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Verne, B. Michael

From: [REDACTED]
Sent: Friday, April 11, 2008 4:50 PM
To: Verne, B. Michael
Cc: [REDACTED]
Subject: FW: question re size of transaction

Hi, Mike -

I'm hoping to get your help in confirming that we have appropriately calculated the size of transaction for the following acquisition:

Several persons, which are each their own ultimate parent entity, including Partnership A, are forming an LLC for the purpose of a subsequent acquisition of Target 1 and Target 2 (both of which are corporations wholly-owned by Individual A). The parties will capitalize LLC with cash contributions in the aggregate amount of approximately \$34 million and \$8 million in rollover from Individual A (no cash will be contributed by Individual A). Depending on the amount contributed, Partnership A may control the LLC; otherwise the LLC will be its own UPE. LLC will create one or more wholly-owned subsidiaries which will acquire the Targets through stock purchase.

The total enterprise value for the transaction is approximately \$104 million, consisting of an \$82 million purchase price for the Targets and an up to \$22 million earn-out (which for purposes of this hypothetical only the parties will deem to be likely to be fully-earned). The \$82 million purchase price will be funded as follows: \$34 million of equity will be contributed to LLC in the formation transaction, \$40 million of debt will be assumed by the holding company of the Targets ("Intermediate Holdco") and guaranteed by the Targets (Intermediate Holdco and the Targets will be consolidated for tax and financial reporting purposes and the debt will be carried on their books post-transaction), and approximately \$8 million will come from Individual A in the form of rollover stock. The debt assumed by the Targets will not be guaranteed by any entity upstream of Intermediate Holdco; for tax reasons, the entity that will be sold to a buyer in the future will likely be the holding company immediately above Intermediate Holdco and below LLC ("Second Holdco") and thus any debt or guaranty of the subsidiaries of Second Holdco will become the responsibility of the future buyer and will reduce the amount that such buyer would pay for the shares or membership interests it acquires in Second Holdco.

Additionally, there may also be some debt of the Targets ("Debt") as well as seller transaction expenses ("Transaction Expenses") being paid off with the closing proceeds; at present we do not know the value of these items and have not assigned them a value.

From previous conversations, it would appear that the value of the transaction is no more than \$56 million (the value of equity contributed to LLC plus the earn-out); Debt and Transaction Expenses, if any, would be subtracted from this amount further reducing the size of transaction. We understand that, under the circumstances presented, neither the \$40 million to be carried as debt of the Targets nor the guarantee provided by the Immediate Holdco or the \$8 million in rollover will be considered to be part of the size of transaction.

Would you please confirm that you agree with this analysis? In case it's helpful I have attached a structure diagram.

Many thanks,

[REDACTED]

Agree -
[Signature]
4/14/08

<<Transaction Slides for PNO_11028203_1.pdf>>

[REDACTED]

4/14/2008

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