in the 4th quarter of 2010 that it was expanding storage by 1.96mm barrels, all of which has been leased on long term contract
- Contango market is bullish for storage

SemCrude Strategic Positioning

Kansas Oklahoma Gathering System



SemGroup LP

Investment Overview

- SemGroup's asset footprint is located in the "Liquids Fairway," which is the Mid-Continent region stretching from Western Canada to the Gulf Coast. These areas are liquids rich shale plays. SemGroup is well positioned in the large, rich producing-basins of North America, such as the Mississippi Zone, Bakken, Wattenberg, Niobrara, Montney, and Duvernay plays.
- Producers are committing significant resources to these opportunities. The flow of hydrocarbons throughout this region creates an opportunity to utilize SemGroup's assets which are also located near demand centers and connected to liquidity points where the Company can provide customers access to broader markets.
- By purchasing SemGroup's Secured Working Capital Facility at approximately 50% an investor would be creating assets at over a 50% discount to their replacement cost in area of critical energy infrastructure
- An investor would also have the benefit of reintroducing the company to the public markets post-reorg in addition to the potential conversion to an MLP post reorg and capitalizing on the higher multiples as a result of their tax efficient pass-thru status

POR Summary

- Distributable value in the Estate was $2,446bn and consisted of:
  - $1,111 in Cash
  - $300mm in a new 2nd lien TL
  - $1,035 in Common Stock and warrants
- SemGoup's Secured creditors received in consideration for approximately $2.9bn claims:
  - $524mm in Cash
  - Pro rata share of 9% 2nd lien TL
  - 95% of the equity in the reorganized company
  - 60% of the interests in the litigation trust
- Blackstone valued the reorganized Debtor's EV at a mid point of $1,500bn or 8x 2010P EBITDA
  - Implied equity value at the mid point was $1,035 or about $10.35 per share on a fully diluted basis. $24 based on current shares

Exit Capital Structure

Cash	70.0
$500mm Exit Facility	-
White Cliffs Financing	100.0
SemEuro Financing	35.0
2nd Lien Term Loan	319.0
Total Debt	454.0
Implied Equity Value	1,035.0
Enterprise Value	1,419.0

SemGroup LP

Post-Reorg Milestones

- December 2009: SemGroup Emerges From Bankruptcy
- October 2010: SemGroup sells 49% interest in White Cliff's Pipeline to Noble Energy, Plains Exploration and Anadarko Petroleum for $141mm before purchase price adjustments. Proceeds were used for deleveraging
- November 2010: SemGroup lists on the NYSE ticker SEMG
- December 2010: SemGroup sells its SemCanadaCrude marketing business for ≈ $60mm
- May 2011: SemGroup announces refinancing of its credit facility via RBS
- June 2011: Announces formation of MLP structure

Refinancing

	Face Amount	2011E EV/EBITDA	Rating
Cash[1]	$71.0		
$350mm Revolver L+325 [2]	133.2		B1/B
$100mm TLA L+325	100.0		B1/B
$200mm TLB L+450	200.0	3.1x	B1/B
Capital Lease/Other	10.2	3.1x	
Total Debt	443.4	3.1x	
Net Debt	372.4	2.6x	
Common Stock (SEMG)	$18.28		
Shares Out	42.2		
Equity Value	771.4		
Enterprise Value	1,143.8	8.0x	
2011PF EBITDA	142.4		
Liquidity			
Cash	71.0		
LCs Outstanding	(109.0)		
Revolver	216.8		
Total Liquidity	287.8		

- SemGroup was able to access the capital markets and dramatically lower its cost of debt and increases its capital flexibility

SemGroup LP

Share Price Performance Post Emergence