



Busted Convert Monitor

Busted Convert Monitor—Focus Convertible Bonds, as of 10/1/09

Issuer	Tkr	Amt.		Maturity	Put Date	Price	Yield	Parity	Prem	Total		Mkt Cap	LTM Adj. EBITDA	1 Yr Fwd EBITDA	LTM FCF	Cash Cov	LTM Lev
		Out.	Coup							Debt	Cash						
CONEXANT SYSTEMS	CNXT	250.0	4.000%	3/1/2026	3/1/2011	86.50	14.99%	5.49	1476%	342.0	139.7	150.3	24.0	NA	NA	0.41x	14.28x
GREAT ATLA & PAC	GAP	255.0	6.750%	12/15/2012	NA	87.75	11.43%	22.28	294%	1,470.0	350.4	494.2	313.7	316.3	59.2	0.24x	4.69x
JAZZ TECHNOLOGIE	TSEMIT	128.2	8.000%	12/31/2011	NA	68.50	27.80%	22.98	198%	436.7	38.1	173.1	35.1	NA	14.4	0.09x	12.46x
NATL FINANCIAL	NFP	230.0	0.750%	2/1/2012	NA	78.00	11.86%	15.16	415%	345.0	49.8	350.0	139.1	NA	88.4	0.14x	2.48x
OVERSTOCK.COM	OSTK	60.0	3.750%	12/1/2011	NA	80.00	14.93%	19.10	319%	60.7	69.8	331.4	18.1	23.9	(3.9)	1.15x	3.35x
PATRIOT COAL	PCX	200.0	3.250%	5/31/2013	NA	81.00	9.53%	16.81	382%	204.8	49.2	982.7	411.9	146.9	NA	0.24x	0.50x
STILLWATER MNG	SWC	166.5	1.875%	3/15/2028	3/15/2013	80.00	8.72%	28.50	181%	196.5	175.4	604.0	50.0	57.2	NA	0.89x	3.93x
TRICO MARINE SER	TRMA	202.8	8.125%	2/1/2013	NA	93.00	11.42%	56.00	66%	704.8	35.1	143.6	105.4	125.0	(39.8)	0.05x	6.69x

Sources: Bloomberg; Capital IQ; and Imperial Capital estimates.

Investment Thesis and Overview of the Busted Convertibles Market

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The busted convert universe, which was once over 450 issues strong, is now down to 118 issues. In addition to the issues that have traded to yields below our 8% threshold, the recent opening of the capital markets has enabled issuers to issue new debt and/or equity in order to take out busted converts prior to the maturity or put date. This has resulted in an increased IRR on the converts and adds another level of optionality, in our view.

Because the universe is down to what we view as a more-normalized level, investors may need to seek less-liquid and/or esoteric securities to find anomalies in the space. We continue to focus our analysis on short-term maturities/puts and companies with strong liquidity and cash flow, as well as converts that trade at a lower premium over parity, which we believe have increased equity optionality if the equity markets continue to rally.

We continue to construct our busted convert universe on out-of-the-money converts yielding greater than 8% and priced below 98. **The busted convert universe included in this report comprises 118 different issues. The group has an average yield of 17.48%, average cash coverage of 0.31x, average leverage of 7.35x, and average premium of 358%.** We have sorted the universe according to issuer, yield, maturity/put date, LTM leverage, forward leverage, estimated EBITDA growth, LTM free cash flow, cash coverage, premium, and industry. Additionally, we provide eight subsets of busted converts that we believe offer some of the more interesting opportunities in the busted convert asset class.

We also believe that some of the out-of-the-money convertible bonds that are no longer part of the universe may have run their course. Therefore, **we have incorporated the Swap Candidates screen into this report, which was previously part of our mid-month Busted Convert Focus report.** The Swap Candidates screen identifies out-of-the-money converts trading below an 8% yield that may be worth swapping out of, in our opinion. **The Swap Candidates screen comprises 43 different issues, with an average yield of 6.29%.**

**All bond and equity pricing as of 10/1/09.*

**Majority of financial data contained in this report reflect data from Bloomberg and/or Capital IQ. Some of the data may differ from actual or adjusted results.*

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Additional information is available upon request.

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Opportunities in the Busted Convert Universe

Our busted convert universe includes U.S. dollar-denominated, non-zero coupon convertible bonds that have \$50mn or more in principal amount outstanding, are priced at 98 or lower, and have a yield to maturity/put of 8% or greater. We analyzed and sorted the vast number of potential investment opportunities available across the asset class in several different ways, and provide the eight subsets of busted converts that result: High-Quality High Yield, Short-Term Maturities/Puttables, High Current Yield, Capital Structure Arbitrage Opportunities, LTM Free Cash Flow/Total Debt, EBITDA Growth and Positive Free Cash Flow, Yield/Forward Leverage, and Low Premiums. The bonds included in these subsets present some of the more interesting opportunities in the asset class, in our view. In the following sections, we summarize investment opportunities that we believe are particularly compelling within each of these subsets.

(1) High-Quality High Yield

- Criteria: leverage < 5.0x; market cap/debt > 1.0x; cash coverage > 0.4x.
- These criteria identify what we view as the highest-quality and safest converts that still offer a high yield return.
- Companies in this group have relatively strong balance sheets, positive EBITDA, and significant equity cushion below the debt.
- Most of these securities could be classified as “anomalies” in the universe given their solid credit metrics and high yields, in our view.

Stillwater Mining Company (SWC) \$166.5mn 1.875s @ 80.00 (8.72% YTP on 3/15/13). Parity: 28.50; Premium: 181%.

The 1.875s are the primary debt in the capital structure, and cash of \$175.4mn covers the debt approximately 1.0x. At a price of 80.00, the 1.875s create the company for approximately \$175mn (excluding cash), which is approximately 3.3x LTM EBITDA of \$50mn. Additionally, the \$604mn market cap covers the debt 3.0x. On 9/23/09, SWC announced it had negotiated with a holder of \$15mn 1.875% notes an exchange offer for shares of common stock reducing the amount of notes outstanding to \$166.5mn. Stillwater is the only U.S. producer of palladium and platinum and is the largest primary producer of platinum group metals outside of South Africa and Russia. Historically, General Motors and Ford represented the company’s two largest customers. During General Motor’s bankruptcy proceedings, GM received approval to cancel its palladium contract with Stillwater on 7/22/09. However, Stillwater’s CEO has continuously reiterated that the company will be able to sell all metals it produces, recycles, and processes in the U.S. to other customers given well-established end markets for platinum group metals (PGMs).

Risks associated with high-quality high yield convertibles include potential cash commitments, incurrence of additional debt, and weakening of financial results.

(2) Short-Term Maturities/Puttables

- Criteria: maturity/put date < 12/31/11.
- This group comprises converts with short-term maturities or puts.
- The converts in this group with strong cash coverage could represent safer “yield-to-call” type investments.
- The higher-yielding short-term investment opportunities may represent refinancing/restructuring candidates where the converts are trading more on a claim basis than a yield basis.

Conexant Systems, Inc. (CNXT) \$250mn 4.00s @ 86.50 (14.99% YTP on 3/1/11). Parity: 5.49; Premium: 1476%.

As of 7/3/09, Conexant had \$422mn of total debt versus \$137.9mn of cash. Adjusting for the sale of Broadband Access, a recent \$18.4mn equity raise, and the retirement of \$80mn senior secured debt, we estimate pro forma debt is \$342.1mn and cash is \$139.7mn. Cash continues to be more than sufficient to cover the \$92.1mn remaining senior secured debt, potentially leaving the 4s as the only debt on the company. Based on management’s recent guidance, run-rate EBITDA is approximately \$30mn and could be even higher if

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Hold	4.14%	Hold: TRR expected to be in-line with basket
Sell	8.33%	Sell: TRR will underperform basket by at least 10%
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See pages I-7 for a discussion of the valuation and risks associated with the various categories of issuers covered in this report.

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Trico Marine Services, Inc.	3,7

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