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Imperial Capital Research Focus and Summary

Included in This Issue:

Bank Debt Focus Names:

- **Blockbuster Inc.** – *Matt Kaplan*
- **Boise Inc.** – *David Martin*
- **Catalent Pharma Solutions, Inc.** – *Douglas J. Dieter*
- **Michaels Stores, Inc.** – *Mary Ross Gilbert, CFA; Jonathan Richton*
- **Toys “R” Us, Inc.** – *Mary Ross Gilbert, CFA; Jonathan Richton*
- **US Airways Group, Inc.** – *David Martin*

High Grade, Crossover, and Fallen Angel Bond Focus Names:

- **Eastman Kodak Company** – *Randy Laufman; Benjamin Brogadir*
- **International Lease Finance Corp.** – *Edward P. Mally, CFA*
- **Masco Corp.** – *Mary Ross Gilbert, CFA*
- **United States Steel** – *Benjamin Brogadir*

High Yield and Distressed Bond Focus Names:

- **Angiotech Pharmaceuticals, Inc.** – *Douglas J. Dieter*
- **Ford Motor Credit** – *Alberto Garcia-Tuñon*
- **Fortescue Metals Group** – *Edward P. Mally, CFA*
- **Northern Offshore** – *Randy Laufman*
- **Nuveen Investments, Inc.** – *Matt Kaplan*
- **Park-Ohio Holdings** – *Alberto Garcia-Tuñon*
- **Rite Aid Corp.** – *Mary Ross Gilbert, CFA; Jonathan Richton*
- **Select Medical Holdings** – *Douglas J. Dieter*
- **Smithfield Foods, Inc.** – *Mary Ross Gilbert, CFA; Jonathan Richton*
- **Travelport Limited** – *Edward P. Mally, CFA; Benjamin Brogadir*
- **Unisys Corporation** – *Matt Kaplan*

Convertible Bond Focus Names:

- **Conexant Systems** – *Randy Laufman*
- **MannKind Corporation** – *Douglas J. Dieter, Randy Laufman*
- **Playboy Enterprises, Inc.** – *Randy Laufman*
- **The Great Atlantic & Pacific Tea Company** – *Randy Laufman, Benjamin Brogadir*
- **Trico Marine Services, Inc.** – *Randy Laufman*

Equity Focus Names:

- **Allegiant Travel Company** – *Kim Zotter*
- **Cosan Limited** – *Matthew Farwell, CFA*
- **Gymboree** – *Lee Giordano, CFA*
- **Tyco International** – *Michael Kim*

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Additional information is available upon request.

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Bank Debt Focus Names

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■ *Blockbuster Inc. (BBI)—Focus on L+10% Revolver*

Figure 1. Blockbuster—Select Loans and Securities, as of 9/3/09

Description	Amt. Outst.	Coupon/Rate	Maturity	Current Price	YTM	Net Lev. At Face	Net Lev. At Market	S&P / Moody's	IC Rating
Revolver	\$ 250.0	L+10.00%	9/30/10	98.25	20.7%	1.4x	1.3x	B / B1	NR
Term Loan B	\$ 301.2	L+3.75%	8/20/11	92.50	10.8%	1.4x	1.2x	B / B1	NR
9.0% Sr. Sub Notes	\$ 300.0	9.00%	9/1/12	58.50	31.4%	2.3x	1.9x	CCC / Caa2	NR

Sources: Company reports and Imperial Capital, LLC.

Overview

Blockbuster's \$250mn L+10% Revolver (with a 3.5% LIBOR floor) is currently quoted approximately 98 for an approximate 20.6% yield to its September 2010 maturity.

An aggressive amortization schedule and high cash coupon help lenders recover approximately 76 points of value before 3Q10, when Blockbuster will face significant debt funding requirements, in our view (approximately \$180mn of maturities).

The revolver is the next material maturity in the capital structure and the company has approximately \$423mn of net secured debt, approximately 1.5x 2009 estimated EBITDA of \$280mn.

Potential Liquidity Event

We estimate BBI has approximately \$180mn of cash and likely will not run into liquidity issues until 3Q10, when approximately \$180mn of bank debt comes due.

- By this period, Revolver lenders will have recovered approximately 76 points of value (approximately 64 points of principal and approximately 12 points of interest).
- In 3Q10, we believe the company will need approximately \$50mn to plug its liquidity hole, which we do not foresee as a significant hurdle.
- Potential sources of liquidity include (1) a reduction in LCs, freeing up over \$70mn of restricted cash, (2) asset sales, (3) new or rollover financing.

Figure 2. Blockbuster—Capitalization, as of 7/5/09; Prices as of 9/3/09 (Dollars in Millions)

			Debt Face		Net Debt Face		Net Debt Market			Price / YTM Analysis			Interest Exp. Analysis	
			Cum. Debt Face	LTM EBITDA Mult.	Net Cum. Debt Face	LTM EBITDA Mult.	Debt Mkt	Net Debt Mkt	LTM EBITDA Mult.	Price	YTM	Mat.	Rate/ Coup.	Est. Int. Exp.
LTM Revenues (7/05/09)		4,730.9												
LTM Adj. EBITDA (7/05/09)		311.3												
LTM Adj. EBITDA % (7/05/09)		6.6%												
LTM CapEx (7/05/09)		91.5												
Settlement Date		09/09/09												
	Rating	Balance												
	S&P/Moodys													
PF Cash ¹		179.9												
Secured Debt														
Revolver ²	B / B1	250.0					245.6	412.6	1.3x	97-98.25	20.7%	9/30/10	L+10.00%	33.8
Canadian ABL		21.5					16.8	290.5	0.9x	NA	NA	9/30/10	18.00%	3.9
Term Loan B ³	B / B1	301.2					278.6	377.9	1.2x	92.50	10.8%	8/20/11	L+3.75%	12.3
Capital Leases & other		30.4					30.4	423.2	1.4x	NA	NA	NA	NA	0.1
Total Sr. Secured		603.1	603.1	1.9x	423.2	1.4x								50.0
Unsecured Debt														
9% Sr Sub Notes	CCC / Caa2	300.0					175.5			58.50	31.46%	9/1/12	9.00%	27.0
Total Other Secured		300.0	903.1	2.9x	723.2	2.3x	175.5	598.7	1.9x				Interest	77.0
Perpetual Cvt. Preferred		155.6								\$0.64			7.50%	11.7
Common Stock (BBI-B)		46.1								\$1.17				
Common Stock (BBI)		142.9												
Total Value		344.6	1,247.7	4.0x	1,067.7	3.4x								

(1) Includes ~\$28mn of proceeds from sale of BBI's Irish entertainment retail chain. Does not include \$71.4mn of restricted cash held to collateralize letters of credit.

(2) Incorporates a 3.5% LIBOR floor and requires monthly amortization payments beginning in December.

(3) Quarterly Amortization payments of \$8.7MM until 10/1/10, then \$66.6MM quarterly to maturity.

Note: Term Loan B amount outstanding is pro forma for current amortization payments.

Sources: Company reports and Imperial Capital, LLC.

Risk Factors associated with Blockbuster, Inc.

- Unpredictable technological change in the delivery of entertainment media may impact the company's business.
- The company's annual capital expenditures are limited under its credit agreement, and such limitations may hinder Blockbuster's future growth prospects.
- Revenues may be adversely affected due to the variability of new movie titles and game software.

This sample document is provided for informational purposes only and represents an incomplete excerpt of the original research report. This sample document should not be relied upon to make any investment decision.

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Rating	Equity Distribution	Equity Ratings Definitions (through 6/30/09) Fixed Income Ratings Definitions
Buy	87.5%	Buy: TRR will exceed basket by at least 10%
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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Eastman Kodak Company	None
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International Lease Finance Corp.	None
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Masco Corp,	None
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Playboy Enterprises	None
Rite Aid Corp.	None
Select Medical Holdings Corporation	None
Smithfield Foods, Inc.	None
The Great Atlantic & Pacific Tea Company	None
Toys "R" Us, Inc.	None
Travelport Limited	None
Trico Marine Services, Inc.	3, 7
Tyco International	7
Unisys Corp.	7
United States Steel Corporation	None
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